

90

Our winning numbers

1998 ANNUAL REPORT

OUR **90TH** YEAR / TOTAL ASSETS: **\$1.2** BILLION / RESIDENTIAL AND BUSINESS CUSTOMERS: **450,000** /
PEOPLE EMPLOYED BY SASKTEL: **4,200** / NETWORK ACCESS LINES: **642,000** / REVENUE FROM NON-
TRADITIONAL SOURCES IN 1998: **30%** / COUNTRIES WHERE SASKTEL INTERNATIONAL IS WORKING: **20**

LETTER OF TRANSMITTAL

Regina, Saskatchewan

March 31, 1999

To His Honour

The Honourable J.E.N. Wiebe

Lieutenant Governor of the

Province of Saskatchewan

I have the honour to submit herewith the annual report of SaskTel for the year ending December 31, 1998, 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 Dwain Lingenfelter
Deputy Premier
Minister Responsible for Crown
Investments Corporation

contents

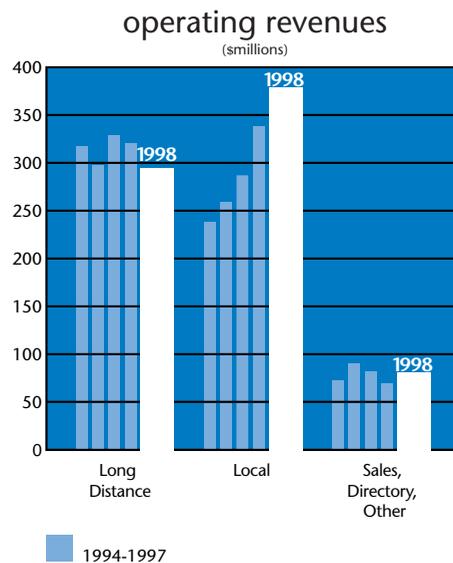
01	financial highlights
03	president's letter
04	reflecting on our numbers
16	management's discussion & analysis
28	segmented information
29	five-year record of service
31	consolidated statements
43	board of directors
44	corporate directory

U.S. PATENTS HELD BY SASKTEL RESEARCH AND DEVELOPMENT: **8** / SASKATCHEWAN COMPANIES THAT SUPPLIED PRODUCTS AND SERVICES TO SASKTEL IN 1998: **4,000** / AMOUNT SPENT ON NETWORK IMPROVEMENTS IN 1998: **\$100** MILLION

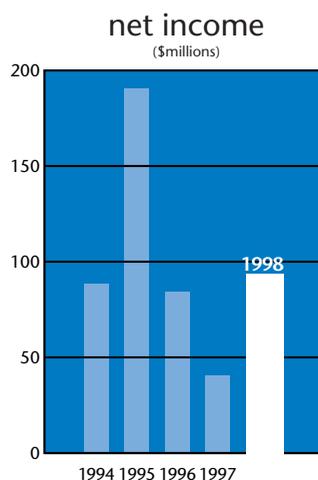
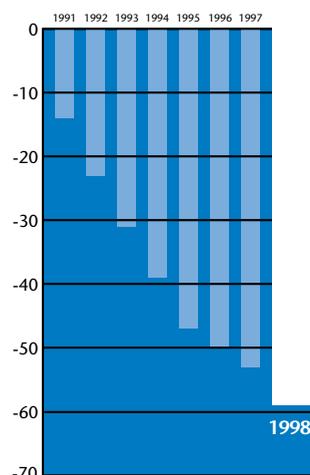
financial

HIGHLIGHTS

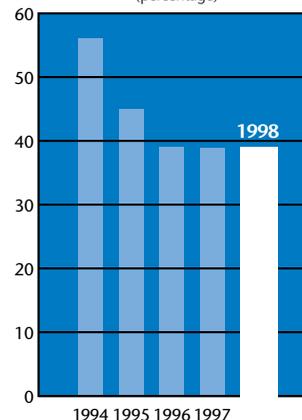
For an explanation of SaskTel's financials, please refer to the Management's Discussion and Analysis.



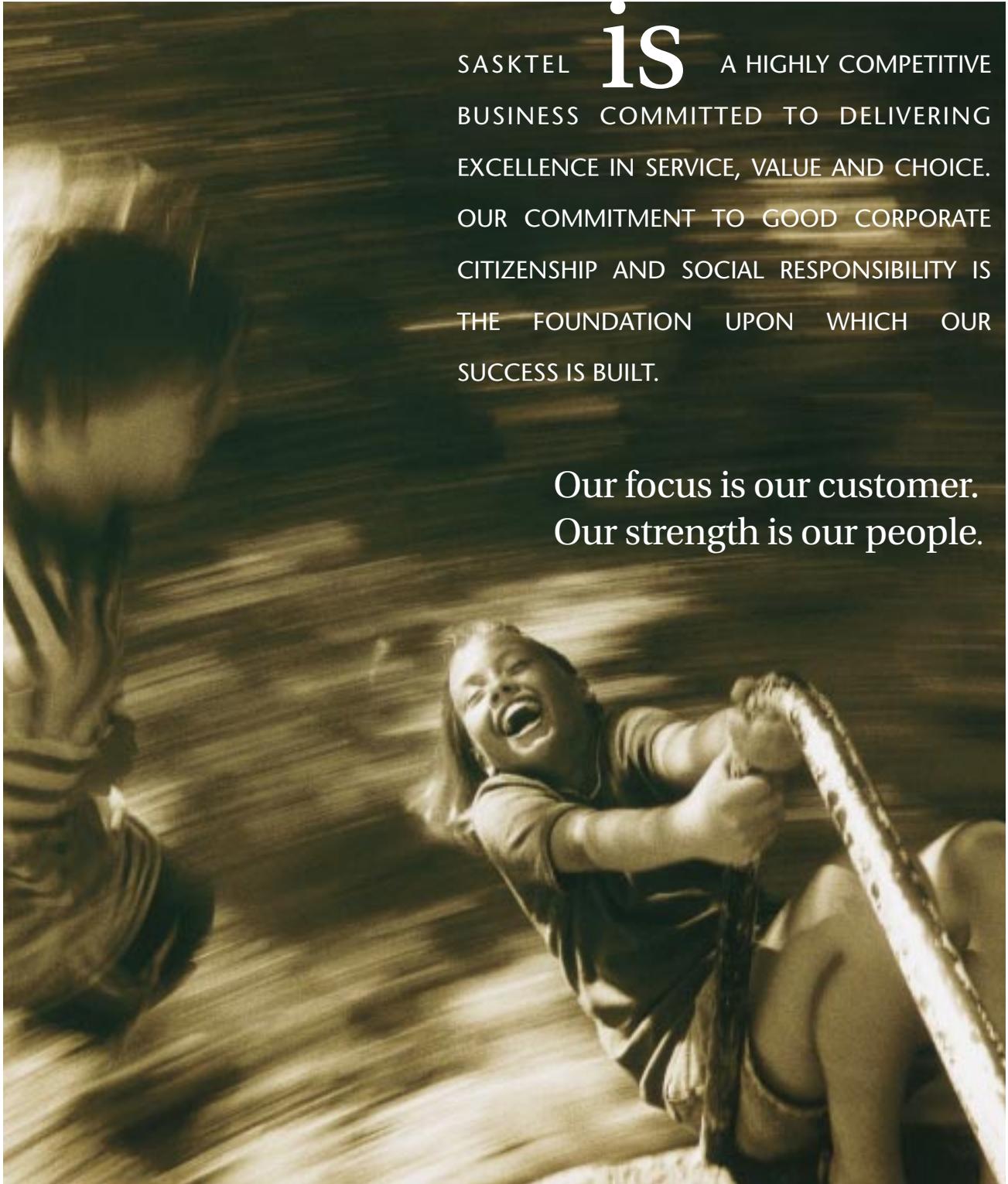
cumulative percentage
SaskTel has lowered average per minute long distance charges since 1990



debt ratio (percentage)



SASKTEL'S TOTAL EQUITY: **\$640,000,000** /
1998 CBRS BOND RATING: **A** / SASKTEL'S
1998 GROSS REVENUES: **\$753,000,000**



SASKTEL **is** A HIGHLY COMPETITIVE BUSINESS COMMITTED TO DELIVERING EXCELLENCE IN SERVICE, VALUE AND CHOICE. OUR COMMITMENT TO GOOD CORPORATE CITIZENSHIP AND SOCIAL RESPONSIBILITY IS THE FOUNDATION UPON WHICH OUR SUCCESS IS BUILT.

Our focus is our customer.
Our strength is our people.

AMOUNT SPENT ON GOODS AND SERVICES RENDERED BY SASKATCHEWAN BUSINESSES IN 1998: **\$278,000,000** / REDUCTION IN THE NUMBER OF TELEPHONE EXCHANGES AS A RESULT OF SASKTEL'S EXCHANGE AREA BOUNDARIES PROGRAM: **32%**

THE NUMBERS are in and they are definitely winners.

Annual reports are about numbers, but somehow words seem to always take the limelight, getting the bold headings and eye-catching design. This year, we decided to give the numbers the attention they deserve. 1998 was a year of winning numbers for SaskTel—revenue, market share, debt ratio and so on. In the following pages of the annual report, we highlight the numbers—financial and otherwise—that made SaskTel a winner in 1998.

5 has become an important number in SaskTel's long-term strategic planning. 1998 was the last year in our five-year Strategic Plan. In 1999, we will roll out a new plan to take SaskTel into the twenty-first century. Here are four more numbers we liked in 1998:

90 — the number of years SaskTel has served the people and communities of Saskatchewan.

HOME 91, VISITORS 9 — the score in the competition for long distance market share in the province.

81,000 — the number of residential customers who benefit from exchange area consolidation.

20 — the number of countries in which SaskTel International has done business since 1986.

Just a few winning numbers from the year, but each has an interesting story behind it. These and other numbers throughout the pages of this report show SaskTel to be serving its community, diversifying and thriving in the midst of competition.

As always, there are many people to thank for the successes of the year. Thanks first to the members of our Board of Directors for their energy and guidance in serving this corporation and its shareholders. I would like also to thank all of our customers, both in Saskatchewan and around the world. We appreciate your continued support and loyalty and will respond with even greater commitment to outstanding customer service, innovative communications solutions and value. Finally, on behalf of the board and the SaskTel executive team, I would like to officially recognize the sacrifices and efforts made by all of our employees, management and non-management, during the past year. Your dedication is what produces our winning numbers, nurturing the customer loyalty that distinguishes SaskTel in all of its markets at home and abroad.

