

Third Quarter Report

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Saskatchewan Telecommunications
Holding Corporation

Third Quarter Report 2005
For the Period Ending September 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 Partnership. SaskTel is a highly innovative and competitive communication 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			Nine months ended		
	2005	2004	% Change	2005	2004	% Change
Operating revenues	\$246.3	\$234.0	5.3	\$733.7	\$697.0	5.3
Operating expenses	204.6	181.2	(12.9)	621.8	574.7	(8.2)
Income from operations	41.7	52.8	(21.0)	111.9	122.3	(8.5)
Other items	0.6	0.3	<i>nmf</i> ¹	3.1	0.6	<i>nmf</i> ¹
Interest and related costs	(6.5)	(1.0)	<i>nmf</i> ¹	(19.3)	(19.8)	2.5
Gain on sale of investments	-	1.0	<i>nmf</i> ¹	-	7.9	<i>nmf</i> ¹
Income from continuing operations	35.8	53.1	(32.6)	95.7	111.0	(13.8)
Income (loss) from discontinued operations	-	-	-	-	(0.3)	<i>nmf</i> ¹
Net income	\$35.8	\$53.1	(32.6)	\$95.7	\$110.7	(13.6)

The Corporation's consolidated net income for the third quarter of 2005 was \$35.8 million, down \$17.3 million from the same period in 2004 and year-to-date net income is \$95.7 million, down \$15.0 million from 2004. Expenses are up on both a year-over-year and quarter-over-quarter basis. This is due mainly to restructuring costs, curtailment of the service recognition defined benefit program and volume related expenses for both cellular and *MaxTM* Interactive Services.

¹ No meaningful figure (*nmf*)

Results to September 30, 2005 are favourable compared to the 2005 target, however, significant incremental expenses will be incurred in the fourth quarter. In particular, restructuring charges are estimated to be \$18.6 million as the Corporation implements the second phase of the early retirement program (ERP).

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 third 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 September 30,	\$246.3	\$234.0	\$12.3	5.3
Year-to-date	\$733.7	\$697.0	\$36.7	5.3

Operating revenues for the third quarter were \$246.3 million, an increase of \$12.3 million or 5.3% over the same period in 2004. Year-to-date operating revenues were \$733.7 million which represents a \$36.7 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. The increases were partially offset by lower long distance revenues. In February 2005, the Corporation recognized \$12.1 million in revenue as a result of the Canadian Radio-Television and telecommunications Commission (CRTC) Telcom Decision CRTC 2005-6 *Competitor Digital Network Services*.

Operating expenses

Millions of dollars	2005	2004	Change	%
Three months ended September 30,	\$204.6	\$181.2	\$(23.4)	(12.9)
Year-to-date	\$621.8	\$574.7	\$(47.1)	(8.2)

Operating expenses were \$204.6 million during the third quarter, up \$23.4 million from the same period in 2004. On a year-to-date basis, expenses increased to \$621.8 million, up \$47.1 million from 2004. Both for the current quarter and year-to-date, SaskTel Mobility and the entertainment services general operating expenses increased to support the growing customer base. In addition to expenses related to an increased number of customers, the Corporation recorded restructuring costs of \$17.2 million, \$7.5 million of expense regarding the curtailment of the service recognition defined benefit program and \$3.7 million of expense for the new defined contribution Centennial Plan for the nine months ended September 30, 2005. Operational savings have been realized through both salary savings achieved through the Early Retirement Program and operational efficiencies.

Interest and related costs

Interest and related costs for the third quarter of 2005 were \$6.5 million, up \$5.5 million from the same period in 2004. While year-over-year, interest costs have remained constant, during the third quarter of 2004, the Corporation reported a foreign currency gain. During 2004 the Corporation reduced long-term debt and converted \$100 million U.S. based debt to Canadian funds during the fourth quarter, to mitigate foreign currency risk.

