

Second Quarter Report

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Saskatchewan Telecommunications
Holding Corporation

Second Quarter Report 2005
For the Period Ending June 30, 2005

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

Millions of dollars, (unaudited)	Three months ended			Six months ended		
	2005	June 30, 2004	% Change	2005	June 30, 2004	% Change
Operating revenues	\$238.1	\$234.4	1.6	\$487.4	\$463.0	5.3
Operating expenses	223.6	197.2	(13.4)	417.2	393.5	(6.0)
Income from operations	14.5	37.2	(61.0)	70.2	69.5	1.0
Other items	0.7	(0.2)	<i>nmf</i> ¹	2.5	0.3	<i>nmf</i> ¹
Interest and related costs	(5.9)	(10.1)	41.6	(12.8)	(18.8)	31.9
Gain on sale of investments	-	1.0	<i>nmf</i> ¹	-	6.9	<i>nmf</i> ¹
Income from continuing operations	9.3	27.9	(66.7)	59.9	57.9	3.5
Income (loss) from discontinued operations	-	0.2	<i>nmf</i> ¹	-	(0.3)	<i>nmf</i> ¹
Net income	\$9.3	\$28.1	(66.9)	\$59.9	\$57.6	4.0

The Corporation's consolidated net income for the second quarter of 2005 is \$9.3 million, down \$18.8 million from the same period in 2004. Year-to-date net income is \$59.9 million, up \$2.3 million over 2004. Operating revenues increased in both the second quarter and year-to-date. The increases are primarily from cellular services and revenues recognized as a result of Telecom Decision CRTC 2005-6, *Competitor Digital Network Services*. During the quarter, restructuring costs of \$17.2 million were incurred as part of the ongoing operational efficiency program.

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 second 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. These interim statements have been prepared in accordance with the Canadian Institute of Chartered Accountants section 1751, "Interim Financial Statements." These interim statements have been approved by the SaskTel Board of Directors.

Results of Operations

Operating revenues

Millions of dollars	2005	2004	Change	%
Three months ended June 30,	\$238.1	\$234.4	\$3.7	1.6
Year-to-date	\$487.4	\$463.0	\$24.4	5.3

Operating revenues for the second quarter were \$238.1 million, an increase of \$3.7 million or 1.6% over the same period in 2004. Year-to-date operating revenues were \$487.4 million which represents a \$24.4 million (5.3%) increase over 2004. SaskTel Wireless (SaskTel Mobility) revenues and revenues from diversified services and operations including, *MaxTM* Interactive Services accounted for a significant part of the increase. In February 2005, the Corporation recognized \$12.1 million in revenue as a result of the Canadian Radio – television and Telecommunications Commission (CRTC) Telecom Decision CRTC 2005-6 *Competitor Digital Network Services*.

Operating expenses

Millions of dollars	2005	2004	Change	%
Three months ended June 30,	\$223.6	\$197.2	\$(26.4)	(13.4)
Year-to-date	\$417.2	\$393.5	\$(23.7)	(6.0)

Operating expenses were \$223.6 million during the second quarter, up \$26.4 million from the same period in 2004. On a year-to-date basis, expenses increased to \$417.2 million, up \$23.7 million from 2004. Restructuring costs of \$17.2 million, recognition of \$7.5 million of expense regarding the curtailment of the service recognition defined benefit program and \$2.6 million of expense for the new defined contribution Centennial Plan were recorded during the second quarter 2005. Operational savings have been realized through both salary savings

achieved through the Early Retirement Program and operational efficiencies. SaskTel Mobility's general operating expense increased to support increased revenues and the growing customer base.

Interest and related costs

Interest and related costs for the second quarter of 2005 were \$5.9 million, down \$4.2 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 operating activities

Millions of dollars	2005	2004	Change	%
Three months ended June 30,	\$57.7	\$55.9	\$1.8	3.2
Year-to-date	\$74.0	\$120.5	\$(46.5)	(38.6)

Cash provided by operating activities during the second quarter of 2005 was \$57.7 million, up \$1.8 million from the same period in 2004. Cash generated by operations has been strong, with increased revenues and lower operational salaries and operational expenses consistent in the second quarter of 2005 as compared to 2004. During the second quarter of 2005, the Corporation contributed \$9.2 million to the defined benefit pension plan, up \$7.7 million for the same period in 2004. Although net income is down on a quarter over quarter comparison, there were significant non-cash expense items recorded such as \$12.3 million in special termination benefits and \$7.5 million as a result of the curtailment of the service recognition defined benefit program.