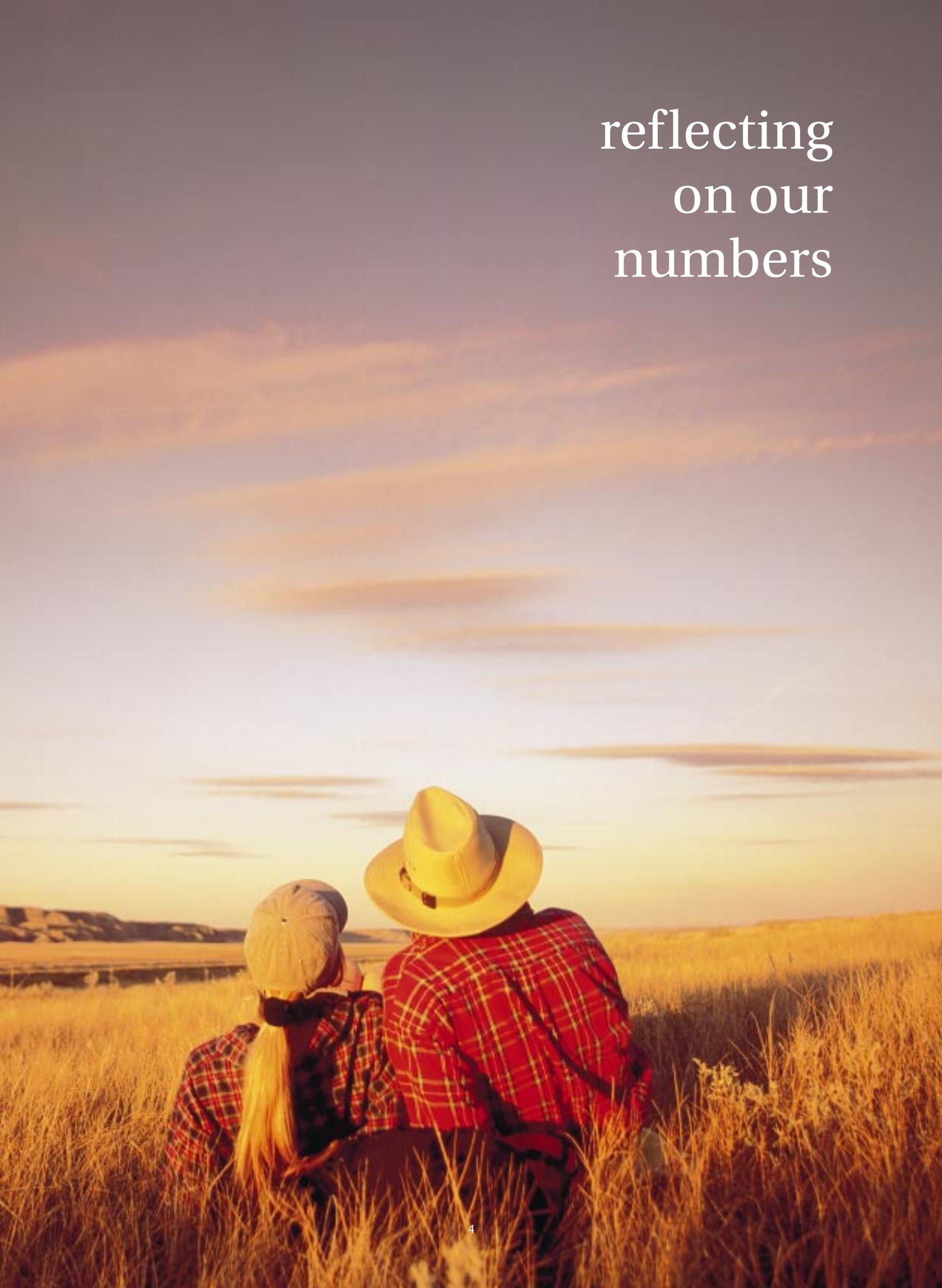
president's letter



Donald R. Ching
PRESIDENT AND CHIEF
EXECUTIVE OFFICER

CUSTOMERS SIGNED UP UNDER THE TERMS OF BILL MANAGEMENT, A NEW CUSTOMER FINANCING AND DEBT REPAYMENT PROGRAM: 9,000 / SASKTEL'S CUMULATIVE COMMITMENT TO ITS Y2K PROGRAM: \$29,000,000

reflecting
on our
numbers



NEW DIGITAL AND ANALOG CELLULAR SITES SASKTEL MOBILITY ADDED TO ITS NETWORK IN '98: **27** / CELLULAR SITES SASKTEL MOBILITY OPERATES ACROSS THE PROVINCE: **149** / SQUARE KILOMETRES OF SASKATCHEWAN SERVED BY SASKTEL MOBILITY CELLULAR COVERAGE: **270,000** / SASKTEL MOBILITY COVERAGE AS A PERCENTAGE OF THE PROVINCE'S TOTAL 652,000 SQUARE KILOMETRES: **41** / FIBER OPTIC CABLE IN SASKTEL'S SASKATCHEWAN NETWORK: **13,500** KM / RURAL FAMILIES AND BUSINESSES WHO BENEFITTED FROM EXPANDED LOCAL CALLING OPTIONS IN 1998: **OVER 93,000** / SASKTEL'S LONG DISTANCE MARKET SHARE: **91.8%** / PORTION OF SASKATCHEWAN'S POPULATION RESIDING IN THE SASKTEL MOBILITY COVERAGE AREA: **92%** / FLIGHTS MADE BY THE SASKTEL CALLING CARD BALLOON IN 1998: **91** / COMMUNITIES WHERE THE SASKTEL CALLING CARD BALLOON TOOK TO THE SKIES IN '98: **33** / CHILDREN WHO GOT A CLOSE-UP DEMONSTRATION OF HOW THE BALLOON WORKS, INCLUDING MANY WHO TOOK A RIDE: **5,000** / CALLS INTO, AND OUT OF, SASKTEL'S CUSTOMER CARE CENTRES IN 1998: **2,895,799** / CALLS TAKEN BY SASKTEL OPERATORS IN 1998: **14,444,678** / SASKTEL STORE TRANSACTIONS ACROSS THE PROVINCE IN 1998: **1,985,921** / TOTAL INTERACTIONS BETWEEN SASKTEL AND ITS CUSTOMERS IN 1998, IN PERSON AND BY PHONE: **19,326,398** / SASKTEL OPERATORS: **227** / SASKATCHEWAN CALL CENTRES THAT USE SASKTEL SERVICE: **100** / SASKATCHEWAN PEOPLE WHO WORK FOR CALL CENTRES SERVED BY SASKTEL: **2,200** / SASKTEL STORES ACROSS THE PROVINCE: **10** / SASKTEL INTERNATIONAL EMPLOYEES ON OUT-OF-CANADA ASSIGNMENT: **33** / YEARS TO COMPLETE TANZANIA'S KAGERA PROJECT: **2** / COMPUTERS THE SASKTEL PIONEERS HAVE DONATED TO FIRST NATIONS COMMUNITIES ACROSS SASKATCHEWAN: **205** / HOURS OF VOLUNTEER WORK THE SASKTEL PIONEERS DONATED IN 1998: **54,949** / SASKTEL PIONEERS MEMBERSHIP: **3,886** / SASKATCHEWAN ORGANIZATIONS BENEFITTING FROM TELCARE CONTRIBUTIONS: **62** / BLUEBIRD HOUSES DISTRIBUTED ACROSS THE PROVINCE BY THE SASKTEL PIONEERS IN 1998: **10,000** / SCHOLARSHIPS SASKTEL AWARDED TO SASKATCHEWAN STUDENTS FOR THE 1998-99 SCHOOL YEAR: **10** / VALUE OF EACH SCHOLARSHIP: **\$3,000** / NETWORK ACCESSES PER KILOMETRE OF SASKTEL INFRASTRUCTURE: **3.7** / NETWORK ACCESSES PER KILOMETRE IN BRITISH COLUMBIA: **24.5** / SASKTEL'S BASIC TELEPHONE SERVICE PENETRATION TARGET FOR FIRST NATIONS AREAS IN 1999: **72%** (UP FROM **36%** IN 1997) / SASKTEL RELATIONSHIPS WITH FIRST NATIONS COMMUNITIES: **150** / THE NUMBER OF DRUMS OF PAINT COLLECTED THROUGH SASKTEL PIONEERS' PAINT-IT RECYCLING PROGRAM IN 1998: **153** / THE WEIGHT OF NICKEL-CADMIUM, ALKALINE AND LITHIUM BATTERIES GATHERED FROM SASKTEL IN 1998: **600** KILOGRAMS / TOTAL AMOUNT SASKTEL AND ITS EMPLOYEES DONATED TO SASKATCHEWAN CHARITIES THROUGH THE TELCARE PROGRAM IN 1998: **\$290,000**



90 years

OF SERVICE
AND COMMITMENT

Here are some historic numbers: 90 years ago, when SaskTel began serving Saskatchewan people, there was one telephone for every 92 people, a one-minute call from Saskatoon to Regina cost around 80¢, and telephone operators received a wage of \$30 per month. In those days, telephone service was provided by a handful of employees using a simple system worth a few thousand dollars.

Today, at the opposite end of the century, SaskTel has approximately 4,200 employees working with an infrastructure worth over \$1 billion and some of the world's most sophisticated technologies. Saskatchewan has better than one telephone for every two people, a one-minute call from Saskatoon to Regina on evenings and weekends can cost as little as 10¢, and our operators earn the monthly wage of their 1908 counterparts in less than half a day's work. Operating in a fully competitive marketplace, we deliver an array of products and services to 450,000 customers all over the province, bringing the latest and best communication media to Saskatchewan people at affordable rates.

At the same time, we have not lost sight of our role as a Crown Corporation and responsible corporate citizen. We still have a social obligation to the people of this province to provide universally accessible and affordable telecommunications. And, like any successful corporation, we recognize that we have a vested interest in the economic, cultural and social well-being of our marketplace. This important relationship between SaskTel and Saskatchewan is always on our minds as we look for ways to nurture the community that we depend upon.

In 1998, our ongoing commitment to environmental stewardship included internal programs to recycle paper, toner cartridges and nickel-cadmium batteries, as well as external recycling efforts to encourage public recycling of paint and phone books. We conducted environmental cleanup activities at northern radio sites and at SaskTel's main Regina switch building where a diesel leak occurred late in the year.

Each year, over 1,500 community associations receive financial and volunteer support from our corporate sponsorship program, SaskTel Pioneers, and SaskTel TelCare, the employee benevolent fund. This year, SaskTel's corporate sponsorship program contributed \$1.1 million to Saskatchewan organizations. Meanwhile, TelCare contributed over \$192,000 to community and non-profit organizations across the province. The Pioneers, a service organization of active and retired SaskTel employees, gave almost 55,000 hours and raised over \$262,000 for projects in Saskatchewan communities that benefit children, families and seniors. The total dollar amount

SaskTel Pioneers

service

TOTAL AMOUNT SASKTEL AND ITS EMPLOYEES AND RETIREES DONATED TO SASKATCHEWAN ORGANIZATIONS IN 1998: **\$3,600,000** / SASKTEL EMPLOYEES WHO DONATE MONEY TO TELCARE THROUGH PAYROLL DEDUCTIONS: **1,700** / AMOUNT TELCARE VOLUNTEERS DONATED IN 1998: **\$193,000**

donated to Saskatchewan organizations by SaskTel, its employees and retirees in 1998 was \$1.6 million.

Finally, we marked our 90 years of commitment to Saskatchewan with a one-time donation of \$2 million to hospital foundations in the province, allowing them to purchase two new MRI (magnetic resonance imaging) units to provide all Saskatchewan people with improved access to advanced diagnostic equipment. This contribution was simply another way of showing that we appreciate the loyalty the people of Saskatchewan have shown to SaskTel for the past 90 years, particularly in the present competitive market. We have never taken that loyalty for granted, and we will continue to earn it with unmatched service, products and value.

employees

In celebration of SaskTel's 90th anniversary, we made donations of **\$1,000,000** each to the Hospitals of Regina Foundation and the Saskatoon City Hospital Foundation to help buy two MRI machines.



In 1998, SaskTel Pioneers donated their **3000th** computer in their Computers for Schools program.

YEARS THE SASKTEL PIONEERS HAVE BEEN HELPING SASKATCHEWAN PEOPLE: **51** / COMMUNITY ASSOCIATIONS BENEFITTING FROM SASKTEL'S CORPORATE SPONSORSHIP PROGRAM IN 1998: **1,483** / DOLLARS SPENT IN 1998 FOR ENVIRONMENTAL CLEAN-UP AT NORTHERN RADIO SITES: **\$207,693**



Actually, the score is 91.8 to 8.2, and it means we are winning the race for long distance market share. SaskTel is the only telecommunications company in Canada that has a 90% long distance market share in its serving area.

The efforts we have made over the past decade to build customer loyalty are showing dividends. We have been able to hold onto and win back our customers in the midst of fierce competition. In 1998, for example, we learned something about the amount of profit margin one of our large long distance competitors is willing to forsake in their bid for our long distance customers. This competitor hit their limit and turned back, placing a cap on their “unlimited calling.” Meanwhile, we made our popular 10¢ evenings and weekends a permanent feature of our Real Plus Extra™ savings plan, introduced competitive international rates and offered 90 minutes of free long distance for loyal Real Plus Extra™ customers. Our market share

during the year dipped slightly and then rallied in strength again, showing that our strategies for nurturing customer loyalty in the consumer and small business markets are effective.

One of the reasons we have done so well is that we continue to beat our com-

petitors to market with the latest telecommunication technologies, services and pricing. We were the first with SimplyOne™, Real Plus™, Sympatico High Speed™, and in October of this year we were the first to introduce a variety of flat rate service bundles—the most extensive in the industry. Our bundles incorporate several options, including local telephone service, three different long distance

we're winning!

HERE'S WHY

NUMBER OF SASKATCHEWAN CITIES TO BEGIN RECEIVING SYMPATICO HIGH SPEED™ IN 1998: 7 (MOOSE JAW, PRINCE ALBERT, ESTEVAN, WEYBURN, NORTH BATTLEFORD, YORKTON AND SWIFT CURRENT)/WEB LINKS TURNED UP IN A RECENT WORLD-WIDE WEB SEARCH FOR SASKTEL: **1,142**

telephone plans, SmartTouch™ features and Internet service, all for a flat monthly rate. Instantly popular, the new bundle offerings jammed the lines into our Customer Care Centres with calls from customers. At the same time, we introduced a new Straight Rate™ plan for small business and residential customers, which offers flat, by-the-minute rates for calling Saskatchewan, Canada and the U.S.A.



