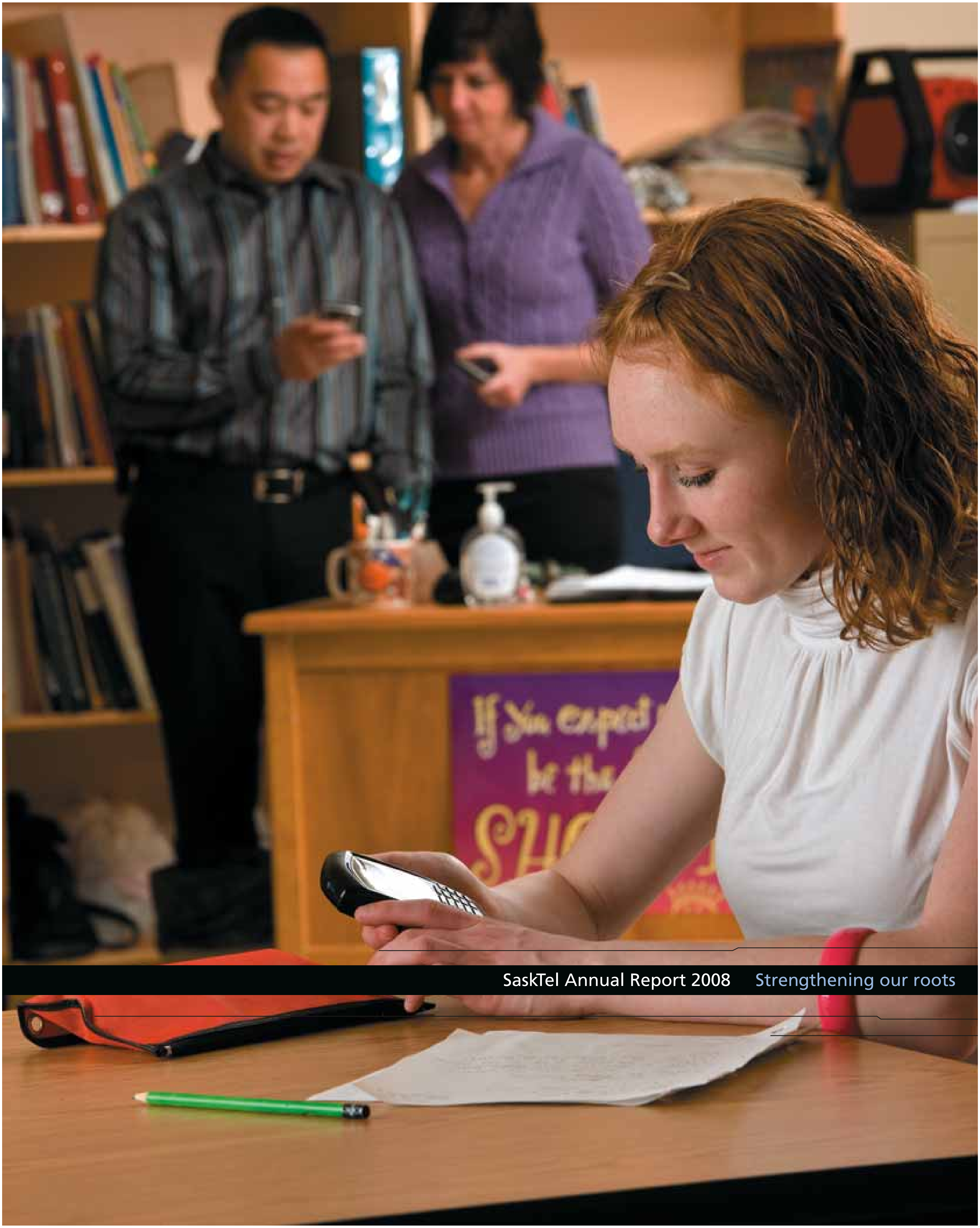

SaskTel Annual Report 2008 Strengthening our roots

Letter of Transmittal

Regina, Saskatchewan
March 31, 2009

To His Honour
The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of the Province of Saskatchewan

Dear Lieutenant Governor:

I have the honour to submit herewith the annual report of SaskTel for the year ending December 31, 2008, 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,

Ken Cheveldayoff

Honourable Ken Cheveldayoff
Minister of Crown Corporations

Minister's Message

It continues to be an exciting, rewarding time for CIC and its twelve subsidiary Crown corporations. Three Crowns were recognized for excellence in diversity by *Macleans* magazine. In addition, six Crowns were among Saskatchewan's Top 15 Employers for 2009, as selected by the editors of *Canada's Top 100 Employers*. I take pride in the fact that our Crowns' workforces reflect our communities and are recognized as exceptional places to work.

Reflecting on SaskTel's year, we see impressive financial results in an industry that defines itself by change and fierce competition. Through it all, SaskTel remains solid, delivering world-class services around the province at affordable rates. In 2008, the clearest indicator of the economic and social benefits that SaskTel provides as a Crown corporation came with the announcement of our new Rural Infrastructure Program. Under this three-year $129 million program, the provincial government has committed $90 million and upon completion every business owner, every child in school, every senior wanting to improve their education will be able to access high speed internet regardless of where they live in this province.

My priority for the future remains the same: to ensure that Saskatchewan's Crown corporations remain publicly owned and provide high quality services at a low cost. This is a promise our Government made to the people of Saskatchewan, and it is a promise we will keep. A current theme in the Crown sector that I expect to continue is growth. By that I mean the changes required within the Crowns to sustain and support Saskatchewan's economic momentum. These changes range from investing in new infrastructure to expanding various services in line with the demand from both our residential and business communities.

Our new Saskatchewan First investment policy for the Crowns also reflects this theme. The policy recognizes that our growing economy presents increasing opportunity for investing in our own province. We will continue to move in that direction.

As SaskTel moves into its second century, residential and business customers can look forward to improved and expanded service in 2009 and beyond. Further investment in SaskTel's infrastructure will bring Saskatchewan people the next generation networks (4G wireless) now on the horizon, increasing mobile access to information, communication, and entertainment.

As you will see in this report, our Crown sector is financially healthy and ready to meet the challenges and opportunities of the coming years.

I am pleased to present SaskTel's 2008 Annual Report.

SaskTel

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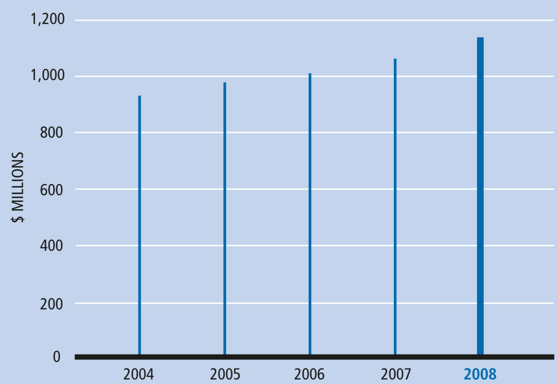
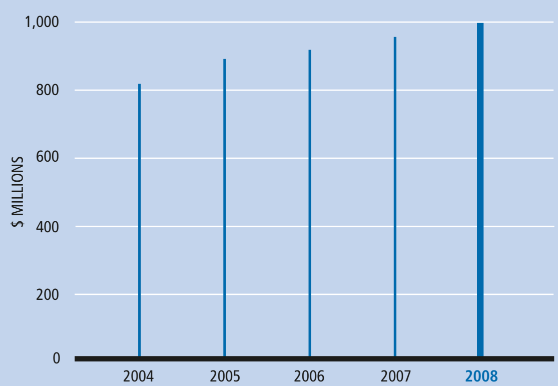
Financial Highlights

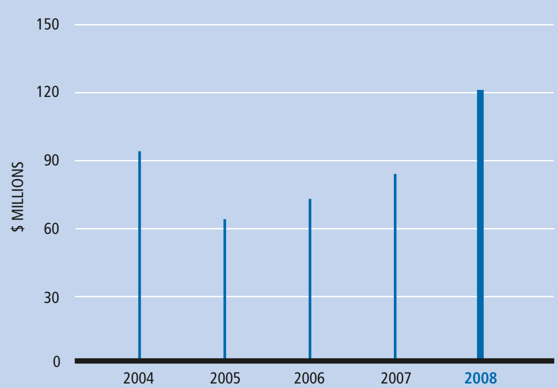
OPERATING REVENUES



OPERATING EXPENSES



NET INCOME



Operating Revenues for the year were $1,137.8 million, up $76.1 million from 2007. The increase was primarily driven by continued strong customer growth in cellular, *Max*™ Entertainment Services and internet services. Increases in these services were partially offset by reductions in local access and long distance services.

Operating Expenses for the year were $996.1 million, up $41.5 million from 2007. The increase was driven primarily by increased expenses to support cellular and *Max* Entertainment Services revenue growth and increases to depreciation and amortization expenses. A one-time cost relating to a write-down of SaskTel's out-of-province assets also contributed to the increase in operating expenses. These increases were partially offset by a reduction in restructuring charges.

Net Income for the year was $121.4 million, up $37.3 million from 2007. Income from continuing operations was $123.4 million and cash provided by operating activities was $266.3 million, which enabled SaskTel to self-finance the majority of its investing activities, debt obligations and dividend requirements.

Capital Expenditures for the year were $147.5 million, down $24.7 million from 2007. SaskTel continued to focus its capital expenditures on growth initiatives, including *Max* Entertainment Services and cellular network upgrades and expansion. SaskTel also invested $66.0 million for additional spectrum licenses through the Advanced Wireless Services Auction during the year.

Dividends of $78.9 million were declared in 2008.

Robert Watson
President and Chief Executive Officer

With economies around the world now slipping into recession, SaskTel has nonetheless put together another solid year of financial growth, matching the province we serve. Certainly our industry is not immune to the current worldwide economic trends. Corporations long thought to be rock-solid are being challenged to keep the faith of investors.

That said, I am convinced that SaskTel will come through the crucible of this economic downturn with its feet on the ground, primarily because I have seen the way our employees respond to a challenge. Like most CEOs, I have from time to time found myself saying that "people are our greatest asset." As true as that cliché is in SaskTel's case, we all know that employees are much more than "assets" or "resources". As individuals with their own stories, strengths, and weaknesses, and a full set of relationships and interdependencies beyond SaskTel, they are the more that we offer our customers when we say "get more" with SaskTel. More coverage, selection, and savings are important, but the most important kinds of "more" are those that come from real human relationships—more trust, reliability, respect.

When this corporation succeeds in anything it undertakes, whether we sell a single phone or overhaul our entire network, that success arises from the quality of each exchange from employee to employee and employee to customer. Interestingly enough, both customers and employees seem to want the same thing in those exchanges: they want something more than transactions; they want fair and fruitful relationships they can trust and rely upon. As long as we can find ways to foster an internal culture where our people feel good about their jobs and the services they provide, those critical relationships from employee to customer will lead us through any difficulties in the marketplace or the larger economy.

If our employees come to work in the morning and feel empowered to breathe life into our promise that we will do more and be more than others in this market, our customers will know the difference that SaskTel represents. This annual report celebrates that difference played out in relationships every day: a SaskTel operator helps locate a runaway boy by tracking him down to the phone booth he used to call back to his parents on the farm hundreds of kilometers away; a group of our Network Operations technicians do their part for their community by painting over the graffiti scrawled on SaskTel cabinets and enclosures; sales and marketing staff work with network provisioning to find a way to cost-effectively deliver high speed internet to Canadian Forces Base Dundurn, so that families living there can stay in touch with loved ones overseas.

