

# Part of your life.

COMMITTED TO THE PEOPLE OF SASKATCHEWAN > 2001 ANNUAL REPORT



**SaskTel** 

› **LETTER OF TRANSMITTAL**

Regina, Saskatchewan

March 31, 2002

To Her Honour

The Honourable Lynda Haverstock

Lieutenant Governor of the Province of Saskatchewan

Dear Lieutenant Governor:

I have the honour to submit herewith the annual report of SaskTel for the year ending December 31, 2001, including the financial statements, duly certified by auditors for the corporation, and in the form approved by the Treasury Board, all in accordance with The Saskatchewan Telecommunications Holding Corporation Act.

Respectfully submitted,



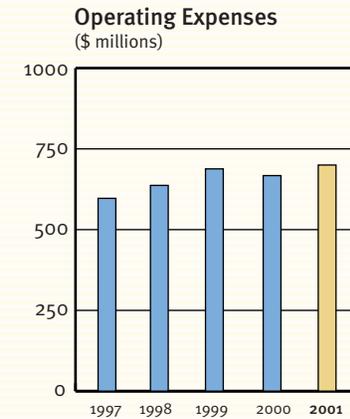
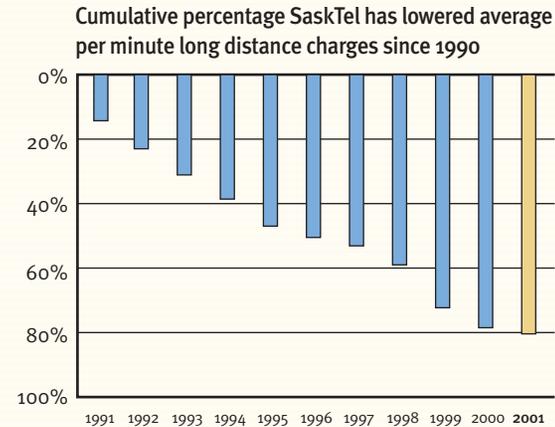
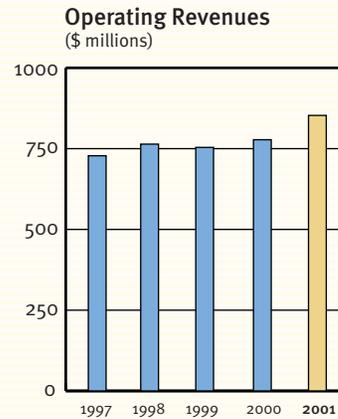
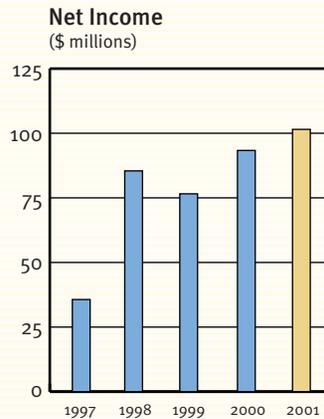
Honourable Maynard Sonntag

Minister Responsible for Crown Investments Corporation (CIC)

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## > FINANCIAL HIGHLIGHTS



- **NET INCOME** was \$101.5 million in 2001 and cash from operating activities was \$268.8 million.
- **OPERATING REVENUES** increased in 2001 because of higher contribution, cellular and internet revenues.
- **LONG DISTANCE REVENUES** continued to decline, despite an increase in long distance minutes, as customers continue to take advantage of flat rate or unlimited long distance plans.
- **INCREASED FOCUS** on growth and diversification initiatives, contribution payments, and an increase in corporate capital tax, contributed to an increase in operating expenses. SaskTel's Operational Efficiency Program generated cost savings of \$26 million in 2001, primarily in traditional lines of business. These savings helped to offset the overall increase in operating expenses.
- During the year, SaskTel **ACQUIRED** RSL COM Canada Inc., The Ag Dealer Ltd. and Business Watch International, Inc.; and made investments in Craig Wireless International Inc., Retx.com, Inc. and TappedInto.com, Inc.
- SaskTel **DECLARED DIVIDENDS** of \$91.3 million in 2001, an increase of 4.7% over 2000.



The purpose of this letter has always been to speak to the people who matter most to SaskTel – our customers, shareholders, and employees here in the province of Saskatchewan. Although we continue to diversify our operations and market products and services beyond our traditional service area, our resolve to serve the needs of Saskatchewan customers first has never faltered.

How we reconcile these two primary imperatives – our Saskatchewan first policy and the need to diversify our business – will be the measure of SaskTel’s success as it moves toward the end of its first century of serving Saskatchewan people.

We believe that the key to making this balance work is to capitalize on advanced communications technologies at home and abroad. You will see that this annual report, like the others in recent years, focuses on new and expanded services using the best digital and web-based technologies available. Throughout much of the world, human commerce is rapidly migrating to systems that depend on the internet and other communications advancements. We see SaskTel playing an important role in this province's journey through the opportunities and pitfalls of the globalization made possible by modern communications.

For one thing, by moving onto the international communications stage itself, SaskTel has led the way in showing that to make the most of global trade and communications, we cannot afford to sit back and wait for the world to come to us. For SaskTel and, indeed, for the economy of Saskatchewan to gain from competition on a global scale, our activities must be diverse and multi-directional. We would end up on the losing end if we were to simply allow foreign competitors to enter our markets and not reciprocate with our own global enterprises and investments.

How does this relate to our Saskatchewan First policy? Well, one of our primary goals as the crown corporation responsible for the province's communications systems is to ensure that the technologies are in place to allow Saskatchewan citizens the opportunity to participate in this same kind of global commerce. These advanced communications systems are expensive, and present a significant cost-recovery challenge when we deliver them to sparsely populated localities. The profits we have

gained in our many successful enterprises abroad over the past ten years have given us the financial strength to invest more than \$1 billion in our network over the same period.

*Putting Saskatchewan first has led us over the years to develop a fiber optic network that was at the time unparalleled in the world, to convert our network to 100% digital, 100% individual line service, and to deliver affordable internet service to rural areas.*

Equally important, but sometimes forgotten when we discuss the benefits of diversification, are the human values that multiply and permeate throughout the corporation whenever we stretch the boundaries of our endeavor. These are the immeasurables, the all-important intangibles that show up not on our balance sheet, but in the spirit and culture of SaskTel and in the steadily accruing skills and knowledge of our employees. Developing our people, even more so

than developing our profitability, is what bridges our new business ventures to everything we do in serving the communications needs of Saskatchewan. Without these financial and human values from diversified operations, we would not have the resources and skills to invest in the systems that have brought both high speed internet and digital wireless services to dozens of Saskatchewan communities.

Putting Saskatchewan first has led us over the years to develop a fiber optic network that was at the time unparalleled in the world, to convert our network to 100% digital, 100% individual line service, and to deliver affordable internet service to rural areas. Looking over this past year, I see this priority playing a large role again, this time guiding us to find ways of cutting costs without laying off staff or diminishing service levels.

In closing, I am grateful, as always, for the outstanding contributions of our employees, management, and board of directors. Our commitment to serve our Saskatchewan customers first succeeds because we have people who give their energies and intelligence to the work it takes to deliver on that promise.



Donald R. Ching  
President and CEO



**H**ere is a look back at some of SaskTel's accomplishments and opportunities in 2001. Whether it was in expanding advanced services to more of the province or in launching new business enterprises, this was a year that brought SaskTel's achievements home to more and more people.



**Network Improvements**

We invested \$90 million into our network infrastructure in Saskatchewan to ensure that every region of the province receives the most up-to-date communications services possible. SaskTel Mobility will be investing \$24 million over the next three years to expand its digital cellular network in Saskatchewan, resulting in a complete overlay of today's analog cellular network.

**A strong move into broadcasting**

We committed SaskTel to launch a new Digital Interactive Video (DIV) broadcasting and internet service after receiving regulatory approval from the Canadian Radio-television and Telecommunications Commission (CRTC).

**A milestone in the internet market**

We signed on our 100,000th internet customer (dial-up and high speed together) — not bad in a province of 1 million people.

**Promising new revenue opportunities**

We took an equity position in several new businesses, strengthening our diversified revenue outlook. These include: The Ag Dealer Ltd., a publishing and online directory business (to enhance DirectWest's market position); Navigata Communications Inc. (formerly RSL COM Canada Inc.), a Vancouver-based telecommunications company; TappedInto.com, Inc., a Nashville, Tennessee-based streaming services provider (to expand our presence in the streaming video market); and Business Watch International, Inc. (BWI), a Saskatchewan-based company that uses the internet to work with police agencies to track stolen goods.



### **More advanced services to your community**

We expanded high speed internet access to an unprecedented 27 new Saskatchewan communities, for a grand total of 46 towns and cities served by high speed, representing 61% of Saskatchewan's population.

We also expanded our digital cellular network bringing leading-edge wireless and internet-based services to more urban and rural Saskatchewan residents — totaling now 74% of the province's population.

### **A new way for you to shop at SaskTel**

At [www.sasktel.com](http://www.sasktel.com), you can now shop online for SaskTel products and services at any time of the day or week: internet, phones, cellular products and services, calling features, bundles — it's all there.

### **Staying on top**

For the second year in a row the Conference Board of Canada has recognized SaskTel as Saskatchewan's top youth employer. This was also our second year on Maclean's list of the top 100 Canadian companies to work for.

### **Fifteen years abroad**

This year we celebrated SaskTel International's fifteenth anniversary as a SaskTel subsidiary and one of the brightest stars in our diversification strategy.

### **Improved data-storage and hosting services**

We opened a SaskTel Data Centre in Saskatoon to complement the existing Regina Data Centre, thereby ensuring our government and business customers even more secure housing of important internet applications and data.

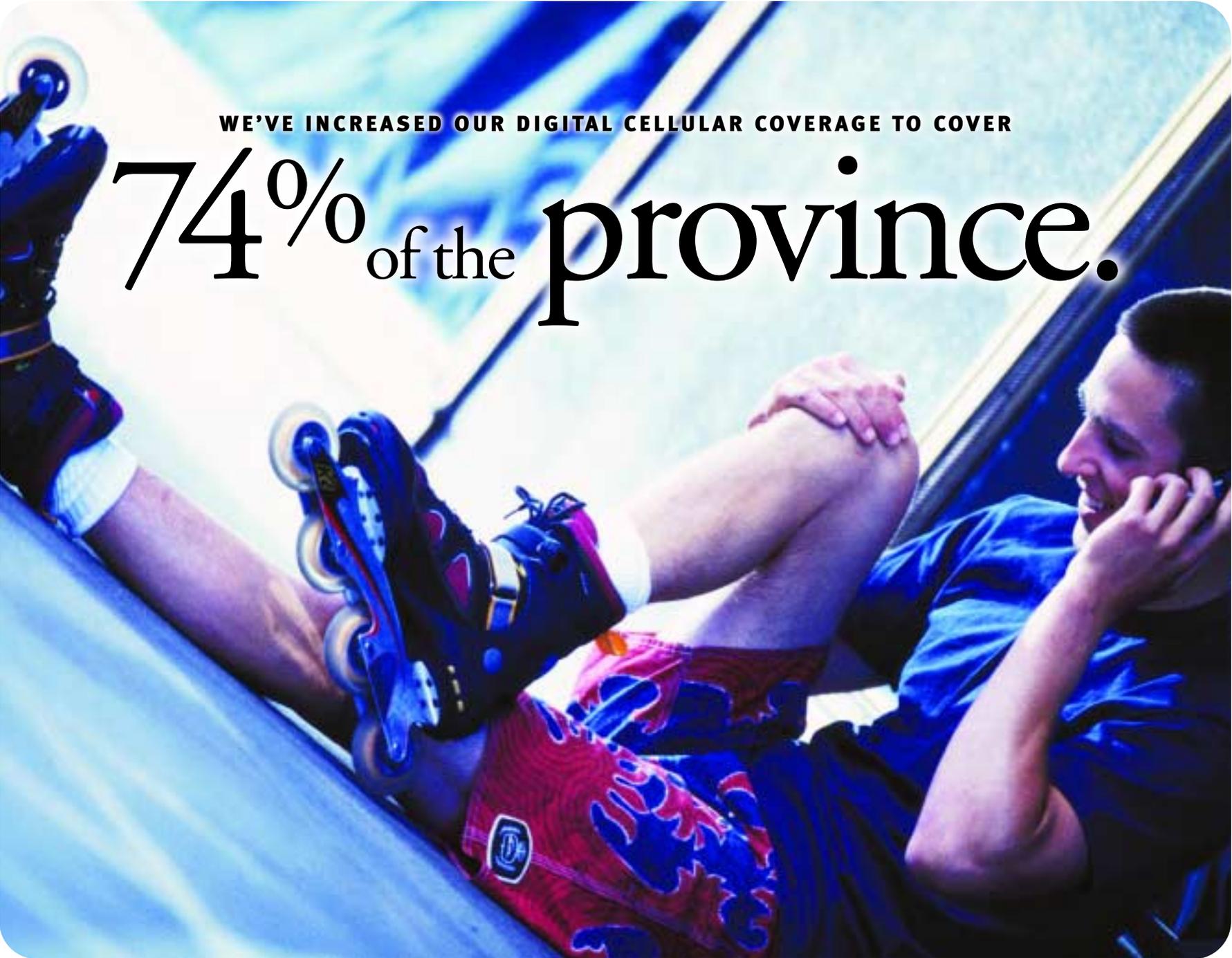
### **Capitalizing on our broadband expertise**

Late in the year, SaskTel undertook a promising new initiative to design and build a telephony network in the Newcastle region of Australia that will eventually offer telephony, high speed internet, pay television and other video and data services to homes and businesses in the area.

### **Recognition for our work in Africa**

For bringing telephone service to Northwest Tanzania, SaskTel International received an award from the Canadian International Development Agency (CIDA) and the Canadian Manufacturers & Exporters.



A man is roller skating on a ramp, leaning back with his hands clasped. He is wearing a blue t-shirt, red shorts with a blue and white pattern, and blue roller skates. He is smiling and talking on a mobile phone held to his ear. The background is a bright, slightly blurred outdoor setting.

WE'VE INCREASED OUR DIGITAL CELLULAR COVERAGE TO COVER

74% of the province.



IN 2001, WE EXPANDED OUR HIGH SPEED INTERNET TO A TOTAL OF

46 communities.

A high-angle photograph of a cluttered office desk. A person's hands are visible on a white keyboard. The desk is covered with various items including papers, a mouse, a mousepad, a water bottle, and other office supplies. The background shows a shelf with more items and a wall with some papers.

WE'VE MADE SASKTEL.COM YOUR ONLINE SOURCE FOR OVER

300 products  
and services.



**M**ore and more Saskatchewan people are using internet technologies to buy online or to improve business processes. Businesses are finding new ways to work with their customers, suppliers, partners, and employees. And people at home are responding by making the internet an ever-increasing part of their daily patterns of communication, work, entertainment, and shopping.

*According to Statistics Canada's most recent figures, internet use has tripled in Canada since 1994. Of people over the age of fourteen, 53% have used the internet during the past year. Approximately 25% of Canadian internet users have bought something online; just slightly less than 25% say they bank online; and 75% use the internet to search for information on goods and services. As the e-business culture develops in this province, SaskTel is doing all it can to help its employees and customers participate in every way possible.*

To stay at the forefront of e-business in Saskatchewan and maintain our position as the largest and most competitive internet service provider in the province, we know that we must continue to provide customers with enhanced bandwidth, security and coverage in both wireless and wireline applications.