Also in 1998, SaskTel's Advanced Interactive Solutions introduced QuantumLynx Office™—a new Internet-based electronic information-sharing software service. This service gives selected users within an organization a private, on-line presence to exchange information, schedule work plans, conduct on-line discussions, brainstorm and much more. Part of what makes QuantumLynx Office attractive is that the customer does not have to incur the risks of a large capital investment or a long-term contract. All they need is Internet access and a subscription to QuantumLynx Office. SaskTel purchases and manages all of the necessary software and hardware and gets the customer up and running over any industry standard platform. New QuantumLynx Office users find

QUANTUMLYNX

it easy to learn and install, so that in short order they are using the service to focus their marketing efforts, increase sales, and reduce communications and support costs.

In the fall, SaskTel Mobility was the first to offer Wireless Internet in Saskatchewan, an application of the new CDPD (Cellular Digital Packet Data) we

brought to the province earlier in the year. CDPD uses the cellular network to transmit packets of data (files broken into smaller elements) across the wireless link in a secure, reliable manner using the same transmission protocols as the Internet.



SaskTel Mobility is always looking for ways to offer customers more choice. In October, Mobility introduced to Saskatoon and Regina the latest generation of cellular service, digital Personal Communications Services (PCS). Our digital PCS service uses the newest and best technology available: Code Division Multiple Access (CDMA) provides our customers with a digital system that is second to none and packed with features and convenience. SaskTel Mobility's new digital PCS customers in Saskatoon and Regina are enjoying the improved clarity, greater privacy and longer battery life that come with digital.

“Saskatchewan is actually one of the more competitive markets in the industry. SaskTel is a very strong competitor.”

Sprint Canada President Phil Bates

At the same time, SaskTel Mobility will continue its commitment to maintain the quality of our existing analog cellular network—the most extensive cellular network in Saskatchewan. In 1998, Call Display and Visual Message Waiting Indication features were added to the analog service, and coverage was expanded to four more areas of the province: Cabri, Ituna, Ogema, Ponteix and Pangman. Digital PCS customers can easily roam between the two networks, as well as across North America through our relationships with Mobility Canada and major U.S. cellular carriers.

NUMBER OF PARTY LINES IN SASKATCHEWAN: 0 / TOWNS AND VILLAGES SERVED BY SASKTEL'S NETWORK: 670 / FARMS SERVED BY SASKTEL'S NETWORK: 60,000





more than **81,000**
residential customers benefit from
new **exchange area**
boundaries

SaskTel currently has 189 rural exchanges, each with an average of 712 residential customers—that's over 134,597 lines connecting Saskatchewan people in towns and on farms to the world. When the Corporation began in 1908 as "The Department of Railways, Telegraphs and Telephones," there were only 3,250 telephones in Saskatchewan. Most were in the largest urban centres, and very few people living on farms or in smaller towns had access to telephone service. The mandate of the new department was in part to rectify this imbalance and extend telephone service to all Saskatchewan citizens, rural and urban. In every one of the nine decades since our founding, we have faced and overcome obstacles in delivering on this mandate.

In 1998, two major developments demonstrated that our commitment to serve all of Saskatchewan equitably is as strong today as it was when we began 90 years ago. First, we implemented our Exchange Area Boundary (EAB) program, effectively improving the value of local telephone service for over 93,000 rural Saskatchewan families and businesses. In total, SaskTel reduced the number of Saskatchewan exchanges by about 30%. Working and living in the country has just gotten easier, thanks to the EAB program *and* our new flat rate long distance packages—specifically, the new bundles and the Real Plus Extra™ Community Savings Plan, which provides unlimited monthly calling to your most frequently called exchange within 40 miles—for only five dollars. As of year-end, we were still hearing testimony from rural customers about the positive impact of these changes.

SASKTEL'S INVESTMENT TO INSTALL A TYPICAL TELEPHONE LINE
IN RURAL SASKATCHEWAN: **\$8,000** / SASKTEL'S INVESTMENT TO INSTALL
A TYPICAL TELEPHONE LINE IN REGINA OR SASKATOON: **\$1,000**

The second development was part of our ongoing effort to ensure that competition does not create a two-tiered communications system of affordable high-tech services in populated areas and expensive, low-tech services in remote areas. If there is a price attached to the customer loyalty we have nurtured over the years, it is the millions of dollars we spend annually bringing world-class telecommunications to areas that, left to unregulated market forces, might be faced with unreliable and expensive services or none at all. The subsidy to SaskTel's high cost serving areas in 1998 was approximately \$112 million. In addition, each year, we invest around \$100 million in provincial network improvements across the province. These commitments allow a mother in Kerrobert to e-mail her son in New Delhi, a rancher to call the veterinarian, or the people of a village to receive their Talkmail™ message about next week's fowl supper at the rink.

In the past, telecommunications providers have always been able to cover these costs by using revenue earned in profitable areas of the business to cover a portion of the costs to service high cost areas. Now that we are in a fully competitive market, however, the profit margin from long distance has declined to the point where SaskTel can no longer afford to cross-subsidize from one market segment to another at historic levels.



Although we are still proud to be offering among the lowest local telephone access rates in Canada, regulatory and market realities could force us to set rates according to costs, which would mean significant price differences for basic service, depending on where a customer lives.

Because we believe in the principle of universal and affordable access, SaskTel is joining with the Province of Saskatchewan to persuade the

CRTC (Canadian Radio-television and Telecommunications Commission) that telecommunications in high-cost areas must remain affordable. When the CRTC brought its High Cost Serving Area hearings to Saskatchewan in June of 1998, we were there with a full oral and written submission. In essence, we have proposed to the CRTC that the way to deal with this question is to create a Universal Service Fund into which all telecommunications companies contribute. The fund would then be used to subsidize any

telecommunications company that is willing to serve high cost areas at affordable rates. More than 28% of Saskatchewan's population currently lives in communities of fewer than 1,000 people, or on individual landholdings, and would benefit from the creation of such a fund. We believe that, without some kind of national Universal Service Fund, people living in thinly populated and remote areas would eventually be left with second-class telecommunications at higher-than-first-class rates.

SASKTEL'S BUDGET FOR THE FIRST NATIONS LOCAL SERVICE IMPROVEMENT PROGRAM: \$25,000,000 / SASKTEL'S BASIC TELEPHONE SERVICE PENETRATION TARGET FOR THE FIRST NATIONS AREAS IN 1999: 72% (UP FROM 36% IN 1997)

CONTINENTS WHERE SASKTEL EMPLOYEES ARE WORKING: **6** / NUMBER OF COUNTRIES WHERE SASKTEL INTERNATIONAL IS WORKING ON PROJECTS: **9** / SASKTEL REVENUES FROM OUTSIDE SASKATCHEWAN SINCE 1986: **\$338,000,000**

20 COUNTRIES (and counting)



Twenty countries around the world have better telecommunications today, thanks to the skills and energies of SaskTel's global subsidiary, SaskTel International (SI). Since our inception in 1986, we have risen to the top in the field of network integration and management in places as near as Manitoba and Alberta and as far away as Belgium and New Zealand.

Today, SI helps its international clients in countries around the world develop, improve and expand their present telecommunications systems. Our leadership in applying and installing advanced technologies including fiber optics, microwave radio, cellular and trunked mobile radio, wireless and traditional access networks, advanced interactive and Internet services has been proven in several international markets, in settings as varied as the Philippine jungles and England's Channel-Tunnel.

SI had a good year in 1998, meeting its net income targets despite the collapse of the Asian economy. We were aggressive in submitting proposals and sustained an impressive 45% success rate, placing us best in our class.

One of SI's highlights for the year was a new contract to provide a rural telecommunications network in the Kagera region of Tanzania. The two-year project, valued at roughly CDN\$6.2 million, is for the Tanzanian Telecommunications Corporation Limited (TTCL) on behalf of the Canadian International Development Agency (CIDA). We are proud to be part of this international initiative to rehabilitate the infrastructure and social services in this region. The project will rebuild and expand telecommunications services to a dozen communities in the Kagera region—some of which have obsolete, congested systems and others which currently have no phone service. When SI is finished, there will be an entirely new network connecting the people of Kagera to one another and to the world beyond.



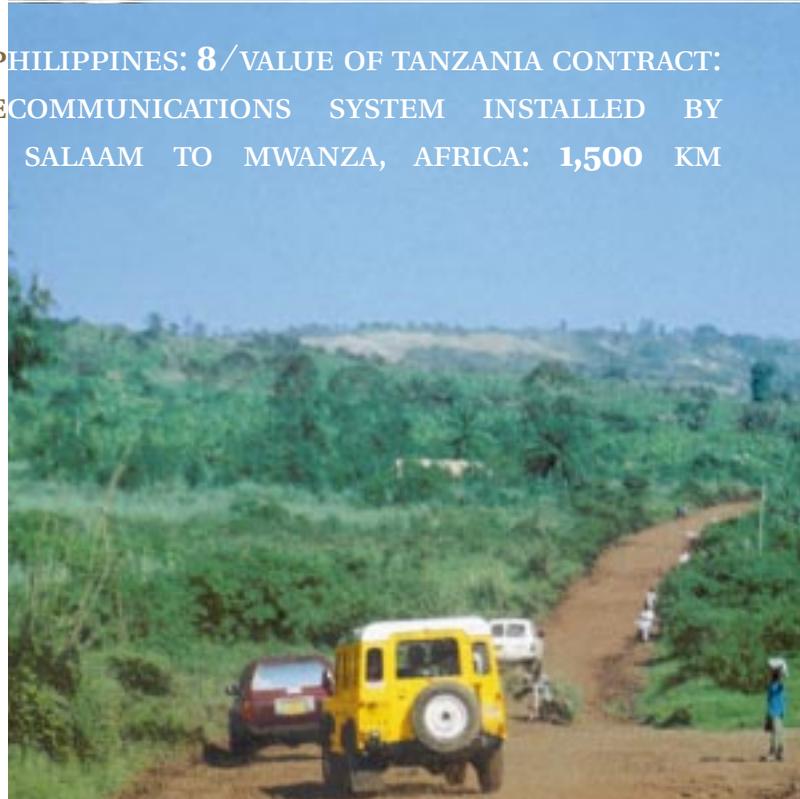
SaskTel International

YEARS SASKTEL HAS BEEN WORKING IN THE PHILIPPINES: 8 / VALUE OF TANZANIA CONTRACT: COMMUNICATIONS SYSTEM INSTALLED BY SASKTEL INTERNATIONAL FROM DAR ES SALAAM TO MWANZA, AFRICA: 1,500 KM

Our software division recently completed a contract with Thunder Bay Telephone to provide data conversion services. The one-year contract was valued at about \$830,000. SI converted about 61,000 of Thunder Bay Telephone's customer information records from paper to electronic data. The data conversion team transferred the information into the MARTENS™ system, SI's totally integrated telecommunications facilities management system.

