

# Second Quarter Report

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Saskatchewan Telecommunications  
Holding Corporation

Second Quarter Report 2007  
For the Period Ending June 30, 2007

**Saskatchewan Telecommunications Holding Corporation** (SaskTel) is a Saskatchewan Crown corporation. 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

Millions of dollars, (unaudited)	Three months ended			Six months ended		
	2007	June 30, 2006	% Change	2007	June 30, 2006	% Change
Operating revenues	<b>\$261.2</b>	\$251.4	3.9	<b>\$518.0</b>	\$497.6	4.1
Operating expenses	<b>253.5</b>	237.5	6.7	<b>465.6</b>	442.1	5.3
Income from operations	<b>7.7</b>	13.9	(44.6)	<b>52.4</b>	55.5	(5.6)
Other items	<b>0.5</b>	2.4	(79.2)	<b>1.4</b>	3.3	(57.6)
Interest and related costs	<b>(8.2)</b>	(6.8)	20.6	<b>(14.8)</b>	(13.5)	9.6
Gain on sale of investments	-	-	<i>nmf</i> <sup>1</sup>	<b>0.6</b>	0.1	500.0
Net income (loss)	<b>\$(0.0)</b>	\$9.5	(100.0)	<b>\$39.6</b>	\$45.4	(12.8)

The Corporation recorded a nominal loss for the second quarter of 2007, largely driven by \$21.7 million in restructuring charges relating to phase two of the Early Retirement Program.

Year-to-date net income is \$39.6 million, down \$5.8 million from 2006. Operating revenues increased by 4.1% from the same period last year but were more than offset by increases in operating expenses of 5.3%. Strong growth by the Wireless and *Max*<sup>TM</sup> Entertainment Services portfolios was partially offset by reductions in the higher margin long distance and access portfolios. Expense increases directly reflect revenue growth, network enhancements to support future revenue streams as well as salary and benefits improvements.

<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 second 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 of dollars	2007	2006	Change	%
Three months ended June 30,	<b>\$261.2</b>	\$251.4	\$9.8	3.9
Year-to-date	<b>\$518.0</b>	\$497.6	\$20.4	4.1

Operating revenues for the second quarter were \$261.2 million, an increase of \$9.8 million over the same period in 2006. Year-to-date operating revenues were \$518.0 million which represents a \$20.4 million increase over 2006. Revenue growth continues to be driven significantly by *Wireless* and *Max Entertainment Services* as well as sales of customer premise equipment, however, this was offset somewhat by competition-driven reductions in long distance and access.

### Operating expenses

Millions of dollars	2007	2006	Change	%
Three months ended June 30,	<b>\$253.5</b>	\$237.5	\$16.0	6.7
Year-to-date	<b>\$465.6</b>	\$442.1	\$23.5	5.3

Operating expenses were \$253.5 million for the second quarter, up \$16.0 million from the same period in 2006. Year-to-date, expenses increased to \$465.6 million, up \$23.5 million from 2006. These year-over-year increases were in support of revenue growth, including *Wireless* services and *Max Entertainment Services*, as well as in support of future revenue streams as the Corporation enhances its network infrastructure. Also included in the year-to-date 2007 results are salary and benefits increases to all employees resulting from ratification of the new collective agreement.

## Interest and related costs

Interest and related costs were \$8.2 million for the second quarter, up \$1.4 million from the same period in 2006. Year-to-date, interest and related costs were \$14.8 million, up \$1.3 million from 2006 due primarily to the change in fair value of financial instruments.

## Liquidity and Capital Resources

### Cash provided by operating activities

Millions of dollars	2007	2006	Change	%
Three months ended June 30,	\$46.3	\$45.2	\$1.1	2.4
Year-to-date	\$90.5	\$100.0	\$(9.5)	(9.5)

Cash provided by operating activities during the second quarter of 2007 was \$46.3 million, up \$1.1 million from the same period in 2006. Cash generated by operations decreased \$12.1 million in the second quarter of 2007 as compared to 2006, but was more than offset by decreased working capital requirements of \$13.2 million mainly as a result of the 2006 impact of the Next Generation Access Infrastructure (NGAI) Program. The decrease in working capital requirements is mainly due to timing of payments to suppliers.