When we first took on e-business as a core enterprise at SaskTel, we decided that we would lead our customers by example. This means we think of our e-business in two parallel, mutually-supporting streams: while we convert our own business processes to showcase and profit from internet-based technologies, at the same time we deliver the systems, products and services that enable our customers to capitalize on e-business. With the expertise and the critical industry and content-provider partnerships that it takes to make a mark in this competitive sector, SaskTel is wisely investing in new technologies while making the most of its existing systems.

This means that SaskTel already has in place many of the initiatives that it needs to foster Saskatchewan's e-business environment while at the same time improving its own e-business processes, developing a net-ready corporate culture, and growing in profitability.



These initiatives include our involvement in CommunityNet, our Mobile Browser wireless content partnerships (including Tourism Saskatchewan, PocketBoxOffice, Air Canada, and several banks), our strategic partnerships with Netscape and with Sympatico-Lycos, and our plans to introduce an all-inclusive communications bundle in 2002 (see Digital Interactive Video).

As the needs of our e-business customers evolve, we will continue to anticipate new markets and use the best available technologies to streamline our costs and offer the public improved e-business services at every turn.

### Shopping on [www.sasktel.com](http://www.sasktel.com)

By transforming [sasktel.com](http://sasktel.com) into a fully-operational e-commerce web site, we have given our customers a powerful new way of doing business with SaskTel. Now you can interact with SaskTel on your own terms, shopping online for SaskTel products and services at any time of the day or week. At [www.sasktel.com](http://www.sasktel.com) you'll find a wide range of services including internet, phones, cellular products & services, calling features, Bundles, and more. The new web site also features community and corporate information, career opportunities and financial reports.



*The new sasktel.com web site.*

### Digital Interactive Television

In the next few months, SaskTel will be introducing an entirely new service that combines internet, subscriber TV, and interactive media. Digital Interactive Video (DIV) will use existing high speed internet technology over existing phone lines. The existing telephone line is used and a modem is installed to decipher the data signals coming through the telephone line. The result is exceptional quality interactive media, television, and internet over existing high speed networks — direct to subscribers' television, personal computer, or both.



*DIV, bringing television and internet to Saskatchewan homes in 2002.*

### High Speed Internet expanded to 27 communities (bringing total to 46)

In 2001, SaskTel expanded its high speed internet service to cover most residential and business customers in Assiniboia, Balgonie, Biggar, Canora, Davidson, Esterhazy, Fort Qu'Appelle, Hudson Bay, Indian Head, Kamsack, Kerrobert, La Ronge, Langham, Lumsden, Maple Creek, Martensville, Outlook, Oxbow, Pilot Butte, Rosetown, Rosthern, Shaunavon, Unity, Warman, Watrous, Wilkie and Wynyard. These newly served communities are in addition to many others that have had SaskTel High Speed Internet

access before this year: Humboldt, Kindersley, Meadow Lake, Moosomin, Nipawin, Tisdale, White City, Estevan, Lloydminster, Melfort, Melville, Moose Jaw, North Battleford, Prince Albert, Regina, Saskatoon, Swift Current, Weyburn, and Yorkton. This expansion will help SaskTel meet its goal of offering high speed internet to more than 95% of our population over the next three to five years.

### [www.mysask.com](http://www.mysask.com)

Mysask.com is our Saskatchewan branded portal aimed at attracting and retaining internet users with an electronic phone book and an array of other services that are helping to develop the province's internet marketplace. Saskatchewan's number one web portal with 1.3 million page impressions (number of web pages viewed by visitors to a web site) per month, [www.mysask.com](http://www.mysask.com), provides online directory searches, news, weather, sports, classifieds, online shopping, and movie and local events listings.

### New Data Centre and Improved Hosting Services

We opened a SaskTel Data Centre in Saskatoon to complement the existing Regina Data Centre, thereby ensuring our government and business customers even more secure housing of important internet applications and data. SaskTel has invested approximately \$10 million in the two data centres to bring to the Saskatchewan market leading-edge hardware, software and security with an array of hosting features: protected housing of important internet applications for more than 500 customers; high speed access to internal information from multiple locations and by multiple employees; 167 servers, many of which are shared with other customers, resulting in economies of scale and lower costs; and a support group of 30 highly trained technical staff who maintain and monitor the data centre 7 days a week, 24 hours a day, 365 days a year.



WE'RE INTRODUCING OUR NEW DIV SERVICE SO YOU CAN SURF THE WEB FROM YOUR

couch.



We take care to ensure that our diversified operations in Canada and around the world are firmly grounded in our commitment to customers here at home in Saskatchewan. Income from new business units, from software sales, overseas projects and investments contributes to the financial strength that allows us to provide Saskatchewan with the world's most advanced telecommunications.

From local wireline access to our all-digital long distance network, and from dial-up internet to Digital Interactive Video and wireless internet over our digital cellular network, the good things we do at home cannot be separated from our successes further afield.

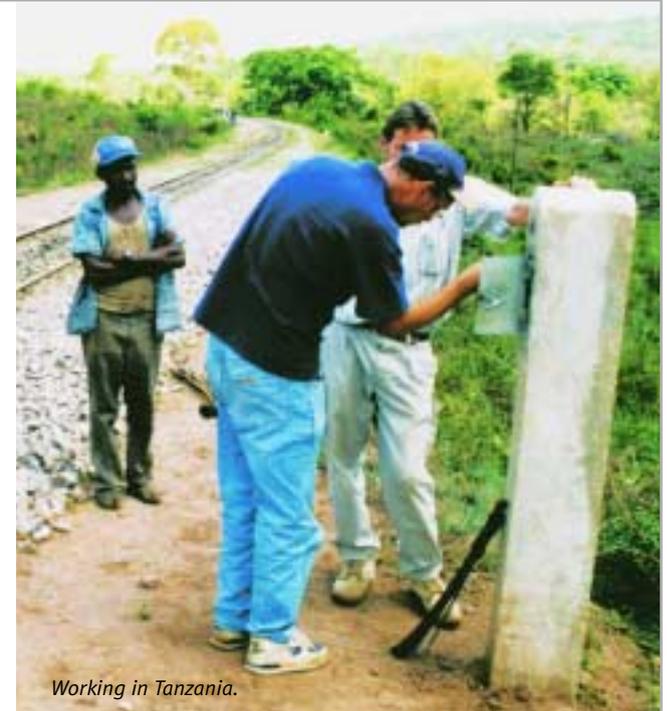
To maintain this level of service at the best possible price, SaskTel has had to grow and diversify. This year's contributions to our long-term diversification strategy will provide the new revenues required if we are to continue expanding high speed internet, digital cellular and other vital services across our province, while keeping rates as low as possible.

This was the year we celebrated the fifteenth anniversary of the centrepiece of our diversification strategy — SaskTel International. Since 1986, SaskTel International has generated \$448 million in revenue, with a net income of \$149.8 million. For ten consecutive years, SaskTel International has recorded a profit, which has been invested in

Saskatchewan people and projects. Advanced technologies that were developed to serve the people of Saskatchewan — especially in fiber optics, digital switching, and software systems — have helped open the doors to international markets for SaskTel International. Today, SaskTel International, either on its own or in partnership with other firms, helps its clients in countries around the world develop, improve, and expand their telecommunications systems.

**Bringing Broadband to Newcastle, Australia**

After a thorough due diligence process, SaskTel International announced late in the year that it has received approval to take part in a new telecommunications project in Newcastle, Australia. In alignment with SaskTel's corporate strategic direction, SaskTel is planning to invest up to \$79.5 million to create an Australian corporation to serve as the operating company in the Newcastle area.



*Working in Tanzania.*

The Newcastle opportunity is a start-up broadband company that will provide telephony, video and high speed data services to the residents and businesses of Newcastle. The Newcastle region, 160 km north of Sydney, includes approximately 133,000 residential and 16,000 business customers. SaskTel International anticipates that the construction will take approximately two and a half years to complete. As with any start-up business, losses are expected for the first years. However, SaskTel views this opportunity as a long-term investment. As a condition of the approval received, SaskTel International is currently pursuing a partner for this initiative.

As well, in 2001, there was a significant contract signed to provide the **MARTENS®** Suite of Service Fulfillment OSS (Operational Support System) products and related services to NorthwesTel for \$760,000. NorthwesTel is a Northwest Territories-based diversified communications provider, and is the latest addition to SaskTel International's client list that includes companies in Oregon, Louisiana, Pennsylvania, Alaska, Ontario and Newfoundland.

These and many other diversification initiatives ensure that SaskTel will remain financially viable, which in turn ensures that the people of Saskatchewan will continue to be served by a company that is committed to finding affordable ways of delivering the world's best telecommunications technologies to all areas of the province.

### Other Diversification Highlights for 2001

#### **Business Watch International**

Business Watch International, Inc. (BWI) is a

Saskatchewan-based company that is setting a new standard for internet-based crime prevention by providing police agencies with a computer program that captures and monitors transactions involving second-hand goods. After a three year relationship as a strategic partner with BWI, SaskTel made an investment of \$1.0 million in the company and is prepared to fund up to \$3.0 million as the business grows. SaskTel exercised an option to convert previous technical and marketing support into equity, resulting in SaskTel securing 85.9% ownership of BWI.

#### **Ag Dealer**

SaskTel purchased a majority 84.4% ownership of The Ag Dealer Ltd., a leading e-commerce company that brings buyers and sellers together within the used farm equipment market in both print and online mediums. Given DirectWest's expertise in the print industry and the internet, as well as their experience in agricultural markets, the acquisition was a natural fit. Ag Dealer has demonstrated continuous growth as its monthly magazine increases in circulation, and its web sites receive more than 175,000 visits each month.

#### **TappedInto.com**

This year, SaskTel also took an equity position in TappedInto.com, Inc., a streaming services provider. Streaming video is a way of offering either a live event or pre-recorded content on a web site for public viewing. SaskTel purchased 45% of TappedInto.com for \$3.8 million. With this investment, TappedInto.com, based in Nashville, Tennessee, will open a branch office in Saskatchewan, creating new jobs over the next five years in Saskatchewan's information technology sector. TappedInto.com has established relationships with organizations including Greenpeace International, World Trade Organization, and the

National Federation of Independent Business, to name just a few of their global streaming clients.

#### **SecurTek Growing Well**

SecurTek Monitoring Solutions Inc. had a fine year in 2001. The Yorkton-based security monitoring business, a wholly-owned subsidiary of SaskTel, has continued with its growth strategy by joining forces with two local security companies in Alberta and British Columbia. All-Knight Security, a 14-year old security company, serves customers in southeast Alberta and southwest Saskatchewan. Protec Security Systems is a security and monitoring company that serves customers in the Kamloops, British Columbia area. SecurTek's performance is on track to achieve its long-term business plans, and in fact is expected to become cash flow positive in 2002.

#### **Navigata Communications (formerly RSL COM Canada)**

Looking to expand our core business in the competitive communications marketplace, and to reduce network costs through termination of long distance traffic, SaskTel acquired Vancouver-based Navigata Communications for \$16.7 million. Navigata provides a full range of products including local service, long distance services, internet services, and high speed data services to customers located in British Columbia, Alberta, Ontario, and Quebec. The company has over 40 years experience of serving customers in British Columbia.



SaskTel strives to live up to the ethical values and expectations of the Saskatchewan community at large. By incorporating social responsibility in our business operations and decision-making, we try to meet or exceed public expectations in the way we treat customers, the community, our employees, the environment, and our suppliers – the five key stakeholders included in this report.

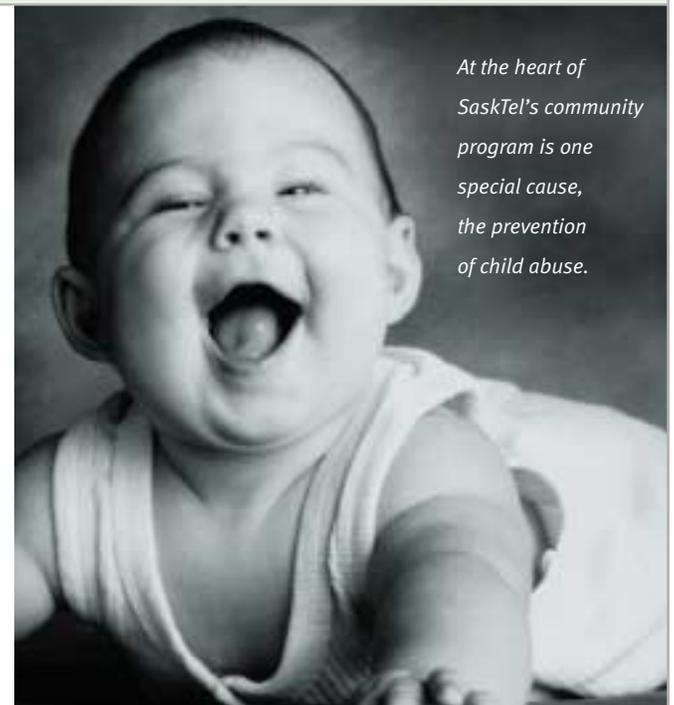
*One of our primary corporate values – open, honest communication – is our guidepost as we build trust and openness between SaskTel and its stakeholders. This, our second report covering Corporate Social Reporting (CSR), includes feedback from our stakeholders on our performance through mechanisms such as surveys. For more detailed reporting on SaskTel’s CSR methods and performance results, please visit our web site at: [www.sasktel.com/about\\_sasktel/financia\\_reports/2001\\_annualreport/social/](http://www.sasktel.com/about_sasktel/financia_reports/2001_annualreport/social/)*

#### **Customers**

For SaskTel, everything begins with the customer. Our goal has always been to provide affordable basic telephone service to every resident in the province and advanced communications to as much of the province as is feasible. We continue to serve virtually 100% of

the province with basic telephone access at rates that are comparable to those in other provinces.

Our recent expansions of digital wireless service and SaskTel High Speed Internet service demonstrate our commitment to continue extending our delivery of advanced communications technologies throughout the province. **Performance results** – in 2001, we surveyed Saskatchewan residential and business customers to learn more about how our customers regard SaskTel. The survey asked customers to rate their perception of SaskTel as well as other communication providers and other large companies doing business in Saskatchewan, both private and public owned. In a question that centred on customers’ personal perceptions of companies, SaskTel scored an average of 7.9 out of ten (with ten being the most positive), ranking number one among 16 private and public companies.



*At the heart of SaskTel’s community program is one special cause, the prevention of child abuse.*

## Community

SaskTel's prominent role in Saskatchewan's communities is a source of corporate pride. We support a wide variety of non-profit and charitable organizations through our Community Investment Program, as well as our employee-chosen Social Cause, the prevention of child abuse. *Performance results* — in 2001, SaskTel donated \$1.9 million to 1,645 non-profit and charitable organizations in the province. As well, this year SaskTel Pioneers, a service organization of active and retired SaskTel employees, contributed \$424,509 and 70,082 hours of volunteer time to community projects. SaskTel Telcare, our employee benevolent fund, donated \$214,163, which is matched 50% by SaskTel for a total of \$321,244 to assist 56 Saskatchewan charities. In 2001, our employees donated \$6,945 to the Employee Social Cause Fund, supporting child abuse prevention, early childhood development and positive parenting programs. In the year 2000, we completed a random survey of our customers to determine attitudes toward our community support. The results showed 82% of respondents prefer to do business with companies that actively support the community. We plan on redoing the survey in 2002 and reporting again on the results.