> "An annual report can put a numerical value to a lot of factors in a corporation's business, but there is no way to express the value of an employee who feels appreciated and engaged at work."

With that in mind, the narrative in the front of this year's annual report represents a shift not so much in subject matter as in perspective. Our focus is still on the customer, but this time the lens will be our employees. The stories are still about SaskTel serving Saskatchewan people, but the storytellers are individual SaskTel employees. It is their voices and their perspectives that you will hear in the following pages.

If there is a drawback to this approach, it's that we don't get to brag as much about all the great things that happened to us this year. Things like SaskTel being declared by Consumer Reports to be one of the nation's top two cellular phone service providers, or that we reached the 500,000th wireless accesses milestone, or that SaskTel was inducted into Canada's Telecommunications Hall of Fame, or that we were declared one of Canada's Top 100 Employers for the ninth year running.

I want to thank our employees for being the ones who build and maintain those relationships with the people and communities we serve in Saskatchewan. An annual report can put a numerical value to a lot of factors in a corporation's business, but there is no way to express the value of an employee who feels appreciated and engaged at work.

This year we implemented new employee recognition programs to help us do a better job of showing our appreciation for the efforts of individual employees. On behalf of our executive, I strongly encourage our staff and management to make use of these programs and to take time to formally express your appreciation when you see someone giving more and being more in their job.

In closing, as always, I thank all our employees, management and the SaskTel Board of Directors for making 2008, SaskTel's Centennial year, an amazing year.

Robert Watson
SaskTel President and CEO

Craik student Cassidy Muirhead can check her e-mail almost as quickly as Glen Dakis and teacher Carla Dolman can send it.

There's endless potential for using wireless and internet technology in the classroom. We're just getting started, but it's pretty exciting.

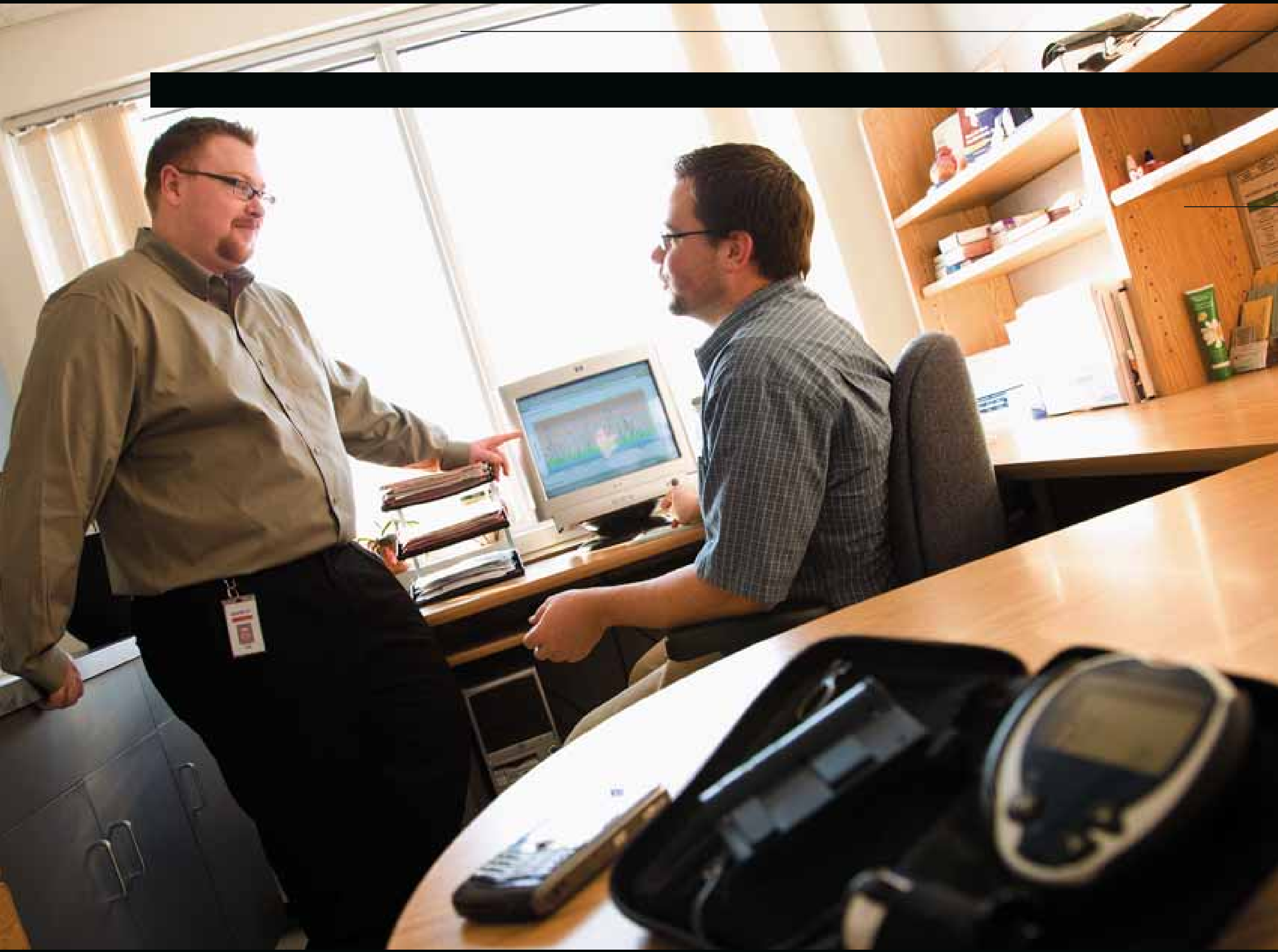
New texts in the classroom: harnessing students' passion for technology to their capacity to learn

Glen Dakis, Business Sales, is working with a school division to support their efforts to discover the learning potential in wireless and internet technologies.

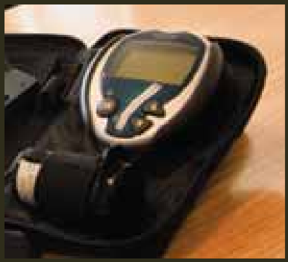
"This year when I took on the education accounts, I wanted to get out there and meet some of the technology people in school divisions around the province. I had heard that the Prairie South Division was tech-savvy and trying some new things. When I got together with folks from Prairie South I met their digital learning expert, Dean Shareski, who was gaining a reputation for being a visionary in this field. I wanted to see what SaskTel could do to support them, so we did some talking and eventually signed a formal agreement making us the technology partner for Prairie South, which was a first for SaskTel and Prairie South at the division level.

I started to hear about an experiment in one of their schools in the town of Craik, where students are being encouraged to use their cell phones in class. The amazing thing is that this school had a no-cellphone rule, but the principal had given permission to do a trial. They have been taking an open research approach to see what comes out of it—the students discuss etiquette in using the technology, they use Bluetooth to share files, video to work on projects, use their phones to communicate with the teacher, share pictures and keep a calendar. All of it is linked to the curriculum as they figure out what features can enhance learning and communication in the classroom. There has been lots of healthy debate about all of this in the school and the wider community—and that is the way it should be if this is ever to be a viable option in the classroom and take its place the way the calculator and the laptop have.

Now, as their technology partner, SaskTel has a great opportunity to do something new here. I want to find a way to support this trial in Craik. Right now we are looking at ideas and possibilities, but what if we could somehow help level the playing field in the classroom to continue the experiment? Somehow get to a place where all of the students have the same phones and plans? We're looking at other tools too—things like helping them access video content on-line so that their video content for the school is all located on a single web site. There's endless potential here for using wireless and internet technologies in the classroom. We're just getting started, but it's pretty exciting."



Cameron Hutchings checks in with Regina General Hospital dietician Arlen Sjodin.



This service has all kinds of possibilities, but what I really enjoy is the sense that we are helping people.

Vital signs: saving lives with health monitoring systems

Cameron Hutchings, LifeStat Marketing, was nominated for a Community IT Hero Award for using technology to help others.

"Developing the *LifeStat*™ Remote Monitoring and Health Management service has been my life at SaskTel for the last three years. I've spent a lot of my time working with stakeholders in healthcare including patients, family members, nurses, doctors, specialists and administrators in an effort to understand how SaskTel can build products and services to help these individuals meet the challenges associated with chronic conditions such as diabetes, hypertension, congestive heart failure and chronic obstructive pulmonary disease. The patient is always top of mind when we are developing the service. They are the individuals with the most to gain out of *LifeStat* service.

LifeStat service is the ultimate customer-driven solution. The reason we spend so much time talking to practitioners and patients is to better understand their plight. We use that information to develop tools that help the healthcare industry improve their care. We developed a way to combine communications technology with medical equipment—devices like blood glucose meters and blood pressure meters—to facilitate the communication of vital health information between patients and practitioners. We utilize Bluetooth technology in conjunction with the medical devices to transmit the vitals through telephone networks to a software application that can be accessed over any internet connection.

Then the software on the website can run alerts on the incoming vital signs, for example, a doctor monitoring a pregnant woman with gestational hypertension can be alerted by an e-mail on a Blackberry each time a blood pressure reading exceeds a certain threshold. The doctor can call the patient and adjust the medication or take whatever measures are necessary.

Then we've got parents who have children living with type 1 diabetes. That's a full time job, requiring constant adjustments. It can be really stressful, especially if the child is, let's say, gone for the weekend to a hockey tournament. I have met parents who leave work to drive to their child's school three times a day to check blood sugars and insulin. Now, with *LifeStat* service technology, the parent can get a text message on their cell phone every time their child takes a reading at school. Then they call the child, see how he or she is feeling and can help the child adjust the insulin as necessary.

Our focus so far has been diabetes and hypertension, but we are now moving on to other conditions such as congestive heart failure and chronic obstructive pulmonary disease.

It has been fascinating just to see a product go from the idea stage right through to implementation. We've just reached the end of our first major customer trial. It had outstanding results. This service has all kinds of possibilities, but what I really enjoy is the sense that we are helping people. It makes all the difference in the world when you realize that a service you had a hand in developing helped to reduce health complications like amputation, vision loss, kidney disease, heart disease and stroke and has made another person's quality of life that much better."

Michelle Klimchuk (centre) goes over the latest *Max* Local on Demand edits with Media Group employees Thirza Jones and Matthew Garand.

I tell people I have the best job at SaskTel—
and it's true!

A network of narrative: 800 community stories on video

Michelle Klimchuk, mysask and Max Local on Demand, oversees the broadcast of local Saskatchewan stories around the province.

"I took on this job in March 2007 and I love it. I tell people I have the best job at SaskTel—and it's true! I get to be part of this team that gathers, records, and distributes great stories—stories about people you know, real people in your neighbourhood doing amazing things.

When we launched *Max*™ Local on Demand there was no other local programming in Canada like it. We were the first to do it as an on demand service. People tell us they love being able to get the programming they want, when they want it. We do our best to find the stories that matter in the communities we serve. We have an independent programming committee with reps from all nine of our serving areas. They act as ambassadors, helping us find the stories that come from their town and surrounding region.

Meanwhile, Media Group, who does our video production, keeps staff in most of the major communities where *Max* Entertainment Services is available. In effect, *Max* Local on Demand has been developing the film industry all around the province.

The range of stories we put on *Max* Local on Demand goes from a 'Your Video' submission on the anti-gang movement, 'RU Down or RU Out', to a professionally produced video on Prince Albert's 'Women of the Earth' network.

