

# First Quarter Report

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Saskatchewan Telecommunications  
Holding Corporation

First Quarter Report 2007  
For the Period Ending March 31, 2007

**Saskatchewan Telecommunications Holding Corporation** (SaskTel) is a Crown corporation of Saskatchewan. We are the leading full service communications provider in Saskatchewan, offering competitive voice, data, dial-up and high speed internet, entertainment and multimedia services, security, web hosting, text and messaging services, and cellular and wireless data services over our digital networks. We also provide security monitoring services through SecurTek, directory services through DirectWest, in-room communications services to the healthcare sector through Hospitality Network, telecommunications consulting service through SaskTel International and have an out-of-province sales and service channel in Alberta and British Columbia. Our subsidiaries

have significant points of presence throughout Canada and internationally.

SaskTel and our wholly-owned subsidiaries have a workforce of approximately 5,100 permanent, part-time, casual, and temporary employees including all interns, co-op and summer students.

*As reflected in our vision, SaskTel is an innovative, quality-driven communications solutions provider for our customers worldwide. Together, our team of dedicated employees, our business partners, and our technology leadership will deliver sound financial returns and public policy benefits to the people of Saskatchewan*

## Financial Highlights

### Consolidated Net Income

Quarter ended March 31, (\$ millions)	2007	2006	% Change
Operating revenues	\$256.8	\$246.2	4.3
Operating expenses	212.0	204.6	3.6
Income from operations	44.8	41.6	7.7
Other items	0.8	0.9	(11.1)
Interest and related costs	(6.6)	(6.6)	-
Gain on sale of investments	0.6	0.1	500.0
Net income	\$39.6	\$36.0	10.0

SaskTel's consolidated net income for the first quarter of 2007 was \$39.6 million, up \$3.6 million from the same period in 2006. This was driven primarily by increased revenues from growth services, net of related expenses and gains recognized on sale of investments.

# 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 2007. This discussion and analysis should be read in conjunction with the Corporation's audited financial statements for the year ended December 31, 2006. 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 2006 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)	2007	2006	Change	%
Quarter ended March 31,	\$256.8	\$246.2	\$10.6	4.3

Operating revenues for the first quarter of 2007 increased to \$256.8 million, up \$10.6 million or 4.3% from the same period in 2006. 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 access and long distance revenues.

### Operating expenses

(\$ millions)	2007	2006	Change	%
Quarter ended March 31,	\$212.0	\$204.6	\$7.4	3.6

Operating expenses for the first quarter of 2007 increased to \$212.0 million, up \$7.4 million from the same period in 2006. This increase was primarily to support revenue growth including SaskTel Wireless and *Max* Entertainment Services.

### Interest and related costs

Interest and related costs for the first quarter of 2007 were \$6.6 million, equivalent to costs for the same period in 2006.

## Liquidity and Capital Resources

### Cash provided by operating activities

(\$ millions)	2007	2006	Change	%
Quarter ended March 31,	\$44.2	\$54.8	\$(10.6)	(19.3)

Cash provided by operating activities in the first quarter of 2007 was down \$10.6 million from the same period in 2006. Cash generated by operations increased \$4.0 million and working capital requirements increased \$14.6 million during the first quarter of 2007, as compared to the same period in 2006. Accounts payable and accrued liabilities decreased by \$26.1 million in the first quarter of 2007 as compared to a decrease of \$11.3 million during the first quarter of 2006 mainly due to lower capital spending in the first quarter of 2007.

### Cash used in investing activities

(\$ millions)	2007	2006	Change	%
Quarter ended March 31,	\$(25.1)	\$(52.3)	\$27.2	(52.0)

Cash used in investing activities in the first quarter of 2007 was \$25.1 million, down \$27.2 million from the same period in 2006. The Corporation's net spending on property, plant and equipment for the first quarter of 2007 was \$25.1 million, down \$27.0 million from the same period in 2006. Spending decreased primarily due to completion of Next Generation Access Infrastructure (NGAI) Program Phase 1 resulting in a lower capital program for 2007. Investment continues to support the telecommunications networks and meet customer demand, as well as growth and diversification including initiatives such as *Max* Entertainment Services, cellular expansion, multimedia development, Voice Over Internet Protocol (VoIP) and CommunityNet II, a program to expand SaskTel's high speed internet.