## Employees

As key stakeholders, our employees are essential to our success as a corporation and as a community-minded organization. SaskTel spends significant resources on developing and training its existing employees, and on fostering a work environment that supports Saskatchewan's youth and reflects the cultural diversity of the communities we serve. We have several programs in place that provide educational and employment opportunities for young Saskatchewan people. *Performance results* — of SaskTel's permanent

full-time positions hired in 2001, 94% were students of Saskatchewan post secondary institutes (up from the 76% hired in 2000). SaskTel established and met its 2001 employment equity goals. Our goal was to hire 25% of employees from the employment equity groups: Aboriginal people, people with disabilities, visible minorities and women in non-traditional roles. In 2001, SaskTel hired 40% of employees from these employment equity groups. SaskTel has received external recognition for these employee performance results. For the second year in a row, SaskTel was selected as the Conference Board of Canada's Top Employer of Youth in Saskatchewan. Also for the second year running, SaskTel was listed among the top 100 companies to work for in Canada.

*For the second year in a row, SaskTel was selected as the Conference Board of Canada's Top Employer of Youth in Saskatchewan.*

## Environment

SaskTel is committed to incorporate environmental protection within the fundamentals of its broader business vision and to operate in a manner that maintains a balance between corporate economic and environmental goals. SaskTel, in conjunction with the SaskTel Pioneers, have established several effective community partnerships over the years that focus on recycling and other ecologically friendly programs. *Performance results* — in 2001, SaskTel and the SaskTel Pioneers recycled more than 205,000 telephone

directories province-wide, approximately 25% of phone books, which matches levels in 2000. As well, sixteen "Paint-It Recycling" days were held in ten centres across the province. The paint recycling program collected a total of 19,103 gallons of paint. SaskTel is going beyond compliance with existing environmental laws and regulation in decommissioning seven radio tower sites in northern Saskatchewan. Decommissioning is now complete at Gordon Bay and Ford Bay and early in 2002 a decommissioning closure report will be submitted to Saskatchewan Environment and Resource Management for Carswell Lake.

## Suppliers

SaskTel's policy is to do business with Saskatchewan businesses whenever possible in purchasing goods and services and in distributing our own products and services. Every dollar SaskTel spends in the province can be multiplied several times as it generates jobs, personal income and local spending throughout the Saskatchewan economy. *Performance results* — in 2001, SaskTel spent \$238 million on materials and services from Saskatchewan suppliers. This figure represents a 13% decline from the previous year, but the variance is accounted for by an operational efficiency program that reduced corporate spending overall. We completed a survey in 2001 to determine the satisfaction of SaskTel's suppliers when dealing with SaskTel as well as the economic impact of SaskTel's purchasing decisions. The results were 84% of the suppliers surveyed agreed or strongly agreed with the statement when asked if their company was satisfied with their relationship with SaskTel. As well, 12% of all suppliers surveyed said they were able to hire additional staff as a direct result of doing business with SaskTel.

# financials

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## › MANAGEMENT'S DISCUSSION AND ANALYSIS



The Management's Discussion and Analysis focuses on the overall performance of Saskatchewan Telecommunications Holding Corporation (the Corporation), and its major strategic business units or "operating segments" which make up the majority of the Corporation's holdings. The significant operating segments are: SaskTel Wireline and SaskTel Wireless (SaskTel Mobility), which operate within Saskatchewan Telecommunications, as well as Saskatchewan Telecommunications International, Inc. (SaskTel International) and DirectWest Publishing Partnership (DirectWest). The information for each of the major operating segments details the various business activities that the Corporation is engaged in and the performance associated with these business activities.

## › OVERVIEW OF OPERATIONS

The Corporation is the leading full service communications company in Saskatchewan, providing competitive voice, data, dial-up and high speed internet, wireless, data storage and web-hosting applications, text and messaging services over a fiber optic-based, fully digital network. The Corporation's major asset is a wholly owned subsidiary, Saskatchewan Telecommunications, which has been the principal supplier of telecommunications in Saskatchewan for over 90 years. The Corporation also maintains investments in companies which provide directory publishing, remote security monitoring,

system design, project management, engineering consulting, software sales, multimedia, cable television, transaction clearinghouse, wireless point of sale, broadband internet streaming, internet pawnshop transaction tracking, advertising services, and telecommunication services to business customers in British Columbia, Alberta, Ontario and Quebec. Through interconnection agreements with the Canadian telecommunications industry — primarily Bell Canada — Saskatchewan Telecommunications is part of the national and global communications network.

*The discussion and analysis should be read in conjunction with the Corporation's audited, consolidated financial statements which are on pages 37 to 49 of this report.*

## › RESULTS OF OPERATIONS

### Consolidated Net Income

(\$ millions)	2001	2000	Change	%
Operating Income:				
SaskTel Wireline	\$ 118.9	\$ 76.8	\$ 42.1	54.8
SaskTel Wireless	21.1	21.0	0.1	0.5
SaskTel International	0.6	1.4	(0.8)	(57.1)
DirectWest	1.6	1.6	(0.0)	(0.0)
Other	18.1	18.0	0.1	0.6
	160.3	118.8	41.5	34.9
Intercompany Eliminations	(7.5)	(8.4)	0.9	(10.7)
Income from Operations	152.8	110.4	42.4	38.4
Other Items	(9.3)	1.4	(10.7)	(764.3)
Interest and Related Costs	(42.0)	(41.5)	(0.5)	1.2
Gain on Sale of Investment	0.0	23.1	(23.1)	(100.0)
Consolidated Net Income	\$ 101.5	\$ 93.4	\$ 8.1	8.7

The Corporation's consolidated net income increased to \$101.5 million in 2001, up from \$93.4 in 2000. Cost savings from the Operational Efficiency Program and increased contribution, cellular, and internet revenues contributed to the increase in net income. These increases were partially offset by a reduction in gains on sale of investments, a continued reduction in long distance revenues, and reduced earnings from investments.

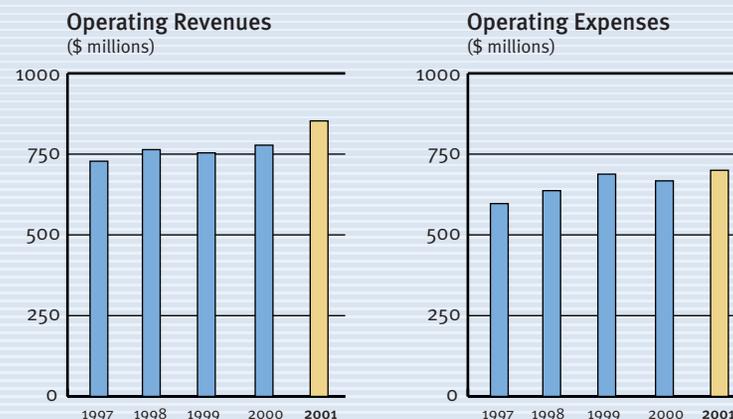
The Corporation introduced the Operational Efficiency Program in December 1999, with a goal of achieving \$60 million in annualized savings by year-end 2003. This program contributed \$26 million in savings in 2001.

Effective January 1, 2001, the Canadian Radio-television and Telecommunications Commission (CRTC) replaced the existing regionally-based contribution mechanism with a national, revenue-based subsidy. The new system is designed to ensure that

rural and remote areas of Canada will continue to receive affordable, high-quality telecom services. This change increased the contribution revenues and created a new contribution expenditure for the corporation, resulting in a net positive impact of \$14 million in 2001.

The Corporation did not sell any of its investments in 2001. In 2000, the Corporation recorded a gain of \$13.7 million on its sale of shares in Astar United Communications Limited (Astar) and a \$7.7 million non-cash gain on an exchange of Regional Cable TV (Western) Inc. shares for shares in its parent company Regional Cablesystems Inc.

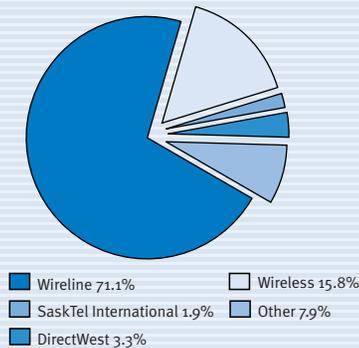
The \$10.7 million decrease in other items was primarily due to reduced earnings from investments. Most of the Corporation's current investments are in start-up ventures, which normally incur operating losses in the first few years, until operations mature and the company begins to realize profits.



Operating revenues for 2001 increased to \$852.8 million, up from \$777.7 million in 2000. Operating expenses for 2001 were \$700.0 million, an increase of \$32.7 million from 2000. The following sections summarize the performance of the Corporation's major operating segments.

## › RESULTS OF OPERATIONS *continued*

Segmented Revenues



### SaskTel Wireline

[www.sasktel.com](http://www.sasktel.com)

SaskTel Wireline has been the principal supplier of telecommunications in Saskatchewan for over 90 years. SaskTel Wireline services have evolved over time and now include a full range of communication solutions including competitive voice, data, dial-up and high speed internet, data storage and web-hosting, text and messaging services over a fibre optic-based, fully digital network. In 2001, Wireline accounted for 71.1% of the Corporation's total operating revenues.

### Operating Revenues

(\$ millions)	2001	2000	Change	%
Local Service	\$ 331.8	\$ 290.8	\$ 41.0	14.1
Long Distance Service	163.8	177.5	(13.7)	(7.7)
Data and Internet Services	125.7	116.1	9.6	8.3
Other	44.6	42.2	2.4	5.7
<b>Total</b>	<b>\$ 665.9</b>	<b>\$ 626.6</b>	<b>\$ 39.3</b>	<b>6.3</b>

### Local Service

Effective January 1, 2001, the Canadian Radio-television and Telecommunications Commission (CRTC) replaced the existing regionally-based contribution mechanism with a national, revenue-based subsidy system designed to ensure affordable, high-quality telecom services continue to be available in rural and remote areas of Canada. This change increased contribution revenues by \$33.1 million in 2001. SaskTel Wireline's local network access revenues increased by \$6.1 million as a result of a full year impact of a rate increase implemented in March 2000. This increase was partially offset by a 1.8% decrease in the number of accesses. The decline in accesses occurred as customers switched from dial-up to high speed internet and discontinued their second lines.

Revenues for local features increased \$4.9 million due to increased growth in SmartTouch™ and MessageManager™ subscribers and a full year impact of a rate increase introduced in June, 2000.

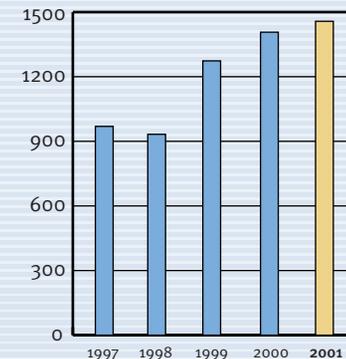
Increases in local service revenues were offset by a \$2.6 million decline in telephone equipment rentals as customers purchased telephone sets rather than renting.

### Long Distance

Long distance revenues continued to decline in 2001, despite a 3.6% increase in long distance minutes. The decrease was primarily caused by more customers adopting flat rate and unlimited long distance plans, which resulted in a 15.1% decline in the average revenue per minute.

The growth in long distance minutes has begun to flatten as the demand for flat rate or unlimited long distance plans has stabilized. SaskTel Wireline maintains a 90.6% share of the long distance market, which demonstrates its commitment to providing the people of Saskatchewan with quality products and services at competitive prices.

Long Distance Minutes (millions)



## › RESULTS OF OPERATIONS *continued*

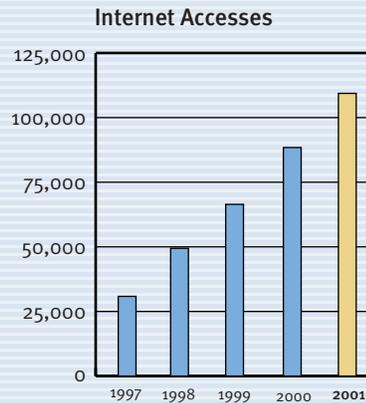
### Data and Internet Service

Aggressive advertising campaigns, rapid network expansion, new initiatives and increased acceptance of the internet by consumers lead to a \$7.9 million increase in internet revenues in 2001. Throughout the year, SaskTel Wireline conducted several internet promotions, which offered new customers free internet service for a limited time and free installation. During 2001, SaskTel High Speed Internet service was expanded to 27 rural communities. At year end, 46 communities within Saskatchewan and 61.3% of the market had access to SaskTel High Speed Internet. This expansion, together with the advertising campaigns, bundles packaged with internet access and quality service resulted in an increase in internet accesses of 17,330, of which 12,207 were high speed accesses. SaskTel Wireline remains Saskatchewan's number one Internet Service Provider with a 71.2% market share. The Corporation will continue to build on its success by expanding its network over the next three to five years in an effort to provide SaskTel High Speed Internet access to 95% of Saskatchewan's population.

The CommunityNet program, which was introduced in May 2000 and provides affordable high speed internet connections to educational institutions, health care facilities and government offices in over 300 communities throughout Saskatchewan, also contributed to the increase in data and internet revenues.

### Other

During the year, a \$1.1 million increase in sales of private branch exchanges, a \$1.4 million increase in cellular phone sales and activation commissions, and a \$1.1 million increase in inter-company management services to support growth initiatives, contributed to the overall increase in other revenues. Offsetting these increases was a \$2.2 million increase in uncollectible revenue.



### Operating Expenses

(\$ millions)	2001	2000	Change	%
Operating expenses	\$ 380.9	\$ 382.8	\$ (1.9)	(0.5)
Contribution and carrier costs	36.4	23.6	12.8	54.2
Depreciation and amortization	129.7	133.1	(3.4)	(2.6)
Restructuring and other	0.0	10.3	(10.3)	(100.0)
<b>Total</b>	<b>\$ 547.0</b>	<b>\$ 549.8</b>	<b>\$ (2.8)</b>	<b>(0.5)</b>

In 1999, the Corporation introduced an Operational Efficiency Program with a goal of saving \$60 million in base operating costs by year-end 2003. In 2001, the program contributed \$26 million of savings in salaries, operating and maintenance expenditures. These savings were partially offset by increases in corporate capital tax, customer loyalty programs, internet sales commissions and salary increases.

### Contribution and Carrier Costs

The increase in contribution and carrier costs can be attributed to the contribution reform decision made by the CRTC, which requires SaskTel Wireline to contribute to a national fund that subsidizes high cost serving areas.

### Depreciation and Amortization

Depreciation is down due to some assets reaching fully depreciated status in 2001, which lowered the composite depreciation rate.

### Restructuring and Other

The Corporation did not incur any restructuring and other charges during the year. In 2000, these charges were due to the Voluntary Separation Program, which was completed that year.

## › RESULTS OF OPERATIONS *continued*

### SaskTel Wireless

[www.sasktelmobility.com](http://www.sasktelmobility.com)

With approximately 250,000 wireless subscribers, SaskTel Mobility is Saskatchewan's largest wireless service provider. It offers customers a comprehensive suite of wireless products and services aimed at satisfying their wireless voice, messaging and data services. The core business is centered around the cellular voice network, with an increasing emphasis on wireless data applications. The Corporation's digital and analog cellular network currently spans 74% and 92% of the Saskatchewan population respectively. Through its partnership with a local independent retail distribution network, SaskTel Mobility is able to offer sales and service for its products and services in over 300 locations in Saskatchewan.

In 2001, SaskTel Mobility diversified its operations to include providing customers with wireless data connectivity for many applications including wireless internet and e-mail (Mobile Browser), payment processing and reporting (Lightning Mobile Commerce), automatic vehicle location (LoadTrak) and remote data collection for the oil and gas industry (Site.link).