Cash provided by operating activities in the first six months was down \$9.5 million when compared to the same period in 2006. Cash from operations decreased \$8.1 million and working capital requirements increased \$1.3 million compared to the same period in 2006.

### Cash used in investing activities

Millions of dollars	2007	2006	Change	%
Three months ended June 30,	\$(41.2)	\$(46.5)	\$5.3	(11.4)
Year-to-date	\$(66.3)	\$(98.8)	\$32.5	(32.9)

Cash used in investing activities decreased by \$5.3 million to \$41.2 million in the second quarter of 2007 compared to the same period in 2006. Year-to-date cash used in investing activities decreased by \$32.5 million from the same period in 2006 to \$66.3 million in 2007. The decrease can be attributed to a decrease in overall capital spending.

The Corporation's net capital spending for the second quarter of 2007 was \$39.0 million, down \$6.3 million from the same period in 2006. Net capital spending for the six months ended June 30, 2007 was \$64.1 million, down \$33.4 million from the same period in 2006. Spending decreased primarily due to completion of the 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 initiatives such as *Max Entertainment Services*, cellular expansion, and multimedia development.

## Cash used in financing activities

Millions of dollars	2007	2006	Change	%
Three months ended June 30,	<b>\$(7.6)</b>	\$(27.6)	\$20.0	(72.5)
Year-to-date	<b>\$(21.3)</b>	\$(30.0)	\$8.7	(29.0)

Cash used in financing activities during the second quarter was \$7.6 million compared to \$27.6 million for the same period in 2006. Year-to-date cash used in financing activities was \$21.3 million compared to \$30.0 million in 2006. During 2007, the corporation repaid \$0.1 million of long-term debt, and paid a dividend of \$20.0 million to Crown Investment Corporation of Saskatchewan compared to debt repayment of \$13.7 million and dividends of \$13.3 million for the same period in 2006.

## Liquidity and capital resource ratios

### Debt ratio

(\$ millions)	2007	2006	Change	%
Quarter ended June 30,				
Long-term debt	<b>\$366.0</b>	\$388.4	\$(22.4)	(5.8)
Less: Net unamortized debt discount, premium and issue costs	<b>2.4</b>	-	2.4	<i>nmf</i>
Sinking funds	<b>51.2</b>	46.2	5.0	10.8
Cash and short-term investments	<b>19.0</b>	68.3	\$(49.3)	(72.2)
Net Debt	<b>293.4</b>	273.9	19.5	7.1
Equity	<b>713.1</b>	685.5	27.6	4.0
Capitalization	<b>\$1,006.5</b>	\$959.4	\$47.1	4.9
Debt ratio	<b>29.1%</b>	28.6%	0.5	<i>nmf</i> <sup>2</sup>

The debt ratio as at June 30, 2007 increased to 29.1% from 28.6% at June 30, 2006. The overall level of net debt increased \$19.5 million due primarily to a reduction in cash and short-term investments, as the Corporation continues to self-finance its capital and dividend requirements. In addition, retained earnings increased by \$27.6 million to the end of the second quarter.

The carrying amount of the long-term debt on the balance sheet has been restated to include \$2.4 million of net unamortized debt discount, premium and issue costs upon the adoption of the new CICA financial instrument standards on January 1, 2007.

<sup>2</sup> No meaningful figure (nmf)

## **2007 Outlook**

The 2006 SaskTel Annual Report identified a consolidated net income target for 2007 of \$61.4 million. Results to June 30, 2007 are favourable to target due to lower than anticipated operating expenses and depreciation. SaskTel anticipates increased competitive pressures and planned restructuring charges through the remainder of 2007. At this time SaskTel believes that it will meet the established 2007 net income 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 June 30, 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.