Some of my favourites, the ones that really moved me, were about things where SaskTel employees are involved in the community. One called 'Hope's Home' told the story of the SaskTel Pioneers raffling a quilt and raising $15,000 for a daycare that takes care of kids that are medically fragile. It's the first of its kind in Canada, but it needed some tracking for accessibility equipment. The Pioneers' donation made that possible. You can't help but be moved when you see that story.

Another of my favourites this year was about Amy Alsop, a Marketing Analyst at SaskTel. Amy is a Paralympian and visually impaired. She plays goalball and has competed at Sydney, Athens, and Beijing, representing Canada. On the video she talks about adversity and how facing it shapes the kind of person you become.

Then we covered a 'Dancing with Regina's Stars' event. It was fun because two of the experienced dancers were SaskTel people and all of the proceeds went to local charities. I am always amazed to see how active SaskTel employees are in their lives outside of work.

I guess, like everyone else who watches *Max* Local on Demand, I love to see stories about real people I know. I'm just happy we have found a way to make that possible for communities around the province."

Marie Knutson and Glenys Getz pack boxes bound for Africa.

Is it just about profit or is it doing good things in the world?

From Eston to Uganda: one Saskatchewan town makes a difference

Sheenah Ko, Human Resources, helped to connect the town of Eston, Saskatchewan to Kampala, Uganda.

"Part of my job is to oversee the SaskTel YOUTHnetwork, where we work with young people in high school encouraging them to consider careers in technology, study math and science—it's part of our long-term recruitment strategy. I also work with NextGen, an employee network that focuses on attracting and retaining the next generation of SaskTel employees, making sure we have a corporate culture that is rewarding and welcoming for them.

One of the things young people look for in an employer is its purpose and role in the larger community. Is it just about profit or is it doing good things in the world? A couple of years ago we started up our 'We See You' program, connecting communities in Saskatchewan to communities in Africa. It began as a YOUTHnetwork program and we got high schools involved in Regina and Saskatoon. The idea was to gather donated school supplies, clothing, sports equipment, and bikes and then load them into a shipping container and send it to a partner in Africa. The first one we got involved with had our employees working with students at Scott Collegiate in Regina to send a full container to an impoverished community in Kenya.

After that, we sent a container from Nutana Collegiate in Saskatoon to Tanzania. The third one hooked us up with the University of Saskatchewan and a program called Training for Health Renewal. That container, packed with medical supplies, left for Massinga, Mozambique in February this year. When you start doing this kind of work you meet a lot of people who want to help out. During the Nutana container project we met two women who had brought a trailer full of things from their home town, Eston. Glenys Getz and Marie Knutson were both lab technicians who had worked in the hospital in Eston. They told us about their hospital, recently closed, and said it was filled with medical equipment and supplies that were not being used. We went to Eston to check it out and it didn't take long to decide we would send the fourth container from there.

We started doing presentations to the school, at the community centre and the local bible college to get them going on it, but really Glenys and Marie did most of the work. The response from the community was phenomenal. It was like the whole town had spent the summer collecting things to ship. Kids, families, everyone gathering things and storing them in the hospital. They collected 90 bikes. Many of them needed fixing so one of the local boys repaired them one at a time.

On the September weekend when we loaded the container to ship it to Kampala in Uganda, we had one hundred townspeople show up to help. Our CEO, Robert Watson, came along to help and he was really impressed to see how Eston responded. When the mayor got up to say a few words she was holding back tears.

I think smaller communities in the province can feel neglected or forgotten sometimes so this kind of thing can be very powerful. I had people thanking me for the chance to help out—they felt like SaskTel was giving them a chance to make a difference and really connect with a community in Uganda.

My favourite story from the Eston event, though, is one that kind of completes the circle from employee recruitment to community involvement and back again. One of the students who volunteered to pack the container heard about the project through her mother and drove all the way from Calgary to join us. She is studying Developmental Studies in the Department of Communication and Culture at the University of Calgary and had spent some time volunteering at an orphanage in South Africa, and has a special focus on developmental work in Africa for her studies. As a result of her coming out and joining us that weekend, she is now doing her Co-Op work term here at SaskTel."

SaskTel Pioneers John Johnson, Jim Gropp and Lynn Lowes share a laugh in the gazebo they helped build.

You know, Gil talked about you guys every day.

He was so proud of what you were doing.

Rewarding work: building community with hammers and nails

Lynn Lowes, a SaskTel retiree and an active member of the SaskTel Pioneers, put together a team of Pioneers to build a gazebo for the residents of William Booth Care Home.

"It was early June this year when the Pioneers told me they wanted to build a gazebo for William Booth and needed someone to manage the project. They had a set of plans that one of our members had used on his own project, so I took them around to lumber yards and got quotes on what the materials would cost. Then I began calling guys who I knew might want to help and assemble a team.

At first it was really four of us, all retirees, doing the work, but then we had a few more start to come out. We eventually had eleven members helping build the gazebo, but not all at one time. It took a couple of months. When we started planning things with the people at William Booth I told them we had only one condition: they'd have to feed us. 'No problem,' they said. They fed us alright. Coffee and muffins all the time and a tasty meal every day. We ate well.

We had some mishaps—a week into the project one of the guys cut the tip of his finger off with a table saw—but the whole thing went really well. We worked every day right through July and then took a little break before finishing in August with a couple more weeks. There were some great moments. One day I was up on the roof doing some work and looked down to see the whole structure surrounded by people in wheelchairs. We often had an audience. There's already been two weddings held inside the gazebo. One of them before we got the siding and doors on! It's a nice place to have a ceremony, especially if someone at the home can't get out to attend their child or grandchild's wedding elsewhere.

You can't put a value on the emotional rewards of doing this kind of work, but there was something that happened on this project that I won't forget. While we were working on the gazebo, one of SaskTel's most respected and beloved former presidents, Gil McCormick, was a resident of the Wascana Grace Hospice, which is attached to William Booth. Gil was president when I was a young SaskTel employee and it was hard to see him in a wheelchair, but he came out every day to watch us work. He knew he was dying but he'd sit there and smile and tell us we were doing a good job. He spent the last two weeks of his life there and part of it was watching SaskTel Pioneers building something for people. Gil's niece, Kelly Burnett, works at SaskTel in consumer sales and she was often there visiting him. After he died she said to me, 'you know Gil talked about you guys every day. He was so proud of what you were doing.'

Once the gazebo was finished we all came back for a ceremony in October. They put a plaque up for us—it talks about the 1,370 hours we spent there. All of us are listed, but it's not about counting hours or getting your name on a plaque. The work itself is the reward. As soon as we were done, one of the other fellows said to me, 'Well Lynn, when are we going to do another one?'"

Doing the right thing: when phone repair becomes an emergency visit

Robert Bakken, a Customer Service Technician in Unity, was repairing an elderly woman's phone when he discovered that she was in medical distress.

Robert Bakken visits with Emma Higgins, the woman he rushed to the hospital, and her daughter Marilyn Laley.

"I could see she was having trouble breathing and couldn't really talk. There didn't seem to be any family or neighbours around to help her, so I asked her if she would like me to take her to the hospital and she said 'yes' so I helped her get her shoes on and drove her to the emergency at the Unity Hospital. Later that afternoon I was at the hospital doing some work there and the woman's daughter came up to me and asked if I was the SaskTel guy who had driven her mom to the hospital. She thanked me and said her mom was grateful and was going to be able to return home. I just did what anyone would do."

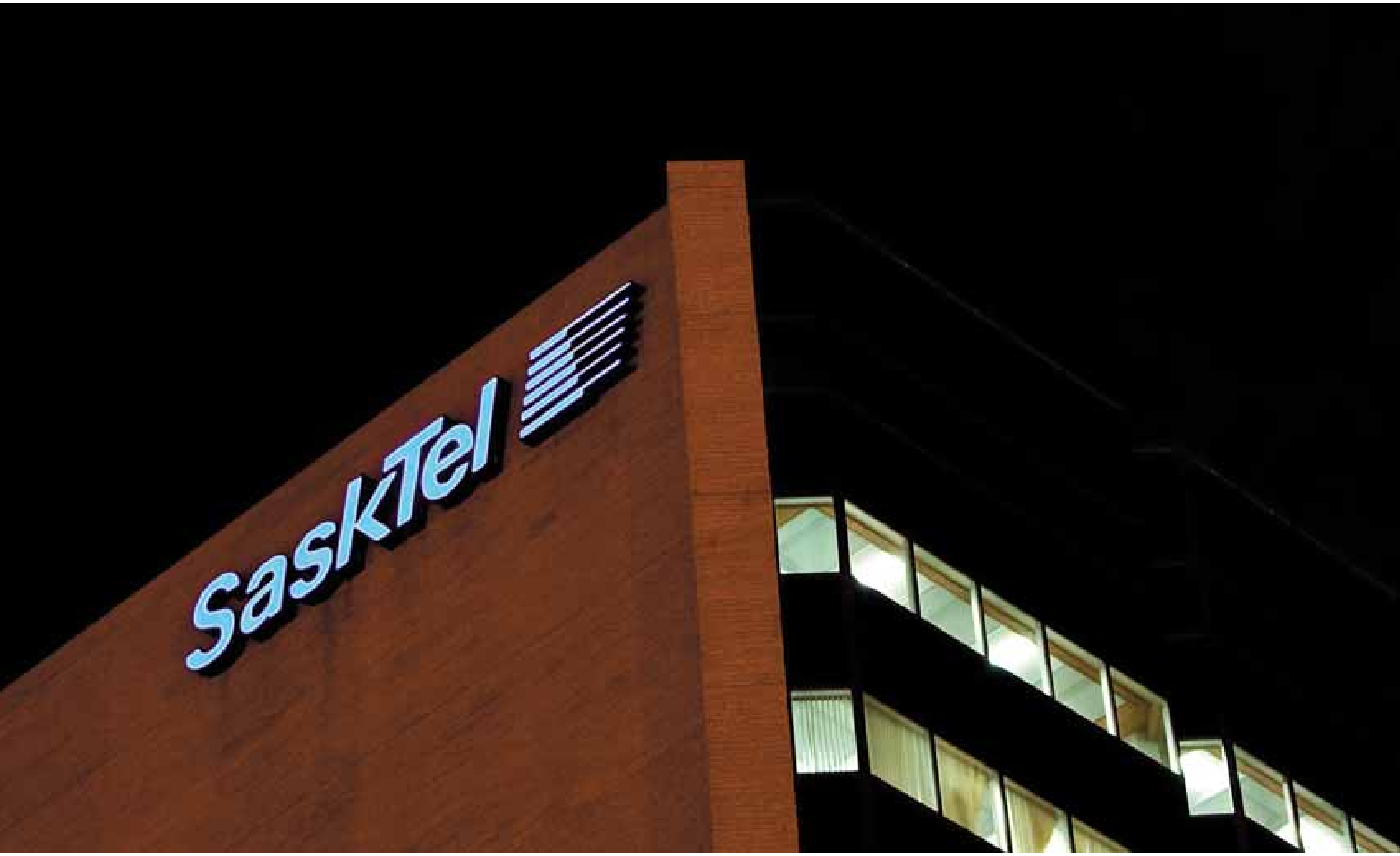
A little paint does wonders: Network Operations Technicians taking a moment to paint over graffiti

A Trunking & Switching Technician in Yorkton, who wishes to remain anonymous, takes pride in the safety and appearance of the community.

"With the DSL bandwidth increases for *Max*™ HD projects in recent years, Yorkton has a lot more SaskTel enclosures and cabinets installed all over town. There are 52 cabinets now and just this summer we started to see some graffiti on some of them. At first, I was reluctant to do anything about it. With increasing workloads, we don't really have time to be painting over graffiti. Besides, I was worried that the kids who did it might see it as a challenge and the whole problem would get worse. So I decided to let it go at first.