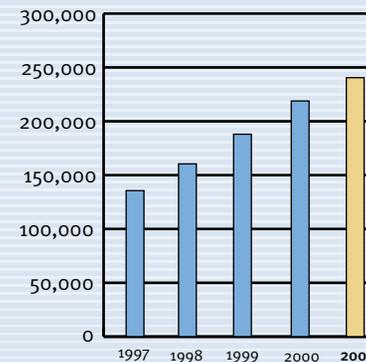
### Operating Revenues

(\$ millions)	2001	2000	Change	%
Total	\$ 147.4	\$ 133.0	\$ 14.4	10.8

The bulk of SaskTel Mobility's revenue growth was driven by an increase of \$15.8 million in cellular revenues, which was partially offset by declines in FleetNet 800™ and paging revenues.

Cellular revenue growth was driven by a 9.9% increase in cellular subscribers, increased wholesale and roaming revenues and an increased penetration of enhanced features. Net additions were 21,636 in 2001, a decrease of 30% from the previous year. The decrease in net additions reflects aggressive marketing by competitors to increase their foothold in the Saskatchewan market, increased cellular churn (to 1.25%) and the challenging economic conditions of the province.

Cellular Accesses



### Operating Expenses

(\$ millions)	2001	2000	Change	%
Total	\$ 126.3	\$ 112.0	\$ 14.3	12.8

The increase in operating expenses was largely due to higher customer acquisition costs, increased expenses to support a growing customer base, an aggressive digital network build and the introduction of contribution payments on wireless carriers to support high-cost serving areas. These increased expenses were offset by a reduction in United States roaming rates in May.

SaskTel Mobility's expenditures have risen because the increasingly competitive market has driven up the costs of acquiring and maintaining customers. As well, Mobility's growing customer base has increased certain additional costs, such as commissions and billing charges.

In 2001, SaskTel Mobility embarked on an aggressive expansion of its digital network. The deployment of 60 new digital sites led to increased facilities, towers and provisioning expenses. However, SaskTel Mobility saved costs by taking some analog radio channels out of service as the digital customer base grew throughout the year.

## › RESULTS OF OPERATIONS *continued*

### SaskTel International

[www.sasktel-international.com](http://www.sasktel-international.com)

SaskTel International is a wholly owned subsidiary of the Corporation, with its head office located in Regina, Saskatchewan, Canada. Since 1986, SaskTel International has been marketing advanced technological and software solutions, including network integration, advanced network management and interactive services to clients around the world. Many of SaskTel International's advanced technologies were originally developed to serve the people of Saskatchewan and in turn have provided SaskTel International with several global opportunities.

#### Operating Revenues

(\$ millions)	2001	2000	Change	%
Total	\$ 18.0	\$ 22.2	\$ (4.2)	(18.9)

Consulting and equipment revenues were \$8.1 million, down 44% from \$14.4 million in 2000. Consulting and equipment sales in 2001 were generated mainly from SaskTel International contracts in Tanzania and through contracts in Europe, United States and Canada.

The software division recorded sales of \$9.3 million in 2001 (2000 – \$6.9 million). Software revenues in 2001 were generated from sales and support related to Martens International and Switchgate International Client Associations, software support consulting and MARTENS suite of product sales to HickoryTech and NorthwesTel.

#### Operating Expenses

(\$ millions)	2001	2000	Change	%
Total	\$ 17.4	\$ 20.8	\$ (3.4)	(16.3)

The decline in revenue was caused by a decrease in overall business. With less revenue being generated in 2001, SaskTel International's cost of sales decreased by \$3.0 million and administrative expenses decreased by \$0.4 million.

### DirectWest

[www.directwest.com](http://www.directwest.com)

DirectWest provides directory services through its ten directories within the cities and districts in Saskatchewan, as well as interactive services through the internet at [www.mysask.com](http://www.mysask.com). Through its agricultural services division, DirectWest provides the Western Canadian marketplace with agricultural publications and online services at [www.warrensdirectory.com](http://www.warrensdirectory.com).

#### Operating Revenues

(\$ millions)	2001	2000	Change	%
Total	\$ 31.3	\$ 30.7	\$ 0.6	2.0

Revenue growth was achieved in the internet services and agricultural business areas, offset by a slight decline in print directory revenue due to increased competitive activity and challenging economic conditions.

During 2001, DirectWest continued to focus on the internet environment. The DirectWest portal at [www.mysask.com](http://www.mysask.com) continued to set traffic and usage records, attesting to ongoing consumer demand and interest. During the year, DirectWest concluded agreements with SaskTel and Sympatico-Lycos to make [www.mysask.com](http://www.mysask.com) the default portal for all Sasktel internet service customers and to establish mutual links across Canada with Bell sites such as [www.yellowpages.ca](http://www.yellowpages.ca) and [www.canada411.com](http://www.canada411.com). With increased support and investment from these new partners, and continued development and investment, DirectWest expects strong online growth to continue.

#### Operating Expenses

(\$ millions)	2001	2000	Change	%
Total	\$ 29.7	\$ 29.1	\$ 0.6	2.1

## › RESULTS OF OPERATIONS *continued*

In 2001, DirectWest made additional expenditures to respond to competition and to generate new sources of revenue in the developing business areas of internet and agricultural services. These were partially offset by a strong focus on improving operational efficiency and reducing expenses within all business divisions.

### Saskatchewan Telecommunications Holding Corporation

#### Interest and Related Costs

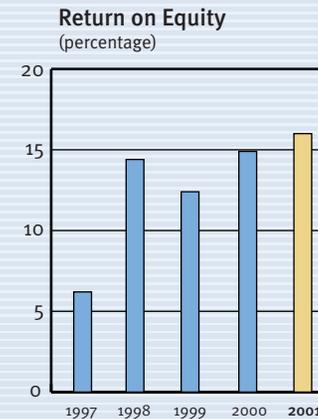
(\$ millions)	2001	2000	Change	%
Total	\$ 42.0	\$ 41.5	\$ 0.5	1.2

Interest and related costs increased slightly in 2001. Sinking fund earnings decreased by \$3.3 million, primarily due to a downturn in the financial markets. Meanwhile, foreign currency translation losses increased by \$2.9 million due to a weaker Canadian dollar. These variances were offset by reduced interest expenses of \$4.7 million, which resulted from the refinancing of existing debt with lower cost debt, and increased interest income on short-term investments. During the year, the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook section 1650, whereby the gains and losses resulting from foreign currency translation are adjusted annually rather than deferring over the life of the asset or liability.

#### Return on Equity

	2001	2000	Change	%
Return on equity	16.0%	14.9%	1.1%	7.4

Cost savings resulting from the Operational Efficiency Program, and improved contribution, cellular, and internet revenues, contributed to the increase in return on equity. These positive impacts were partially offset by a reduction in gains on sale of investments, lower long distance revenues, and increases in contribution, diversification and growth related expenditures.



#### Capital Structure

	2001	2000	Change	%
Debt ratio	41.3%	39.6%	1.7%	4.3

The Corporation's debt ratio increased in 2001, because of two factors: first, the Corporation issued long-term debt during the year, and second, by adopting the CICA accounting policy regarding foreign currency gains and losses, the Corporation incurred a decline in retained earnings. The Corporation's capital structure, however remains strong because it continues to self-finance its capital and dividend requirements, while maintaining a healthy debt ratio. Retained earnings increased \$10.2 million after recording net income of \$101.5 million and declaring dividends of \$91.3 million. The overall level of debt increased by \$36.3 million during the year.

## > LIQUIDITY AND CAPITAL RESOURCES

### Sources and (Uses) of Cash

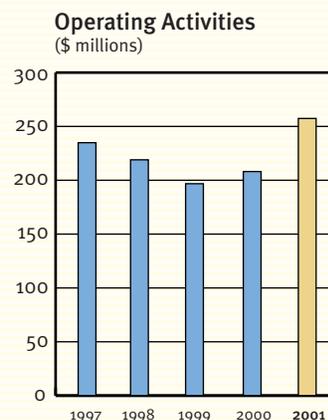
(\$ millions)	2001	2000	Change	%
Operating activities	\$ 268.8	\$ 208.1	\$ 60.7	29.2
Financing activities	(85.0)	(68.8)	(16.2)	23.5
Investing activities	(133.0)	(132.6)	(0.4)	0.3
Increase in cash	\$ 50.8	\$ 6.7	\$ 44.1	658.2

### Operating Activities

In 2001, cash flows from operating activities increased substantially due to increases in operating revenues, non-cash operating expenses and a reduction in working capital requirements.

### Financing Activities

Debt related activities generated net cash of \$16.7 million in 2001, compared to \$3.9 million in 2000. In March, 2001, the Corporation obtained \$90 million of low interest debt, and repaid \$20.6 million of long-term debt and \$55.6 million in short term borrowings. Further financing activities included \$101.2 million (2000 – \$72.8 million) in dividends paid to the Crown Investments Corporation of Saskatchewan. During the last five years, the Corporation has declared a total of \$327.2 million in dividends while still maintaining a debt ratio of 41.3%.



### Investing Activities

#### Capital Spending

The Corporation's net capital spending in 2001 was \$125.9 million, compared to \$107.6 million in 2000. Increased focus on growth initiatives, and reduced spending on maintaining or sustaining legacy services, resulted in an \$18.3 million increase in capital spending.

#### SaskTel Wireline

SaskTel Wireline invested approximately \$63.9 million (2000 – \$49.3 million) for growth initiatives in 2001, an increase of \$14.6 million. In addition, expenditures relating to sustaining capital assets decreased by \$13.1 million to \$31.8 million in 2001 (2000 – \$44.9 million).

The Core Network Evolution Program, which provides for the modernization, upgrading and replacement of key elements of the switching and transmission network was completed during the year. In addition, the Corporation allocated capital resources to the Desktop Computer Provisioning and Enterprise Storage Architecture initiatives, which replace existing and provide new data and communications infrastructure, required for future growth. In 2001, SaskTel Wireline invested another \$15.3 million (2000 – \$14.3 million) in network infrastructure to ensure it continues to meet demand without compromising its quality of service.

As part of the continuing strategy of growth and diversification, SaskTel Wireline undertook several new initiatives in 2001. The Corporation invested \$9.1 million in high speed internet in 2001 (2000 – \$16.1 million) in response to increased demand. During the year, \$7.2 million was spent developing the Digital Interactive Video (DIV) program. The DIV initiative is a multi-year project that will provide customers with traditional cable TV services, high speed internet access and a host of e-commerce solutions to the television set and personal computer. Another initiative undertaken during the year was the CommunityNet program, which incurred expenditures totaling \$7.0 million. CommunityNet is a province-wide service that provides internet services for the health, education, and government sectors.

## › LIQUIDITY AND CAPITAL RESOURCES *continued*

### SaskTel Wireless

Capital expenditures totaled \$22.3 million in 2001, an increase of \$5.6 million or 33% from 2000 levels. \$13.8 million or 62% of this investment was used for digital cellular network development, expansion and coverage improvements, while the remaining 38% was used for general capital expenditures, primarily information technology projects.

SaskTel Mobility added 60 new cell sites to the digital cellular network in 2001. With these additional sites, SaskTel Mobility has been able to build the infrastructure needed for higher quality voice service and increased call capacity.

SaskTel Mobility believes that the quality and coverage of its digital network is one of the distinct competitive advantages that allows it to attract the majority of new wireless customers in the Saskatchewan market. SaskTel Mobility expects to invest an additional \$24 million to continue expanding its digital cellular network and migrate its network over to next generation technologies. Upon completion of the digital expansion program in 2003, SaskTel Mobility will have invested approximately \$54 million and the digital network will cover 93% of the Saskatchewan population.

### Businesses Acquired

On August 30, 2001, the Corporation acquired 100% of RSL COM Canada Inc. (RSL) and its subsidiaries for \$16.7 million. RSL owns and operates a telecommunications business in Canada and provides long distance, internet and data services to its customers located in British Columbia, Alberta, Ontario and Quebec. Effective January 1, 2002, RSL's corporate name was changed to Navigata Communications Inc.

During 2001, the Corporation acquired an 84.4% interest in The Ag Dealer Ltd. for \$6.0 million. The Ag Dealer Ltd. provides advertising services, including an e-commerce business-to-business web site, to agricultural equipment dealers in Canada and the United States.

During 2001, the Corporation purchased 100% of the shares in two corporations providing security services in Alberta and British Columbia. These customers will now be monitored by SaskTel's wholly owned subsidiary SecurTek Monitoring Solutions Inc.

During the year, the Corporation invested \$1.0 million to acquire 85.9% of Business Watch International Inc. Business Watch International Inc., is a Regina, Saskatchewan based business that provides pawn shop transaction tracking services over the internet.

### Long-term Investments

During 2001, the Corporation invested \$5.5 million and increased its ownership in Retx.com, Inc. from 49% to 63%. Retx.com, Inc. is an Atlanta, Georgia based e-business services company that provides a secure and efficient nationwide clearinghouse portal for processing transactions for electric and natural gas distribution companies, retail energy service providers, and consumers.

The corporation purchased a 45.0% equity interest in TappedInto.com, Inc. in 2001 for a total consideration of \$3.8 million. TappedInto.com, Inc. is a broadband internet streaming company based in Nashville, Tennessee.

On January 26, 2001, the Corporation increased its investment in Craig Wireless International Inc. from 29.9% to 37.7% for a total consideration of \$3.0 million. Craig Wireless International Inc. is a wireless cable and internet provider with operations in Manitoba, British Columbia, and Palm Springs, California.

## › PERFORMANCE MANAGEMENT

Saskatchewan Telecommunications Holding Corporation (the Corporation), is a subsidiary of Crown Investments Corporation (CIC), the holding company for Saskatchewan's commercial Crown corporations. As such, the Corporation receives its strategic direction from CIC.

In 1999, CIC and its subsidiaries developed a Crown Sector Strategic Plan to provide long-term direction to the Crown sector and facilitate long-term planning. The plan includes a consistent vision statement for the Crown sector, its primary business purposes, common business values and strategic business objectives. The Corporation has developed its corporate Strategic Plan to support CIC's five strategic objectives, namely: Customer Service Excellence, Financial Health, Mandate and Role, Public Purpose, and Human Resources.

The Corporation has introduced a process called the Balanced Scorecard to measure its performance and results. The objectives of the Scorecard are to: 1) provide a balanced evaluation of operational and financial results, activities and achievements and 2) focus on short and long-term operating and financial results.

The Balanced Scorecard measures the Corporation's performance with regards to its strategic objectives such as customer, people, financial management, growth, technology and public policy. These strategic objectives are aligned with CIC's overall strategic objectives.

### Evaluation of 2001 Key Objectives and Initiatives

#### Achievement of Financial Targets

SaskTel has several performance measures that are reported to CIC on a quarterly basis. The 2001 key performance measures and actual results are reflected below.

	<i>2001 Target</i>	<i>2001 Actual</i>
Revenue growth	9 to 11%	9.7%
Operational efficiency	\$26 million	\$26 million
Capital investments	\$190 million to \$230 million	\$167.2 million
Dividends	\$70 to 80 million	\$91.3 million
Return on equity	12 to 14%	16.0%
Market share:		
Local	95 to 97%	99.9%
Long distance	85 to 87%	90.6%
Wireless	77 to 79%	83.0%
Internet	69 to 71%	71.2%

## › PERFORMANCE MANAGEMENT

Key initiatives that contributed to the results are as follows:

### **Expansion of High Speed Internet Access**

As part of its growth strategy, SaskTel indicated in 2000 that it would continue to expand its high speed internet service into rural Saskatchewan and explore ways of providing wireless high speed internet access throughout Saskatchewan. The Corporation made significant advances in rolling out high speed internet to rural Saskatchewan. In 2001, SaskTel introduced high speed internet access to 27 rural communities including Assiniboia, Balgonie, Biggar, Canora, Davidson, Esterhazy, Fort Qu'Appelle, Hudson Bay, Indian Head, Kamsack, Kerrobert, Langham, La Ronge, Lumsden, Maple Creek, Martensville, Outlook, Oxbow, Pilot Butte, Rosetown, Rosthern, Shaunavon, Unity, Warman, Watrous, Wilkie, and Wynyard. As a result of this expansion, SaskTel experienced a 19.6% increase in internet accesses and a 29.8% increase in internet revenues.