Cash provided by operating activities in the first six months was down \$46.5 million when compared to the same period in 2004. Cash received from residential customers was down significantly in the first quarter of 2005 as a result of the Crown Investment Corporation's Utility Rebate applied to the accounts in late 2004. As the rebates have been fully consumed, payment patterns have returned to expected levels. When cash flows are adjusted for the impacts of the rebate, cash generated by operations has been strong, with increased revenues and lower operational salaries and operational expenses consistent year-to-date with 2004. In addition, the Corporation has contributed \$18.4 million to the defined benefit pension plan as compared to \$3.3 million in the first half of 2004.

Cash used in financing activities

Millions of dollars	2005	2004	Change	%
Three months ended June 30,	\$(22.1)	\$(10.1)	\$(12.0)	(118.8)
Year-to-date	\$(54.9)	\$(49.4)	\$(5.5)	(11.1)

Cash used in financing activities during the second quarter was \$22.1 million compared to \$10.1 million for the same period in 2004. Year-to-date cash used in financing activities was \$54.9 million compared to \$49.4 million

in 2004. During 2005 the Corporation repaid \$1.0 million in long-term debt and paid a dividend of \$52.4 million to Crown Investment Corporation of Saskatchewan compared to debt repayment of \$15.6 million and dividends of \$32.4 million for the same period in 2004.

Cash used in investing activities

Millions of dollars	2005	2004	Change	%
Three months ended June 30,	\$(34.1)	\$(23.7)	\$(10.4)	(43.9)
Year-to-date	\$(54.6)	\$(44.9)	\$(9.7)	(21.6)

Cash used in investing activities increased by \$10.4 million to \$34.1 million in the second quarter of 2005 compared to the same period in 2004. Year-to-date, cash used in investing activities increased by \$9.7 million from the same period in 2004 to \$54.6 million in 2005. The increase can be attributed to an increase in overall capital spending.

The Corporation's net capital spending for the second quarter of 2005 was \$32.0 million, up \$6.8 million from the same period in 2004. Net capital spending for the six months ended June 30, 2005 was \$52.2 million, up \$2.9 million from the same period in 2004. Significant 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

(\$ millions)	2005	2004	Change	%
As at June 30,				
Long-term debt	364.8	393.1	28.3	7.2
Less cash and short-term investments	106.0	116.1	10.1	8.7
Net debt	258.8	277.0	18.2	6.6
Equity	671.7	681.1	9.4	1.4
Capitalization	930.5	958.1	27.6	2.9
Debt ratio	27.8%	28.9%	(1.1)	2.3

The debt ratio after the second quarter of 2005 decreased to 27.8% down from 28.9% at June 30, 2004 as the Corporation continues to self-finance its capital and dividend requirements. The overall debt level decreased \$28.3 million due to repayment of debt.

2005 Outlook

The 2004 SaskTel Annual Report identified a consolidated net income target for 2005 of \$ 94.2 million. Results to June 30, 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 increased restructuring charges through the remainder of 2005 that will negatively impact the stated target. At this time the Corporation is considering advancing the second phase of the voluntary Early Retirement Program (ERP) from 2006 into 2005. The ERP has been undertaken to reduce operating costs and manage the employee demographic profile in the context of a changing labour market. The first phase began in the fall of 2004 and will be completed during 2005. The advancement of phase two of the ERP would cause the Corporation to fall below the established net income target for 2005.

Risk Assessment

The 2004 Annual Report discussed the risks and uncertainties in SaskTel's business environment. It included developments in the economic and regulatory environments, challenges faced by the defined benefit pension plan, competitive activity and more. 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 on the May 12, 2005 CRTC ruling that VoIP services offered by incumbent local exchange carriers (ILEC's) would be subject to tariff regulation and local competition rules. This ruling enables out-of-territory telcos, cablecos and independent firms to offer VoIP services without price regulation. SaskTel has a number of initiatives underway to minimize the risk.

Consolidated Statement of Operations

Thousands of dollars, (unaudited)	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Operating revenues	\$238,112	\$234,406	\$487,359	\$463,031
Operating expenses				
Operating expenses	170,071	159,991	327,543	319,347
Depreciation and amortization	36,401	37,203	72,423	74,144
Restructuring charges (Note 2)	17,186	-	17,186	-
	223,658	197,194	417,152	393,491
Income from operations	14,454	37,212	70,207	69,540
Other items	746	(156)	2,502	282
Interest and related costs	(5,872)	(10,146)	(12,772)	(18,796)
Income before the following	9,328	26,910	59,937	51,026
Gain on sale of investments	-	971	-	6,869
Income from continuing operations	9,328	27,881	59,937	57,895
Income (loss) from discontinued operations	-	191	-	(272)
Net income	\$9,328	\$28,072	\$59,937	\$57,623