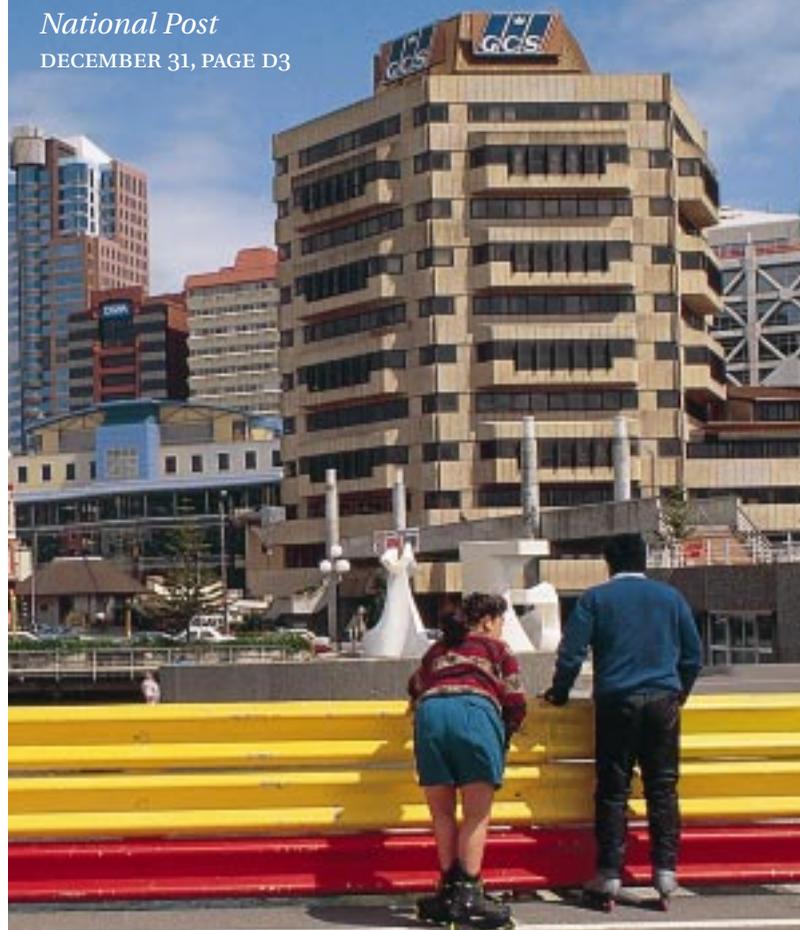
SI also manages SaskTel's global investments and partnerships. In 1997, SaskTel acquired a 35% equity interest in Saturn Communications Limited, a new cable TV provider in Wellington, New Zealand, that in 1998 expanded into telecommunications. By joining with our investment partner, United International Holdings (UIH) of Denver, Colorado, SI has made Saturn the first company in New Zealand to offer pay TV, telecommunications and data services in one integrated package. In April 1998, Saturn officially launched its telephone service, and by year-end had signed up more than 14,000 telephone service subscribers.

One of our longest standing overseas operations is in the Philippines. Since 1990, SI has been active in the islands, installing and integrating telecommunications networks throughout the archipelago. In 1998, we completed the engineering, design and project management for a national digital backbone for TelicPhil. This project included both terrestrial and submarine installation of facilities. We also finished a smaller job working with Bechtel, the world's second largest construction company, to build a communications system at a coastal hydroelectric operation in the Philippines. We are remaining active in the Philippines, and recently opened a regional sales office in Manila to serve customers there and seek out new opportunities.



"SaskTel has become mighty aggressive among Canada's traditional phone companies in spreading its wings internationally. Since it was formed in 1986, SaskTel's subsidiary, SaskTel International, has brought in a total of \$309 million in revenue from consulting projects in exotic locations like Manila and Tanzania."

National Post
DECEMBER 31, PAGE D3



2006 1998



GAIN ON THE SALE OF INVESTMENT IN ALOUETTE TELECOMMUNICATIONS INC.:
\$7.6 MILLION / INQUIRIES BY E-MAIL DURING 1998: **1,553** / HITS ON
SASKTEL.COM WEB SITE IN AN AVERAGE MONTH IN 1998: **11,000**

financials

OUR WINNING NUMBERS

16	management's discussion & analysis
17	results of operations
21	liquidity and capital resources
22	outlook
28	segmented information
29	five-year record of service
30	auditors' report
31	consolidated financial statements
34	notes to consolidated financial statements

management's discussion & analysis

Overview of Operations

Saskatchewan Telecommunications Holding Corporation (the Corporation) is the leading full service communications company in Saskatchewan, providing voice, data, directory, Internet, text and messaging services over a fully digital network, as well as cellular, paging and Fleetnet 800 service through its SaskTel Mobility division. The Corporation's major asset is a wholly owned subsidiary, Saskatchewan Telecommunications (SaskTel), which has been the principal supplier of telecommunications in Saskatchewan for 90 years. The Corporation also maintains investments in companies that provide international project management, design and consulting services, in addition to telephone directory and multimedia services. The Corporation employs approximately 4,200 people who live and work in communities across Saskatchewan. Through an interconnection agreement with the Stentor alliance of telephone companies (Stentor), SaskTel is part of the national and global communications network. This discussion and analysis should be read in conjunction with the Corporation's audited consolidated financial statements which are on pages 33 to 44 of this report.

Highlights

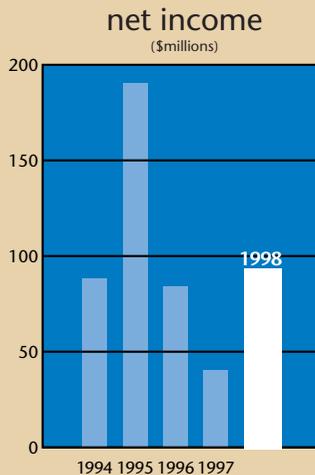
During 1998, the Corporation thrived in the midst of unprecedented competition and industry change. The Corporation had a financially strong year and retained the highest long distance market share of any Canadian telecommunications company. Here are the 1998 highlights:

- Net income of \$93.2 million.
- 91.8% of Saskatchewan customers showed their loyalty to SaskTel by maintaining SaskTel as their long distance carrier of choice.
- Despite retaining strong market share, long distance revenues declined due to further reductions in long distance prices and lower inter-provincial revenue settlements among the Stentor alliance.
- Significant growth in the access side of the business, which includes local telephone accesses, as well as cellular and Internet accesses.
- The first local services rate increase since 1993. On February 1, 1998, rates increased by \$4 per month for all residential customers. SaskTel's local rates are still among the lowest in Canada.
- Diversified revenues as a percentage of total revenues increased to 30.2% in 1998 from 28.2% in 1997.
- Operating expenses in 1998 increased 8.2% from 1997 mainly due to increases in selling, promotional, training and information technology costs.
- Year 2000 readiness program is in place and continuing.
- Investment activities included a gain on the sale of Alouette Telecommunications Inc. (Alouette) as well as continued investment in Saturn Communications Limited (Saturn), Hospitality Network Canada Inc. (HNCD), Regional Cable TV (Western) Inc. (Regional), and a new investment in Information Queries and Analysis Partnership (IQA).

Results of Operations

Net Income

The Corporation's 1998 consolidated net income increased to \$93.2 million, as compared to the net income in 1997 of \$40.6 million. Net income



in 1997 was reduced by a non-cash provision of \$55.7 million made for assets involved in providing local access service.

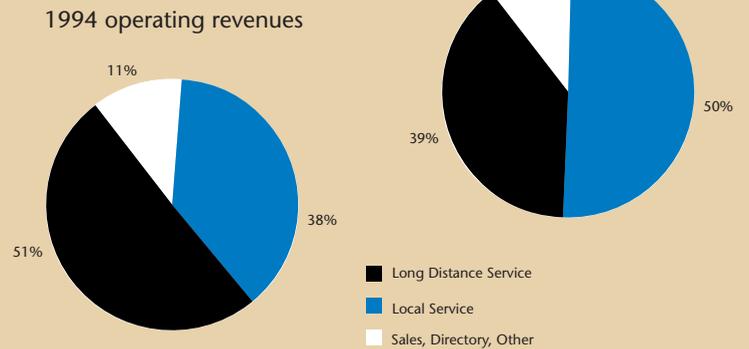
Total revenues for 1998 were \$752.6 million, up from \$728.0 in 1997. Offsetting this \$24.6 million increase in revenues was a

\$28.7 million increase in operating expenses. Accordingly, net operating revenues, as measured before interest expense and other items, decreased by \$4.1 million compared to 1997.

Other items increased as the result of a \$7.6 million gain on sale of the Corporation's interest in Alouette and interest income. However, income from these items was offset by the Corporation's share of the net loss from its investment in Saturn, which was \$8.4 million for 1998. The Corporation has a 35% interest in Saturn, which is currently in the midst of constructing a combined cable television and telephony network in Wellington, New Zealand. Significant achievements for Saturn during 1998 include installing the switch and launching telephony services in April 1998 and adding a total of approximately 6,000 subscribers during the year. Saturn had a total of approximately 14,000 subscribers as at December 31, 1998.

Interest expense increased in 1998 by \$2.9 million mainly due to unfavourable foreign exchange rates. Overall, total earnings decreased by \$3.1 million as compared to the 1997 figure, before the provision for local service assets.

Operating Revenues



operating revenues

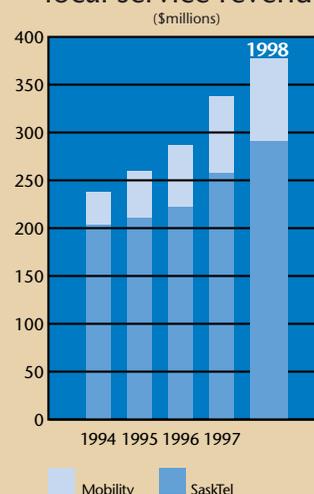
(millions of dollars)

	1994	1995	1996	1997	1998
Local Service	\$237.7	\$259.3	\$286.9	\$338.1	\$378.0
Long Distance	316.8	297.9	328.6	320.8	294.0
Sales, Directory, Other	72.0	89.6	81.4	69.1	80.6
Total Operating Revenues	\$626.5	\$646.8	\$696.9	\$728.0	\$752.6

Local Service

Local service revenue of \$378.0 million increased \$39.9 million (11.8%) from the 1997 level of \$338.1 million. Increased local accesses and an increase of \$4 per month per residential customer on February 1, 1998, accounted for \$24.6 million of the growth. The remainder of the growth

local service revenue



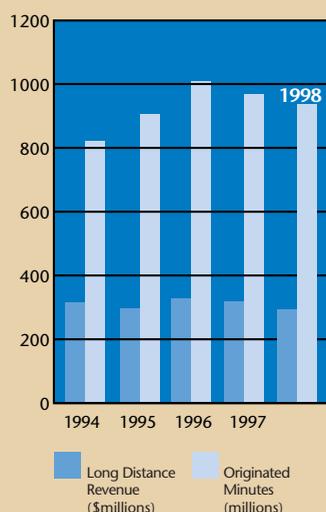
came from improved revenues in the Corporation's non-traditional services, such as Mobility wireless network accesses, private business line accesses, SmartTouch™ services and other enhanced local services. In 1998, Mobility network accesses increased 18.3% to over 160,000.

Traditionally, phone companies across North America have subsidized local telephone service with long distance revenues. As a corporation that serves one of the most sparsely populated provinces in Canada while maintaining a commitment to provide a high level of service, SaskTel experiences a significant cross subsidization challenge. Despite this challenge, SaskTel customers enjoy among the lowest local telephone rates in Canada. In 1997, there was a \$75 million shortfall in local access revenue compared to the cost of providing this service to all Saskatchewan residents. While 1998's estimated shortfall declined to \$57 million, local telephone service remains neither profitable nor self-sustaining for the Corporation. The average subsidy for residential service in 1997 was roughly \$17.49 per line per month (1998 estimate – \$13.55 per line per month), with the subsidy highest in smaller cities, towns and rural areas. With long distance rates declining, the pressure to reduce the subsidy to a sustainable level is increasing. On January 1, 1999, local residential rates will increase \$2 per month for rural customers and \$1 per month for customers in cities outside Regina and Saskatoon in an attempt to reduce this shortfall.

Long Distance

Long distance revenues were \$294.0 million, down 8.4% from \$320.8 million in 1997. The Corporation has continued to show its commitment to offer telephony and cellular customers lower long distance rates in 1998 while maintaining

long distance revenue/minutes



the highest level of quality in its services and products. In 1998, SaskTel introduced a straight rate savings plan, offering \$0.14 per minute anywhere in Saskatchewan, \$0.15 per minute anywhere in Canada and \$0.20 per minute anywhere in the U.S.A. During the year, SaskTel also improved its Advan-

tage Savings Plan for business customers, increased the benefits of the Real Plus Extra™ savings plan, lowered international rates and offered a special 90-minute free long distance promotion. In November 1998, SaskTel Bundles were offered incorporating a variety of options including local service, three different unlimited long distance plans, SmartTouch features and Internet for a flat monthly fee. Another major negative impact on 1998 long distance revenues stems from further reductions of SaskTel's share of revenues that are generated by carrying messages on behalf of the Stentor members.

Taken as a cumulative percentage since 1990, SaskTel's average per minute long distance charges have dropped by 59%. The average revenue per minute decreased 12.9% in 1998 from 1997 levels. Data network and Internet usage revenues grew to \$46.4 million in 1998, an increase of 14.5% from 1997.

The business and industry trend of declining revenues from traditional sources will continue in 1999. Therefore, the Corporation's diversification initiatives are essential to sustain revenue growth in the long-term.