Then I was out with one of the other guys in a well-kept neighbourhood and we found a cabinet and the JWI (Jumper Wire Interface) enclosure beside it that had noticeably ugly scribbling on it. We always have some SaskTel grey/green spray paint with us so we got it out and sprayed over the scribbling. Right there, we decided we'd take a minute to do that whenever we found graffiti on cabinets and enclosures. And you know, so far it hasn't come back on any of the equipment we've cleaned up.

I'm not saying it's a big thing, but after we started to do this I noticed a newspaper article about a study that shows when you don't remove graffiti in your neighbourhood, crime increases. Maybe it's not in our job description, but it's worth the extra effort if it helps our town."


SaskTel

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SASKTEL OVERVIEW

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

SaskTel is the leading full-service communications provider in Saskatchewan, with $1.138 billion in annual revenue and over 1.3 million customer connections including 510,886 wireless accesses, 555,668 wireline network accesses, 216,062 internet accesses and 70,463 *Max*™ Entertainment Services (TV) subscribers. SaskTel offers a wide range of communications products and services including competitive voice, data, internet, entertainment, national security, web hosting, messaging, cellular, wireless data and directory services. In addition, SaskTel International offers software solutions and project consulting in countries around the world. In 2008, SaskTel contributed $611 million to the Saskatchewan economy through dollars spent with Saskatchewan-based vendors and suppliers and sponsorships to non-profit organizations. SaskTel and its wholly-owned subsidiaries have a workforce of 5,063 full-time, part-time and temporary employees. Visit SaskTel at www.sasktel.com.

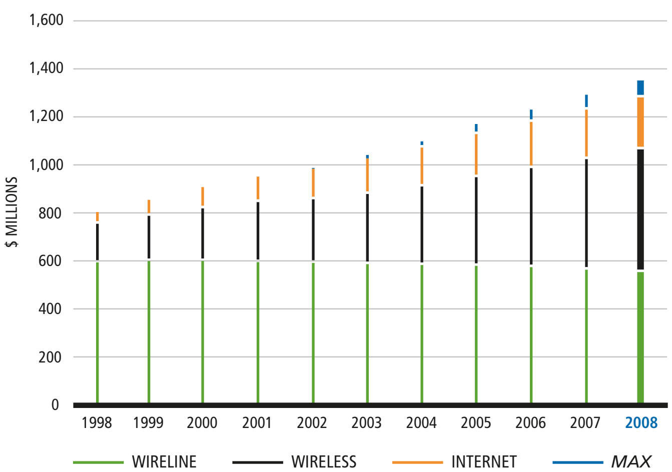
Saskatchewan Telecommunications (Telco)

www.sasktel.com

Our key growth areas are within our largest subsidiary, Saskatchewan Telecommunications (Telco), a wholly-owned operating company. Providing traditional services such as local access and long distance, the Telco has evolved over time and currently offers services that have contributed significantly to our growth over the past several years, including digital cellular voice and data, text messaging, *Max* Entertainment Services, data, high speed internet, data storage and enhanced voice services. The Telco is one of the largest employers in Saskatchewan, with the head office located in Regina. The Telco provides communication services to more than 425,000 Saskatchewan business and residential customers living in 13 cities and 535 smaller communities and their surrounding rural areas, including about 49,000 farms.

The following graph illustrates the areas of growth by type of access since 1998.

ACCESS GROWTH BY TYPE



As of December 31, 2008

Wireline Accesses: 555,668
Internet Accesses: 216,062
Wireless Accesses: 510,886
Max Entertainment Services Subscribers: 70,463

DirectWest Corporation (DirectWest)

www.directwest.com

DirectWest, a wholly-owned subsidiary of SaskTel, has been publishing telephone directories in Saskatchewan since 1909. DirectWest publishes and distributes ten telephone directories across Saskatchewan, and provides these directories on-line at www.sasktelphonebook.com and www.mysask.com. In addition to consistently generating value through print and on-line directories, the company continues to add new services and solutions for their customers including on-line advertising and mobile phonebooks for cell phones. DirectWest's head office is in Regina, with a second office in Saskatoon. The company employs 108 people in Saskatchewan.

Hospitality Network Canada Inc. (Hospitality Network)

www.hospitalitynetwork.ca

Hospitality Network Canada Inc. is a wholly-owned subsidiary of SaskTel, and is the preferred provider of managed communication and entertainment solutions for the Canadian healthcare market. Hospitality Network provides service to more than 380 healthcare locations nationwide, including Canada's largest hospitals and Seniors Care Homes. Originally founded with private Saskatchewan business interests in 1993 to provide entertainment services to the hospitality industry, Hospitality Network acquired a major Canadian player in 2000 (Telehealth) and became a wholly-owned subsidiary of SaskTel in 2005. Their head office is in Regina and they employ 426 people nationwide, including 38 in Saskatchewan.

Saskatchewan Telecommunications International Inc. (SaskTel International)

www.sasktel-international.com

SaskTel International (SI), a wholly-owned subsidiary of SaskTel, helps their clients in countries around the world to develop, improve and expand their telecommunications systems by providing a variety of consulting services. SI also offers innovative software solutions that provide a modular approach to managing every aspect of a telecommunications network. Throughout SI's history, they have worked in more than 30 countries on six continents.

With more than 20 years of experience, SI has generated total revenues of $538 million and total profits of $124 million for SaskTel, and has earned a profit every year since 1992. All of SI's revenues and profits are repatriated to SaskTel, where they are used to sustain and improve SaskTel's network and services in Saskatchewan and enhance returns to the Province in the form of dividends. SaskTel International employs 31 people.

In 2008, SI continued to develop both the network and software sides of the business. The management contract with the Tanzania Telephone Company Limited (TTCL) continues with the team working to stabilize and improve financial, commercial and technical performance. As well, working in partnership with Atlantic Canada-based Mariner Partners Inc. (MPI), SI signed a contract with Telecommunication Services of Trinidad & Tobago (TSTT) to provide IPTV consulting services.

SecurTek Monitoring Solutions Inc. (SecurTek)

www.securtek.com

SecurTek, a wholly-owned subsidiary of SaskTel, provides commercial and residential security and monitoring services, exclusively through dealers, to customers in Saskatchewan, Alberta, Manitoba, British Columbia, and selectively in Ontario and Nova Scotia, from their monitoring centres in Yorkton, Saskatchewan and Winnipeg, Manitoba. Operating a security monitoring centre leverages SaskTel's call center, network management and process expertise to provide value-added services. Through their dealer program, SecurTek partners with 96 independently-owned firms including retail, wholesale, and servicing dealers who provide security sales and service expertise to their customers. Fifteen of SecurTek's dealers are Saskatchewan-based firms. SecurTek employs 110 people, including 99 at their head office in Yorkton.

Saskatoon 2 Properties Limited Partnership (Saskatoon Square)

Saskatoon Square is one of Saskatoon's premier office towers. SaskTel has a 70% equity position in this property with three other partners each holding a 10% interest. SaskTel's presence in the Saskatoon Square reinforces SaskTel's commitment to the City of Saskatoon. As well, SaskTel enjoys a reduced effective rental rate due to the earnings from our ownership interest in this property.

Investment Portfolio Summary

The following chart provides a summary of SaskTel's current investment portfolio.

INVESTMENTS AS OF DECEMBER 31, 2008

($ millions)	Book Value
DirectWest	$19.3
Hospitality Network	35.7
Saskatoon Square	0.8
SaskTel International	4.7
SecurTek	30.3
Total	$90.8

INDUSTRY OVERVIEW

The communications industry is currently undergoing a transformation. This has led to an increase in competition, opportunities and challenges in the market.

Convergence, or the ability to access any service or content through any device from any location, continues to shape this transformation. While we see convergence leading to new partnerships between service providers and developers—increased investment in diversification will also occur in an attempt to improve services for the ever-demanding consumer. Telecommunications companies may become software and media houses, computers may become telephones, and cameras may become e-mail devices. Non-traditional competitors are entering this market seeking to become both service and content providers in an effort to give consumers access to any content and service on any device.

Telecommunications companies may become software and media houses, computers may become telephones, and cameras may become e-mail devices.

As the communications industry transforms, so do its business models. Telecommunications providers continue to explore sustainable business models, including flat rate pricing, bundling, low-cost provider and pay-per-use pricing. This trend is occurring with both traditional and alternative communications providers.

New technologies continue to arise. Worldwide Interoperability for Microwave Access (WiMAX), Fibre to the Home (FTTH), cellular network evolution including UMTS (Universal Mobile Telecommunications Service)/HSPA (High Speed Packet Access), LTE (Long Term Evolution), and femtocells (small cellular base stations) are just a few of the new technologies emerging in the telecommunications market. In many cases, these technologies enable new service and application development and increase competition in the market. This development will provide opportunities in some areas and create challenges in others.

The adoption and accessibility of new services and applications has created an overlap of traditional information, communication and entertainment services. By enabling new services, the digitization of content is providing the means to access and create media on demand. The telecommunications industry in Canada will continue to grow, though at its slowest pace in more than a decade. Analysts forecast a cumulative annual growth rate averaging 3.4% per year through to 2013.

STRATEGIC DIRECTION

SaskTel continued to face challenges in 2008, including a dynamic communications industry and an aggressive and competitive market. To address these challenges, we have identified three key critical issues to ensure our future success:

- Industry Transformation
- Strategies for Growth
- Managing for Tomorrow (*people, productivity, process*)

Industry Transformation

The industry overview highlighted many of the issues we are facing and why transformation is a critical issue. Going forward we will need to assess the impact of these industry changes and how we plan to address them.

Strategies for Growth

There is no end in sight for the intensity of competition we expect to face. In fact, we expect the competitive market to intensify as new wireless players enter the market. As well, we understand and expect that revenues will evolve as traditional revenue sources decline and IP-based products with lower margins increase. For the first time in a number of years, Saskatchewan is experiencing a provincial economic boom. We plan to capitalize on this by continuing to grow our core business and focusing on opportunities within Saskatchewan.

Managing for Tomorrow

Cost efficiency and productivity improvement have always been integral to SaskTel's strategic direction. With the communications industry transforming, and the revenue base shifting, we recognize that it is going to be equally important for SaskTel to continue to manage for tomorrow. This critical issue includes focusing on productivity, people and processes. Our future sustainability means that we must continually improve the way we work, manage better, engage our workforce, and simplify our business.

CORE STRATEGIES AND PERFORMANCE MANAGEMENT

In 1999, CIC and their subsidiaries developed a Crown Sector Strategic Plan to provide long-term direction to the Crown sector and facilitate long-term planning. The plan includes a consistent vision statement for the Crown sector, their primary business purposes, common business values and strategic business objectives. We have developed our corporate strategic plan to support CIC's strategic objectives and priorities.

2008 Strategies and Performance Results

Financial

SaskTel will create long-term value for our shareholders by achieving positive financial results and focusing on productivity gains.

Objective	Measure	2008 Target	2008 Actual	Results
Positive Results	Revenue Growth *(Gross Revenues)*	$1,088.8M	$1,137.8M	●
	Net Income	$75.8M	$121.4M	●
Productivity Gains	Cost Efficiency *(Productivity Indicator)*	$11.4M	$9.3M	○
	Process Improvement *(# of Customers Self-Serve Activities)*	5.4M	5.6M	●

In 2008, we achieved exceptional financial results. Our revenues exceeded budget and we realized a 7.2% increase over 2007 results. Net income was also favourable ending 2008 at $121.4 million, which represents a 60% and 44% increase over budget and 2007 earnings respectively. Further information can be found within the Operating Results section.

