

# First Quarter Report

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Saskatchewan Telecommunications  
Holding Corporation

First Quarter Report 2006  
For the Period Ending March 31, 2006

**Saskatchewan Telecommunications Holding Corporation** (SaskTel) is a Crown corporation of Saskatchewan. Saskatchewan Telecommunications (Telco) is the leading full service communications provider in Saskatchewan, providing competitive voice, data, dial up and high speed internet, entertainment and multimedia services, web hosting, text and messaging services, and cellular and wireless data services over its digital networks. The Corporation also provides 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.

With a workforce of approximately 3,800 permanent full-time 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)	2006	2005	% Change
Operating revenue	\$247.2	\$249.2	(0.8)
Operating expenses	205.5	193.5	(6.2)
Income from operations	41.7	55.7	(25.1)
Other items	0.9	1.8	(50.0)
Interest and related costs	(6.7)	(6.9)	2.9
Gain on sale of investments	0.1	-	<i>nmf</i> <sup>1</sup>
Net income	\$36.0	\$50.6	(28.9)

The Corporation's consolidated net income for the first quarter of 2006 was \$36.0 million, down \$14.6 million from the same period in 2005. This was driven primarily by revenues recognized in 2005 as a result of Telecom Decision CRTC 2005-6, *Competitor Digital Network Services*; offset by increased revenue from growth services, net of related expenses.

<sup>1</sup>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 2006. This discussion and analysis should be read in conjunction with the Corporation's audited financial statements for the year ended December 31, 2005. Some 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 2005 annual report.

## Results of Operations

### Operating revenues

(\$ millions)	2006	2005	Change	%
Quarter ended March 31,	\$247.2	\$249.2	\$(2.0)	(0.8)

Operating revenues for the first quarter of 2006 decreased to \$247.2 million, down \$2.0 million from the same period in 2005. This decline reflects the positive impact that the 2005 CRTC ruling on Competitor Digital Network (CDN) Access rates had on 2005 revenues. Excluding the impact of the CDN decision, operating revenues increased \$10.1M or 4.3% over 2005. This increase was driven primarily by continued growth in SaskTel Wireless and *Max*<sup>TM</sup> Entertainment Services partly offset by a year-over-year decline in long distance revenues.

### Operating expenses

(\$ millions)	2006	2005	Change	%
Quarter ended March 31,	\$205.5	\$193.5	\$(12.0)	(6.2)

Operating expenses for the first quarter of 2006 increased to \$205.5 million, up \$12.0 million from the same period in 2005. This was primarily driven by increased operating expenses due to programming and content costs for *Max* Entertainment services, as well as SaskTel Wireless access growth and hardware subsidies to existing customers.

## Interest and related costs

Interest and related costs for the first quarter of 2006 decreased to \$6.7 million, down \$0.2 million from the same period in 2005.

## Liquidity and Capital Resources

### Cash provided by (used in) operating activities

(\$ millions)	2006	2005	Change	%
Quarter ended March 31,	\$54.8	\$16.3	\$38.5	236.2

Cash provided by operating activities in the first quarter of 2006 was up \$38.5 million from the same period in 2005. Cash generated by operations decreased \$16.4 million; however working capital requirements declined \$54.9 million during the first quarter of 2006, as compared to the same period in 2005. The accounts receivable balance at December 31, 2004 included \$50.9 million of rebates applied to customer accounts as part of the Corporation's contract with Crown Investments Corporation to administer the Lowest Cost Utility Program. This resulted in artificially low cash receipts in the first quarter of 2005 as compared to the first quarter of 2006. Accounts payable and accrued liabilities decreased by \$11.8 million in the first quarter of 2006 as compared to a decrease of \$31.0 million during the first quarter of 2005.

### Cash provided by (used in) financing activities

(\$ millions)	2006	2005	Change	%
Quarter ended March 31,	\$(2.4)	\$(32.8)	\$30.4	92.7

Cash used in financing activities in the first quarter of 2006 was \$2.4 million, down \$30.4 million from the same period in 2005. Dividend payments were \$0.8 million in 2006 compared to \$31.2 million in 2005. First quarter dividend payments are a true up of the previous year's dividend declared and hence can vary significantly. Debt repayment activities were consistent with 2005.