Sales, Directory, Other

Other revenue increased to \$80.6 million in 1998 from \$69.1 million in 1997. Internet access revenues increased by \$3.7 million as accesses grew by 60.3%. Equipment sales increased due to the Corporation securing several large contracts. Operating subsidiaries accounted for the majority of the remainder of the growth in sales, directory and other revenue. These subsidiaries included: Saskatchewan Telecommunications International, Inc. (SaskTel International), DirectWest Publishing Partnership (DirectWest), and HNCL.

SaskTel International has been very successful in pursuing global revenue opportunities. By applying its management experience, SaskTel International is able to generate new revenues and develop new markets for many of the Corporation's products and services. SaskTel International's mainstay has been a successful combination of

consulting and engineering services, project management, systems integration, planning and design, and advanced network management software tools. In 1998, the subsidiary generated \$17.4 million in revenue, an increase of \$1.8 million over the prior year. Since 1994, the company has earned \$93.0 million in revenue and contributed \$8.2 million to the Corporation's bottom line.

Directory operations are for the most part conducted through the Corporation's 100% investment in DirectWest. DirectWest revenues in 1998 were \$29.4 million (1997 - \$27.5 million), an increase of \$1.9 million, in part attributable to the development of new directory features and interactive services. The majority of directory revenues generated relate to advertising sales in DirectWest's 10 directories within cities and districts throughout Saskatchewan.

Multimedia services revenues include \$1.1 million generated by the Corporation's 90% interest in HNCI. HNCI provides entertainment services including video-on-demand, pay-per-view movies, Nintendo™ video games and cable television to hotels and hospitals in Saskatchewan. In 1998, HNCI entered into a contract to supply television services to the Regina Health District.

Diversified Revenue

A portion of the Corporation's revenue is derived from non-traditional products and services as part of a long-term diversification strategy. The diversification strategy established in 1994 set a challenging target of 40% of revenues from diversified sources by 1998.



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In 1994, the Corporation saw the vast majority of its revenue coming from two traditional

sources: long distance and basic local services. At that time, SaskTel's long distance revenues were \$316.8 million and local services revenues were \$237.7 million; combined, these accounted for 88.5% of the total revenues. Since 1994, long distance revenues have dropped \$22.8 million, a decline of 7.2%.

The Corporation has successfully introduced new services and revenue sources to further the diversification strategy; these have included enhanced local services, wireless services, directory services, data, Internet and other Advanced Interactive services, and revenues generated from outside Saskatchewan. In 1998, after five years of the diversification strategy, the non-traditional revenue streams amount to 30.2% (1994 - 17.5%) of the total Corporation's revenue.

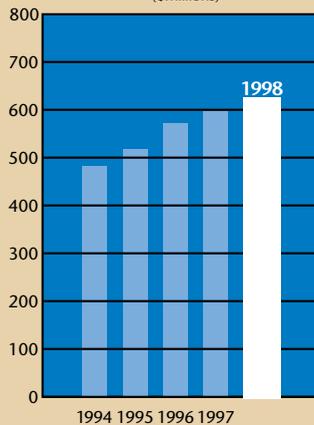
There are two main reasons for diversified revenues not yet reaching 40%. First, the Corporation has been more successful than expected in sustaining its base revenues. This success stems from strong market share retention, stimulation of long distance minutes and growth in data business. The second reason is that in 1995, the Corporation sold its interest in LCL Cable Communications Inc. for a net gain of \$114.4 million. In doing so, the Corporation chose to forego future revenue streams that were projected for this investment. The proportion of diversified revenues will continue to grow as new services and revenue sources are added, and as the revenues from long distance continue to decline.

Many market forces currently affect the ability of our traditional business lines to contribute to overall corporate value: changing regulation, rapid technological evolution, increasing globalization, disappearance of traditional industry boundaries, emergence of numerous focused competitors along with increasingly sophisticated and demanding customers. The Corporation is committed to continue its diversification initiatives to further its long-term growth and profitability, while at the same time continuing to provide excellent and affordable basic telecommunications to the people of Saskatchewan.

Operating Expenses

1998 total operating expenses, including depreciation, of \$625.6 million increased 4.8% from \$596.9 million in 1997. Promotions, sales

operating expenses
(\$millions)



activity and salaries increased in 1998 over 1997. Advertising costs increased due to responses to competitive initiatives, enhancements to SaskTel services, changes in pricing, and new promotions, such as the 90 minutes free program and SaskTel Bundles, introduced in late

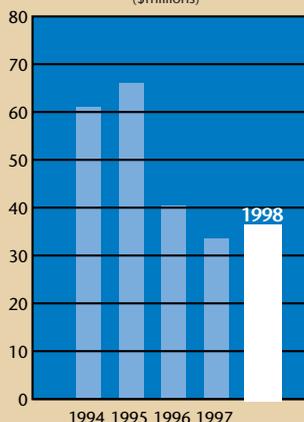
1998. The increased consulting, wireless, Internet and directory activities resulted in a corresponding increase in related expenses necessary to accommodate customer growth and sales. Another significant operating expense was an increase in expenditures on Year 2000 readiness.

Depreciation expenses decreased by \$7.4 million from 1997 due in part to the \$55.7 million reduction of the Corporation's depreciable local service assets at the end of 1997.

Interest Expense

The Corporation's level of debt increased moderately during the year. Interest expense increased in 1998 to \$36.5 million, up \$2.9 million or 8.6% from the 1997 level of \$33.6 million.

interest expenses
(\$millions)



The weaker Canadian dollar caused an increase of approximately \$1.6 million in interest expense from 1997 to 1998. Offsetting the increase was the replacement of long-term debt with short-term notes bearing a lower rate of interest.

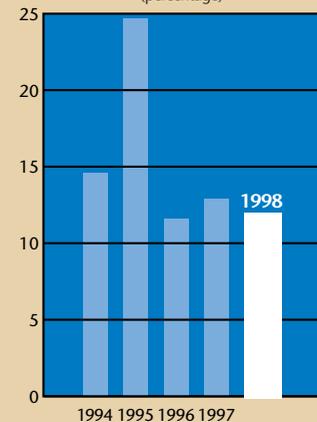
Return on Net Assets (RONA)

The 1998 return on net assets declined to 12.0% (1997 – 12.9%). RONA measures the Corporation's profitability before interest, taxes and any one-time items such as the gain on the sale of Alouette.

The decrease in net operating revenues caused the change in RONA. While the Corporation's 1998 RONA was consistent with recent historical performance across Canada, it was slightly less than the RONA recorded by other Stentor companies in 1998,

due mainly to significantly higher asset write-downs recorded by these other companies in 1997. This resulted in dramatically reduced asset bases against which RONA is measured.

return on net assets
(percentage)

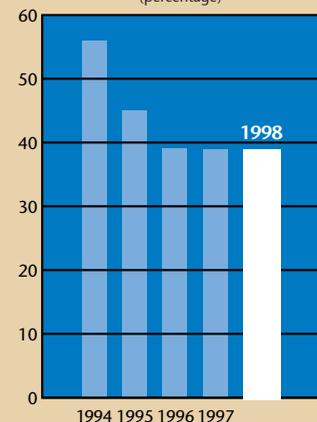


Capital Structure

The Corporation's capital structure remains one of the strongest in the industry. The Corporation ensures its strong financial position into the future by focusing on the key operating indicators of debt ratio and self financing of capital spending and dividend requirements.

The debt ratio is currently at 39.3% compared to 39.0% in 1997, and has for the last three years remained below the target of 45% established in 1994, which was revised to 40% in 1997. Diversification efforts since 1994 have helped the Corporation to surpass this debt ratio target. Gross debt increased by \$24.2 million during the year, and retained earnings within the

debt ratio
(percentage)



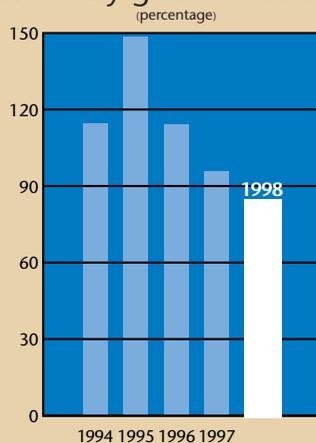
Corporation increased by \$41.9 million after taking into account the 1998 net income of \$93.2 million and dividends of \$51.3 million.

Liquidity and Capital Resources

Self-funded

Internally generated funds were 84.5% in 1998 compared to 95.8% in 1997. This measurement reflects the Corporation's ability to fund

internally generated funds



its capital spending, investments and dividend from cash generated by operations. The Corporation's strategy of self-financing has a positive impact on the debt ratio and allows the Corporation to manage its debt obligations, continue to invest in a high-quality network and pursue

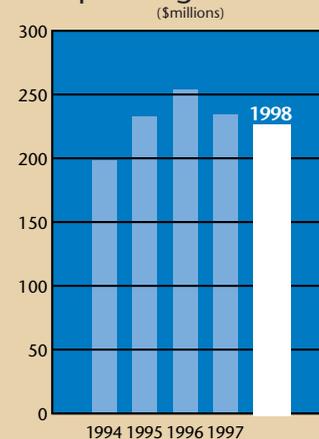
new investment opportunities. In 1998, cash generated from operating activities was \$226.9 million (1997 – \$234.9 million). Cash used in financing activities required \$102.3 million (1997 – \$77.4 million), while investing activities required cash disbursements of \$166.5 million (1997 – \$199.0 million). After funding the capital program, dividend payment and debt repayment, the Corporation realized a decrease in cash of \$41.9 million during the year, as compared to a decrease in cash of \$41.5 million in 1997. The major difference between the two years was the shift to quarterly dividend payments to the Crown Investment Corporation of Saskatchewan offset by reduced investment in diversification opportunities in 1998.

Financing

During 1998, repayment of long-term debt required net cash outlays of \$23.3 million compared to \$31.9 million in 1997. In 1998, dividends declared to Crown Investments Corporation of

Saskatchewan amounted to \$51.3 million (1997 – \$36.6 million). In the last five years, the Corporation has paid a total of \$256.3 million in dividends while still managing to reduce its long-term debt from a high of \$887.1 million in 1991 to \$420.0 million by the end of 1998. As a result of a change in dividend payment policy in 1998, the Corporation paid \$42.5 million in quarterly installments in addition to the 1997 dividend payment of \$36.5 million made early in 1998, for a total of \$79.0 million. A dividend of \$8.8 million for the fourth quarter of 1998 has been declared, bringing the total dividends for 1998 to \$51.3 million.

cash provided by operating activities

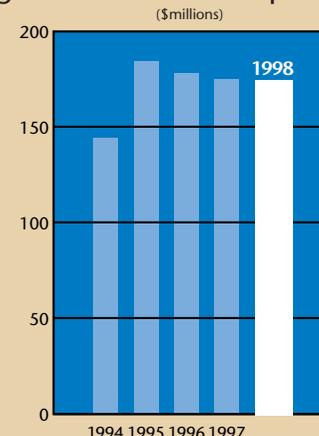


Investing Activities

Capital Spending

Net capital spending in 1998 amounted to \$170.8 million (1997 – \$169.6 million). The 1998 expenditures included capital spent on the continuing work of the SaskTel Core Network Evolution program and the First Nations Local Service Improvement Program, which provide for modernization, upgrading and replacement of key elements of the Corporation's switching and transmission network. The Corporation made further investments in information technologies in 1998, which allowed for the continued expansion of services such as Sympatco High Speed™, the Corporation's Digital Subscriber Line (DSL)-based high speed Internet service, into seven additional Saskatchewan cities.

gross construction spending



Mobility

SaskTel Mobility continues to be an integral part of the Corporation's diversification strategy—growing its wireless customer base and expanding its coverage area throughout Saskatchewan. Included in the Corporation's total capital investment in 1998 was \$25.8 million for Mobility, a decrease of \$0.7 million from 1997 levels. Mobility initiatives in 1998 included the expansion of the analog cellular network, introduction of enhanced services to the analog network, enhancement of several existing coverage areas, the introduction of digital PCS in Regina and Saskatoon and further investment in information technologies.

Part of this investment was used to extend analog cellular coverage to the communities and surrounding areas of Cabri, Ituna, Ogema, Pangman and Ponteix, bringing to these Saskatchewan communities the benefits of cellular service. Currently, 92% of the Saskatchewan population resides within SaskTel Mobility's cellular coverage area.

Long-Term Investments

The Corporation invested \$10.7 million during 1998 (1997 – \$32.3 million) as part of its ongoing diversification efforts. The Corporation made a further investment of \$8.1 million in Saturn to fund the planned expansion of cable and telephone service in Wellington, New Zealand. By the end of 1998, the Corporation had invested a total of \$35 million in Saturn. Depending upon the nature and extent of external financing obtained by Saturn, the total potential investment by the Corporation may eventually reach \$62 million. During 1998, Saturn entered into a financing agreement that will provide non-recourse financing for a significant portion of the remaining construction requirements. This investment is performing according to plan, and is expected to become operating cash flow-positive during the year 2000.