### Cash used in financing activities

(\$ millions)	2007	2006	Change	%
Quarter ended March 31,	\$(13.7)	\$(2.4)	\$(11.3)	470.8

Cash used in financing activities in the first quarter of 2007 was \$13.7 million, up \$11.3 million from the same period in 2006. Dividend payments were \$12.5 million in 2007 compared to \$0.8 million in 2006. Historically, first quarter dividend payments were a true up of the previous year's dividend declared and varied significantly. The 2007 payment is the final installment of the agreed upon 2006 annual dividend of \$50 million. Debt repayment activities were consistent with 2006.

## Liquidity and capital resource ratios

### Debt ratio

(\$ millions)

Quarter ended March 31,	2007	2006	Change	%
Long-term debt	\$368.4	\$402.9	\$(34.5)	(8.6)
Less: sinking funds	52.6	46.0	(6.6)	14.3
cash and short-term investments	21.6	97.1	75.5	77.8
Net Debt	294.2	259.8	34.4	13.2
Equity	720.6	688.5	32.1	4.7
Capitalization	\$1,014.8	\$948.3	\$66.5	7.0
Debt ratio	29.0%	27.4%	1.6	<i>nmf</i> <sup>1</sup>

The debt ratio after the first quarter of 2007 increased to 29.0%, up from 27.4% at March 31, 2006. The overall level of debt increased year over year by \$34.4 million due to reduced cash and short-term investments partially offset by sinking fund installments, earnings and valuation adjustment, and debt retirements. SaskTel continues to self-finance its capital and dividend requirements.

Retained earnings increased by \$32.1 million in the first quarter of 2007 after recording net income of \$39.6 million and dividends of \$7.5 million.

## 2007 Outlook

The 2006 SaskTel Annual Report identified a consolidated net income target for 2007 of \$61.4 million. Results to March 31, 2007 are favourable, due to favourable long distance revenues, operating expenses and depreciation. SaskTel anticipates increased competitive pressures and planned restructuring charges through the remainder of 2007. At this time SaskTel believes the 2007 net income will meet the established target.

## Risk Assessment

The 2006 Annual Report discusses the risks and uncertainties in SaskTel's business environment. They include developments in the economic and regulatory environments, challenges faced by the defined benefit pension plan, competitive activity and more. SaskTel's basic risk profile remains unchanged as at March 31, 2007. Management continues to monitor individual risks as they change and evolve and employs the industry accepted risk management processes of identification, mitigation, transfer, assumption and control of key risks.

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

## Consolidated Statement of Operations and Comprehensive Income

For the three months ended March 31, Thousands of dollars, (unaudited)	2007	2006
<b>Operating revenues</b>	<b>\$256,764</b>	<b>\$246,244</b>
<b>Operating expenses</b>		
Operations	172,871	166,994
Depreciation and amortization	39,157	37,633
	<b>212,028</b>	<b>204,627</b>
<b>Income from operations</b>	<b>44,736</b>	<b>41,617</b>
<b>Other items</b>	<b>854</b>	<b>927</b>
<b>Interest and related costs (Note 2)</b>	<b>(6,553)</b>	<b>(6,680)</b>
<b>Income before the following</b>	<b>39,037</b>	<b>35,864</b>
<b>Gain on sale of investment (Note 3)</b>	<b>571</b>	<b>114</b>
<b>Net income</b>	<b>39,608</b>	<b>35,978</b>
<b>Other comprehensive income</b>	<b>-</b>	<b>-</b>
<b>Comprehensive income</b>	<b>\$39,608</b>	<b>\$35,978</b>