See Accompanying Notes

Consolidated Statement of Retained Earnings

Thousands of dollars, (unaudited)	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Retained earnings, beginning of period	\$438,036	\$426,463	\$408,632	\$406,133
Net income	9,328	28,072	59,937	57,623
	447,364	454,535	468,569	463,756
Dividends	25,709	23,390	46,914	32,611
Retained earnings, end of period	\$421,655	\$431,145	\$421,655	\$431,145

See Accompanying Notes

Consolidated Statement of Financial Position

As at Thousands of dollars, (unaudited)	June 30, 2005	December 31, 2004
Assets		
Current assets		
Cash and short-term investments	\$106,024	\$141,486
Accounts receivable	94,325	57,223
Inventories	5,968	7,089
Prepaid expenses	14,707	8,921
Current assets of discontinued operations	-	27
	221,024	214,746
Property, plant and equipment	2,598,524	2,568,011
Less accumulated depreciation	1,723,379	1,675,235
	875,145	892,776
Customer accounts	43,866	44,323
Less accumulated amortization	15,274	14,825
	28,592	29,498
Investments	833	390
Goodwill	19,720	19,411
Other assets	78,160	73,909
	\$1,223,474	\$1,230,730
Liabilities and Province's equity		
Current liabilities		
Accounts payable and accrued liabilities	\$112,563	\$129,777
Dividend payable	25,709	31,215
Service billed in advance	37,005	34,169
Current portion of long-term debt	53,485	6,698
Current liabilities of discontinued operations	-	154
	228,762	202,013
Deferred revenue	9,834	6,346
Long-term debt	311,324	362,300
	549,920	570,659
Non-controlling interest	1,899	1,439
Province of Saskatchewan's equity		
Equity advance	250,000	250,000
Retained earnings	421,655	408,632
	671,655	658,632
	\$1,223,474	\$1,230,730

See Accompanying Notes

Consolidated Statement of Cash Flows

Thousands of dollars, (unaudited)	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Cash provided by (used in):				
Operating activities				
Income from continuing operations	\$9,328	\$27,881	\$59,937	\$57,895
Items not affecting cash from operations (Note 4)	51,420	38,927	89,461	71,553
Other operating items (Note 5)	(3,039)	(10,901)	(75,438)	(8,935)
	57,709	55,907	73,960	120,513
Financing activities				
Repayment of long-term debt	(139)	(251)	(1,024)	(15,593)
Capital lease obligations	(758)	(645)	(1,430)	(1,359)
Dividends paid	(21,205)	(9,221)	(52,420)	(32,418)
	(22,102)	(10,117)	(54,874)	(49,370)
Investing activities				
Property, plant and equipment expenditures	(32,013)	(25,183)	(52,238)	(49,282)
Businesses acquired, net of cash acquired	(1,266)	-	(1,266)	-
Investments disposed of (acquired)	(370)	2,045	(370)	5,374
Customer accounts	(801)	(671)	(1,285)	(1,304)
Other assets	304	103	605	341
	(34,146)	(23,706)	(54,554)	(44,871)
Increase (decrease) in cash from continuing operations	1,461	22,084	(35,468)	26,272
Decrease in cash from discontinued operations	-	(344)	-	(711)
Cash and cash equivalents, beginning of period	104,563	94,400	141,492	90,579
Cash and cash equivalents, end of period	\$106,024	\$116,140	\$106,024	\$116,140
Comprised of:				
Cash of continuing operations			\$4,526	\$958
Short-term investments of continuing operations			101,498	115,147
Cash and short-term investments of continuing operations			106,024	116,105
Cash of discontinued operations			-	35
			\$106,024	\$116,140
Interest Paid	\$8,656	\$8,724	\$15,486	\$17,431
<i>See Accompanying Notes</i>				

Notes to Consolidated Financial Statements, June 30, 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 – Restructuring charges

During the period, \$17.2 million was recorded to restructuring charges. The charges relate to phase one of a proposed three-phase voluntary Early Retirement Program (ERP) for Saskatchewan Telecommunications.

The ERP has been undertaken to reduce operating costs and manage the employee demographic profile in the context of a changing labour market. The first phase began in the fall of 2004 and will be completed during 2005. In the first six months of 2005, 78 employees elected to receive a package that includes a cash allowance and immediate pension benefits.

Thousands of dollars, (unaudited),

Balance in accounts payable and accrued liabilities at December 31, 2004	\$8,989
Restructuring charges	17,186
Less:	
Cash payments	8,099
Special termination benefit costs	12,288
Balance in accounts payable and accrued liabilities	\$5,788

Note 3 – Acquisitions

On April 1, 2005 the Corporation purchased, through DirectWest Corporation, an 85% interest in the assets of an unrelated company. 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, Alberta markets. Total consideration for the assets was \$1.6 million. Tangible assets acquired have been valued at \$0.4 million and liabilities have been valued at \$0.3 million. The remaining \$1.5 million has been allocated between goodwill and intangible assets. The allocations of the purchase price are preliminary and subject to refinement pending finalization of the valuations of intangible assets. The allocations of the purchase price reflect management's best estimates at June 30, 2005 and are expected to be finalized by the end of the third quarter. The Corporation also injected \$1.7 million cash into the Partnership to support working capital requirements for future expansion of the business.