As important as it is to increase our revenue base, we are also focused on productivity gains. In 2008, we launched a corporate-wide productivity program. The cost efficiency measure identified in the chart above only tracks our savings related to our Early Retirement Program (ERP). We did not meet the target for this indicator due to fewer than expected employees accepting the program, partially attributed to the economic downturn. However, in 2008, we did achieve $12 million in cost efficiency savings over and above the ERP initiative, which are a direct result of activities identified from the productivity program.

To measure our progress on process simplification, we have been using the number of customer self-serve activities as the trend indicator. We continue to report favourably to budget for this indicator.

Innovation

SaskTel will focus on innovation through our approach to people, services and technology, in conjunction with our economic, environmental and social responsibility.

Objective	Measure	2008 Target	2008 Actual	Results
Solutions	Technology *(Proportion of Population with high speed 1.5Mbps)*	88%	86.4%	○
	Broadband Subscriber Growth	19,688	36,046	●
	Services *(Revenue from Growth Initiatives)*	$679.3M	$671.7M	○
Social Responsibility	$ Spent in SK Economy	$622.0M	$611.2M	●
	Environmental Stewardship *(Greenhouse Gas Emission Reduction)*	Stabilize greenhouse gas emissions at 2007 levels	2.0% above target	○

We are committed to ensuring SaskTel is an innovative company into the future. For the past century, we have been a leader by offering and maintaining some of the most innovative and best-valued communications services in Canada, for Saskatchewan people and customers. In October of this year, we were recognized for our contributions to the telecommunications industry by receiving a special recognition award from Canada's Telecommunications Hall of Fame.

Since 1987, we have invested approximately $3.1 billion in our Saskatchewan network. We plan to continue this investment by further expanding our cellular and high speed internet services, which at the end of 2008 were available to 96% and 86.4% of the Saskatchewan population respectively. In 2008, the Government of Saskatchewan and SaskTel announced a three year Rural Infrastructure Program which will deliver high speed Internet to 100% of Saskatchewan and improve cellular service, resulting in coverage for 98% of the population. Upon completion of this program, SaskTel will provide Saskatchewan residents with access to one of the best communications networks in the world. Further highlights from 2008 include the following: completing the third year of the Next Generation Access Infrastructure Program (NGAI); launching and upgrading Evolution Data Optimized (EV-DO) Rev A to 47 communities; launching additional wireless internet sites; enhancing *Max* Entertainment Services; improving cellular coverage to many areas and expanding to those previously unserved including Pelican Narrows, Pinehouse Lake and Denare Beach.

Increasing competitive forces and declining legacy revenues have forced SaskTel to focus on its growth strategy. Without continued growth our operating results, infrastructure, products and services will diminish. In 2008, SaskTel just missed the target for revenue from growth initiatives due to reclassification of DirectWest Canada, Inc. revenues. However, our growth was strong in 2008, owing to solid wireless growth (achieved 500,000 access milestone) and positive contributions from all of our subsidiaries.

As a Crown Corporation, SaskTel has a social responsibility to fulfill the public policy mandate of the Crown Sector. In 2008, as always, our contribution to the Saskatchewan economy was wide and varied. Two examples were the dollars we spent with Saskatchewan-based vendors and suppliers, and the donations we made to non-profit and charitable organization. Our 2008 actual results were just slightly under the target for this indicator, which is due to the corporate-wide focus on controlling costs.

We also remain committed to our green agenda. SaskTel has an Eco(logical) strategy which contains a number of environmental initiatives. One key initiative tracked on our scorecard is greenhouse gas (GHG) emissions and our promise to reduce these levels over time. For 2008, SaskTel missed the target for this indicator because we were unable to purchase the budgeted amount of green power. SaskTel is working with the Crown sector on environmental objectives for GHG emissions, and remains committed to promoting environmental sustainability as we go forward.

People

SaskTel will differentiate on customer experience in order to sustain and expand our customer base.

SaskTel will attract and retain the best people by creating an engaged workforce which embraces diversity.

Objective	Measure	2008 Target	2008 Actual	Results
Differentiate on Customer Experience	Customer Perception	72%	74%	●
	# of Customers In-Province *(thousands)*	910	956	●
	# of Customers Out-of-Province *(thousands)*	59	57	○
Engaged Workforce	Employee Engagement *(% of factors above the Hay Norm)*	65% of factors at or above the Hay Norm	44% of factors at or above the Hay Norm	○
	Women *(# of women hired or promoted into management positions as a % of all hiring into management positions)*	42%	45%	●
	Aboriginal People *(Permanent Hires)*	35	35	●
	People with Disabilities *(Permanent Hires)*	5	6	●

In 2008, we strengthened our focus on providing outstanding customer service and our results indicate that we have made improvements because we achieved a 2% increase to 74% for the year. In addition, our measure for total number of customers indicates that we are both retaining and growing our customer base in-province, but seeing some decline out-of-province. The in-province customer measure is favourable due to wireless access growth, higher than expected wireline accesses and all operating units growing their respective businesses within Saskatchewan. Out-of-province, we fell short on achieving our target due to a shift in our focus to Saskatchewan.

Internally, commitment to our employees is measured through the annual survey. Having an engaged workforce is a primary focus for the SaskTel management team and therefore a number of actions are underway to improve this result for next year. During 2008, we received several awards and forms of external recognition. For the ninth consecutive year we made the list of "Canada's Top 100 Employers". We were also recognized as one of Saskatchewan's Top 15 Employers and received an award for Saskatchewan Work and Family Balance.

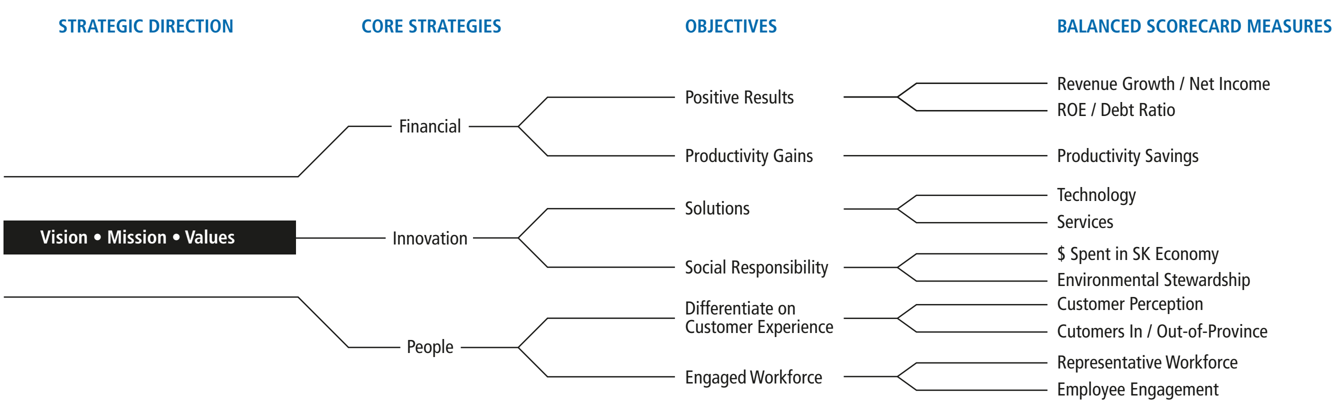
Our Representative Workforce Strategy has been a tremendous success for SaskTel and this was recognized by the Canadian Race Relations Foundation (CRRF) who awarded us "with Distinction" for our Representative Workforce Strategy and Aboriginal participation initiative. We remain committed to reflecting the equity demographics of the province and in 2008 were able to meet all of our targets related to this strategy.

Looking Ahead to 2009

As we enter into our second century of business, we will continue to build on our past success. During the last couple of years, we have refined our strategic direction to sharpen the focus of the organization.

This direction starts with our vision: *"To improve the lives of everyone we serve each and every time."* Our mission follows: *"We will go beyond in delivering innovative information, communication and entertainment solutions to our customers in Saskatchewan and other select markets. We will be a socially and environmentally responsible organization that delivers sound financial returns. Our focus is our Customer. Our strength is our People."*

Along with these statements we have three core strategies (Financial, Innovation and People) which are defined by a statement of direction from which SaskTel management sets objectives, measures and targets. These core strategies focus the organization on the areas critical to our long-term sustainability. We use a Balanced Scorecard to measure and report performance results for these strategies. The graphic outlined below captures our strategic direction.



The following provides an overview of our performance management targets for 2009.

Financial

SaskTel will create long-term value for our shareholders by achieving positive financial results and focusing on productivity gains.

Objective	Measure	2009 Target
Positive Results	Revenue Growth *(Gross Revenues)*	$1,185.0M
	Net Income	$115.7M
	ROE *(after restructuring)*	14.6%
	Debt Ratio	37.7%
Productivity Gains	Productivity Savings *(Cumulative Savings)*	$33.0M

2009 Targets include all SaskTel subsidiaries; assume a 80% dividend payout ratio.

Our financial measures are focused on growing revenues and achieving productivity gains across SaskTel. We do not expect competition to subside and therefore must ensure we continue to capitalize on revenue growth opportunities. This growth includes sustaining and maximizing in-province growth with existing and new customers, exploring partnerships, organic growth from our subsidiaries, and taking a financially responsible approach to all investment opportunities.

Productivity gains will continue to be identified and achieved through our corporate productivity program. In 2009, we will complete reviews of all Telco departments with a goal to achieve $33 million in cumulative savings.

Innovation

SaskTel will focus on innovation through our approach to people, services and technology, in conjunction with our economic, environmental and social responsibility.

Objective	Measure	2009 Target
Solutions	Broadband Subscriber Growth	32,301
	Services *(Revenue from growth initiatives)*	$751.0M
Social Responsibility	$ Spent in SK Economy	$658.0M
	Environmental Stewardship *(Greenhouse gas emission reduction)*	Stabilize at 2007 emission levels (66,213 tonnes of CO2e)

To remain competitive, we need to ensure that we are innovative in our approach to all facets of our business: in the technology we deploy, the products and services we offer our customers, in the way we develop our workforce team, as well as in how we develop our environmental and public policy initiatives.

We will continue to make capital investments to enhance our infrastructure providing leading-edge products and services to the people of Saskatchewan. This includes advancing our cellular network to a world standard network in 2009 and expanding broadband to more communities across the province through the Rural Infrastructure Program.

Our need for growth will continue and we are committed to the Saskatchewan First Policy to ensure that we focus on growing our business within the province. A key component of our strategies for growth is partnerships. We believe that developing these relationships is pivotal to creating growth opportunities and sparking innovation for SaskTel.

People

SaskTel will differentiate on customer experience in order to sustain and expand our customer base.

SaskTel will attract and retain the best people by creating an engaged workforce which embraces diversity.