## Consolidated Statement of Operations and Comprehensive Income

Thousands of dollars, (unaudited)	Three months ended		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
<b>Operating revenues</b>	<b>\$261,218</b>	\$251,369	<b>\$517,982</b>	\$497,613
<b>Operating expenses</b>				
Operations	190,663	173,779	363,133	340,694
Depreciation and amortization	41,191	37,801	80,348	75,434
Restructuring charges (Note 3)	21,689	25,927	22,089	26,003
	<b>253,543</b>	237,507	<b>465,570</b>	442,131
<b>Income from operations</b>	<b>7,675</b>	13,862	<b>52,412</b>	55,482
<b>Other items</b>	<b>523</b>	2,372	<b>1,377</b>	3,298
<b>Interest and related costs</b>	<b>(8,208)</b>	(6,814)	<b>(14,761)</b>	(13,494)
<b>Income (loss) before the following</b>	<b>(10)</b>	9,420	<b>39,028</b>	45,286
<b>Gain on sale of investments (Note 4)</b>	<b>-</b>	-	<b>571</b>	114
<b>Net income (loss)</b>	<b>(10)</b>	9,420	<b>39,599</b>	<b>45,400</b>
<b>Other comprehensive income</b>	<b>-</b>	-	<b>-</b>	-
<b>Comprehensive income (loss)</b>	<b>\$(10)</b>	\$9,420	<b>\$39,599</b>	\$45,400

See Accompanying Notes

## Consolidated Statement of Retained Earnings

Thousands of dollars, (unaudited)	Three months ended		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
<b>Retained earnings, beginning of period</b> <b>(Restated Note 2)</b>	<b>\$470,604</b>	\$438,547	<b>\$438,495</b>	\$415,067
<b>Net income (loss)</b>	<b>(10)</b>	9,420	<b>39,599</b>	45,400
	<b>470,594</b>	447,967	<b>478,094</b>	460,467
<b>Dividends</b>	<b>7,500</b>	12,500	<b>15,000</b>	25,000
<b>Retained earnings, end of period</b>	<b>\$463,094</b>	\$435,467	<b>\$463,094</b>	\$435,467

See Accompanying Notes

## Consolidated Statement of Financial Position

As at	June 30,	December 31,
Thousands of dollars, (unaudited)	2007	2006
<b>Assets</b>		
<b>Current assets</b>		
Cash and short-term investments	\$19,027	\$16,110
Accounts receivable (Note 6a)	93,077	95,518
Inventories	10,323	8,170
Prepaid expenses (Note 6a)	30,355	18,804
	<b>152,782</b>	<b>138,602</b>
<b>Property, plant and equipment</b>	<b>2,817,671</b>	<b>2,793,517</b>
Less accumulated depreciation	1,872,380	1,834,874
	<b>945,291</b>	<b>958,643</b>
<b>Intangible assets</b>	<b>54,035</b>	<b>50,894</b>
Less accumulated amortization	25,128	22,525
	<b>28,907</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>51,223</b>	<b>50,207</b>
<b>Other assets</b>	<b>65,782</b>	<b>62,222</b>
	<b>\$1,262,562</b>	<b>\$1,257,161</b>
<b>Liabilities and Province's equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 6a)	\$114,804	\$132,688
Dividend payable	7,500	12,500
Services billed in advance (Note 6a)	51,058	45,347
Current portion of long-term debt	17,133	17,253
	<b>190,495</b>	<b>207,788</b>
<b>Deferred revenue</b>	<b>10,118</b>	<b>10,415</b>
<b>Long-term debt</b>	<b>348,855</b>	<b>351,236</b>
	<b>549,468</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	463,094	437,570
	<b>713,094</b>	<b>687,570</b>
	<b>\$1,262,562</b>	<b>\$1,257,161</b>