As well, during 1998, the Corporation invested an additional \$1.2 million in Regional to fund the Corporation's share of the cost to acquire cable systems adjacent to Regional's existing serving areas. Regional has undertaken these acquisitions to gain operating efficiencies and improve shareholder value.

Other investment activities included: \$1.2 million for a 60% interest in IQA which was created for the purpose of operating a data exchange and information bureau in Canada; and a \$0.2 million investment to increase the Corporation's ownership of HNCI from 49% to 90%, for the purpose of building shareholder value and to gain experience in a network-based entertainment business.

Outlook

Here are some of the industry and market issues affecting the Corporation's near-term financial outlook:

- Traditional revenues declining as a result of a fully competitive environment across all business units.
- Long distance revenues declining further due to the new flat rate plans, further enhancements to saving plans, special savings events and changes to the Stentor settlement plan.
- Interprovincial transport revenues and expenses declining as a result of the increase in competitive facilities and CRTC changes to regulations regarding bypass of Canadian networks.
- Strong share of the long distance market retained amid intense competition.
- New competitors arriving in niche markets.
- Revenues increasing through growth of diversified operations and expansion into new lines of business.
- Continued cross-subsidization of local access from long distance revenues, despite the January 1, 1999 scheduled local rate increase.
- Increased operating costs in response to competitive activities and growth in diversified operations.
- Commitment to maintain seamless service delivery to all SaskTel customers as the structure and operations of the Stentor alliance change and new alliances evolve.
- Preparation for CRTC regulation which begins June 30, 2000.

Revenue Growth

Diversification

With long distance revenues declining over recent years, diversification has become a major element of the Corporation's revenue growth strategy. Although the cornerstones of this strategy have been the enterprises of SaskTel International, SaskTel Mobility, DirectWest and Advanced Interactive Solutions (AIS), diversification also includes smaller, though equally important, contributions from diversified services such as the SmartTouch™ calling features (e.g. Three-way Calling, Call Forward, Call Waiting, Name Display), Message Manager™, and data services such as Megalink and Microlink.

In addition to its current operations in Tanzania, the Philippines and New Zealand, SaskTel International is focused on consulting and other revenue opportunities in Europe, Australia and South America. With ventures such as Saturn in New Zealand, SaskTel International continues to explore prudent investment opportunities which offer additional revenue opportunities and long-term growth potential. The Corporation as a whole remains committed to an active and careful program of investment abroad. Meanwhile, SaskTel International's facilities management software, including Martens® and SwitchGate®, and Work Force Management, is expected to continue selling well in North America and abroad.

The financial outlook for the interactive market served by the AIS division of the Corporation continues to be bright. AIS will continue to serve the Internet access market via its dial-up High Speed and QuantumLynx Internet services. In addition, AIS will be developing its suite of Internet value-add services, in the area of e-commerce, QuantumLynx business solutions and application hosting. Several new global Internet business opportunities are anticipated from AIS's strategic partnership alliance with Netscape Communications Corporation entered into in late 1998.

During 1998, the Corporation increased its interest in HNCI from 49% to 90%. HNCI has established itself as the largest provider of video-on-demand, pay-per-view movies and video

games for the hotel market in Saskatchewan, with approximately 85% of the target market. By benchmarking the successes in the Saskatchewan market and applying knowledge gained locally, HNCI plans to target markets outside of the province to grow the business in 1999.

Year 2000

The Corporation is actively addressing the business risk associated with the Year 2000 issue. The Year 2000 problem has arisen out of the practice of representing dates in computer programs with only the last two digits of the year. Accordingly, on January 1, 2000, some computer programs may incorrectly interpret the date as the year 1900. The result will be problematic for any non-compliant computer or microprocessor-based system. Software may fail completely or continue to operate, delivering erroneous output. Other dates associated with Year 2000 may also cause problems.

The Corporation initiated a Year 2000 Program in 1995 with a mandate of ensuring that Year 2000-related systems upgrades, and ultimately the transition of our products, services and business into the year 2000, occurs with minimal disruption and cost. The Corporation's highest priority is that all essential public telecommunications services continue to function normally during the Year 2000 transition period.

The Corporation's Year 2000 Program includes the following major components and activities:

- A Year 2000 Remediation Program—which identifies all of the Corporation's products, services and systems with potential Year 2000 issues—develops or acquires and puts into operation upgraded software and hardware, tests for Year 2000 compliance and inter-operability, and finally certifies products, services and systems as Year 2000 compliant, in accordance with the Corporation's adopted standards and testing methodology. The remediation program employs a combination of internal software development, third party software development, and procurement of upgrades and new compliant systems from vendors.

- Identification and management of critical external dependencies, and coordination with key business partners with respect to their Year 2000 readiness. As a member of the Stentor alliance of Canadian telecommunications carriers, the Corporation participates in the development of national plans addressing Year 2000 readiness of the Canadian public telecommunications network, as well as inter-connections with other Canadian and International telecommunications networks.
- Year 2000 Business Continuity Planning, which includes a risk assessment process that evaluates possible Year 2000 impacts on services, customers, external partners and suppliers, as well as the potential impacts that third party Year 2000 non-compliance may pose to the Corporation. This process identifies risks and uncertainties that may prevent successful completion of any aspect of the overall Year 2000 plan, including an assessment of the potential consequences of specific failures and preparing contingency plans to address such possibilities.
- A communications plan for informing customers, employees, business partners and vendors of Year 2000 issues. The Corporation has also implemented an extensive program of working directly with larger business customers to assist them in assessing their own telecommunications products and services, and to provide information on options available for customers to upgrade their own equipment which may not be Year 2000 ready.

At the end of 1998, the Corporation's core network, with some minor exceptions, was Year 2000 Service Ready. The Service Ready designation means that all network equipment, systems and software that are directly involved in making a telecommunications service work have been assessed and, if necessary, upgraded to be ready for the Year 2000. However, some supporting systems (e.g. alarms, billing or service ordering systems) that are not directly involved in providing the service remain to be upgraded during 1999. The Corporation plans to have its major telecommunications services Business Ready

by the end of 2nd quarter, 1999. The Business Ready designation will mean that all aspects of the service, including functions like network management, billing and customer care, will be ready for the Year 2000 transition.

As of December 31, 1998, the Corporation has spent \$12.8 million directly on Year 2000-related initiatives. In total, the Corporation expects to incur an expense of approximately \$29 million related to the Year 2000 Program, including costs for upgraded equipment and related expenses. Approximately two-thirds of this amount has been spent to date. The full costs of the Year 2000 Program reflect actual costs incurred to date as well as assumptions for the remainder of the project. Actual final costs will depend on resource availability, third party plans, the ability to locate and correct all relevant computer and electronic devices, and other uncertainties related to the program.

Like most service providers, the Corporation neither guarantees nor states that, when the year 2000 arrives, customers will not experience any service interruption or degradation, whether it be with our own products, services and network or those networks or equipment with which our network interconnects. However, the Corporation has dedicated substantial resources to the issue and expects that it will be prepared for the year 2000 well in advance of December 31, 1999.

The Stentor Alliance

Early in 1998, the national alliance of Canadian telecommunications companies, Stentor, began to show signs of impending change. By fall, it became clear that some of the Stentor partners, in particular Bell Canada and Telus Corporation, were intending to offer some services nationally. Stentor then reduced its role to basic service and billing coordination. At the same time, two Stentor members, Telus and BC Telecom, signed a merger agreement. At the end of the year, Bell Canada served notice to terminate the existing interconnecting agreements effective December 31, 1999. The companies continue to re-negotiate the terms of this agreement. More adjustments in Canada's telecom industry will

undoubtedly follow, as each of the Stentor members consider their options for new alliances and partnerships.

In the past, transit contributions (revenue the Corporation gains from long distance calls originated and terminated elsewhere but routed through its network) have been an important source of revenue for the Corporation. With dropping long distance margins and changes to the Stentor settlement plan, however, this benefit has become less significant.

SaskTel has traditionally relied upon Stentor for the development of new national offerings, products and services, as well as for the administration of the interconnect agreement that provides customers with seamless national service. The Stentor members are currently negotiating a renewed Stentor Canadian Management Network to carry on the interconnection agreements across Canada. The marketing functions of Stentor, including product development, regulatory affairs and public relations, however, will fall to the individual operating companies and whatever alliances they can form. With this in mind, the Corporation will continue to explore and pursue any partnerships and business arrangements that meet its long-term goals and mandate as Saskatchewan's communications company.

The Corporation is confident in its ability to succeed within whatever competitive landscape develops in Canada. The Corporation currently maintains positive relationships with all its former Stentor partners, including BCT.TELUS and Bell (Bell Nexxia) and will continue to work with these companies, separately or in groups, to deliver leading edge technology solutions in the future. The exact structure of future relationships is not yet known, but should be settled in early 1999. As the industry continues to change, new partnership opportunities will emerge. The Corporation is evaluating opportunities with both Bell Nexxia and BCT.TELUS.

Market and Regulatory Issues

Local Access Competition

During 1998, SaskTel's local services market was opened to competition. Consistent with the Government of Saskatchewan's directives, the resale of SaskTel's local services was allowed in April 1998 and local network competition (facilities-based) was announced in August 1998, under terms and conditions that generally align with those developed nationally. Competition in the local services market is evolving slowly across Canada, in part because of the technical and operational complexity of competition arrangements, and in part because of regulatory delays in rendering key implementation decisions. However, SaskTel is expecting that there will be local access resellers in Regina and Saskatoon by early 1999. Facilities-based competition is expected to follow within the near- to mid-term planning horizon. However, SaskTel remains confident that its record of outstanding local service and value, as well as the competitive readiness it has developed over the past decade, will help it to withstand any pressure in this market.

Local Rate Increase

Other Stentor member companies have consistently raised local rates in recent years, as part of an effort to reduce the subsidy from long distance to local services. In 1998, SaskTel was the last of the Stentor members to raise local access rates. Local telephone rates in Saskatchewan increased by \$4 per month for all residential customers on February 1, 1998, and an additional \$2 per month for rural customers and \$1 per month for customers in cities outside Regina and Saskatoon on January 1, 1999. These were the first SaskTel local access rate increases since 1993 and the new rates are still among the lowest in Canada.

Exchange Area Boundaries

The issues of local access and rate re-balancing in Saskatchewan are inseparable from the question of exchange area boundaries. With the initial phases of the exchange area boundary program

announced in the fall of 1997, 52 telephone exchanges were eliminated and 30 exchanges were expanded. In phase two of the program, carried out in 1998, 56 more exchanges were eliminated, while 40 were expanded. By the end of 1998, the total program reduced the number of exchanges in Saskatchewan by over one-third, providing a substantial increase in the value of local phone service—for over 93,000 rural Saskatchewan families and businesses. In addition to exchange consolidation, SaskTel will continue improving the value of telephone service in Saskatchewan by providing lower long distance rates, the new “Community Savings” plan, and the new SaskTel Bundles, which feature attractive, unlimited long distance plans.

SaskTel will continue to listen to its customers and improve its local calling service. SaskTel is committed to addressing the needs of its customers, at the same time as balancing its business needs, keeping in mind that local service in rural exchanges is highly subsidized. Any additional program changes may depend on the CRTC’s decisions on how Canadians will pay for rural and remote telephone service.

Regulation

In 1998, the Saskatchewan and federal governments agreed to extend SaskTel’s moratorium from CRTC (Canadian Radio-television and Telecommunications Commission) regulation to June 30, 2000. This extension provides SaskTel with an opportunity to work cooperatively with the CRTC towards establishing a regulatory framework that accommodates the needs of SaskTel’s customers and owners, as well as the CRTC. For SaskTel, integral components of this framework include forbearance of competitive services, recognition of SaskTel’s unique market and operating environment, and national subsidy support for high cost serving areas.

As a result of the Saskatchewan government’s commitment to harmonize with federal telecommunications policies and procedures, SaskTel operates in an environment of full competition. With the reorganization of Stentor, and the expect-

tation that former partners will begin to operate within Saskatchewan, the competitive pressures facing SaskTel will further increase. It will be imperative that SaskTel retain its ability to respond quickly and effectively to customer demand, and that the Corporation not be constrained by unnecessary regulatory costs or oversight. SaskTel will strive to ensure that the CRTC institutes reforms that recognize the needs of SaskTel and its customers in the changing telecommunications marketplace.