Objective	Measure	2009 Target
Differentiate on Customer Experience	Customer Perception	74%
	# of Customers In-Province *(thousands)*	971
	# of Customers Out-of-Province *(thousands)*	60
Engaged Workforce	Employee Engagement	At or above the Hay engagement norm
	Representative Workforce: Women *(# of women hired or promoted into management positions as a % of all hiring into management positions)*	44%
	Aboriginal People *(Permanent Hires)*	40
	People with Disabilities *(Permanent Hires)*	5

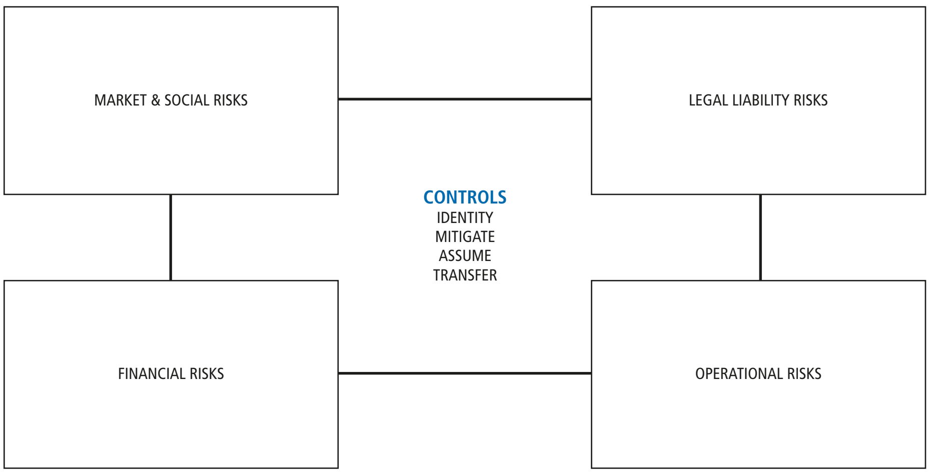
The focus on "Our People", defined as our customers and employees, is top of mind over the planning horizon.

Our customers are a high priority and we will continue to focus intently on ensuring that we provide a positive customer experience. To do so, we have set aggressive targets to ensure we are better than our competitors in serving customers.

Having an engaged workforce is a primary focus of the organization. Labour market challenges exist today and are expected to escalate in the coming years. To address these challenges we are undertaking a number of initiatives around workforce planning, organizational development and diversity to ensure we have the workforce of the future; the right people, with the right skills, in the right jobs, so SaskTel remains an employer of choice.

RISK ASSESSMENT

SaskTel takes an enterprise-wide approach to risk management, reporting key business risks into four quadrants: Market and Social, Financial, Legal Liability and Operational. As depicted in the diagram below, the model centers around the identification, mitigation, assumption, transfer, and control of key risks.



An internal risk management team conducts quarterly risk reviews focusing on one of the key risk quadrants. This team is made up of SaskTel's Corporate Risk Management Department, a Senior Security Manager, the Business Continuity Planning Manager and a management prime for each of the four quadrants. The quadrant primes are subject matter experts in their respective areas and other key personnel are included as required. The team uses a variety of techniques to complete the reviews including interviewing key personnel throughout the organization, conducting site inspections of key facilities, and reviewing audits completed by the Internal Audit department. Quarterly reports highlighting the significant risks are completed and presented to SaskTel's Executive and Audit Committee of the Board of Directors.

The quarterly risk reviews are an important component of risk management at SaskTel because they allow management to identify key risks and assess their likelihood and impact. Complementing these reviews are the ongoing, purposeful activities undertaken to mitigate risk as well as the corporate insurance program and other methods to transfer risk where appropriate.

The following sections detail the significant risks encountered in our business environment and our plans and activities for managing these risks.

Market and Social Risks

Competition

As a full-service provider, SaskTel continues to face robust competition in every facet of our business. We anticipate our competitive environment will remain intense with the entry of new wireless competitors and the rise of non-traditional competitors in a diverse range of markets. New competitors entering the market often have the advantage of lower-cost delivery methods, reduced capital costs, and the ability to niche market to particular customer segments.

Potential new wireless providers have emerged as a result of the Advanced Wireless Spectrum Auction (AWS). Two incumbents (Rogers and Telus), one regional (Shaw) and one new national wireless carrier (Globalive) successfully purchased spectrum in Saskatchewan. Network builds and the launch of services remains uncertain but it appears that we may see the effects of these spectrum purchases within 2010. As a result, subscriber growth is forecast to remain strong though price appreciation will certainly slow as a result of price competition.

The cablecos remain a significant competitor and are well-positioned in our core markets. Their network facilities and established customer relationships have enabled them to shift portions of our market. They currently offer a triple play of local access, high speed internet and broadcast services in many of our serving areas and at least one has acquired wireless spectrum in Saskatchewan.

The Incumbent Local Exchange Carriers (ILECS) have primarily been focused on expanding their growth services including wireless, broadband and video while stabilizing voice services. Major competition for SaskTel includes customers that have a presence in Saskatchewan and other branch or head office locations in Canada.

As competition increases, so does the risk of losing customers and revenue. SaskTel tries to mitigate this risk by re-pricing services, providing superior customer service, offering a broad range of bundles, and continually investing in our state-of-the-art network to provide leading-edge services to our customers.

Regulatory

The telecommunications and broadcast industries in which SaskTel operates are governed by the *Telecommunications Act* and the *Broadcasting Act,* both of which are administered by the Canadian Radio-television and Telecommunications Commission (CRTC). SaskTel also operates in the wireless industry, over which the CRTC exercises a much lighter regulatory hand. The right to use spectrum in the wireless industry is granted by Industry Canada, which imposes conditions of license upon this spectrum. As a result, SaskTel is affected by changes in policies and regulations coming from CRTC decisions and Government of Canada directives.

Although the Regulatory environment has become more favorable for SaskTel, risks that may affect profitability remain. SaskTel mitigates these risks by attempting to achieve favorable regulatory reform while participating in the current CRTC processes with a view to obtaining the best possible result for SaskTel.

High Cost Serving Area Subsidy

The CRTC's 2009-2010 work plan includes a review of the local service subsidy regime, stating that "*New and innovative approaches may be required to ensure the contribution regime continues to be fair to all stakeholders and effectively serves Canadians.*" Many large, well entrenched, parties will attempt to use this review to reduce or eliminate this subsidy regime. Since SaskTel is currently a net recipient of some $30 million from this regime, we will be watching the proceeding carefully and will make every effort to ensure that a regime remains in place to enable us to provide quality service to our customers in high cost areas.

Network Management

The CRTC is examining the current and potential traffic management practices of Internet Service Providers operating in Canada (Net Neutrality). The commission aims to establish criteria that will be used in the event that specific traffic management practices need to be authorized. Although SaskTel currently makes little use of traffic management tools, the company may wish to do so in the future if bandwidth usage continues to grow. The Commission's decision in this proceeding could possibly reduce SaskTel's options.

Accessibility

SaskTel is participating in a CRTC proceeding on telecommunications and broadcasting services accessibility for people with disabilities. As a result of this proceeding, SaskTel could face new and significant obligations and costs in both telephony and broadcasting. Final determinations on these issues are likely to be released in late 2009.

Human Resources

Collective Agreement

A significant portion of our employees are unionized and are represented by the Communications, Energy and Paperworkers Union of Canada (CEP). The current SaskTel Collective Agreement is in effect until March 2010, which ensures labour harmony over the term of the agreement and allows SaskTel to focus on moving the business forward. The collective agreement covering SaskTel Expansion Division employees is in effect until August 2010.

Human Resource Development

The changing workforce demographics, increased competition for skilled resources and rising demands for workforce flexibility all pose human resource challenges for SaskTel and the industry as a whole. SaskTel faces unique challenges because Saskatchewan is expected to experience limited growth. The province's working age population is projected to decline and the competition for skilled resources will remain strong. These factors may impair our ability to deliver products and services in a timely manner, increase operating costs and reduce employee morale and productivity. Although the global recession, combined with a positive economic climate in Saskatchewan, is expected to temporarily ease the situation through 2010, these challenges are anticipated to continue in the long term. We mitigate this risk through our People Core Strategy which focuses on strategic workforce planning, employee retention and employee attraction.

In 2008, SaskTel continued implementation of its strategic workforce planning process and developed the 2008-2012 SaskTel People Plan. The People Plan identifies SaskTel's key workforce issues, summarizes future workforce projections, and outlines a series of strategies and actions that identify how the organization will recruit, support, develop and retain the employees it needs for future success. We continued to implement SaskTel's corporate action plan throughout 2008 with numerous initiatives in progress to address five key areas of focus: Recruitment & Selection, Attraction & Retention, Staff Development, Knowledge Management and Productivity Improvement.

In addition, an evolution plan was developed in 2008 to ensure continuous improvement of the workforce planning process at SaskTel. These changes will be implemented immediately in 2009, including the re-collection and analysis of all workforce data and future workforce projections to ensure that the workforce management plan remains current and valid.

Economic Conditions

In 2008, Saskatchewan led the nation in economic growth, thanks to its strengths in the resource, agriculture and construction sectors along with investment activity. The province saw strong employment figures and increased consumer spending throughout the year. An increase in Saskatchewan's population along with economic growth has led to further growth. Saskatchewan's economy is expected to continue growing, though at a lower rate over the next several years.

> The province saw strong employment figures and increased consumer spending throughout the year.

The global economic crisis began to affect the Canadian economy in the latter part of 2008. Though somewhat insulated, SaskTel could be hurt financially if the cost of capital increases and its availability declines. This may result in slower growth for some major projects in the province.

Technology

Transformation in this industry is driven by technological change, spurred on by changing customer expectations, increased competition, market agility, and the need to reduce costs. SaskTel's ability to react effectively to this technological change is a risk factor, given that customers today are more inclined to change providers and competition has become increasingly nimble.

Converged Services and Networks

With consumers demanding that any service be available on any device, in all places, the marketplace is moving inevitably towards "ubiquitous" connectivity. The intensity of this demand and speed of these technological changes presents a risk to SaskTel because it determines which services and networks it will deploy. As competitors become increasingly nimble in the market, SaskTel must ensure it can deliver with the same speed.

Demand for Increased Bandwidth

The demand for bandwidth-intensive services continues to grow. Services that include faster internet speeds, high definition television, personal video recorders and video on demand are commanding more broadband capacity. The cablecos are looking to deploy DOCSIS 3.0 networks to upgrade their capacity. Fibre to the Home (FTTH) has emerged as a network solution being deployed by incumbent providers in the United States and in Europe. SaskTel is currently undertaking a trial in this area.

As competitors look to upgrade their infrastructure to accommodate these increasing requirements, SaskTel must do likewise with its network. The risk of customer and revenue loss is great if our capacity or speed of service delivery falls behind that of the competition.

Wireless Products & Services

In 2008, Industry Canada held a reserved spectrum auction intended to increase competition and innovation. Saskatchewan became one of the most competitive markets for bidding, which resulted in SaskTel, two incumbents, one regional cableco, and one potential national carrier obtaining spectrum. Wireless continues to show strong growth in Canada and Saskatchewan. Competition is increasing which will drive prices down and reduce margins. SaskTel customers and revenues may be at risk if our pricing and packages are not competitive with those offered by emerging players.

As code division multiple access (CDMA) networks become outdated, the two major incumbent providers will replace their networks with high speed packet access (HSPA), which some industry analysts speculate will be a transition to a more robust long-term evolution (LTE) wireless network. To retain our market share in Saskatchewan, SaskTel must follow suit and upgrade our existing wireless network.

Growth

The telecommunications industry is forecast to continue growing though at a much slower pace than recent years. Increasing competition, customer demands and changing behaviours are affecting SaskTel and the industry as a whole. We continue to see our revenues shift with the continued decline of margins from legacy services and pricing pressures in growth markets. We will continue to focus on growth portfolios such as wireless, data and broadband and identify strategies to retain and find new sources of revenue.

We will continue to focus on growth portfolios such as wireless, data and broadband and identify strategies to retain and find new sources of revenue.