*See Accompanying Notes*

## Consolidated Statement of Cash Flows

Thousands of dollars, (unaudited)	Three months ended		Six months ended	
	2007	June 30, 2006	2007	June 30, 2006
<b>Operating activities</b>				
Net income (loss)	<b>\$(10)</b>	\$9,420	<b>\$39,599</b>	\$45,400
Adjustments to reconcile net income to cash provided by operations				
Depreciation and amortization	<b>41,191</b>	37,801	<b>80,348</b>	75,434
Contributions to defined benefit pension plans	<b>(9,272)</b>	(8,701)	<b>(18,009)</b>	(17,935)
Pension expense (income) of defined benefit plans	<b>(1,296)</b>	805	<b>(2,895)</b>	818
Special termination benefits costs	<b>15,573</b>	21,076	<b>15,573</b>	21,076
Net share of loss (income) from significantly influenced companies	-	(47)	<b>12</b>	(37)
Sinking fund earnings	<b>(267)</b>	(161)	<b>(991)</b>	(763)
Change in fair value of financial instruments	<b>1,646</b>	-	<b>1,950</b>	-
Gain on sale of investments	-	-	<b>(571)</b>	(114)
Other	<b>(141)</b>	(587)	<b>(60)</b>	(778)
Net change in non-cash working capital (Note 6b)	<b>(1,156)</b>	(14,394)	<b>(24,462)</b>	(23,129)
	<b>46,268</b>	45,212	<b>90,494</b>	99,972
<b>Investing activities</b>				
Property, plant and equipment expenditures	<b>(38,998)</b>	(45,331)	<b>(64,055)</b>	(97,450)
Proceeds on sale of investment	-	-	<b>1,100</b>	574
Investments acquired	-	-	<b>(460)</b>	-
Customer accounts	<b>(2,183)</b>	(1,130)	<b>(2,847)</b>	(1,905)
	<b>(41,181)</b>	(46,461)	<b>(66,262)</b>	(98,781)
<b>Financing activities</b>				
Sinking fund installments	-	-	<b>(1,100)</b>	(750)
Repayment of long-term debt	<b>(61)</b>	(13,625)	<b>(120)</b>	(13,682)
Capital lease obligations	-	(845)	-	(1,644)
Dividends paid	<b>(7,500)</b>	(12,500)	<b>(20,000)</b>	(13,315)
Financing leases	<b>(78)</b>	(620)	<b>(95)</b>	(622)
	<b>(7,639)</b>	(27,590)	<b>(21,315)</b>	(30,013)
<b>Increase (decrease) in cash</b>	<b>(2,552)</b>	(28,839)	<b>2,917</b>	(28,822)
<b>Cash and cash equivalents, beginning of period</b>	<b>21,579</b>	97,096	<b>16,110</b>	97,079
<b>Cash and cash equivalents, end of period</b>	<b>\$19,027</b>	\$68,257	<b>\$19,027</b>	\$ 68,257
<b>Comprised of:</b>				
Cash			<b>\$2,242</b>	\$13,369
Short-term investments			<b>16,785</b>	54,888
Cash and short-term investments			<b>\$19,027</b>	\$68,257

See Accompanying Notes

## Notes to Consolidated Financial Statements, June 30, 2007

### Note 1 – Interim 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. The discount or premium has been reclassified as part of the carrying value of the long-term debt.

## Notes to Consolidated Financial Statements, June 30, 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
Other assets	(2,302)
Long-term debt	47,905
Retained earnings	924

SaskTel has recorded a reduction in the fair value of financial instruments of \$1,646,196 for the three months ending June 30, 2007, and \$1,950,378 for the six months ended June 30, 2007, which has been included with interest and related costs.

SaskTel selected January 1, 2003 as the transition date for embedded derivatives, as such only contracts or financial instruments entered into or modified after the transition date were examined for embedded derivatives. As at June 30, 2007 and December 31, 2006, SaskTel does not have any outstanding contracts or financial instruments with embedded derivatives.

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 – Restructuring charges

During the period, \$22,089,452 (2006 - \$26,003,170) was recorded to restructuring charges. The charges relate to phase two 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 second phase began in the fall of 2006 and will be completed during 2007. In the first six months of 2007, 83 (2006 – 93) employees elected to receive a package that includes a cash allowance and immediate pension benefits.