### **Expansion of Digital Cellular Service**

At the start of this year, SaskTel Mobility planned on expanding upon its digital cellular service and achieved this goal with the addition of 60 new cellular sites in 2001. With this expansion, SaskTel Mobility's digital coverage increased, while providing higher quality voice service and increased call capacity. The new sites were added in major centres such as Moose Jaw, Prince Albert, Regina, Saskatoon and Swift Current. New service and coverage improvements were provided to the communities and surrounding areas of Bruno, Candle Lake, Cut Knife, Dalmeny, Edgeley, Elrose, Good Spirit Lake, Harris, Kenaston, Langham, Lashburn, Maymont, Mildren, Perdue, Rush Lake and Webb. This expansion has contributed to the 9.9% increase in cellular accesses and a 10.8% increase in wireless revenues.

### **Introduction of Digital Interactive Video**

In 2000, SaskTel reported on its application to obtain a Broadcasting Distribution Undertaking (BDU) license, which would enable it to provide Digital Interactive Video (DIV) services to locations within Saskatchewan. The Corporation also discussed its intention to begin commercial service of DIV, upon being granted a BDU license. On March 12, 2001, the CRTC conditionally approved SaskTel's application for a BDU license to provide DIV services. It was expected that SaskTel would roll out this service to a number of urban communities in late 2001, but due to a number of delays, the launch date for DIV has been deferred to 2002.

### **Successful Implementation of CRTC's Contribution Reform**

On November 30, 2000, the CRTC released a decision requiring the replacement of a per-minute contribution mechanism with a revenue-based mechanism effective January 1, 2001. In 2000, SaskTel committed to ensuring a successful implementation of this new mechanism. During the year, SaskTel participated in the new contribution regime and adapted its processes and reporting to accommodate the new requirements. Continued success of this mechanism will help to ensure affordable, high-quality telecom services are available to rural and remote areas of Canada. This change increased the contribution revenues received and created a new contribution expenditure for the Corporation, resulting in a net positive impact of \$14 million in 2001.

### **Operational Efficiency**

Introduced in 1999, the Operational Efficiency Program is an initiative undertaken by the Corporation which has a goal of achieving \$60 million in annualized savings by year-end 2003. To date, this program has achieved approximately \$26 million of its total target. Savings were largely achieved through a reduction in salaries, operating and maintenance expenditures.

## > 2002 OUTLOOK

### Forward-Looking Statements

Certain statements contained in this document, including statements which may contain words such as “anticipate”, “could”, “should”, “expect”, “may”, “intend”, “will”, and similar expressions, and statements that are based on current expectations and estimates about the markets in which the Corporation and its subsidiaries operate and management’s beliefs and assumptions regarding these markets, constitute forward-looking statements. Such statements are subject to important risks, uncertainties, and assumptions, which are difficult to predict. The results or events predicted in these statements may differ materially from actual results or events.

### The Communications Industry

The regulatory restructuring of the Canadian communications industry, in reducing long distance prices and revenues, continues to drive ownership consolidation at the industry level while the Incumbent Local Exchange Carriers (ILECs) take measures to cut costs and find new revenue streams. In recent years, former members of the now-defunct Stentor alliance have begun to compete in one another’s territory. At the same time, companies have formed alliances to strengthen their position in an increasingly competitive and broadening industry.

SaskTel is not expecting to alter its current alliance with Bell Canada in the near term. Industry analysts anticipate further consolidation in the Canadian industry and continued aggressive competition between ILECs. At the same time, investor confidence in the telecom sector has fallen off, making it more difficult for some Competitive Local Exchange Carriers (CLECs) to access capital. In response CLECs have begun lobbying to have federal legislation changed to allow increased foreign ownership of communication companies. If they were to succeed, Canada would see unprecedented foreign control of its domestic communications infrastructure, which might in turn lead to a retreat from the principle of universal service, and intense industry consolidation driven by multi-national financial resources and economies of scale that no Canadian-owned service provider could match.

### Market Issues

#### Competition

SaskTel operates in competitive wireless, local access, payphone, directory, long distance, internet, and e-business markets.

#### Wireless

SaskTel Mobility owns and operates the largest analog and digital cellular networks providing its customers with the largest footprint throughout Saskatchewan. In 2001, a fourth carrier entered the Saskatchewan wireless market, making this province as competitive as any other in Canada with cellular rates among the lowest in North America. Despite new entrants in the wireless market and intense competition, SaskTel Mobility has lost little market share to date. Competitive rate plans, customer service, dealers, multi-cell phone plans and superior network coverage have all contributed to its success in retaining market share.

The market for wireless customers is intensely competitive and evolving at an incredible pace. A variety of challenges will affect the future growth and operating results of SaskTel Mobility. Among these is the adoption of next generation digital technologies, which are expected to deliver increased data speeds, as well as the emergence of new wireless services such as mobile commerce. SaskTel Mobility believes that the Code Division Multiple Access (CDMA) protocol it has chosen, offers the company the most cost-effective path to second and third generation digital technologies.

Some analysts have predicted penetration rates of 60% for wireless services by 2006, which would almost double the current number of wireless subscribers in Saskatchewan. Industry analysts expect this competitive intensity, technological change and robust growth to continue into the foreseeable future. Despite challenges in the market, SaskTel Mobility is confident that its leadership position and long term strategies are blueprints for future success in driving growth in both earnings and shareholder value.

## › 2002 OUTLOOK *continued*

### **Local access**

While local access competition has been slow in establishing itself in Canada, and especially in Saskatchewan, it is now a reality in the province. SaskTel is seeing some competition for large business accounts from national resellers who want to serve their customers in Saskatchewan. The residential side of the Saskatchewan local access market is not expected to see any activity from competitors in the near future.

For the near-term outlook, SaskTel has proposed to the CRTC that it will maintain its current local access rates through 2002, and then, from 2003 through 2005, begin a program of local rate changes.

### **Payphone market**

SaskTel's single competitor has not significantly increased its market share since its entry in 2000. It is thought that SaskTel's payphone market share will remain stable into the near future. The overall payphone market will continue to shrink marginally, year over year, as the adoption of wireless solutions and prepaid cards become more prevalent.

### **Directories**

Presently, DirectWest faces competition in all ten of its directory markets. As SaskTel's wholly-owned subsidiary, DirectWest has held its dominant position within the marketplace by growing its print and online directory business, which in turn increases the value it provides to Saskatchewan consumers and businesses. DirectWest New Media offers products and services to meet e-business needs by offering end-to-end web-based solutions to bring buyers and sellers together.

### **Long distance competition**

The long distance market is slowly declining due to re-pricing, competitive activity in the business market and cellular phone usage. As well, the Corporation's long distance revenues have declined because the transfer payments it receives are lower than they were during the Stentor Alliance years. SaskTel expects aggressive price competition in the business market to continue, with long distance competitors possibly acquiring other lines of business and bundling services.

### **Internet**

Once again, SaskTel surpassed its targets for internet customer growth during the year. Toward the end of 2001, the Corporation signed up its 100,000th internet customer. SaskTel remains the only Internet Service Provider (ISP) in Saskatchewan that provides dial-up internet service for urban and rural customers without associated long distance charges. In 2001, SaskTel expanded high speed internet access to an unprecedented 27 new Saskatchewan communities. A total of 46 towns and cities as of the end of the year were served by high speed, representing 61% of Saskatchewan's population. Cable companies remain SaskTel's primary competitors in the internet market, particularly in high speed services. By marketing its services aggressively, however, SaskTel has retained its share of the market. By 2003, satellite television companies will be introducing two-way high speed internet access, possibly bundling the service with television service. Meanwhile, further consolidation among ISPs is expected, though this has begun to slow.

SaskTel will continue aggressively expanding its high speed internet access to as much of the province as can be served economically with current technology. In 2002, SaskTel intends to launch Virtual Private Networks (VPN). VPN provides customers with an economical and secure alternative to today's dedicated private networks. Many competitors will also enter this market with this technology in the near future.

### **E-business**

SaskTel supplies state of the art internet-based infrastructure and application services such as application hosting, web hosting, data security, e-messaging and brokered application services to both SaskTel's business customers and the Corporation itself.

Data centre application hosting services are envisioned as the future heart of the Corporation's business. SaskTel plans on adding value to its core data centre infrastructure through enhancements to existing service offerings such as SaskTel e-messaging and the launch of new services such as web conferencing. In 2001, the Corporation established a second data centre in Saskatoon, ensuring its corporate customers more redundancy and greater security housing internet applications and data. By bringing forth innovative new services to leverage its data centre investment, SaskTel plans to expand the foundation from which it provides e-business services to its customers, thereby developing data storage and application hosting into core revenue generators for the Corporation.

As well, SaskTel plans to introduce its new Digital Interactive Video (DIV) service during 2002. This bundling of internet, television services and eventually video-on-demand will support the Corporation's diversification and e-business initiatives, placing it in a position to compete effectively in the internet market with cable companies. SaskTel's DIV service will be offered in a market that is expected to receive a variety of bundled offerings from cable and satellite companies that will package television services with other communication services including high speed internet and, eventually, video-on-demand and telephone access.

The communications industry is converging – that is, the traditional boundaries of phone, cable, internet, media and entertainment companies are disappearing. The bundling together of services on a single network is now a central strategy of the biggest telecom, cable and internet companies in Canada and the United States. Convergence of the internet and cable television is the next natural step in the converging industry, and SaskTel is convinced that it must lead the way in offering this new technology to customers in Saskatchewan.

### **Regulatory Issues**

As the regulator of all telecommunications and broadcasting activities in Canada, the Canadian Radio-television and Telecommunications Commission (CRTC) influences many aspects of SaskTel's operations. Of particular significance are CRTC decisions that impact upon SaskTel's delivery of traditional telephone services within Saskatchewan.

In the early part of 2002, the CRTC is expected to release its decision related to the price cap regulation model under which SaskTel and all of the major incumbent telephone companies will be regulated in 2002 and beyond. Key aspects of this decision will include:

- **The pricing of local services in high cost and non-high cost areas across Canada.** SaskTel has proposed that it extend its current commitment to not increase local rates through 2002, and to begin a program of rate changes from 2003-2005.
- **Competitor service rates.** Competitors have requested discounts of as much as 70% from the prices they currently pay to SaskTel and other Incumbent Local Exchange Carriers (ILECs), in order to create sustainable competitive entry. SaskTel and other telephone companies view such discounts as unwarranted subsidies. The CRTC's own report, *Status of Telecom Competition in Canada*, provides evidence that competition is alive and well.
- **National subsidy fund.** Effective 2001, the CRTC established a national, revenue-based subsidy mechanism that targets subsidy support to high cost areas throughout Canada. In the price cap proceeding, certain parties put before the CRTC, proposals that would result in arbitrary and non-economic reductions in the level of the national subsidy amount. These proposals, if accepted, could jeopardize the maintenance of affordable and quality service in high cost areas.

CRTC decisions related to the national fund carry significant risk and/or reward for SaskTel. More than 40% of SaskTel's customers reside in high cost areas. With competition and price cap regulation constraining SaskTel's ability to internally subsidize the cost of providing basic services to these customers, it is essential that the national fund provide adequate and sustainable subsidy support.

## › 2002 OUTLOOK *continued*

SaskTel is concerned that the amounts available from the national fund in 2002 and beyond will not be adequate. In addition to the issues being addressed in price caps, the amount of funding available to SaskTel will also be influenced by the CRTC's decision regarding the allowable costs for subsidy purposes. In 2001, the CRTC established allowable cost levels for SaskTel and the other major ILECs that, if not corrected, would see the amount of the national fund decline dramatically in 2002. SaskTel and other telephone companies have requested that the CRTC vary its costing decision. A decision on these requests is expected early in 2002.

### **Financial Outlook**

#### **Income Outlook**

In recent years, the telecommunications industry has been faced with unprecedented change. New competitors, a changing regulatory environment, industry consolidation, rapid technical evolution and internet growth, are just a few of the challenges that face the Corporation. In response, SaskTel developed a strategy to focus on the long term goals and objectives necessary for continued success in the future. The strategy focuses on achieving these objectives through revenue enhancement, growth, cost containment, e-business, service excellence, and strengthening relationships with its customers.

Overall, revenues are expected to grow due to increases in wireless voice and data applications, data and internet services, Digital Interactive Video services and growth in diversified operations. These increases will be partially offset by reduced long distance revenues, increased competition and a depressed rural economy.

In 2002, the Corporation will continue to focus on cost containment by committing to a further \$17 million reduction in expenditures within its core business. Since introducing its Operational Efficiency Program, the Corporation has achieved annualized savings of \$26 million. These savings resulted from a reduced workforce and reductions in operating and maintenance expenditures. Despite these savings, operating expenses are expected to increase marginally over the next few years as diversification and growth costs rise.

The Corporation anticipates losses from diversified operations in the next two to three years. Most of SaskTel's current investments are in start-up ventures, which normally incur operating losses in the first few years, until operations mature and profits are realized. By 2003, SaskTel expects to see increased earnings from these ventures, with positive earnings realized by 2005.

The Corporation is concerned about the significant uncertainty surrounding the carrying value of its investment in Austar. At year-end the book value of the Austar investment was \$43.8 million and the market value, based on the year-end trading price of the shares, was \$2.1 million. The current trading price is not always indicative of the final net realizable value. Over the past two years, these shares have traded in the range of .15 to 9.90 AUD per share, closing at .275 AUD at December 31. The Austar shares are thinly traded, with an average of only 1/6th of 1% of the shares trading each day. This is due to a single investor holding more than 80% of the shares, with a further block held by institutional investors. Accordingly, in the Corporation's judgement, the trading value of the Austar shares does not reflect the fair value of the investment. Recent developments that could significantly influence Austar's value, include the following:

- Austar reached agreement with its bankers over a restructuring of its debt refinancing.
- The majority shareholder has committed to further financial support.
- Austar is in discussions with potential merger or alliance partners.

The Corporation does not have plans in the near term to divest of this investment and will continue to monitor it closely.

CRTC decisions on price caps and other issues will continue to shape the competitive and regulatory environment and could have a significant impact on SaskTel.

SaskTel realizes the effects internet technologies will have on its traditional services. SaskTel has embraced this change with the development of its e-business strategy. The strategy focuses on ensuring the Corporation has the competencies, products and services that will enable our customers to become e-business engaged. In addition, it addresses the transformation of SaskTel into an e-business company by using internet technologies to improve business processes with customers, partners, suppliers and employees. SaskTel is set on being the company of choice for providing e-business solutions to its customers.

#### Key Factors Affecting Performance

- Ability to develop new products and services to support SaskTel's growth and diversification initiatives. These initiatives include internet protocol networking, broadband, new media, e-business, Digital Interactive Video and the continued expansion of the digital network and wireless data applications.
- Ability to realize cost savings from process improvements while maintaining a high quality of customer service.
- CRTC decisions on price caps and other issues.
- Competitive pressures in internet and wireless markets.