### Cash provided by (used in) investing activities

(\$ millions)	2006	2005	Change	%
Quarter ended March 31,	\$(52.3)	\$(20.4)	\$(31.9)	(156.4)

Cash used in investing activities in the first quarter of 2006 was \$52.3 million, up \$31.9 million from the same period in 2005. The Corporation's net spending on property, plant and equipment for the first quarter of 2006 was \$52.1 million, up \$31.9 million from the same period in 2005. Spending increased dramatically as a result of the Next Generation Access Infrastructure (NGAI) program which will provide greater bandwidth to customers and enable the corporation to deliver new products and services. Investment was also made to support the telecommunications networks and meet customer demand, as well as, growth and diversification, including initiatives such as *Max* Interactive Services, cellular expansion, multimedia development, 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,	2006	2005	Change	%
Long-term debt	\$356.9	\$366.8	\$(9.9)	(2.7)
Less: cash and short-term investments	97.1	104.4	(7.3)	(7.0)
Net Debt	259.8	262.4	(2.6)	(1.0)
Equity	688.5	688.0	0.5	<i>nmf</i> <sup>1</sup>
Capitalization	\$948.3	\$950.4	\$(2.1)	(0.2)
Debt ratio	27.4%	27.6%	(0.2)	(0.7)

The debt ratio after the first quarter of 2006 decreased to 27.4%, down from 27.6% at March 31, 2005. The overall level of debt decreased year over year by \$2.6 million due to sinking fund installments and earnings, partially offset by reduced cash and short-term investments. The Corporation continues to self-finance its capital and dividend requirements.

Retained earnings increased by \$23.5 million in the first quarter of 2006 after recording net income of \$36.0 million and dividends of \$12.5 million.

<sup>1</sup> No meaningful figure (*nmf*)

## 2006 Outlook

The 2005 SaskTel Annual Report identified a consolidated net income target for 2006 of \$70.5 million. Results to March 31, 2006 are favourable, driven primarily by favourable long distance and access revenues due to delays in competition, and favourable cellular access revenues, partially offset by related cellular customer acquisition costs. The Corporation anticipates increased competitive pressures and planned restructuring charges through the remainder of 2006. At this time the Corporation believes the 2006 net income will meet the established target.

## Risk Assessment

The 2005 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, 2006. 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

For the three months ended March 31, Thousands of dollars, (unaudited)	2006	2005
<b>Operating revenues</b>	\$247,158	\$249,247
<b>Operating expenses</b>		
Operations	167,841	157,472
Depreciation and amortization	37,632	36,022
	205,473	193,494
<b>Income from operations</b>	41,685	55,753
<b>Other items</b>	927	1,756
<b>Interest and related costs</b>	(6,748)	(6,900)
<b>Income before the following</b>	35,864	50,609
<b>Gain on sale of investment (Note 2)</b>	114	-
<b>Net income</b>	\$35,978	\$50,609

## Consolidated Statement of Retained Earnings

For the three months ended March 31, Thousands of dollars, (unaudited)	2006	2005
<b>Retained earnings, beginning of period</b>	\$415,067	\$408,632
<b>Net income</b>	35,978	50,609
	451,045	459,241
<b>Dividends</b>	12,500	21,205
<b>Retained earnings, end of period</b>	\$438,545	\$438,036

*See Accompanying Notes*

## Consolidated Statement of Financial Position

As at Thousands of dollars, (unaudited)	March 31, 2006	December 31, 2005
<b>Assets</b>		
<b>Current assets</b>		
Cash and short-term investments	\$97,096	\$97,079
Accounts receivable	90,339	100,380
Inventories	7,549	6,832
Prepaid expenses	23,988	14,651
	<b>218,972</b>	<b>218,942</b>
<b>Property, plant and equipment</b>	<b>2,661,781</b>	<b>2,640,616</b>
Less accumulated depreciation	1,771,422	1,766,147
	<b>890,359</b>	<b>874,469</b>
<b>Intangible assets</b>	<b>48,214</b>	<b>47,195</b>
Less accumulated amortization	18,747	17,534
	<b>29,467</b>	<b>29,661</b>
<b>Investments</b>	<b>739</b>	<b>748</b>
<b>Goodwill</b>	<b>18,359</b>	<b>18,953</b>
<b>Other assets</b>	<b>80,814</b>	<b>70,892</b>
	<b>\$1,238,710</b>	<b>\$1,213,665</b>
<b>Liabilities and Province's equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$124,886	\$136,845
Dividend payable	12,500	815
Services billed in advance	45,510	42,009
Current portion of long-term debt	37,461	38,320
	<b>220,357</b>	<b>217,989</b>
<b>Deferred revenue</b>	<b>10,115</b>	<b>9,539</b>
<b>Long-term debt</b>	<b>319,393</b>	<b>320,742</b>
	<b>549,865</b>	<b>548,270</b>
<b>Non-controlling interest</b>	<b>300</b>	<b>328</b>
<b>Province of Saskatchewan's equity</b>		
Equity advance	250,000	250,000
Retained earnings	438,545	415,067
	<b>688,545</b>	<b>665,067</b>
	<b>\$1,238,710</b>	<b>\$1,213,665</b>