## Consolidated Statement of Retained Earnings

For the three months ended March 31, Thousands of dollars, (unaudited)	2007	2006
<b>Retained earnings, beginning of period (Restated Note 2)</b>	<b>\$438,495</b>	<b>\$415,067</b>
<b>Net income</b>	<b>39,608</b>	<b>35,978</b>
	<b>478,103</b>	<b>451,045</b>
<b>Dividends</b>	<b>7,500</b>	<b>12,500</b>
<b>Retained earnings, end of period</b>	<b>\$470,603</b>	<b>\$438,545</b>

*See Accompanying Notes*

## Consolidated Statement of Financial Position

As at Thousands of dollars, (unaudited)	March 31, 2007	December 31, 2006
<b>Assets</b>		
<b>Current assets</b>		
Cash and short-term investments	\$21,579	\$16,110
Accounts receivable (Note 5a)	88,874	95,518
Inventories	8,606	8,170
Prepaid expenses (Note 5a)	25,568	18,804
	<b>144,627</b>	<b>138,602</b>
<b>Property, plant and equipment</b>	<b>2,789,467</b>	<b>2,793,517</b>
Less accumulated depreciation	<b>1,843,361</b>	<b>1,834,874</b>
	<b>946,106</b>	<b>958,643</b>
<b>Intangible assets</b>	<b>51,049</b>	<b>50,894</b>
Less accumulated amortization	<b>23,001</b>	<b>22,525</b>
	<b>28,048</b>	<b>28,369</b>
<b>Investments</b>	<b>227</b>	<b>768</b>
<b>Goodwill</b>	<b>18,350</b>	<b>18,350</b>
<b>Sinking funds</b>	<b>52,603</b>	<b>50,207</b>
<b>Other assets</b>	<b>73,960</b>	<b>62,222</b>
	<b>\$1,263,921</b>	<b>\$1,257,161</b>
<b>Liabilities and Province's equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 5a)	\$106,008	\$132,688
Dividend payable	7,500	12,500
Services billed in advance (Note 5a)	49,123	45,347
Current portion of long-term debt	17,193	17,253
	<b>179,824</b>	<b>207,788</b>
<b>Deferred revenue</b>	<b>12,258</b>	<b>10,415</b>
<b>Long-term debt</b>	<b>351,236</b>	<b>351,236</b>
	<b>543,318</b>	<b>569,439</b>
<b>Non-controlling interest</b>	<b>-</b>	<b>152</b>
<b>Province of Saskatchewan's equity</b>		
Equity advance	250,000	250,000
Retained earnings	470,603	437,570
	<b>720,603</b>	<b>687,570</b>
	<b>\$1,263,921</b>	<b>\$1,257,161</b>

*See Accompanying Notes*

## Consolidated Statement of Cash Flows

For the three months ended March 31, Thousands of dollars, (unaudited)	2007	2006
<b>Operating activities</b>		
Net income	\$39,608	\$35,978
Adjustments to reconcile net income to cash provided by operations		
Depreciation and amortization	39,157	37,633
Contributions to defined benefit pension plans	(8,737)	(9,234)
Pension expense (income) of defined benefit plans	(1,600)	(455)
Net share of loss from significantly influenced companies	12	9
Sinking fund earnings	(724)	(602)
Gain on sale of investments	(572)	(114)
Change in fair value of financial instruments	304	-
Other	(316)	(187)
Net change in non-cash working capital (Note 5b)	(22,906)	(8,267)
Cash provided by operating activities	44,226	54,761
<b>Investing activities</b>		
Property, plant and equipment expenditures	(25,058)	(52,118)
Proceeds on sale of investment (Note 3)	1,100	574
Investments acquired (Note 3)	(460)	-
Customer accounts	(664)	(776)
Cash used in investing activities	(25,082)	(52,320)
<b>Financing activities</b>		
Sinking fund installments	(1,160)	(806)
Capital lease obligations	-	(800)
Dividends paid	(12,500)	(815)
Financing leases	(15)	(3)
Cash used in financing activities	(13,675)	(2,424)
<b>Increase in cash</b>	<b>5,469</b>	<b>17</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>16,110</b>	<b>97,079</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$21,579</b>	<b>\$97,096</b>
<b>Comprised of:</b>		
Cash	\$3,945	\$455
Short-term investments	17,634	96,641
Cash and cash equivalents	\$21,579	\$97,096