One of the most significant regulatory issues affecting SaskTel and its customers is the CRTC’s future decision regarding service to high cost serving areas. With so many rural and northern residents dispersed over a wide geographical area, Saskatchewan is one of the highest cost areas in Canada in which to offer telecommunication services. In 1998, the subsidy needed to provide local, long distance and dial-up Internet access to Saskatchewan’s high cost areas amounted to approximately \$112 million. The emerging competitive market will increasingly place pressure on the ability to maintain these subsidies.

The CRTC has recognized that service to high cost areas is negatively impacted by competition, and is currently examining mechanisms to ensure high quality telephone service will continue to be available in all areas of Canada. At the CRTC hearings on the question of high cost serving areas held in Saskatchewan in 1998, the Saskatchewan Government and SaskTel were joined by several Saskatchewan businesses, agencies and associations in calling for the creation of a national Universal Service Fund. This fund, to be supported by all Canadian service providers, would assist any telephone company wishing to provide service to people in rural and northern Saskatchewan.

The CRTC, which has committed to have the high cost serving area mechanisms in place by January 1, 2000, is expected to make its decision on high cost serving areas sometime during the latter half of 1999.

While the high cost serving area decision will define the subsidies available to support high cost areas, further regulatory proceedings will determine the services and service providers responsible for paying subsidy amounts. Today, long distance services are the only explicit source of subsidy (contribution) supporting high cost areas. Given ongoing technological developments and the intense price competition that exists within the long distance services market, this approach can no longer be sustained.

SaskTel supports broadening the base of contribution paying services by requiring all telecommunications services providers within the national market to equitably contribute to the preservation of universal service. SaskTel remains committed to its goal of providing affordable service to Saskatchewan residents and believes that, with appropriate regulatory reforms, it can continue to achieve this goal under CRTC regulation.

Income Outlook

Compared to the strong results of 1998, the Corporation expects a decline in income in 1999. Increased revenues from diversified operations and new local access rates in January 1999 will be more than offset by reductions in long distance and wireless prices and market share losses. Operating expenses are anticipated to increase due to growth in expenses of diversified operations, preparations for local competition, continued Year 2000 efforts and costs to address regulatory and industry change. Given the long-term nature of the diversification investments, the Corporation forecasts a reduction in diversified earnings over the next three to five years until full operations and profits are realized. Some borrowing will be necessary in 1999 to fund expanding lines of business, new diversification activity, dividend payments and capital investment. Accordingly, interest expense is forecast to increase in 1999. Amid these changes, the Corporation will endeavour to generate a positive return for its shareholder and to pursue operating efficiencies and new revenue streams. The Corporation remains confident that its long-term diversification strategy will be a cornerstone of its future success.

SEGMENTED INFORMATION

(in thousands of dollars)

Business Segments*

While all Saskatchewan Telecommunications Holding Corporation activities fall within the telecommunications industry, the following information is presented to illustrate the relative results of the Corporation's major operations.

	Saskatchewan Telecommunications	SaskTel Mobility	Saskatchewan Telecommunications International, Inc.	DirectWest Publishing Partnership	Other	Eliminations	Consolidated Total
1998							
Revenues	\$ 626,099	\$ 116,629	\$ 17,435	\$ 29,354	\$ 28,397	\$ (65,278)	\$ 752,636
Net Income	\$ 71,425	\$ 12,546	\$ 1,498	\$ 1,542	\$ 6,187	\$ -	\$ 93,198
Total Assets	\$ 992,484	\$ 108,698	\$ 11,851	\$ 13,962	\$ 310,490	\$ (235,081)	\$ 1,202,404
1997							
Revenues	\$ 607,771	\$ 114,570	\$ 15,610	\$ 27,534	\$ 25,359	\$ (62,807)	\$ 728,037
Net Income	\$ 11,524	\$ 14,843	\$ 1,932	\$ 809	\$ 11,526	\$ -	\$ 40,634
Total Assets	\$ 956,777	\$ 104,201	\$ 12,016	\$ 13,500	\$ 283,570	\$ (215,217)	\$ 1,154,847

Saskatchewan Telecommunications

The following financial information is the results from operations and the financial position of the Corporation's major subsidiary, Saskatchewan Telecommunications.

	1998	1997	1996	1995	1994
Operating revenues	\$ 626,099	\$ 607,771	\$ 569,764	\$ 538,799	\$ 554,126
Operating expenses	531,402	511,183	471,611	434,209	431,929
Net operating revenue	94,697	96,588	98,153	104,590	122,197
Other income	9,907	29	1,333	1,307	1,356
Interest and related costs	33,179	29,428	33,432	51,342	45,390
Provision for local service assets	-	55,665	-	-	-
Net income	\$ 71,425	\$ 11,524	\$ 66,054	\$ 54,555	\$ 78,163
Telecommunications property	\$ 812,069	\$ 798,411	\$ 846,753	\$ 826,439	\$ 810,312
Other assets	72,717	55,118	48,032	43,659	54,768
Investments	-	6,820	8,392	8,392	8,392
Current assets	107,698	96,428	84,742	81,881	117,073
Total assets	\$ 992,484	\$ 956,777	\$ 987,919	\$ 960,371	\$ 990,545
Long-term debt	\$ 266,270	\$ 339,849	\$ 343,937	\$ 336,992	\$ 432,206
Province of Saskatchewan's equity	525,212	493,070	487,884	458,160	433,610
Current liabilities	201,002	123,858	156,098	165,219	124,729
Total liabilities & Province of Saskatchewan's equity	\$ 992,484	\$ 956,777	\$ 987,919	\$ 960,371	\$ 990,545

* The following are the wholly owned non-operating corporations: 3231518 Canada Ltd., 3339807 Canada Ltd., 3364381 Canada Ltd., 591227 Saskatchewan Ltd., 604408 Saskatchewan Ltd., 620064 Saskatchewan Ltd., Avonlea Holding, Inc., Battleford International, Inc., Hollywood At Home Inc., SaskTel Data Exchange Inc., SaskTel Holding (New Zealand) Inc., SaskTel Holding (U.K.) Inc., SaskTel New Media Fund Inc. and SaskTel Telecommunications Consulting Inc.

FIVE-YEAR RECORD OF SERVICE

Finance

(\$ thousands)	1998	1997	1996	1995	1994
Operating revenues	\$ 752,636	\$ 728,037	\$ 696,897	\$ 646,871	\$ 626,443
Operating expenses	625,613	596,889	572,288	517,070	482,896
Other items	2,689	(1,237)	(248)	127,694	6,029
Interest and related costs	36,514	33,612	40,361	65,965	61,062
Net income before the following	93,198	96,299	84,000	191,800	88,514
Provision for local service assets	–	55,665	–	–	–
Net income	93,198	40,634	84,000	191,800	88,514
Dividend	51,259	36,571	46,200	73,500	48,700
Gross construction expenditures	173,892	175,015	177,877	184,539	144,257
Property, plant & equipment*	2,205,045	2,120,589	2,025,022	1,922,763	1,876,318
Long-term debt (gross)	420,373	441,999	485,981	551,631	649,588

Financial ratios

Return on net assets	12.0%	12.9%	11.6%	24.7%	14.6%
Debt ratio	39.3%	39.0%	39.2%	44.5%	56.0%
Internally generated funds	84.5%	95.8%	114.4%	148.4%	114.4%

Employees and payroll

Number of employees (excluding part-time)

Diversified Operations **	456	398	249	248	230
Saskatchewan Telecommunications	3,771	3,574	3,543	3,518	3,500
Total	4,227	3,972	3,792	3,766	3,730
Salaries earned (thousands of dollars)	\$ 208,529	\$ 194,947	\$ 170,358	\$ 165,503	\$ 163,772

Operational Highlights

Network Access Services*	641,523	626,924	607,092	595,101	581,816
Originated Long Distance Messages (in thousands)	227,102	243,696	260,997	239,802	216,589
Internet Access Services *	49,435	30,844	12,796	n/a	n/a
Cellular Access Services*	160,434	135,623	104,994	76,225	54,303

* At December 31

** Includes SaskTel International, Mobility, DirectWest, Other

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, 1998, and the consolidated statements of operations, retained earnings and changes in cash position 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 consolidated financial statements based on our audit.

We conducted our audit in accordance with 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, 1998, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Chartered Accountants
Regina, Saskatchewan
February 22, 1999

MANAGEMENT'S RESPONSIBILITY FOR FINANCIALS STATEMENTS

The accompanying consolidated financial statements included in the annual report of Saskatchewan Telecommunications Holding Corporation for the year ended December 31, 1998, are the responsibility of management of the corporation 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 Deloitte & Touche, 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



Randy Stephanson
Chief Financial Officer

Regina, Saskatchewan
February 22, 1999

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31

	1998	1997
	<i>(Thousands of dollars)</i>	
Operating revenues		
Local service	\$ 377,981	\$ 338,100
Long distance service	293,982	320,786
Sales, directory, other	80,673	69,151
	752,636	728,037
Operating expenses		
Operating expenses	478,937	442,767
Depreciation and amortization	146,676	154,122
	625,613	596,889
Net operating revenues	127,023	131,148
Other items (Note 4)	2,689	(1,237)
Interest and related costs (Note 5)	36,514	33,612
Net income before the following	93,198	96,299
Provision for local service assets (Note 6)	–	55,665
Net income	\$ 93,198	\$ 40,634

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

	1998	1997
	<i>(Thousands of dollars)</i>	
Retained earnings, beginning of year	\$ 348,237	\$ 344,174
Net income	93,198	40,634
	441,435	384,808
Dividends	51,259	36,571
Retained earnings, end of year	\$ 390,176	\$ 348,237

See Accompanying Notes

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	1998	1997
	<i>(Thousands of dollars)</i>	
Assets		
Property, plant and equipment (Note 7)	\$ 958,257	\$ 933,050
Other assets (Note 8)	90,019	73,271
Investments (Note 9)	16,394	21,523
	1,064,670	1,027,844
Current assets		
Accounts receivable	112,955	111,534
Inventories	7,293	7,285
Prepayments	17,486	8,184
	137,734	127,003
	\$ 1,202,404	\$ 1,154,847
Liabilities and Province's Equity		
Long-term debt		
Province of Saskatchewan (Note 10)	\$ 297,688	\$ 308,881
Other long-term debt (Note 11)	5,058	40,414
	302,746	349,295
Minority interest	918	–
	303,664	349,295
Province of Saskatchewan's equity		
Equity advance (Note 13)	250,000	250,000
Retained earnings	390,176	348,237
	640,176	598,237
Current liabilities		
Short-term borrowings (Note 14)	76,570	34,625
Accounts payable and accrued liabilities	108,948	106,784
Dividend payable	8,813	36,571
Service billed in advance	25,497	23,852
Current portion of long-term debt (Note 12)	38,736	5,483
	258,564	207,315
	\$ 1,202,404	\$ 1,154,847

See Accompanying Notes

On behalf of the Board



Tom Kehoe



Alison Renny

CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION

FOR THE YEAR ENDED DECEMBER 31

	1998	1997
	<i>(Thousands of dollars)</i>	
Operating activities		
Net income	\$ 93,198	\$ 40,634
Items not affecting cash from operations (Note 15)	151,549	211,851
Net change in non-cash working capital items	(17,870)	(17,565)
Cash provided by operating activities	226,877	234,920
Financing activities		
Repayment of long-term debt	(23,329)	(31,856)
Dividend payments	(79,017)	(46,200)
Proceeds from long-term debt	-	617
Cash used in financing activities	(102,346)	(77,439)
Investing activities		
Capital expenditures	(170,239)	(169,553)
Net investment proceeds (Note 9)	5,193	2,870
Acquisitions (Note 3)	(1,430)	(32,284)
Cash used in investing activities	(166,476)	(198,967)
Decrease in cash	(41,945)	(41,486)
(Short-term borrowings) cash, beginning of year	(34,625)	6,861
Short-term borrowings, end of year	\$ (76,570)	\$ (34,625)
Comprised of:		
Cash and short-term investments	\$ 7,406	\$ 1,210
Short-term borrowings	(83,976)	(35,835)
	\$ (76,570)	\$ (34,625)

See Accompanying Notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998

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. As the Corporation is a Provincial Crown corporation, it and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

The Corporation's wholly owned subsidiary, Saskatchewan Telecommunications, was exempted from federal regulation by the Canadian Radio-television and Telecommunications Commission (CRTC) as a result of a regulatory moratorium granted in 1993 to last until October 1998. In October 1998, the Federal Government agreed to an extension of SaskTel's moratorium from CRTC regulation until June 30, 2000. Regulation by the CRTC may have a significant impact on the Corporation's future pricing, products, service development and financial performance.