Liquidity and Capital Resources

Cash provided by operating activities

Millions of dollars	2005	2004	Change	%
Three months ended September 30,	\$58.9	\$46.5	\$12.4	26.7
Year-to-date	\$132.9	\$167.0	\$(34.1)	(20.4)

Cash provided by operating activities during the third quarter of 2005 was \$58.9 million, up \$12.4 million from the same period in 2004. During the third quarter of 2005, the Corporation contributed \$9.4 million to the defined benefit pension plan, down \$16.0 million for the same period in 2004. Expenses are up in the third quarter 2005 as compared to 2004 mainly due to an increased number of customers in both SaskTel Wireless and *MaxTM* Interactive Services.

Cash provided by operating activities in the first nine months was down \$34.1 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. Although net income is down on a year over year 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 used in financing activities

Millions of dollars	2005	2004	Change	%
Three months ended September 30,	\$(27.5)	\$(42.6)	\$15.1	35.4
Year-to-date	\$(82.4)	\$(92.0)	\$9.6	10.4

Cash used in financing activities during the third quarter was \$27.5 million compared to \$42.6 million for the same period in 2004. During the third quarter of 2004, \$15.6 million of long-term debt payments were made compared to \$1.0 during 2005. Year-to-date cash used in financing activities was \$82.4 compared to \$92.0 million in 2004. During 2005 the Corporation repaid \$2.1 million in long-term debt and paid dividends of \$78.1 million to Crown Investment Corporation of Saskatchewan compared to debt repayment of \$31.2 million and dividends of \$58.8 million in the same period in 2004.

Cash used in investing activities

Millions of dollars	2005	2004	Change	%
Three months ended September 30,	\$(43.2)	\$(16.7)	\$(26.5)	(158.7)
Year-to-date	\$(97.8)	\$(61.6)	\$(36.2)	(58.8)

Cash used in investing activities increased by \$26.5 million to \$43.2 million in the third quarter of 2005 compared to the same period in 2004, due mainly to increased capital expenditures. During the third quarter of 2004, the Corporation sold shares in both Astar United Communications (Astar) and Persona Inc (Persona). Year-to-date cash used in investing activities was \$97.8 million, an increase of \$36.2 over the same period in 2004. The increase can be attributed to an increase in overall capital spending and sale of Astar and Persona shares during 2004.

The Corporation's net capital spending for the third quarter of 2005 was \$41.3 million, up \$15.0 million from the same period in 2004. Net capital spending for the nine months ended September 30, 2005 was \$93.5 million, up \$17.9 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)				
As at September 30,	2005	2004	Change	%
Long-term debt	361.9	370.6	8.7	2.3
Less cash and short-term investments	94.2	102.9	(8.7)	(8.5)
Net debt	267.7	267.7	-	-
Equity	697.3	709.9	12.6	1.8
Capitalization	965.0	977.6	12.6	1.3
Debt ratio	27.7%	27.4%	(0.3)	<i>nmf</i>

The debt ratio after the third quarter of 2005 increased to 27.7% up from 27.4% at September 30, 2004. Long-term debt decreased \$8.7 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 September 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. The Corporation is advancing the decision date of 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 will cause the Corporation to fall below the established net income target for 2005. During the fourth quarter, the Corporation will complete a comprehensive review of the Navigata business plan. Through the normal course of this review, the Corporation will be testing whether the cash flows generated by the plan are sufficient to support the book value of Navigata's assets. Although indeterminable at this time, if the projected cash flows do not prove sufficient an asset write-down may be warranted.

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.

Consolidated Statement of Operations

Thousands of dollars, (unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Operating revenues	\$246,375	\$233,998	\$733,734	\$697,029
Operating expenses				
Operating expenses	166,081	147,162	493,624	466,509
Depreciation and amortization	38,506	34,091	110,929	108,235
Restructuring charges (Note 2)	60	-	17,246	-
	204,647	181,253	621,799	574,744
Income from operations	41,728	52,745	111,935	122,285
Other items	583	270	3,085	552
Interest and related costs	(6,472)	(1,005)	(19,244)	(19,801)
Income before the following	35,839	52,010	95,776	103,036
Gain on sale of investments	-	1,047	-	7,916
Income from continuing operations	35,839	53,057	95,776	110,952
Income (loss) from discontinued operations	-	-	-	(272)
Net income	\$35,839	\$53,057	\$95,776	\$110,680