*See Accompanying Notes*

## Consolidated Statement of Cash Flows

For the three months ended March 31, 2006 2005  
 Thousands of dollars, (unaudited)

### Cash provided by (used in):

#### Operating activities

Income from operations	\$35,978	\$50,609
Items not affecting cash from operations (Note 3)	36,266	38,041
Other operating items (Note 4)	(17,486)	(72,399)
	<b>54,758</b>	16,251

#### Financing activities

Repayment of long-term debt	(806)	(885)
Capital lease obligations	(800)	(672)
Dividends paid	(815)	(31,215)
	<b>(2,421)</b>	(32,772)

#### Investing activities

Property, plant and equipment expenditures	(52,118)	(20,225)
Proceeds on sale of investment	574	-
Customer accounts	(776)	(484)
Other assets	-	301
	<b>(52,320)</b>	(20,408)

<b>Increase (decrease) in cash from operations</b>	<b>17</b>	<b>(36,929)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>97,079</b>	<b>141,492</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$97,096</b>	<b>\$104,563</b>

### Comprised of:

Cash	\$455	\$6,785
Short-term investments	96,641	97,778
Cash and cash equivalents	<b>\$97,096</b>	<b>\$104,563</b>

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

## Notes to Consolidated Financial Statements, March 31, 2006

### 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, 2005. The unaudited interim statements should be read in conjunction with the Corporation's December 31, 2005 audited financial statements.

### Note 2 – Acquisitions and disposals

On January 10, 2006 the Corporation purchased, through its subsidiary DirectWest Corporation, a 100% interest in the directory assets of THE Telephone Book COMPANY Inc. as follows:

Thousands of dollars, (unaudited)	
Total consideration	\$350
Total tangible assets	113
Total intangible assets	244
Total liabilities	(7)
Net assets acquired	\$350

During the period the Corporation disposed of its majority interest in Business Watch International Inc. for cash proceeds of \$574,228 resulting in a gain on sale of \$113,865.

### Note 3 – Items not affecting cash from operations

For the three months ended March 31, Thousands of dollars, (unaudited)	2006	2005
Depreciation and amortization	\$37,632	\$36,022
Pension expense of defined benefit plans	13	2,359
Net share of (income) loss from significantly influenced companies	9	(2)
Sinking fund earnings	(602)	(628)
Gain on sale of investments	(114)	-
Other	(672)	290
	<b>\$36,266</b>	<b>\$38,041</b>

## Notes to Consolidated Financial Statements, March 31, 2006

### Note 4 – Other operating items

For the three months ended March 31, Thousands of dollars, (unaudited)	2006	2005
Changes in non-cash working capital:		
Accounts receivable	\$9,986	\$(34,039)
Inventories	(717)	483
Prepaid expenses	(9,337)	(2,142)
Accounts payable and accrued liabilities	(11,793)	(30,964)
Deferred revenue	566	1,051
Deferred expenses	(458)	(844)
Service billed in advance	3,501	3,335
Contributions to defined benefit pension plans	(9,234)	(9,279)
	<b>\$(17,486)</b>	<b>\$(72,399)</b>

### Note 5 – 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, (unaudited)	2006	2005
Current service cost - defined benefit plan	\$(1,870)	\$(1,954)
Interest cost	(12,853)	(12,651)
Expected return on pension plan assets	14,897	14,297
Amortization of net transitional asset	2,913	2,913
Amortization of past service costs	(1,055)	(1,245)
Amortization of actuarial loss	(1,577)	(3,388)
Pension income (cost)	<b>\$455</b>	<b>\$(2,028)</b>

### Note 6 – Subsequent event

Effective April 5, 2006, the Corporation received approval from the Office of the Superintendent of Financial Institutions to settle the Navigata Communications Inc. Pension Plan, governed by Navigata Communications Partnership. It is management's intention to proceed with settlement, which is expected to occur prior to June 30, 2006. The cost, which is estimated to be \$2.9 million, will be recognized when settlement occurs, in accordance with generally accepted accounting principles.

### Note 7 – Comparative figures

Certain of the 2005 figures have been reclassified to conform to the current period's presentation.