#### Growth

A depressed rural economy, increased competition, and decreased revenues and margins from legacy services continue to put pressure on the Corporation's financial results. This environment can also be an opportunity for growth and diversification. The Corporation's growth strategy will continue to focus on three areas: new products in existing markets, existing products in new markets, and new products in new markets. Accordingly, SaskTel will continue to provide Saskatchewan people with the latest technology and quality of service, while using its experiences at home, to seize opportunities worldwide.

Despite the Corporation's need to explore new opportunities, its first priority is to be "Saskatchewan's Communications Company." SaskTel realizes that its customers within Saskatchewan continue to be key to its continued success. SaskTel may explore several opportunities, but is only prepared to pursue those that leverage its core competencies, enable it to acquire core competencies it requires, has an application in Saskatchewan or expands the customer base to achieve economies of scale.

Diversified operations such as SaskTel International, SaskTel Mobility, DirectWest, SecurTek, Hospitality Network Canada Inc. and Navigata Communications Inc., (formerly known as RSL COM Canada Inc.) are key components of the Corporation's growth strategy. Other initiatives that contribute to the growth strategy are SaskTel Wireline and SaskTel Mobility services such as Digital Interactive Video services, CommunityNet, high speed internet, Lightning Mobile Commerce, Mobile Browser, Site.link, and LoadTrak.

In 2002, the Corporation will maintain its focus on becoming the Managed Service Provider of choice in Saskatchewan and will continue to leverage partnerships to engage targeted opportunities outside the province. Its focus will be innovation and expansion of its four centers of excellence: hosting services, e-messaging, security and application brokerage. Furthermore, the Corporation will continue to pursue service development and support excellence, reinforcing its commitment to customer satisfaction and continuing to develop a highly skilled resource core. In short, 2002 will see a renewed commitment to innovation and improvement upon its already established strengths.

SaskTel International ([www.sasktel-international.com](http://www.sasktel-international.com)) will also continue to pursue large telecommunications infrastructure projects. These projects may lead to additional business within Africa, the Americas, Asia and around the globe. SaskTel International will continue to develop its software suite of products to meet changing business objectives and increase market share.

## › 2002 OUTLOOK *continued*

In 2002, SaskTel Mobility expects to grow revenue in its core cellular business, as well as new diversified services, such as Lightning Mobile Commerce, LoadTrak and Site.link that were launched in 2000 and 2001. Growth in the core business will result from continued strong access growth, competitive, yet disciplined pricing and increased penetration in wireless internet service opportunities. Operating expenses are expected to increase as SaskTel Mobility continues to focus on retaining subscribers, expanding its network and customer base, and adding new diversified services.

DirectWest ([www.directwest.com](http://www.directwest.com)) expects stable business conditions in the year ahead. Competitive pressure will continue in all markets. DirectWest will focus on growth by providing internet business solutions. Revenues are expected to increase slightly, and profits to hold steady.

SecurTek ([www.securtek.net](http://www.securtek.net)) will continue to leverage the strong residential demand for security and environmental alarm monitoring services across Canada. Recent world events have provided further impetus to the increasing demand for security including residential alarm monitoring. New customer growth is supported by long term partnerships with independent security alarm businesses located in markets across Canada. Acquisition of customer monitoring agreements will also contribute to continued rapid growth, as SecurTek furthers its presence in strategic markets across Canada. SecurTek has recently launched a new life safety monitored product, which will focus on the growing seniors housing market segment. In partnership with a Saskatchewan based company, the "SecurTek SafetyNet" product is receiving positive customer feedback for its ease of use, efficiency and low cost in comparison to existing products on the market. SecurTek has become the monitoring company of choice for SaskTel Mobility's SiteLink service, providing backup alarm monitoring for oil well sites across Canada.

Hospitality Network ([www.hospnet.ca](http://www.hospnet.ca)) will strive to improve its customer value proposition in the Canadian healthcare and hotel markets. This will be accomplished by implementing technology advancements, adding new communication services and increasing efficiency. Hospitality Network will continue to grow through geographic market expansion, service development initiatives for new markets and securing new customer agreements in existing markets.

Navigata Communications Inc. (Navigata) ([www.navigata.ca](http://www.navigata.ca)) is a regional network provider of telecommunications services: long distance, toll free, local voice, data networking, private line and internet. Navigata has sales offices in Vancouver, Calgary, Toronto and Montreal and is poised to become a specialized provider of integrated telecommunication services to small to medium enterprise customers. To obtain its goal, Navigata expects to invest in next generation data services, establish a prominent national presence through direct sale campaigns, and deliver superior customer service. To remain competitive, the company will secure stable and competitively priced wholesale services. Finally, it will identify acquisitions that will add value and core competencies to its current business. Navigata is well positioned to deliver integrated telecommunication services to business customers in the four most populous Canadian provinces and will continue to grow profitably by acquiring additional market share.

**Targets for 2002**

SaskTel's long term strategy focuses on six strategic objectives that include customer, people, financial management, growth, technology and public policy. In an effort to measure its success, SaskTel has committed to the following performance targets.

	<i>2002 Target</i>	<i>2001 Actual</i>
Revenue growth	6 to 8%	\$852.8 million
Operational efficiency	\$17 million increase	\$26 million
Capital investments	\$270 to \$290 million	\$167.2 million
Dividends	\$91 to \$93 million	\$91.3 million
Return on equity	14 to 16%	16.0%

Revenue growth targets are centered around continued expansion of high speed internet, Digital Interactive Video, increasing penetration of SaskTel's hosting services, increasing usage of wireless data applications, and further penetration of the security monitoring market.

To date, SaskTel has realized savings of \$26 million from its Operational Efficiency Program. In 2002, SaskTel has committed to a further \$17 million reduction in base operating expenditures. Cost savings will be realized through further process improvements, realizing the purchasing power of its alliances and partnerships, and possible product retirements.

Capital expenditures are focused on increased investment in growth and diversification initiatives, while sustaining current capital assets. A large portion of the growth expenditures will be used to expand the coverage and improve upon the quality of the high speed internet and digital cellular networks. Capital investment also includes investment in the Newcastle initiative, which will provide high speed internet, pay TV, and various video and data services to almost 200,000 homes and businesses in Newcastle, Australia. In 2002, further expenditures will be made to launch the Digital Interactive Video (DIV) service, which will provide high speed internet access through the television, including access to e-mail, web browsing, banking and shopping. DIV will also be capable of providing customers with a full lineup of television channels, local radio, music broadcasting, and access to on demand pay-per-view movies and games.

The dividend and return on equity targets presented are largely based on the success of the revenue growth, operational efficiency and capital investment program objectives.

## › FIVE YEAR RECORD OF SERVICE

	2001	2000	1999	1998	1997
<b>Finance</b>					
(Thousands of dollars)					
Operating revenues	\$ 852,822	\$ 777,672	\$ 753,878	\$ 763,978	\$ 728,037
Operating expenses	699,975	667,257	688,112	636,955	596,889
Other	(9,360)	24,447	37,785	2,689	(56,902)
Interest and related costs*	41,990	41,525	26,987	44,272	38,587
Net income*	101,497	93,337	76,564	85,440	35,659
Dividends	91,347	87,280	60,770	51,259	36,571
Gross construction expenditures	128,271	116,227	161,642	173,892	175,015
Property, plant & equipment**	2,411,795	2,309,505	2,256,534	2,205,045	2,120,589
Long-term debt (gross)**	478,934	390,203	453,089	420,373	441,999
<b>Financial ratios</b>					
Return on equity	16.0%	14.9%	12.4%	14.4%	6.2%
Debt ratio	41.3%	39.6%	39.6%	40.5%	39.9%
<b>Employees and payroll</b>					
Number of permanent employees (excluding part-time)					
Diversified operations***	714	481	435	456	398
SaskTel Wireline	3,354	3,370	3,819	3,771	3,574
Total	4,068	3,851	4,254	4,227	3,972
Salaries earned (Thousands of dollars)					
	\$ 223,302	\$ 226,517	\$ 223,589	\$ 208,529	\$ 194,947
<b>Operational highlights</b>					
Network access services**	626,421	637,990	643,722	641,523	626,924
Internet access services**	105,757	88,427	66,435	49,435	30,844
Cellular access services**	240,492	218,856	188,002	160,434	135,623
Originated long distance minutes (In thousands)	1,457,286	1,406,739	1,273,545	932,745	969,533

\* Restated – see note 5 to the financial statements.

\*\* At December 31.

\*\*\* Includes SaskTel International, SaskTel Wireless, DirectWest, SecurTek, Navigata and Other

## › MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements included in the annual report of Saskatchewan Telecommunications Holding Corporation for the year ended December 31, 2001, are the responsibility of management and have been approved by the Board of Directors. Management has prepared the consolidated financial statements in accordance with generally accepted accounting principles in Canada. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

To ensure the integrity and objectivity of the financial data, management maintains a comprehensive system of internal controls including written policies and procedures, an organizational structure that segregates duties and a comprehensive internal audit program. These measures provide reasonable assurance that transactions are recorded and executed in compliance with legislation and required authority, assets are properly safeguarded and reliable financial records are maintained.

The Board of Directors fulfills its responsibility with regard to the financial statements principally through its Audit Committee, consisting solely of outside directors, which meets periodically with management as well as with the internal and external auditors. The Audit Committee is responsible for engaging or re-appointing the services of the external auditor. Both the internal and external auditors have free access to this committee to discuss their audit work, their opinion on the adequacy of internal controls and the quality of financial reporting. The Audit Committee has met with management and the external auditor to review the corporation's annual consolidated financial statements prior to submission to the Board of Directors for final approval.

The consolidated financial statements have been audited by the independent firm of PricewaterhouseCoopers LLP, Chartered Accountants, as appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan.



Donald R. Ching  
President & Chief Executive Officer  
January 29, 2002



Randy Stephanson  
Chief Financial Officer

## › AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Telecommunications Holding Corporation as at December 31, 2001 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Regina, Saskatchewan  
January 29, 2002

## › CONSOLIDATED STATEMENT OF OPERATIONS

<i>For the year ended December 31 (Thousands of dollars)</i>	<b>2001</b>	2000 <i>(Restated see Note 5)</i>
<b>Operating revenues</b>	<b>\$ 852,822</b>	<b>\$ 777,672</b>
<b>Operating expenses</b>		
Operating expenses	500,124	476,761
Contribution and carrier costs	42,720	23,644
Depreciation and amortization	157,131	156,004
Restructuring and other charges	–	10,848
	<u>699,975</u>	<u>667,257</u>
<b>Income from operations</b>	<b>152,847</b>	<b>110,415</b>
<b>Other items (Note 4)</b>	<b>(9,360)</b>	<b>1,373</b>
<b>Interest and related costs (Note 6)</b>	<b>41,990</b>	<b>41,525</b>
<b>Net income before the following</b>	<b>101,497</b>	<b>70,263</b>
<b>Gain on sale of investments (Note 8)</b>	<b>–</b>	<b>23,074</b>
<b>Net income</b>	<b>\$ 101,497</b>	<b>\$ 93,337</b>

## › CONSOLIDATED STATEMENT OF RETAINED EARNINGS

<i>For the year ended December 31 (Thousands of dollars)</i>	<b>2001</b>	2000 <i>(Restated see Note 5)</i>
<b>Retained earnings, beginning of year</b> (Restated see Note 5)	<b>\$ 380,977</b>	<b>\$ 374,920</b>
<b>Net income</b>	<b>101,497</b>	<b>93,337</b>
	<u>482,474</u>	<u>468,257</u>
<b>Dividends</b>	<b>91,347</b>	<b>87,280</b>
<b>Retained earnings, end of year</b>	<b>\$ 391,127</b>	<b>\$ 380,977</b>

*See Accompanying Notes*

› **CONSOLIDATED  
STATEMENT OF  
FINANCIAL POSITION**

<i>As at December 31 (Thousands of dollars)</i>	<b>2001</b>	<b>2000</b> <i>(Restated see Note 5)</i>
<b>Assets</b>		
<b>Current assets</b>		
Cash and short-term investments	\$ 45,995	\$ 925
Accounts receivable	101,882	103,996
Inventories	10,177	10,204
Prepayments	13,269	12,946
	<u>171,323</u>	<u>128,071</u>
Property, plant and equipment (Note 7)	910,884	904,560
Investments (Note 8)	78,592	80,145
Other assets (Note 9)	88,057	99,420
	<u>\$ 1,248,856</u>	<u>\$ 1,212,196</u>
<b>Liabilities and Province's equity</b>		
<b>Current liabilities</b>		
Bank indebtedness	\$ 3,969	\$ 9,662
Short-term borrowings	-	55,604
Accounts payable and accrued liabilities	104,821	100,683
Dividend payable	20,490	30,298
Service billed in advance	27,791	26,311
Current portion of long-term debt (Note 10)	6,866	6,080
	<u>163,937</u>	<u>228,638</u>
Long-term debt (Note 10)	443,346	352,267
	<u>607,283</u>	<u>580,905</u>
Minority interest	446	314
<b>Province of Saskatchewan's equity</b>		
Equity advance (Note 11)	250,000	250,000
Retained earnings	391,127	380,977
	<u>641,127</u>	<u>630,977</u>
	<u>\$ 1,248,856</u>	<u>\$ 1,212,196</u>

See Accompanying Notes

On behalf of the Board

  
Tom Kehoe

  
Alison Renny

## > CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31  
(Thousands of dollars)

2001

2000  
(Restated see Note 5)

### Cash provided by (used in):

#### Operating activities

Net income	\$ 101,497	\$ 93,337
Items not affecting cash from operations (Note 12)	161,315	126,928
Net change in non-cash working capital items	6,010	(12,174)
	<u>268,822</u>	<u>208,091</u>

#### Financing activities

Repayment of long-term debt	(16,961)	(35,656)
Proceeds from long-term debt	90,000	–
Capital lease obligations	(525)	–
Dividend	(101,155)	(72,752)
Short-term (repayments) borrowings	(56,338)	39,604
	<u>(84,979)</u>	<u>(68,804)</u>

#### Investing activities

Capital expenditures	(125,890)	(107,645)
Businesses acquired (Note 3)	(23,108)	(27,162)
Investments	(12,300)	6,535
Other assets	28,218	(4,298)
	<u>(133,080)</u>	<u>(132,570)</u>

<b>Increase in cash</b>	<b>50,763</b>	<b>6,717</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>(8,737)</b>	<b>(15,454)</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 42,026</b>	<b>\$ (8,737)</b>

#### Comprised of:

Cash and short-term investments	\$ 45,995	\$ 925
Bank indebtedness	(3,969)	(9,662)
	<u>\$ 42,026</u>	<u>\$ (8,737)</u>

Interest Paid	\$ 36,243	\$ 43,465
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See Accompanying Notes

## › NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – December 31, 2001

### Note 1 – The Corporation

Saskatchewan Telecommunications Holding Corporation (the Corporation) markets and supplies a range of voice, data, internet, wireless, text and image products, systems and services. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of The Saskatchewan Telecommunications Holding Corporation Act, and as such, the Corporation and its wholly owned subsidiaries, except as identified in Note 19, are not subject to Federal or Provincial income taxes in Canada.

By virtue of The Crown Corporations Act, 1993, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation.

The Corporation's subsidiaries, Saskatchewan Telecommunications, RSL COM Canada Inc., and MK Telecom Network Inc., are regulated by the Canadian Radio-television and Telecommunications Commission (CRTC) under the Telecommunications Act (Canada).

### Note 2 – Summary of significant accounting policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and in conformity with prevailing practices in the Canadian telecommunications industry.

#### Subsidiaries and investments

The consolidated financial statements include the accounts of the Corporation and its subsidiaries with all significant intercompany transactions and balances being eliminated. Investments in companies in which the Corporation has significant influence are accounted for by the equity method. Portfolio investments are accounted for by the cost method.