Consolidated Statement of Retained Earnings

Thousands of dollars, (unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Retained earnings, beginning of period	\$421,655	\$431,145	\$408,632	\$406,133
Net income	35,839	53,057	95,776	110,680
	457,494	484,202	504,408	516,813
Dividends	10,190	24,183	57,104	56,794
Retained earnings, end of period	\$447,304	\$460,019	\$447,304	\$460,019

See Accompanying Notes

Consolidated Statement of Financial Position

As at Thousands of dollars, (unaudited)	September 30, 2005	December 31, 2004
Assets		
Current assets		
Cash and short-term investments	\$94,163	\$141,486
Accounts receivable	96,656	57,223
Inventories	7,092	7,089
Prepaid expenses	14,109	8,921
Current assets of discontinued operations	-	27
	212,020	214,746
Property, plant and equipment	2,606,110	2,568,011
Less accumulated depreciation	1,726,682	1,675,235
	879,428	892,776
Customer accounts	44,720	44,323
Less accumulated amortization	16,336	14,825
	28,384	29,498
Investments	739	390
Goodwill (Note 3)	19,683	19,411
Other assets	88,225	73,909
	\$1,228,479	\$1,230,730
Liabilities and Province's equity		
Current liabilities		
Accounts payable and accrued liabilities	\$110,340	\$129,777
Dividend payable	10,190	31,215
Service billed in advance	36,118	34,169
Current portion of long-term debt	62,155	6,698
Current liabilities of discontinued operations	-	154
	218,803	202,013
Deferred revenue	11,719	6,346
Long-term debt	299,794	362,300
	530,316	570,659
Non-controlling interest	859	1,439
Province of Saskatchewan's equity		
Equity advance	250,000	250,000
Retained earnings	447,304	408,632
	697,304	658,632
	\$1,228,479	\$1,230,730

See Accompanying Notes

Consolidated Statement of Cash Flows

Thousands of dollars, (unaudited)	Three months ended		Nine months ended	
	September 30, 2005	2004	September 30, 2005	2004
Cash provided by (used in):				
Operating activities				
Income from continuing operations	\$35,839	\$53,057	\$95,776	\$110,952
Items not affecting cash from operations (Note 4)	43,373	28,102	132,834	99,655
Other operating items (Note 5)	(20,318)	(34,663)	(95,756)	(43,598)
	58,894	46,496	132,854	167,009
Financing activities				
Repayment of long-term debt	(1,040)	(15,564)	(2,064)	(31,157)
Capital lease obligations	(764)	(669)	(2,194)	(2,028)
Dividends paid	(25,709)	(26,390)	(78,129)	(58,808)
	(27,513)	(42,623)	(82,387)	(91,993)
Investing activities				
Property, plant and equipment expenditures	(41,300)	(26,329)	(93,538)	(75,611)
Businesses acquired, net of cash acquired	(1,400)	-	(2,666)	-
Investments disposed of (acquired)	-	9,894	(370)	15,268
Customer accounts	(865)	(701)	(2,150)	(2,005)
Other assets	323	410	928	751
	(43,242)	(16,726)	(97,796)	(61,597)
Increase (decrease) in cash from continuing operations	(11,861)	(12,853)	(47,329)	13,419
Decrease in cash from discontinued operations	-	(225)	-	(936)
Cash and cash equivalents, beginning of period	106,024	116,140	141,492	90,579
Cash and cash equivalents, end of period	\$94,163	\$103,062	\$94,163	\$103,062
Comprised of:				
Cash (bank indebtedness) of continuing operations			\$4,974	\$(17,635)
Short-term investments of continuing operations			89,189	120,550
Cash and short-term investments of continuing operations			\$94,163	\$102,915
Cash of discontinued operations			-	147
			\$94,163	\$103,062
Interest Paid	\$6,830	\$7,830	\$22,316	\$25,262
<i>See Accompanying Notes</i>				

Notes to Consolidated Financial Statements, September 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 year, \$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 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	17,246
Less:	
Cash payments	9,670
Change in estimate	703
Special termination benefit costs	12,288
Balance in accounts payable and accrued liabilities	\$3,574

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 as \$0.2 million and \$1.3 million respectively. The Corporation also injected \$1.7 million cash into the Partnership to support working capital requirements for future expansion of the business.