See Accompanying Notes

# Notes to Consolidated Financial Statements, March 31, 2007

## Note 1 – Interim consolidated financial statements

The unaudited interim consolidated financial statements should be read in conjunction with SaskTel's December 31, 2006 audited consolidated financial statements. The interim consolidated financial statements of Saskatchewan Telecommunications Holding Corporation (SaskTel) 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 SaskTel's audited consolidated financial statements for the year ended December 31, 2006, except as described in note 2.

## Note 2 – Change in accounting policies

Effective January 1, 2007, SaskTel adopted the accounting recommendations for accounting changes (Canadian Institute of Chartered Accountants (CICA) Handbook Section 1506) in accordance with the transitional provisions of the section. The new standard allows for voluntary changes in accounting policy only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of section 1506 has had no material impact on these unaudited interim consolidated financial statements.

Effective January 1, 2007, SaskTel adopted the accounting recommendations for comprehensive income (CICA Handbook Section 1530), financial instruments - recognition and measurement (CICA Handbook Section 3855), financial instruments – disclosure and presentation (CICA Handbook Section 3861) and equity (CICA Handbook Section 3251) in accordance with the transitional provisions of the sections. These sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. CICA Handbook Section 1530 provides standards for the reporting and presentation of comprehensive income, which represents the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles in Canada.

Upon adoption of these new standards, SaskTel designated its cash, cash equivalents, short-term investments and sinking funds as held-for-trading which are measured at fair value. Accounts receivable are classified as loans and receivables which are measured at amortized cost. Accounts payable, accrued liabilities and long-term debt are classified as other financial liabilities which are measured at amortized cost using the effective interest method. The result of these designations is an increase in retained earnings and sinking funds of \$875,662 at January 1, 2007.

Sinking funds were previously presented as a reduction of long-term debt based on requirements to contribute to sinking funds for specific debt issues. Upon adoption of the new standards, sinking funds are disclosed as other assets and long-term debt is reported at the gross amount of the debt. The impact at January 1, 2007 was to increase assets and long-term debt by \$51,082,461.

The discount or premium on long-term debt had been deferred and amortized over the term of the debt in equal annual amounts. The new recommendations require the use of the effective interest method to recognize the discount or premium whereby the amount recognized varies over the term of the debt and provides a constant return based on the principal outstanding.

## Notes to Consolidated Financial Statements, March 31, 2007

### Note 2– Change in accounting policies, continued

As at January 1, 2007 SaskTel adjusted the unamortized discount/premium to what the balance would have been had the effective interest method been used since the issuance of the debt. The impact was an increase in the unamortized discount/premium balance and an increase in retained earnings of \$49,430.

Total adjustments to January 1, 2007 balances are as follows:

Thousands of dollars, (unaudited)

Increase (decrease)	
Unamortized discount/premium on long-term debt	\$49
Sinking funds	51,082
Long-term debt	50,207
Retained earnings	924

SaskTel has recorded a fair value change in financial instruments of \$304,182 for the three months ending March 31, 2007, which has been included with interest and related costs.

SaskTel had no “other comprehensive income or loss” transactions during the period and no opening or closing balances for accumulated other comprehensive income or loss.

### Note 3 – Acquisitions and disposals

During the period SaskTel, through its subsidiary DirectWest Corporation, purchased all of the outstanding partnership units of The Phone Book Company Partnership owned by MidWest Marketing Inc. for cash consideration of \$460,000.

Effective January 31, 2007 SaskTel disposed of a portion of its interest in Streamlogics Inc. for cash proceeds of \$1,100,000, resulting in redemption of preference shares and a gain of \$571,209 on the disposal of common shares.