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.

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.

Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. The operating subsidiaries are: Saskatchewan Telecommunications, Saskatchewan Telecommunications International, Inc., DirectWest Publishing Partnership, Hospitality Network Canada Inc. and Information Queries and Analysis Partnership. All significant intercompany transactions and balances have been eliminated.

Investments

Investments in companies in which the Corporation has significant influence are accounted for by the equity method. Portfolio investments are carried at the lower of cost and market, dividend income is recognized when received.

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

Property, plant and equipment

Property, plant and equipment is recorded at original cost including materials, services and direct labour. Effective January 1, 1998, the Corporation changed the accounting policy such that construction costs no longer include the cost of funds used to finance construction. This change was made on a prospective basis.

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 original cost of such property, adjusted by any disposal proceeds and costs of removal, is charged to accumulated depreciation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998

Goodwill

Goodwill is amortized on a straight-line basis over a maximum of 20 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.

Leases

Where the Corporation is the lessor, rental revenues from operating leases are recognized as service is rendered to customers. Revenues from sales-type lease transactions are recognized at the inception of the lease. The investment in sales-type leases represents the present value of future lease payments receivable. Finance income is recognized in a manner which produces a constant rate of return over the term of the lease contract.

Inventories

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

Pension costs

The cost of pension benefits earned by employees who are members of the Corporation's defined benefit plan is determined using the accrued benefit method prorated on service and is charged to expense as services are rendered. This cost reflects management's best estimate of the plan's expected investment yields, salary increases, mortality of members, terminations and the age at which members will retire.

This plan is actuarially valued at least every three years. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service lives of the employees who are members of the defined benefit plan.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rate. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. All exchange gains and losses on long-term monetary items are included in other assets and amortized on a straight-line basis over the remaining life of the related assets and liabilities.

Financial instruments

The Corporation periodically uses financial instruments to manage its exposure to interest rate and foreign currency fluctuations. Use of these instruments is governed by a policy which specifies financial institutions with which the Corporation can deal, based on credit worthiness. Gains and losses from these transactions are reported as adjustments to interest and related costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998

Note 3 — Acquisitions

On June 26, 1998, the Corporation increased its ownership in Hospitality Network Canada Inc. (HNCI) from 49% to 90% for \$0.2 million. The 49% investment in HNCI was previously accounted for using the equity method and is now consolidated. Goodwill of \$0.6 million is being amortized over five years.

On August 14, 1998, the Corporation contributed \$1.2 million for a 60% interest in Information Queries and Analysis Partnership (IQA). IQA was created for the purpose of operating a data exchange and information bureau in Canada.

Note 4 — Other items

	1998	1997
	<i>(Thousands of dollars)</i>	
Gain on sale (write-down) of investment (Note 9)	\$ 7,640	\$ (1,572)
Net share of loss of equity investments	(8,181)	(1,410)
Interest income	1,632	1,613
Other income	1,490	657
Minority interest and income taxes	108	(525)
	\$ 2,689	\$ (1,237)

Note 5 — Interest and related costs

	1998	1997
	<i>(Thousands of dollars)</i>	
Interest expense	\$ 45,928	\$ 46,791
Amortization of unrealized net foreign currency losses and debt discounts	2,323	1,725
	48,251	48,516
Less: Sinking fund earnings	11,649	12,501
Interest charged to construction	—	2,254
Interest on short-term investments	88	149
	\$ 36,514	\$ 33,612

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998

Note 6 — Provision for local service assets

In 1997, the Corporation recorded a \$55.7 million non-cash adjustment to the net carrying value of the assets involved in providing local access service throughout the province. Because of regulatory changes, rapid technological developments, aggressive pricing practices, competition and increasing customer demands, the Corporation could no longer be assured of recovering the net carrying value of the existing local service plant and equipment. This reduction in the carrying value was determined by an analysis which identified asset values not fully recoverable from future cashflows.

Note 7 — Property, plant and equipment

	1998	1997
	<i>(Thousands of dollars)</i>	
Buildings, plant and equipment	\$ 2,081,558	\$ 2,039,986
Plant under construction	101,953	60,073
Materials and supplies	12,612	11,483
Land	8,922	9,047
	2,205,045	2,120,589
Less: Accumulated depreciation	1,246,788	1,187,539
	\$ 958,257	\$ 933,050

The composite depreciation rate on the average depreciable telecommunications property in service was 7.1% in 1998 (1997 – 7.6%).

As at December 31, 1998, the ratio of accumulated depreciation to depreciable telecommunications property was 59.9% (1997 – 58.1%).

Note 8 — Other assets

	1998	1997
	<i>(Thousands of dollars)</i>	
Unrealized net foreign currency losses on long-term debt	\$ 31,049	\$ 23,291
Deferred pension costs	31,846	21,258
Goodwill	13,147	13,849
Start-up costs	9,262	8,493
Sales-type leases	2,731	3,786
Unamortized discount on long-term debt	1,566	1,792
Other	418	802
	\$ 90,019	\$ 73,271

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998

Note 9 — Investments

	1998	1997
	<i>(Thousands of dollars)</i>	
Equity method:		
Investment in Saturn Communications Limited (Saturn)	\$ 14,885	\$ 15,174
Investment in Regional Cable TV (Western) Inc.	1,471	31
Other	38	(502)
Portfolio investment:		
Alouette Telecommunications Inc.	—	6,820
	\$ 16,394	\$ 21,523

On May 5, 1998, the Corporation sold its 3.8% interest in Alouette Telecommunications Inc. for \$14.5 million to the majority shareholder. A gain of \$7.6 million is included in other items.

The shareholders of Saturn may be required, if called upon, to provide additional funding. The Corporation's proportionate share of this commitment is approximately \$5.0 million.

Note 10 — Long-term debt, Province of Saskatchewan

<u>Years to Maturity</u>	<u>Average Fixed Interest Rate</u>	1998	1997
	(%)	<i>(Thousands of dollars)</i>	
Canadian Dollar Issues			
1 – 5 years	12.30	\$ 96,875	\$ 68,088
6 – 10 years	10.42	129,126	167,134
11 – 15 years	—	—	20,779
		226,001 (a)	256,001
U.S. Dollar Issue			
22 years	9.38	153,330 (b)	143,050
		379,331	399,051
Less: Sinking funds		78,891 (c)	87,221
Due within one year		2,752	2,949
		\$ 297,688	\$ 308,881

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998

- (a) The fair value of this long-term debt is \$273,667,000 (1997 – \$308,439,000). Fair value reflects the estimated amount that the Corporation would pay, at current interest rates, to redeem the debt at December 31.
- (b) Represents long-term debt repayable in U.S. dollars 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, 1998, of 1.5333 (1997 – 1.4305). The fair value of the U.S. debt, expressed in Canadian dollars, is \$211,764,000 (1997 – \$189,959,000). Fair value reflects the estimated amount that the Corporation would pay, at current interest rates, to redeem the debt at December 31.
- (c) 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 one percent of the outstanding balance of long-term debt received. The sinking funds include investments having a U.S. dollar value of \$10,634,000 recorded at \$16,305,000 Canadian dollar equivalent. The fair value of the sinking funds is \$90,638,000 (1997 – \$101,616,000) determined as the market value of the investments held in the sinking fund as at December 31.

Note 11 — Other long-term debt

	Fixed Interest Rate (%)	Maturity Date	1998	1997
			<i>(Thousands of dollars)</i>	
TeleBonds –				
II Credit Bond	6.5	1999	\$ 33,349	\$ 33,712
Other		2002	7,693	9,236
			41,042	42,948
Less: Due within one year			35,984	2,534
			\$ 5,058	\$ 40,414

Credit TeleBonds pay interest monthly by way of a credit to the designated customer's telephone account. Repayment of TeleBond principal and interest is unconditionally guaranteed by the Province of Saskatchewan. The other long-term debt has a fair value equal to the face value of the debt.

Note 12 — Current portion of long-term debt

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

<i>(Thousands of dollars)</i>	
1999	\$ 38,736
2000	\$ 5,281
2001	\$ 4,439
2002	\$ 39,470
2003	\$ 21,570

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998

Note 13 — 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 14 — Short-term borrowings

Included in short-term borrowings are bank overdrafts and notes payable representing interim financing arrangements under established lines of credit with the Province of Saskatchewan. At December 31, 1998, there were \$72,744,000 (1997 – \$26,938,000) of outstanding notes payable bearing interest at an average rate of 5.93% (1997 – 4.77%).

Note 15 — Items not affecting cash from operations

	1998	1997
	<i>(Thousands of dollars)</i>	
Depreciation and amortization	\$ 146,676	\$ 154,122
Provision for local service assets	–	55,665
(Gain on sale) write-down of investment	(7,640)	1,572
Net share of loss of equity investments	8,181	1,411
Premium and foreign exchange adjustments	1,462	1,015
Interest charged to construction	–	(2,254)
Other	2,870	320
	\$ 151,549	\$ 211,851

Note 16 — Pension plans

The Corporation maintains two pension plans which provide retirement benefits for essentially all employees.

A defined contribution plan, the Public Employees Pension Plan, is maintained for employees hired subsequent to October 1, 1977. This plan's funding requirements are established under the Public Employees Pension Plan Act. Employee contributions are matched by the Corporation.

A defined benefit plan is maintained for those employees hired prior to October 1, 1977, and who did not elect to transfer to the defined contribution plan. The plan was established under the Superannuation (Supplementary Provisions) Act and the Saskatchewan Telecommunications Superannuation Act. The defined benefit plan provides for pensions at retirement which are based on eligible employees' years of service and their highest five years of earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998

Details of the defined benefit plan are as follow:

	1998	1997
	<i>(Thousands of dollars)</i>	
Plan assets at market-related value	\$ 713,705	\$ 674,773
Present value of accrued pension benefits	587,356	569,098
Surplus	\$ 126,349	\$ 105,675

	1998	1997
	<i>(Thousands of dollars)</i>	
Pension expense (income) for the year was as follows:		
Defined contribution plan	\$ 6,980	\$ 6,338
Defined benefit plan	(10,588)	(2,863)
	\$ (3,608)	\$ 3,475

Effective January 1, 1999, the defined benefit plan is registered under The Pensions Benefits Act, 1992. The plan will be continued under the name of The Saskatchewan Telecommunications Pension Plan. No significant changes to the terms or funding of the plan have resulted.

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:

	1998	1997
	<i>(Thousands of dollars)</i>	
Operating revenues	\$ 50,274	\$ 43,382
Operating expenses	16,749	21,133
Accounts receivable	5,048	5,041
Accounts payable	419	11

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998

Note 18 — Commitments

The future minimum lease payments under the operating leases of the Corporation are as follows:

	<i>(Thousands of dollars)</i>
1999	\$ 22,011
2000	\$ 22,431
2001	\$ 22,331
2002	\$ 22,331
2003	\$ 20,290

The above payments include \$25.3 million for leases with related parties.

Note 19 — Year 2000 Issue

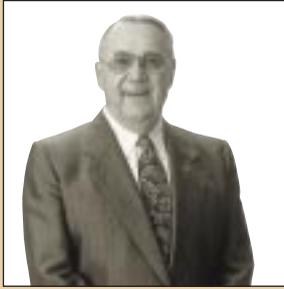
The Year 2000 issue arises because many computer systems use two digits rather than four to identify a year. The effects of the Year 2000 issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the entity, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

Note 20 — Comparatives

1997 figures have been reclassified to conform to current year's presentation.



Tom Kehoe
CHAIR OF THE BOARD



Allan Blakeney



Donald R. Ching
PRESIDENT
CHIEF EXECUTIVE OFFICER



Karen Leir



Garf Stevenson



Jim Scharfstein, Q.C.
VICE-CHAIR



Delores Burkart



Richard Gladue



Alison Renny



Gord Young

BOARD OF directors

COMMITTEES OF THE BOARD

AUDIT COMMITTEE

Alison Renny, CHAIR
Gord Young
Delores Burkart
Allan Blakeney

GOVERNANCE COMMITTEE

Jim Scharfstein, CHAIR
Karen Leir
Garf Stevenson
Tom Kehoe

CEO EVALUATION COMMITTEE

Jim Scharfstein, CHAIR
Tom Kehoe
Karen Leir

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