During 2005, the Corporation made an additional investment of \$6 million in Navigata Communications Partnership, increasing its ownership from 96.3% to 96.7%. Tangible assets were valued at \$5.9 million. The remaining \$0.1 million has been allocated to intangible assets acquired, which is subject to refinement.

Notes to Consolidated Financial Statements, September 30, 2005

Note 3 – Acquisitions, continued

On September 30, 2005 the Corporation purchased the 6.1% interest held by the minority shareholders of Hospitality Network Canada Inc. for cash consideration of \$1.4 million. \$0.3 million has been allocated to intangible assets. The allocation of the remaining \$1.1 million, which has been allocated between goodwill and tangible assets, is subject to refinement pending finalization of the valuation. The Corporation now owns 100% of Hospitality Network Canada Partnership through its ownership of Hospitality Network Canada Inc. and Esterhazy Holding Inc.

Note 4 – Items not affecting cash from operations

Thousands of dollars,	Three months ended		Nine months ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Depreciation and amortization	\$38,506	\$34,079	\$110,929	\$108,225
Pension expense (income) of defined benefit plans	6,510	1,987	6,748	3,990
Special termination benefits	-	-	12,288	-
Net share of loss from significantly influenced companies	93	24	20	78
Foreign currency translation gains	-	(5,608)	-	(2,681)
Sinking fund earnings	(1,055)	(634)	(2,792)	(1,382)
Gain on sale of investments	-	(1,047)	-	(7,916)
Service recognition defined benefit program curtailment	-	-	7,452	-
Other	(681)	(699)	(1,811)	(659)
	\$43,373	\$28,102	\$132,834	\$99,655

Note 5 – Other operating items

Thousands of dollars,	Three months ended		Nine months ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Changes in non-cash working capital				
Accounts receivable	\$(2,332)	\$(1,005)	\$(39,216)	\$(4,979)
Inventories	(1,124)	(1,403)	(3)	(1,349)
Prepaid expenses	598	(282)	(4,995)	(2,974)
Accounts payable and accrued liabilities	(7,616)	(8,655)	(26,349)	(13,279)
Deferred revenue	1,875	-	4,939	-
Service billed in advance	(887)	2,053	1,543	7,636
Other assets	(1,443)	-	(3,810)	-
Contributions to defined benefit pension plans	(9,389)	(25,371)	(27,865)	(28,653)
	\$(20,318)	\$(34,663)	\$(95,756)	\$(43,598)

Notes to Consolidated Financial Statements, September 30, 2005

Note 6 – Pension costs

The Corporation has two defined benefit pension plans providing pension benefits to its employees. The larger of the two plans is governed by Saskatchewan Telecommunications (SaskTel), which has been closed to new membership since 1977. The second plan is governed by Navigata Communications Ltd.

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

Thousands of dollars, (unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Current service cost - defined benefit plan	\$(1,726)	\$(2,703)	\$(5,634)	\$(7,122)
Interest cost	(12,136)	(12,804)	(38,156)	(38,354)
Expected return on pension plan assets	14,283	14,026	42,877	41,431
Special termination benefits cost	-	-	(12,288)	-
Amortization of net transitional asset	2,913	2,913	8,739	8,740
Amortization of past service costs	(1,233)	(1,174)	(3,711)	(3,227)
Amortization of actuarial loss	(3,388)	(2,533)	(10,164)	(6,322)
Pension cost	\$(1,287)	\$(2,275)	\$(18,337)	\$(4,854)

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

Notes to Consolidated Financial Statements, September 30, 2005

Note 6 – Pension costs, continued

Current year benefit cost

Thousands of dollars, (unaudited)	Three months ended September, 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Defined benefit service cost	\$325	\$751	\$447	\$2,252
Impact of curtailment	-	-	7,452	-
	\$325	\$751	\$7,899	\$2,252

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 third quarter was \$1.1 million and \$3.7 million year-to-date.

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 year's presentation.