The following is a summary of the operating entities under the Saskatchewan Telecommunications Holding Corporation group of companies:

Name	Percentage ownership	Basis for inclusion
Operating entities:		
Saskatchewan Telecommunications	100%	Consolidation
Saskatchewan Telecommunications International, Inc.	100%	Consolidation
DirectWest Publishing Partnership	100%	Consolidation
Hospitality Network Canada Inc.	95.9%	Consolidation
Hospitality Network Canada Partnership	96.0%	Consolidation
SecurTek Monitoring Solutions Inc.	100%	Consolidation
RSL COM Canada Inc.	100%	Consolidation
Business Watch International Inc.	85.9%	Consolidation
The Ag Dealer Ltd.	84.4%	Consolidation
Craig Wireless International Inc.	37.7%	Equity
Soft Tracks Enterprises Ltd.	19%	Equity
Retx.com, Inc.	63%	Equity
Tappedinto.com, Inc.	45%	Equity
Austar United Communications Limited	1.3%	Cost
Persona Inc. (formerly Regional Cablesystems Inc.)	7.4%	Cost
NSI Global Inc.	0.1%	Cost

The Corporation has a 63% interest in Retx.com, Inc. which is not consolidated because the Corporation is seeking additional equity partners, which would reduce its interest below 50%.

The following is a summary of the non-operating entities of the Corporation: 101000606 Saskatchewan Ltd., 101000607 Saskatchewan Ltd., 3231518 Canada Ltd. (clickabid™), 3339807 Canada Ltd., 3364381 Canada Ltd., 620064 Saskatchewan Ltd., Avonlea Holding, Inc., Battleford International, Inc., Carlyle Holding, Inc., Dundurn Holding, Inc., Esterhazy Holding, Inc., Foam Lake Holding, Inc., Grenfell Holding, Inc., Hollywood At Home Inc., IQA Corporation, IQ & A Partnership, Jan Lake Holding, Inc., Katepwa Lake Holding, Inc., Melfort Holding, Inc., MK Telecom Network Holdings Inc., MK Telecom Network Inc., Mobility Personacom Canada Inc., Navigata Holding, Inc. (formerly Langenburg Holding Inc.), Nokomis Holding, Inc., Outlook Holding, Inc., Pleasantdale Holding, Inc., RSL COM Canada Holdings Inc., Saskatchewan Telecommunications International (Tanzania) Limited, SaskTel Data Exchange Inc., SaskTel Holding (Australia), Inc., SaskTel Holding (New Zealand) Inc., SaskTel Holding (U.K.) Inc., SaskTel International Consulting, Inc., SaskTel Investments Inc., SaskTel New Media Fund Inc., SecurTek Partnership No. 3, SecurTek Partnership No. 4, STI Communications Pty Limited, and TLW Holdings Inc.

## › NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — December 31, 2001

### Short-term investments

Short-term investments are carried at the lower of cost and market value.

### Property, plant and equipment

Property, plant and equipment is recorded at cost including materials, services, and direct labour.

Depreciation on property, plant and equipment is computed on the straight-line, equal-life group method using rates determined by a continuing program of engineering studies for each class of property in service.

When depreciable telecommunications property is retired, the cost of such property, adjusted by any disposal proceeds and costs of removal, is charged to accumulated depreciation.

### Goodwill

Goodwill is amortized on a straight-line basis over a maximum of twenty years. The carrying value of goodwill is reviewed annually by analyzing the financial performance of the related investment or by assessing its fair market value.

### Revenue

Operating revenues from the sale of services are recognized when services are performed. Equipment sales are recognized at the point of sale.

### Inventories

Materials, supplies and inventories are recorded at the lower of cost and net realizable value. Cost is determined using an average-cost basis.

### Employee benefit plans

The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Corporation has adopted the following policies:

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of the plan assets is amortized over the average remaining service life of active employees of the plan.

### Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year. This policy was adopted retroactively during 2001.

### Financial instruments

Gains and losses on forward contracts and cross currency swaps used to manage exposure to foreign exchange rates are recognized on the same basis as the gains and losses on the hedged item. Gains and losses related to hedges of anticipated transactions are recognized in earnings or recorded as adjustments of carrying values when the hedged transaction occurs. Any premiums or discounts with respect to financial instrument contracts are deferred and amortized to earnings over the contract period.

### Income taxes

The Corporation follows the asset and liability method of tax allocation accounting whereby future tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantial enactment. The amount of future income tax assets recognized is limited to the amount that is estimated as more likely than not to be realized.

### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

## › NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — December 31, 2001

### Note 3 — Acquisitions

#### Businesses acquired

Businesses acquired are accounted for under the purchase method and the results of operations have been included in consolidated earnings from the respective acquisition dates.

On August 30, 2001 the Corporation, purchased a 100% interest in RSL COM Canada, Inc. (RSL) and its subsidiaries. RSL is a Vancouver-based telecommunications company that provides a full range of products including local service, long distance, internet, and data services to customers in British Columbia, Alberta, Ontario and Quebec.

During 2001, the Corporation acquired an 84.4% interest in The Ag Dealer Ltd. (Ag Dealer). The business acquired provides advertising services to agricultural equipment dealers in Canada and the United States.

During 2001, the Corporation acquired 100% of the issued shares of two corporations providing security services in Alberta and British Columbia. The total purchase price was \$2.4 million, the full amount of which was assigned to customer contracts.

During 2001, the Corporation purchased an 85.9% interest in Business Watch International Inc. for total consideration of \$1.0 million. Business Watch International Inc. provides internet based pawnshop transaction tracking services.

The total consideration, the fair value of the Corporation's portion of the identifiable net assets acquired and the resulting goodwill is as follows (*Thousands of dollars*):

	RSL	AgDealer	Other	Total
Total consideration	\$ 16,720	\$ 5,984	\$ 3,385	\$ 26,089
Total assets	44,685	1,047	3,085	48,817
Total liabilities	27,965	145	233	28,343
Net assets acquired	\$ 16,720	\$ 902	\$ 2,852	\$ 20,474
Goodwill	\$ —	\$ 5,082	\$ 533	\$ 5,615

In the prior year, the Corporation acquired Telerent of Canada, Inc. for \$17.8 million, Metropol™ Emergency Response Centre (MERC) for \$7.8 million and purchased the net assets of a business whose primary activity is publishing and advertising in the agricultural sector.

#### Investments in significantly influenced companies: equity method

On January 26, 2001 the Corporation increased its equity position in Craig Wireless International Inc. from 29.9% to 37.7% for a total consideration of \$3.0 million. Craig Wireless International Inc. is a wireless cable and internet provider with operations in Manitoba and British Columbia.

During 2001, the Corporation increased its equity position in Retx.com, Inc. from 49% to 63% for total consideration of \$5.5 million. Retx.com, Inc. is an e-business service company providing transaction clearinghouse service and load management for the retail energy sector.

During 2001, the Corporation purchased a 45% equity interest in Tappedinto.com, Inc. for total consideration of \$3.8 million. Tappedinto.com, Inc. is a broadband internet streaming company based in Nashville, Tennessee.

In the prior year, the Corporation acquired an equity interest in Craig Wireless International Inc. for total consideration of \$7.0 million, Retx.com, Inc. for total consideration of \$11.8 million and Soft Tracks Enterprises Ltd. for total consideration of \$5.3 million.

### Note 4 — Other items

	2001	2000
	<i>(Thousands of dollars)</i>	
Net share of loss from significantly influenced companies	\$ (12,462)	\$ (2,767)
Interest income	1,048	1,482
Other	1,831	2,629
Minority interest	223	29
	<u>\$ (9,360)</u>	<u>\$ 1,373</u>

## > NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – December 31, 2001

### Note 5 – Change in Accounting Policy

During 2001, the Corporation adopted the new accounting recommendation for foreign currency translation. Under the new method, the Corporation is no longer able to defer and amortize unrealized translation gains and losses on foreign currency denominated monetary items. This change has been adopted retroactively.

The effect of adopting this policy on the financial statements as at December 31, 2000 is outlined below:

	<i>(Thousands of dollars)</i>
Interest and related costs increased	\$ 3,640
Net income decreased	3,640
Other assets decreased	25,648
Opening retained earnings decreased	22,008
Items not affecting cash from operations increased	3,640

The balance of retained earnings at January 1, 2000 has been restated as follows:

	<i>(Thousands of dollars)</i>
Retained earnings, beginning of year (as previously reported)	\$ 396,928
Change in accounting policy for foreign currency translation	22,008
<u>Retained earnings, beginning of year (as restated)</u>	<u>\$ 374,920</u>

The balance of retained earnings at December 31, 2000 has been restated as follows:

	<i>(Thousands of dollars)</i>
Retained earnings, end of year (as previously reported)	\$ 406,625
Change in accounting policy for foreign currency translation	25,648
<u>Retained earnings, end of year (as restated)</u>	<u>\$ 380,977</u>

### Note 6 – Interest and related costs

	2001	2000 <i>(Restated see Note 5)</i>
	<i>(Thousands of dollars)</i>	
Interest expense	\$ 38,172	\$ 42,830
Foreign currency translation losses	8,129	5,217
Amortization of discount on long-term debt	49	264
	<u>46,350</u>	<u>48,311</u>
Less: Sinking fund earnings	3,351	6,607
Interest on short-term investments	1,009	179
	<u>\$ 41,990</u>	<u>\$ 41,525</u>

### Note 7 – Property, plant and equipment

	2001	2000
	<i>(Thousands of dollars)</i>	
Buildings, plant and equipment	\$ 2,302,521	\$ 2,193,652
Plant under construction	90,026	96,813
Materials and supplies	10,044	9,950
Land	9,204	9,090
	<u>2,411,795</u>	<u>2,309,505</u>
Less accumulated depreciation	1,500,911	1,404,945
	<u>\$ 910,884</u>	<u>\$ 904,560</u>

Buildings, plant and equipment includes assets under capital leases of \$10,542,428 (2000 – Nil) and accumulated depreciation of \$413,693 (2000 – Nil).

The composite depreciation rate on the average depreciable telecommunications property in service was 6.5% in 2001 (2000 – 7.0%).

As at December 31, 2001, the ratio of accumulated depreciation to depreciable telecommunications property was 66.7% (2000 – 64.1%).

## › NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – December 31, 2001

### Note 8 – Investments

	2001	2000
	<i>(Thousands of dollars)</i>	
<b>Significantly influenced companies: equity method</b>		
Retx.com, Inc.	\$ 9,755	\$ 10,006
Craig Wireless International Inc.	4,122	6,165
Soft Tracks Enterprises Ltd.	3,228	5,408
Tappedinto.com, Inc.	2,861	–
Other	38	38
<b>Other long-term investments: cost method</b>		
Austar United Communications Limited (9,550,574 ordinary shares)	43,846	43,846
Persona Inc. (1,223,491 common shares)	14,682	14,682
Other	60	–
	<u>\$ 78,592</u>	<u>\$ 80,145</u>

Included in the above balances is unamortized goodwill of \$15,514,645 (2000 – \$22,162,717).

At year-end the market value of the Austar and Persona investments were \$2.1 million (2000 – \$17.2 million) and \$13.0 million (2000 – \$14.4 million) respectively (see Notes 13 and 14).

During the year Regional Cablesystems Inc. (Regional) and Persona Inc. implemented a corporate reorganization of the two companies. Under the arrangement, the shareholders of Regional have exchanged their shares for the same number of shares of the new public holding company named Persona Inc.

In the prior year, the Corporation:

Divested its equity position in Regional Cable TV (Western) Inc. resulting in a gain on sale of \$7.7 million and as consideration the Corporation received 1,223,491 common shares in Regional Cablesystems Inc.

Disposed of 4,109,000 shares in Austar United Communications Limited (Austar) resulting in a gain on sale of \$13.7 million.

Recorded a non-cash gain of \$1.7 million on a deemed disposition of Soft Tracks Enterprises Ltd.

### Note 9 – Other assets

	2001	2000
	<i>(Thousands of dollars)</i>	
Deferred pension costs	\$ 39,125	\$ 57,755
Customer accounts	21,124	14,478
Goodwill	18,026	13,981
Competition implementation costs	4,324	7,455
Unamortized discount on long-term debt	2,400	3,658
Sales-type leases	607	1,372
Other	2,451	721
	<u>\$ 88,057</u>	<u>\$ 99,420</u>

### Note 10 – Long-term debt

	Years to Maturity	Average Fixed Interest Rate (%)	2001	2000
			<i>(Thousands of dollars)</i>	
Province of Saskatchewan:				
Canadian dollar issues	1 - 5 years	10.84	\$ 69,736 <sup>(a)</sup>	\$ 57,743
Canadian dollar issues	6 - 10 years	9.32	124,376 <sup>(a)</sup>	66,974
Canadian dollar issues	28 years	5.38	110,000 <sup>(b)</sup>	110,000
U.S. dollar issue	19 years	9.38	159,260 <sup>(c)</sup>	149,950
			<u>463,372</u>	<u>384,667</u>
Capital lease obligations		–	13,284 <sup>(e)</sup>	–
Other	2 years	–	2,278	5,536
			<u>478,934</u>	<u>390,203</u>
Less sinking funds			28,722 <sup>(d)</sup>	31,856
Total long-term debt			450,212	358,347
Less current portion of long-term debt			6,866	6,080
			<u>\$ 443,346</u>	<u>\$ 352,267</u>

## › NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – December 31, 2001

- (a) Long-term debt totaling \$104,112,000 is subject to redemption at the option of the holder on six months notice, or at the option of the issuer on 30 days notice, as outlined in the terms and conditions.
- (b) Long-term debt totaling \$35,000,000 contains a one-time redemption provision exercisable on March 5, 2006, whereby the investor may redeem the debt. The debenture pays interest at 5% to March 5, 2006 and 5.6% thereafter.
- (c) Represents long-term debt repayable in U.S. funds having a U.S. dollar face value of \$100,000,000 converted to \$115,360,000 Canadian at the time of issue. The recorded amount is based on the foreign exchange rate at December 31, 2001 of 1.5926 (2000 – 1.4995).
- (d) Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds administered by the Province of Saskatchewan, 1% of the debt outstanding. The sinking funds include investments denominated in U.S. dollars held in the fund having a U.S. dollar value of \$16,436,273 recorded at \$26,176,409 Canadian dollar equivalent.

Sinking fund installments and long-term debt repayments (net of sinking funds) due over the next five years are as follows:

	<i>(Thousands of dollars)</i>	
2002	\$	4,525
2003	\$	12,285
2004	\$	32,199
2005	\$	3,243
2006	\$	35,841

- (e) Certain property, plant and equipment have been acquired under lease transactions which are accounted for as purchases. The capital lease obligations recorded in these consolidated financial statements reflect the present value of future minimum payments under these leases, discounted at the interest rates implicit in the leases. The interest rates implicit in these leases primarily range between 6.9% and 9.5%, with a weighted average of 8.1%. The lease agreements expire variously between 2002 and 2006. Future minimum payments under these leases in aggregate and for each of the next five years, and the portion of such aggregate amount representing implied interest, are as follows:

	<i>(Thousands of dollars)</i>	
2002	\$	3,586
2003		3,697
2004		3,659
2005		3,711
2006		2,544
Aggregate future minimum lease payments		17,197
Portion representing implied interest		3,913
Capital lease obligations		13,284
Less current portion		2,341
Long term portion	\$	10,943

Interest expense on capital lease obligations during the year totaled \$435,048.

### Note 11 – Equity advance

As a Saskatchewan Provincial Crown corporation, the Corporation's equity financing has been provided in the form of an equity advance from Crown Investments Corporation of Saskatchewan.