Our primary strategy for growth is Saskatchewan First. With the province of Saskatchewan currently experiencing strong economic growth, SaskTel has an opportunity to take advantage of this positive environment, in part by remaining open to new partnerships and alliances. Our subsidiaries will focus on organic growth initiatives to expand their customer base and existing lines of business.

SaskTel has a number of risk parameters and governance structures in place to mitigate risk, including parameters to reflect country risk, currency risk, investment size, investment focus, rate of return expectations and overall business risk. We believe that SaskTel's growth strategy creates and increases value, and does not unduly increase our overall risk profile.

Financial Risks

Cost Reduction

Since 2000, SaskTel has been focused on operational efficiency and removing operating costs from the legacy part of the business. During these years, SaskTel's operational efficiency programs have reduced our annual operating costs by approximately $150 million. While this is a significant achievement, we cannot be complacent. The onset of local competition, the transition to lower margin Internet Protocol-based services and the continued decline in legacy revenues reinforce the need to continually focus on initiatives that will improve efficiency and remove costs from the business.

As such we continue reducing costs by improving internal systems and processes to increase overall productivity. We will also continue to identify and achieve productivity gains through our corporate productivity program. In 2009, we will complete reviews of all Telco departments with a goal to achieve $35 million in annualized savings by 2012.

Pension Plan

The combined effect of the worldwide decline in capital markets and historically low interest rates has resulted in the SaskTel Pension Plan (defined benefit) being in a significant deficit position. If the capital markets do not recover in time and/or the discount rate used to value pension liabilities decreases further, there is a risk that we will have to increase employer contributions significantly to maintain the financial health of the plan and meet regulatory funding requirements. This would have a material and negative effect on cash and, ultimately, on net earnings.

Should capital markets recover quickly and ongoing returns exceed underlying plan expectations and/or the discount rate increases, an opposite, positive effect will result.

We continue to mitigate pension plan risk by contributing to the plan as required by existing legislation and managing the asset mix to the optimal proportion of equities, real estate and bonds. In addition, we completed an actuarial study in 2008 to re-evaluate the funding status of the plan. This study led to the decision to fix employer contributions for solvency deficit reduction through 2010, unless otherwise deemed appropriate. During this period, we will continually monitor market rates of return, interest rates, and other factors to determine the impact on plan funding and solvency status. We believe these actions will ensure the plan deficit is managed and ultimately eliminated as required by existing legislation.

Legal Liability Risks

SaskTel, like all businesses, faces the risk of being sued. Our employees interact with thousands of people daily and our assets are numerous and visible. We are exposed to various aspects of legal risk, including contractual, professional, statutory and third party liability, which could negatively impact our results and reputation.

Although the legal risk environment that we operate in is reasonably stable, we dedicate significant effort to managing our legal exposures. Central to our legal risk mitigation is the expertise and active business involvement of our Corporate Counsel division, a corporate structure that uses separate legal entities (subsidiaries) to limit liability, a focus on contractual assignment of risk or limitation of liability, and sound operating procedures at the core of our business. Additionally, our corporate insurance program provides a degree of financial protection from specific third party legal liabilities.

Cellular Class Action Suit

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

SaskTel's operational efficiency programs have reduced our annual operating costs by approximately $150 million.

The Plaintiffs renewed their application for certification and the renewed application was heard in June of 2007. On September 17, 2007, the Saskatchewan court certified the Plaintiff's proceeding as a class action with respect to an allegation of unjust enrichment only. SaskTel, together with all other defendants in the proceedings have filed motions with the Saskatchewan Court of Appeal seeking leave to appeal the decision of the court certifying the action as a class action. SaskTel's leave to appeal application is presently before the Court of Appeal. No specific date has yet been set for the hearing of that application. The application has recently been adjourned pending two motions that need to be decided before SaskTel's application for leave to appeal can be heard. SaskTel continues to believe that it has strong defences to the allegations and that legal errors were made by the court in the certification proceeding. However, if the ultimate outcome favours the plaintiffs, SaskTel could experience a material and negative impact on net earnings.

R.L.T.V. Investments Lawsuit

On March 20, 2007, R.L.T.V. Investments Inc. brought a lawsuit against Saskatchewan Telecommunications Holding Corporation, Saskatchewan Telecommunications and several current and former officers and employees of Saskatchewan Telecommunications. The lawsuit includes allegations that SaskTel wrongfully obtained its Multipoint Communication Systems (MCS) licence in Saskatchewan and is legally responsible for the failure of Image Wireless Communications Inc. as a consequence of alleged breach of contract, intentional interference with trade or business, deceit, misrepresentation and breach of the Competition Act. The Plaintiff claims damages in excess of $87 million. SaskTel believes that it has strong defences to the allegations and a motion to strike all claims against the defendants was heard on September 25, 2007. The court struck the lawsuit in its entirety and the Plaintiff's appeal of the decision to the Saskatchewan Court of Appeal was heard on November 20, 2008 with the decision to be given at a later date. However, SaskTel could experience a material and negative impact on earnings.

911 Fee Class Action Suit

On June 26th, 2008, a proceeding under the Class Actions Act (Saskatchewan) was brought against several Canadian wireline, wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireline and wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning fees and charges paid for 9-1-1 service. The Plaintiffs seek unquantified damages from the defendant communications service providers. Thus far, the claim has simply been issued by the Plaintiffs. SaskTel is not aware whether all the named defendant carriers have been served with the claim yet. SaskTel believes that it has strong defences to the allegations that are made by the Plaintiffs in the claim and will be strongly defending and opposing the claims that have been made. External legal counsel has been retained by SaskTel to handle this matter.

Operational Risks

System Security

System security involves the protection of information and associated systems and networks. These systems and network assets are used to process, manage and store customer, employee, operational and competitive information.

Risks associated with the security of information systems are complicated by the rate of change in technology, the growth of Internet Protocol services, the regulatory environment and the continued risks associated with conducting business in this changing environment.

The mitigation strategies for securing information systems involve protecting the confidentiality, integrity, and availability, of information and related services.

Physical Damage

With more than 1,400 locations of SaskTel property, plant, and equipment around the province, we have a substantial investment in physical property. All of it is exposed to damage from natural hazards, vandalism and other forms of accidental loss. Damage or destruction of our assets could reduce revenues, increase expenses and impair asset values.

To reduce and prevent such losses we have taken several measures: a stringent preventative maintenance program, regular inspections by independent loss prevention engineers, strict procedures on housekeeping practices, and appropriate physical security controls. We have hardened our major switching centres; we have installed automatic sprinklers and fire detection systems; and we have developed business continuity and disaster recovery plans. As well, our comprehensive insurance program is in place to transfer any physical loss and resultant business interruption experienced.

Hardware and Software Failures

From traditional voice services, to leading-edge internet, entertainment and data services, SaskTel's extensive network has evolved over the years to provide variety. The confidence level in the networks is high. However, our network infrastructure is complex and the possibility of a hardware or software failure impairing our ability to provide service to customers cannot be ruled out.

In addition to building high levels of redundancy into our network infrastructure, we use a number of other mitigation strategies to manage these risks, including regular operational reviews, business continuity plans, pre-arranged disaster recovery support from vendors, stringent testing procedures for new software, preventative maintenance programs and site hardening of critical locations.

Vendor Viability

SaskTel performs regular reviews of all major vendors to assess our exposure in the event that hardware, software, professional and support services are affected by changes in vendor viability. Market conditions have stressed most technology vendors, as shown by Nortel's filing for bankruptcy protection. SaskTel manages the lifecycle evolution of our technology and services to ensure we are well prepared to address any issues that arise, as in this case, with Nortel's restructuring. Specifically, the network has been purposely built as a diverse, multi-vendor environment. Also, SaskTel has business continuity plans that address the ongoing operation of both wireless and wireline services that depend on Nortel infrastructure. SaskTel's evolution planning for technology and services not only defines transitional steps for current and future goals, but also defines mitigation actions where necessary.

OPERATING RESULTS

Net Income

($ millions)	2008	2007	Change	%
Operating Revenues	**$1,137.8**	$1,061.7	$76.1	7.2
Operating Expenses	**996.1**	954.6	41.5	4.3
Income from operations	**141.7**	107.1	34.6	32.3
Other items	**4.8**	4.3	0.5	11.6
Interest and related costs	**(23.1)**	(25.0)	1.9	7.6
Income before the following	**123.4**	86.4	37.0	42.8
Gain on sale of investments	**–**	1.0	(1.0)	*nmf*[1]
Income from continuing operations	**123.4**	87.4	36.0	41.2
Loss from discontinued operations	**2.0**	3.3	(1.3)	*nmf*[1]
Net income	**$121.4**	$84.1	$37.3	44.4

Net income for the year was $121.4 million, up $37.3 million from 2007. Income from continuing operations was $123.4 million, up $36.0 million from 2007.

During the fourth quarter of 2008, SaskTel, through its subsidiary Saskatchewan Telecommunications, approved a plan whereby specific underperforming out-of-province SaskTel assets (formerly part of Navigata) will be divested. In addition, during the fourth quarter of 2008, SaskTel, through its subsidiary DirectWest Corporation (DirectWest) approved a plan whereby the underperforming operations of DirectWest's wholly-owned subsidiary DirectWest Canada, Inc. will be divested.

As a result, the assets and liabilities related to SaskTel's out-of-province operations have been reported as assets held for sale and liabilities related to assets held for sale in the Statement of Financial Position for the current period. As well, the results of operations of DirectWest Canada, Inc. have been presented as discontinued operations in the Consolidated Statements of Operations and Cash Flows and the DirectWest Canada, Inc. assets and liabilities have been reported as assets of discontinued operations and liabilities of discontinued operations in the Consolidated Statement of Financial Position for all periods presented.

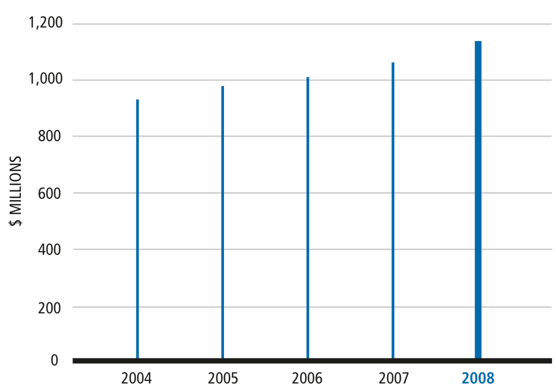
The out-of-province long-lived assets classified as held for sale, have been written down to the lower of their carrying amount and fair value, less cost to sell, resulting in a charge to operations of $8.3 million.

Additional details are provided in Note 7 of the consolidated financial statements.

Operating Revenues

Total operating revenues increased to $1,137.8 million in 2008, up $76.1 million (7.2%) from 2007. The increase was primarily driven by continued strong customer growth in cellular, *Max* Entertainment Services and internet services, and by growth in Hospitality Network Canada Inc., DirectWest Corporation and SecurTek Monitoring Solutions Inc. Increases in these services were partially offset by reductions in local access and long distance services.