Notes to Consolidated Financial Statements, June 30, 2005

Note 4 – Items not affecting cash from operations

Thousands of dollars, (unaudited)	Three months ended		Six months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Depreciation and amortization	\$36,401	\$37,205	\$72,423	\$74,146
Pension expense (income) of defined benefit plans	(2,121)	1,000	238	2,003
Special termination benefits	12,288	-	12,288	-
Net share of (income) loss from significantly influenced companies	(71)	23	(73)	54
Foreign currency translation losses	-	1,809	-	2,927
Sinking fund earnings	(1,109)	(58)	(1,737)	(748)
Gain on sale of investments	-	(971)	-	(6,869)
Other	6,032	(81)	6,322	40
	\$51,420	\$38,927	\$89,461	\$71,553

Note 5 – Other operating items

Thousands of dollars, (unaudited)	Three months ended		Six months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Changes in non-cash working capital				
Accounts receivable	\$(2,845)	\$(6,097)	\$(36,884)	\$(3,974)
Inventories	638	196	1,121	54
Prepaid expenses	(3,451)	(3,007)	(5,593)	(2,692)
Accounts payable and accrued liabilities	12,231	(938)	(18,733)	(4,624)
Deferred revenue	2,857	-	3,064	-
Service billed in advance	(905)	399	2,430	5,583
Other assets	(2,367)	-	(2,367)	-
Contributions to defined benefit pension plans	(9,197)	(1,454)	(18,476)	(3,282)
	\$(3,039)	\$(10,901)	\$(75,438)	\$(8,935)

Notes to Consolidated Financial Statements, June 30, 2005

Note 6 – Pension costs

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

Thousands of dollars, (unaudited)	Three months ended		Six months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Current service cost - defined benefit plan	\$(1,954)	\$(2,210)	\$(3,908)	\$(4,419)
Interest cost	(13,369)	(12,775)	(26,020)	(25,550)
Expected return on pension plan asset	14,297	13,701	28,594	27,402
Special termination benefits cost	(12,288)	-	(12,288)	-
Amortization of net transitional asset	2,913	2,913	5,826	5,827
Amortization of past service costs	(1,233)	(1,026)	(2,478)	(2,053)
Amortization of actuarial loss	(3,388)	(1,895)	(6,776)	(3,789)
Pension cost	\$(15,022)	\$(1,292)	\$(17,050)	\$(2,582)

Service recognition defined benefit program

The service recognition defined benefit program provided a retiring allowance of two days salary per year of service which is payable on retirement. Based on the Collective Agreement between Saskatchewan Telecommunications and the Communications, Electrical and Paperworkers Union of Canada, ratified April 22, 2005, the service recognition defined benefit program was curtailed effective March 19, 2005. Employees will no longer earn two days pay per year of service, however will continue to earn incremental pay increases for the earned service until retirement. Key assumptions used as inputs to the actuarial calculations are:

	2005	2004
Discount rate	5.20%	6.80%
Expected salary increase	3.40%	2.80%
Estimated average remaining employee service life	14.6 years	15.7 years

Current year benefit cost

Thousands of dollars, (unaudited)	Three months ended		Six months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Defined benefit service cost	\$(670)	\$751	\$122	\$1,501
Impact of curtailment	7,452	-	7,452	-
	\$6,782	\$751	\$7,574	\$1,501

Notes to Consolidated Financial Statements, June 30, 2005

Note 6 – Pension costs, continued

Accrued benefit obligation Thousands of dollars	June 30, 2005 (unaudited)	December 31, 2004
Accrued benefit liability	\$21,478	\$13,582

Centennial Plan

The Centennial plan was implemented on March 20, 2005. The plan requires that the Corporation contribute six days pay, based on permanent employee's current regular rate of pay, to a defined contribution plan or through a cash payment to employees. Total cost for the first six months of 2005 was \$2.6 million.

Note 7 – Contingencies

On August 9, 2004, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including the Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, and breach of statutory obligations concerning system administration fees. The plaintiffs seek unquantified damages from the defendant wireless communications service providers. The Corporation believes that it has strong defenses to the allegations. While the certification hearing has been held, it is not currently known whether the proceeding will be certified as a class action and the outcome of this matter is not determinable at this time.

Note 8 – Comparative figures

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