### Note 12 – Items not affecting cash from operations

	2001	2000 <i>(Restated see Note 5)</i>
	<i>(Thousands of dollars)</i>	
Depreciation and amortization	\$ 157,131	\$ 156,004
Pension income of defined benefit plan	(15,570)	(15,605)
Net share of loss from significantly influenced companies	12,462	2,767
Foreign currency translation losses	8,131	4,961
Sinking fund earnings	(2,588)	(3,961)
Gain on sale of investments	–	(23,074)
Restructuring and other charges	–	4,122
Other	1,749	1,714
	\$ 161,315	\$ 126,928

**Note 13 – Financial instruments**

**Credit risk**

The Corporation has a large and diverse customer base that minimizes the concentration of credit risk. In addition, the Corporation does not anticipate non-performance by any counterparties to its derivative financial instruments. The Corporation deals only with those financial institutions whose credit rating is A or better, and monitors the credit risk and credit standing of counterparties on a regular basis. The Corporation manages its exposure so that there is no substantial concentration of credit risk resulting from cross currency swaps and forward contracts.

**Currency exposure**

The Corporation uses a combination of derivative financial instruments to manage foreign exchange risk exposures. The Corporation does not actively trade derivative financial instruments.

The Corporation entered into a perpetual cross currency swap to exchange Australian dollars for Canadian dollars in order to hedge currency risk inherent in the Australian dollar denominated investment in Austar United Communications Limited. Due to the uncertainty around the holding period of the investment, the swap has no termination date, but has a one-year reset to mitigate counterparty credit risk. The principal amount to be received under the swap is \$30,566,809 (2000 – \$30,566,809), and the principal amount owed is 31,292,802 AUD (2000 – 31,292,802 AUD).

The Corporation has also entered into a cross currency forward to exchange Euros for Canadian dollars in order to hedge currency risk inherent in Euro denominated contracts. The forward will be settled coincident with currency repatriation requirements. The principal amount to be received under the forward contracts is \$795,150, and the principal amount owed is Euro 540,000.

**Fair value**

Fair values approximate amounts at which financial instruments could be exchanged between willing parties, based on current markets for instruments with similar characteristics, such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgement and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

At year-end, the carrying value of all financial instruments approximates fair value with the following exceptions (thousands of dollars):

	2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Equity in sinking funds	\$ 28,722	\$ 29,352	\$ 31,856	\$ 33,087
Long-term debt, Province of Saskatchewan	\$ 463,372	\$ 536,447	\$ 384,667	\$ 442,931
Cross currency forwards and swap	\$ –	\$ 5,330	\$ –	\$ 4,012

At year-end the quoted market value per share of Austar was \$0.224 (0.275 AUD) (2000 – \$1.80 (2.16 AUD)) and of Persona Inc. was \$10.66 (2000 – \$11.75). The current trading price is not always indicative of the final net realizable value by the Corporation. In the Corporation’s judgement, the trading value of the Austar shares does not reflect the fair value of the investment. The Corporation has reviewed the business, industry, economic, and other market conditions and has concluded that a number of factors have created downward pressure on the share price for Austar and that there is upside potential for these shares (see Note 14).

**Note 14 – Measurement uncertainty**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

In particular, the Corporation is concerned about the significant uncertainty surrounding the carrying value of its investment in Austar (see Note 8). Over the past two years, these shares have traded in the range of .15 to 9.90 AUD per share, closing at .275 AUD at December 31. The shares are thinly traded with over 80% held by one investor. In addition, Austar recently concluded a significant debt refinancing, the majority shareholder has committed to further financial support, and Austar is in discussions with potential merger or alliance partners. The Corporation does not have plans in the near term to divest of this investment and will continue to monitor it closely.



## › NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — December 31, 2001

### Note 16 – Employee benefit plans

#### Pension benefits

	2001	2000
	<i>(Thousands of dollars)</i>	
Details of the defined benefit pension plans are as follows:		
Plan assets at fair value	\$ 757,497	\$ 807,363
Accrued benefit obligation	<u>704,446</u>	<u>652,308</u>
Surplus	<u>\$ 53,051</u>	<u>\$ 155,055</u>
Employee contributions	\$ 2,849	\$ 2,792
Employer contributions	200	–
Benefits paid	38,671	36,495

The significant actuarial assumptions used to determine the amounts under the defined benefit pension plan are as follows:

	2001	2000
Discount rate	6.80%	6.60%
Expected long-term rate of return on plan assets	7.25%	7.25%
Rate of compensation increase	3.00%	3.00%

Periodic reviews of plan assumptions occur to determine whether the assumptions remain valid. Environmental factors may cause changes to these actuarial assumptions, which may result in an increase in the accrued benefit obligation.

Included in the defined benefit pension plan assets are \$8.0 million (2000 – \$7.6 million) of investments in related parties.

	2001	2000
	<i>(Thousands of dollars)</i>	
Pension expense (income) for the year is as follows:		
Defined contribution pension plan	\$ 9,738	\$ 9,809
Defined benefit pension plan	(15,363)	(15,605)

#### Other future benefits

	2001	2000
	<i>(Thousands of dollars)</i>	
Accrued benefit obligation	\$ 1,385	\$ –
Accrued benefit liability	329	–
Employee benefit expense	3	–
Employee contributions	–	–
Employer contributions	3	–
Benefits paid	3	–

The significant actuarial assumptions used to measure the company's accrued benefit obligations are as follows:

	2001	2000
Discount rate	6.75%	–

For measurement purposes, 10.0% and 9.5% annual rates of increase in the per capita cost of covered health care benefits were assumed for 2001 and 2002 respectively, decreasing by 0.5% each subsequent year to 5.0% in 2011 and remaining at that level thereafter.

Periodic reviews of plan assumptions occur to determine whether the assumptions remain valid. Experiential factors may cause changes to these actuarial assumptions, which may result in an increase in the accrued benefit obligation.

## › NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — December 31, 2001

### Note 17 — Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan by virtue of common control by the Government of Saskatchewan, non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and investee corporations accounted for under the equity method (collectively referred to as “related parties”).

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year-end are as follows:

	2001	2000
	<i>(Thousands of dollars)</i>	
Operating revenues	\$ 55,143	\$ 60,331
Operating expenses	32,797	31,237
Accounts receivable	5,123	4,276
Accounts payable	928	790
Capital expenditures	566	483

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

During the year, the Corporation received \$34.2 million from the pension plan it sponsors.

Other amounts and transactions due to (from) related parties and the terms of settlement are described separately in these financial statements and notes thereto.

### Note 18 — Commitments

The future minimum lease payments under the operating leases of the Corporation in each of the next five years are as follows:

	<i>(Thousands of dollars)</i>	
2002	\$	31,850
2003	\$	29,949
2004	\$	23,371
2005	\$	20,740
2006	\$	18,801

The above payments include \$29.9 million for leases with related parties.

### Note 19 — Income taxes

The following subsidiaries are subject to income taxes: Navigata Holding, Inc. (formerly Langenburg Holding, Inc.), RSL COM Canada Holdings Inc., RSL COM Canada Inc., TLW Holdings Inc., MK Telecom Network Holdings Inc., MK Telecom Network Inc., STI Communications Pty Limited, Business Watch International Inc., and The Ag Dealer Ltd.

As at December 31, 2001, the Corporation has available non-capital losses for income tax purposes of approximately \$50.3 million, which are available to be carried forward to reduce taxable income in future years, and expire as follows:

	<i>(Thousands of dollars)</i>	
2003	\$	337
2004	\$	34
2005	\$	628
2006	\$	9,933
2007	\$	37,481
2008	\$	1,908

As at December 31, 2001, net temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases deductible against taxable income of future years, including non-capital losses, total approximately \$56.8 million.

The future income tax benefit which may arise as a result of these net temporary differences has not been recognized in these consolidated financial statements.

## › BOARD OF DIRECTORS



**Donald R. Ching**  
*President and CEO*



**Tom Kehoe**  
*Chair of the Board*



**Frank Proto**  
*Vice Chair of the Board*



**Wendy Dean**  
*Secretary to the Board of Directors*



**Allan Blakeney**



**Delores Burkart**



**Wayne Byers**



**Richard Gladue**



**Karen Leir**



**Don Lowry**



**Kathleen Peterson**



**Alison Renny**



**Reg Bird**

## › SASKTEL COMMITTEES OF THE BOARD

*As of December 31, 2001*

### Audit Committee

- Alison Renny, Chair
- Allan Blakeney
- Karen Leir
- Frank Proto

### Corporate Growth Committee

- Tom Kehoe, Chair
- Delores Burkart
- Richard Gladue
- Donald Lowry
- Frank Proto

### Governance Committee

- Delores Burkart, Chair
- Tom Kehoe
- Karen Leir
- Kathleen Peterson

### Environment and Human Resources Committee

- Allan Blakeney, Chair
- Wayne Byers
- Kathleen Peterson
- Alison Renny



› **SaskTel Executive Officers**

- David Alsop** . . . . . President, *Navigata Communications*
- Mike Anderson** . . . . . Vice President, *Marketing*
- Dan Baldwin** . . . . . Senior Vice President, *Business Development*
- Donald R. Ching** . . . . . President and Chief Executive Officer
- Gord Farmer** . . . . . President, *DirectWest*
- Ken Keesey** . . . . . Vice President, *Customer Services – Sales*
- John Meldrum** . . . . . Vice President, *Corporate Counsel and Regulatory Affairs*
- Diana Milenkovic** . . . . . Senior Vice President, *Customer Service Operations and Mobility*
- Byron Pointer** . . . . . Vice President, *Human Resources and Industrial Relations*
- Al Rogers** . . . . . President, *SecurTek*
- Garry Simons** . . . . . President, *SaskTel International*
- Randy Stephanson** . . . . . Chief Financial Officer
- Kym Wittal** . . . . . Chief Technology Officer

› **SaskTel International – Senior Operating Managers**

- Scott Fedec** . . . . . Vice President, *Finance and Human Resources*
- Don Prokopetz** . . . . . Vice President, *Software Solutions*
- Mike Ryan** . . . . . Vice President, *Marketing and Operations*
- Garry Simons** . . . . . President, *SaskTel International*
- Barry Ziegler** . . . . . Executive Vice President, *Investments*

› **SaskTel Senior Operating Managers**

- Dale Baron** . . . . . Controller
- Dave Birnie** . . . . . General Manager, *Customer Services Operations*
- Doug Burnett** . . . . . General Manager, *Human Resources and Industrial Relations*
- Tom Laird** . . . . . General Manager, *QUANTUMLYNX.com*
- Gail Lefebvre** . . . . . General Manager, *Customer Services – Planning, Provisioning and Implementation*
- Dave Lozinski** . . . . . General Manager, *Corporate Services*
- Candice Molnar** . . . . . General Manager, *Regulatory Affairs*
- Garry Reichert** . . . . . General Manager, *Technology Performance and Operations*
- Stacey Sandison** . . . . . General Manager, *Customer and Marketing Services – Mobility*
- Daryl Silzer** . . . . . General Manager, *Strategic Business Development*
- Curt Smith** . . . . . General Manager, *Information Technology Management*
- Shelly Smith** . . . . . General Manager, *Digital Interactive Video*
- Dennis Terry** . . . . . General Manager, *Business, Planning and Technology – Mobility*
- Pat Tulloch** . . . . . General Manager, *Marketing*
- Al Yam** . . . . . General Manager, *Technology Development and Engineering*



### **Board Responsibilities**

The SaskTel Board of Directors has a statutory obligation to manage the affairs and business of the Corporation. In fulfilling its stewardship responsibility, the principal duties of the Board are to approve and monitor progress in meeting the Corporation's long-term strategic plan, operating goals and budget, performance indicators and the business plans developed to achieve them. The Board is responsible to: oversee Corporate risk management systems; evaluate senior management performance and provide for effective succession planning; promote effective communications with the shareholder, stakeholders and the public; and implement practices to assist the Board to exercise judgement independent of management. The Board met 14 times in 2001.

### **Board Composition and Compensation**

The Lieutenant Governor in Council appoints members of the Board, and designates the Chair and Vice Chair. Board members are appointed for up to three years and their appointments can be renewed at the expiry of their term. The SaskTel Board is comprised of individuals with diverse abilities and backgrounds, bringing to the Corporation industry expertise, accounting and legal acumen, international business experience, extensive community contacts and public relations skills. Nine directors, including the Chair, are independent of SaskTel management. The President and CEO of the Corporation and two internal directors who are members of the employee union, the Communications, Energy and Paperworkers Union of Canada, sit as directors.

Board Members receive annual retainers, meeting and travel fees and expenses pursuant to a Policy approved by the Crown Investments Corporation (CIC), the Holding Company.

### **Committees**

The Board discharges its responsibilities directly and through the following Committees.

#### **Audit Committee**

The Audit Committee monitors and reviews the financial performance and internal control system of the Corporation, oversees the internal audit program and risk management activities and acts as a communications link between the Board, management and the auditors. The Committee met six times in 2001.

#### **Corporate Growth Committee**

The Corporate Growth Committee assists management to develop its Corporate Growth Strategy and reviews, monitors and reports to the Board respecting the progress of corporate investments and growth initiatives. The Committee met twelve times in 2001.

#### **Governance Committee**

The Governance Committee assists the Board to deliver exemplary corporate governance practices, monitors compliance with corporate contribution policies, reviews directors' expenses and administers the *Directors' Code of Conduct*, which includes acting as the Ethics Advisor to directors. The Committee oversees annual performance evaluations of the CEO, the Board as a whole, the Board Chair, all Committees and individual directors. The Committee met eight times in 2001.

#### **Environment and Human Resources Committee**

The Environment and Human Resources Committee monitors the Corporation's management of risks, liabilities, policies, practices and procedures related to human resources, the environment and workplace health and safety. Each year the Committee recommends to the Board Corporate Indicators, which establish targets to track progress against the strategic plan and to drive management performance compensation. The Committee met four times in 2001.

### **Board Orientation and Training**

New directors appointed to the Board receive a *Directors' Reference Manual* and attend an orientation session delivered by management. The Orientation Program provides information about key industry trends, the Corporation's organizational structure, critical business risks and challenges, the strategic plan and an introduction to the responsibilities of senior staff. CIC sponsors a comprehensive education program for directors of all CIC Crown boards to assist them to develop and enhance their overall governance knowledge and skills.

### **Working with Management**

The Board strives to build an open and constructive working relationship with management. While focusing its efforts on providing strategic leadership to the Corporation, the Board delegates day-to-day operations to management and holds them accountable for the Corporation's overall performance. The Board expects management to implement Board directives and policies and keep the Board apprised of its activities. A comprehensive Final Authorization Policy, applicable to monetary and non-monetary matters, delineates the division of responsibility between management and the Board.

### **Corporate Governance Initiatives and Practices**

The SaskTel Board has adopted a comprehensive set of governance practices and procedures. In 2001, it completed several governance initiatives, including:

- revising the Terms of Reference of the Board and its four Committees;
- developing Mandate Checklists for all Committees to track and report progress to the Board on the discharge of Committee duties;
- developing a position description for the Chair of the Board;
- updating its Needs Assessment & Skills Profile, designed to highlight the expertise required to complement the skill sets of current directors and used to identify suitable candidates for board appointment; and
- successfully recruiting candidates whose skills fit the Profile to fill a vacancy on the Board.

The Board's corporate governance practices are consistent with the Toronto Stock Exchange (TSE) Corporate Governance Guidelines as they apply to a Crown corporation. SaskTel's practices are benchmarked against the TSE Guidelines.



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