Thousands of dollars, (unaudited),	2007	2006
Balance in accounts payable and accrued liabilities at January 1	<b>\$8,102</b>	\$8,670
Restructuring charges	<b>22,089</b>	26,003
Less:		
Cash payments	<b>6,259</b>	6,384
Special termination benefits costs	<b>15,573</b>	21,076
Balance in accounts payable and accrued liabilities at June 30	<b>\$8,359</b>	\$7,213

## Notes to Consolidated Financial Statements, June 30, 2007

### Note 4 – Acquisitions and disposals

Effective January 1, 2007 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 5 – 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 the renewed application was heard in June of 2007, with the decision on that application reserved. 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, 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 and a motion to strike all claims against the defendants has been filed.

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.

# Notes to Consolidated Financial Statements, June 30, 2007

## Note 6 – Additional financial information

### a) Balance sheet

	June 30 2007	December 31 2006
Thousands of dollars, (unaudited)		
Accounts receivable		
Customer accounts receivable	\$76,233	\$77,016
Accrued receivables - customer	5,559	5,251
Allowance for doubtful accounts	(4,360)	(5,162)
	<b>77,432</b>	77,105
High cost serving area subsidy	5,125	5,894
Other	10,520	12,519
	<b>\$93,077</b>	\$95,518
Prepaid expenses		
Prepaid publishing costs	\$11,060	\$7,974
Prepaid expenses	10,704	5,607
Centennial plan	2,557	0
Deferred service connection charges	6,034	5,223
	<b>\$30,355</b>	\$18,804
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	\$48,247	\$65,939
Payroll and other employee-related liabilities	54,838	55,725
Taxes payable	6,292	4,648
Interest payable	5,259	5,248
Other	168	1,128
	<b>\$114,804</b>	\$132,688
Services billed in advance		
Advance billings	\$39,858	\$36,089
Deferred customer activation and connection fees	8,270	6,595
Customer deposits	2,930	2,663
	<b>\$51,058</b>	\$45,347

## Notes to Consolidated Financial Statements, June 30, 2007

### Note 6 – Additional financial information, continued

#### b) Supplementary cash flow information

Thousands of dollars, (unaudited)	Three months ended		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Net change in non-cash working capital				
Accounts receivable	<b>\$(4,858)</b>	\$(1,818)	<b>\$1,319</b>	\$7,685
Inventories	<b>(1,717)</b>	95	<b>(2,153)</b>	(622)
Prepaid expenses	<b>(3,322)</b>	(1,094)	<b>(11,551)</b>	(10,432)
Accounts payable and accrued liabilities	<b>8,821</b>	(9,776)	<b>(17,711)</b>	(21,568)
Deferred revenue	<b>(229)</b>	1,316	<b>(320)</b>	1,882
Deferred expenses	<b>136</b>	(1,019)	<b>243</b>	(1,477)
Services billed in advance	<b>13</b>	(2,098)	<b>5,711</b>	1,403
	<b>\$(1,156)</b>	\$(14,394)	<b>\$(24,462)</b>	\$(23,129)
Interest Paid	<b>\$7,549</b>	\$8,656	<b>\$14,029</b>	\$15,486

#### Note 7 – 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,	
	2007	2006	2007	2006
Current service cost - defined benefit plan	<b>\$(1,112)</b>	\$(1,817)	<b>\$(2,223)</b>	\$(3,687)
Interest cost	<b>(13,073)</b>	(13,200)	<b>(26,151)</b>	(26,054)
Expected return on pension plan asset	<b>14,811</b>	14,877	<b>29,930</b>	29,773
Special termination benefits costs	<b>(15,573)</b>	(21,076)	<b>(15,573)</b>	(21,076)
Amortization of net transitional asset	<b>2,913</b>	2,919	<b>5,825</b>	5,832
Amortization of past service costs	<b>(952)</b>	(1,055)	<b>(1,904)</b>	(2,110)
Amortization of actuarial loss	<b>(1,291)</b>	(1,604)	<b>(2,582)</b>	(3,181)
Impact of settlement	-	(1,189)	-	(1,189)
Pension cost	<b>\$(14,277)</b>	\$(22,145)	<b>\$(12,678)</b>	\$(21,692)

#### Note 8 – Comparative figures

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