### Note 4 – Contingencies

#### Contingencies

On August 9, 2004, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning system administration fees. The plaintiffs seek unquantified damages from the defendant wireless communications service providers. Similar proceedings have been filed by, or on behalf of, plaintiffs’ counsel in other provincial jurisdictions. On July 18, 2006, the Saskatchewan court declined to certify the action as a class action, but granted the plaintiffs leave to renew their application in order to further address certain statutory requirements respecting class actions. The Plaintiffs have renewed their application for certification in respect of the cause of action and renewed application is to be heard in June of 2007. SaskTel believes that it has strong defenses to the allegations.

On March 20, 2007, R.L.T.V. Investments Inc. brought a lawsuit against Saskatchewan Telecommunications Holding Corporation, Saskatchewan Telecommunications and several current and former officers and employees of Saskatchewan Telecommunications. The lawsuit includes allegations that SaskTel wrongfully obtained its MCS licence in Saskatchewan and is legally responsible for the failure of Image Wireless Communications Inc. as a consequence of alleged breach of contract, intentional interference with trade or business, deceit,

## Notes to Consolidated Financial Statements, March 31, 2007

### Note 4– Contingencies, continued

misrepresentation and breach of the *Competition Act*. The Plaintiff claims damages in excess of \$87 million. SaskTel believes that it has strong defenses to the allegations.

Should the ultimate resolution of these actions differ from management’s assessments and assumptions, a material adjustment to SaskTel’s financial position or results of operations could result.

### Note 5 – Additional financial information

#### a) Balance sheet

Thousands of dollars, (unaudited)	March 31 2007	December 31 2006
Accounts receivable		
Customer accounts receivable	\$72,432	\$77,016
Accrued receivables - customer	5,585	5,251
Allowance for doubtful accounts	(4,945)	(5,162)
	<b>73,072</b>	77,105
High cost serving area subsidy	5,846	5,894
Other	9,956	12,519
	<b>\$88,874</b>	\$95,518
Prepaid expenses		
Prepaid expenses	\$21,415	\$13,581
Deferred service connection charges	4,153	5,223
	<b>\$25,568</b>	\$18,804
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	\$38,068	\$65,939
Payroll and other employee-related liabilities	55,076	55,725
Taxes payable	6,911	4,648
Interest payable	5,792	5,248
Other	161	1,128
	<b>\$106,008</b>	\$132,688
Services billed in advance		
Advance billings	\$40,563	\$36,089
Deferred customer activation and connection fees	5,724	6,595
Customer deposits	2,836	2,663
	<b>\$49,123</b>	\$45,347

## Notes to Consolidated Financial Statements, March 31, 2007

### Note 5– Additional financial information, continued

#### b) Supplementary cash flow information

Periods ended March 31 Thousands of dollars, (unaudited)	2007	Three months 2006
Net change in non-cash working capital		
Accounts receivable	\$6,174	\$9,504
Inventories	(436)	(717)
Prepaid expenses	(6,764)	(9,337)
Accounts payable and accrued liabilities	(26,133)	(11,326)
Services billed in advance	3,776	3,501
Deferred revenues	1,832	566
Deferred expenses	(1,356)	(458)
	<b>\$(22,906)</b>	<b>\$(8,267)</b>
Interest paid	<b>\$6,480</b>	<b>\$6,830</b>

### Note 6 – 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)	2007	2006
Current service cost - defined benefit plan	\$(1,111)	\$(1,870)
Interest cost	(13,078)	(12,853)
Expected return on pension plan assets	15,119	14,897
Amortization of net transitional asset	2,913	2,913
Amortization of past service costs	(952)	(1,055)
Amortization of actuarial loss	(1,291)	(1,577)
Net pension income	<b>\$1,600</b>	<b>\$455</b>

### Note 7 – Comparative figures

Certain of the 2006 figures have been reclassified to conform to the current period's presentation.