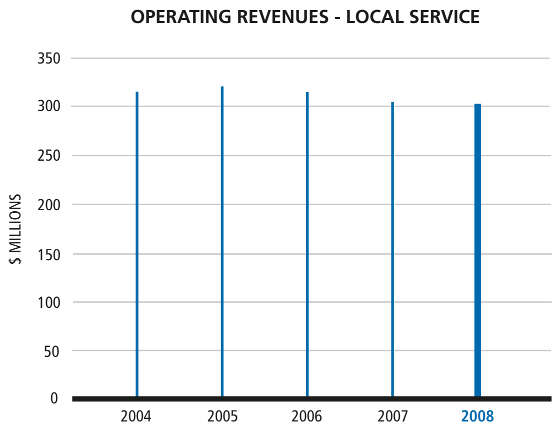
OPERATING REVENUES



($ millions)	2008	2007	Change	%
Local services	**$302.5**	$304.8	$(2.3)	(0.8)
Wireless	**350.2**	301.3	48.9	16.2
Max Entertainment Services, internet and data services	**215.0**	194.4	20.6	10.6
Long distance services	**111.8**	117.1	(5.3)	(4.5)
Other revenues	**158.3**	144.1	14.2	9.9
Total	**$1,137.8**	$1,061.7	**$76.1**	**7.2**

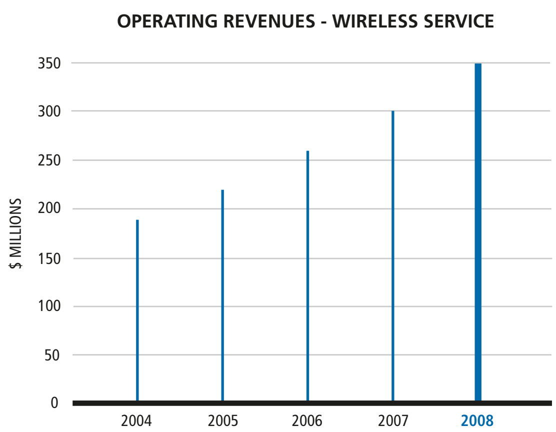
[1] No meaningful number (nmf).

Local Service

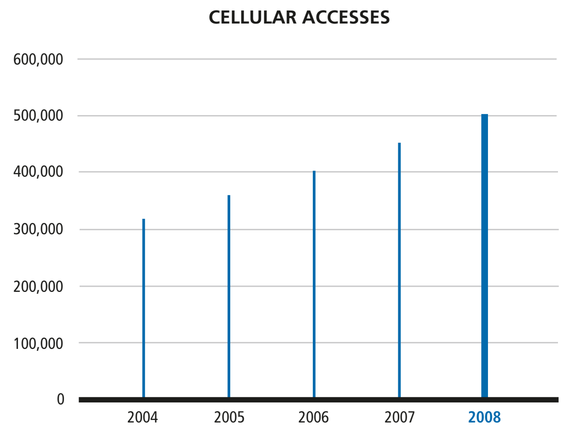


Local service revenues declined to $302.5 million in 2008, a reduction of $2.3 million (0.8%) from 2007. This decline reflects the reduction in network accesses that occurred during the year as local access competitors gained market share and as customers continued to migrate to wireless services.

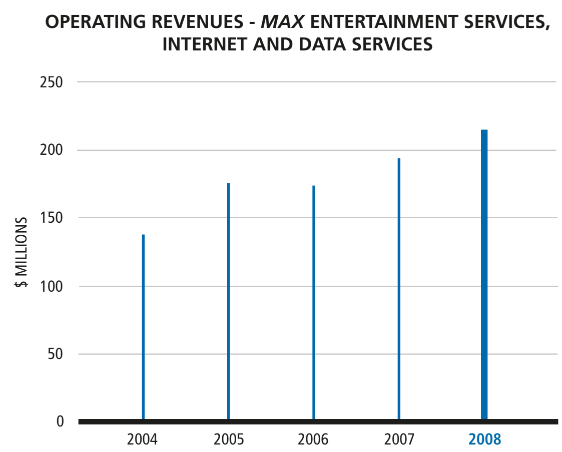
Wireless Services



Wireless revenues increased significantly to $350.2 million in 2008, up $48.9 million (16.2%) from 2007. This was driven primarily by continued strong customer growth for cellular service, as total cellular accesses increased to 502,020 at year end, up 49,802 from 2007. The average revenue per cellular subscriber increased to $60.80, up from $57.90 in 2007 as cellular customers continue to increase usage of services such as text messaging and downloadable ring tones.

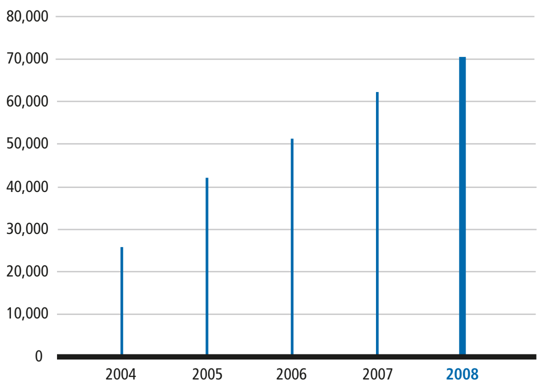


Max Entertainment Services, Internet and Data Services



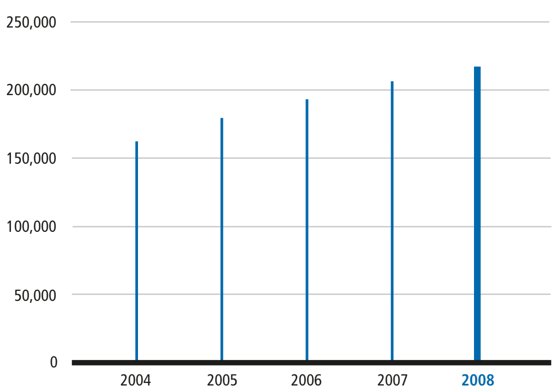
Revenues from *Max* Entertainment Services, internet and data services increased to $215.0 million in 2008, up $20.6 million (10.6%) from 2007. *Max* Interactive Services revenues increased by $15.3 million from 2007, driven primarily by continued strong customer growth. At year end, there were 70,463 *Max* Entertainment Services customers compared to 62,244 at the end of 2007, an increase of 8,219 (13.2%). *Max* Entertainment Services deliver digital video signals, including high definition and specialty television channels, digital TV recorder, video on demand in partnership with Hollywood studios, local video on demand, live event pay per view and "always on" high speed internet.

***MAX* ENTERTAINMENT SERVICES SUBSCRIBERS**



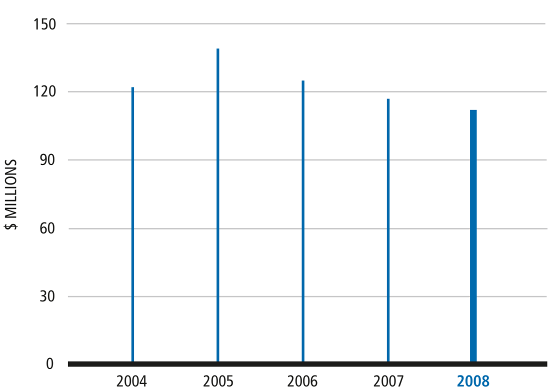
Internet revenues increased $5.3 million in 2008, primarily due to an increase in internet customers. At year end there were 216,062 internet accesses (including *Max* Entertainment Services accesses), up from 205,837 in 2007, an increase of 10,225 (5.0%). This growth was driven, in part, by our continued expansion of service to more Saskatchewan communities.

INTERNET ACCESSES



Long Distance

OPERATING REVENUES - LONG DISTANCE



Long distance revenues declined to $111.8 million in 2008, a reduction of $5.3 million (4.5%) from 2007. Competitive pressures and continued growth in long distance bundles and unlimited calling plans continues to drive long distance revenues downward.

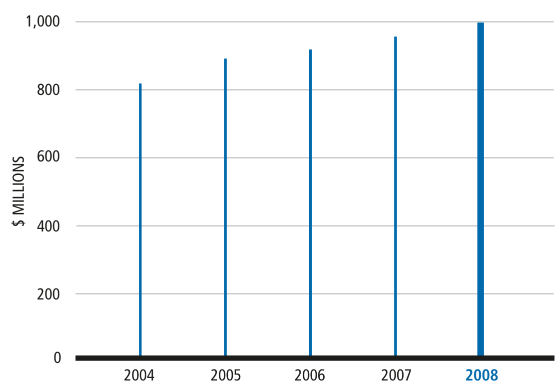
Other Revenues

Other revenues increased to $158.3 million in 2008, up $14.2 million (9.9%) from 2007. This increase was due to increased sales of customer premise equipment, and to increased revenues from Hospitality Network Canada Inc., DirectWest Corporation and SecurTek Monitoring Solutions Inc.

Operating Expenses

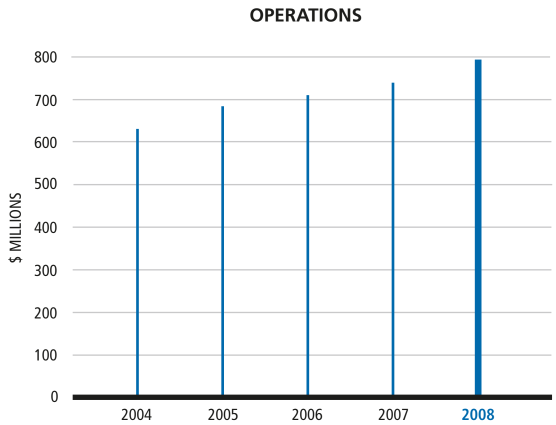
Total operating expenses increased to $996.1 million in 2008, up $41.5 million (4.3%) from 2007. The increase was driven primarily by increased expenses to support cellular and *Max* Entertainment Services revenue growth, and increases to depreciation and amortization expenses. A one-time cost relating to a write-down of SaskTel's out-of-province assets also contributed to the increase in operating expenses. These increases were partially offset by a reduction in restructuring charges.

OPERATING EXPENSES



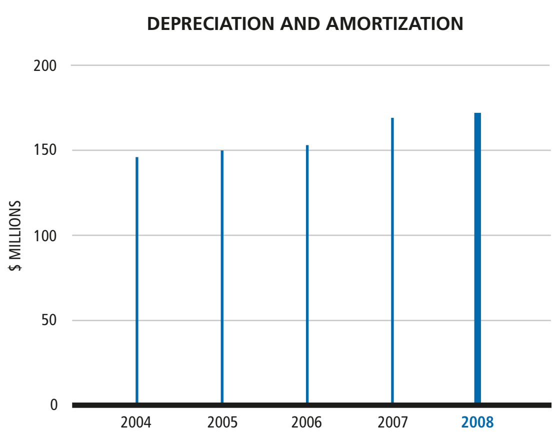
($ millions)	2008	2007	Change	%
Operations	**$793.8**	$740.0	$53.8	7.3
Depreciation and amortization	**172.5**	169.0	3.5	2.1
Restructuring charges	**21.5**	45.6	(24.1)	(52.9)
Write-down of assets held for sale	**8.3**	–	8.3	*nmf*
Total	**$996.1**	$954.6	$41.5	4.3

Operations



Operations expense increased to $793.8 million in 2008, up $53.8 million (7.3%) from 2007.

Direct costs, which include items such as *Max* Entertainment Services content fees, cost of goods sold for customer premise equipment, cellular roaming expenses, commissions and license fees, increased by $34.5 million in 2008. Increases in bad debt expense, increases in consulting expenditures incurred to complete operational reviews to identify productivity improvement opportunities, and increased spending by SaskTel's subsidiaries to support revenue growth also contributed to the increase in 2008.



Depreciation and Amortization

Depreciation and amortization expense increased to $172.5 million in 2008, up $3.5 million (2.1%) from 2007, due to increased levels of property, plant and equipment.

Restructuring charges

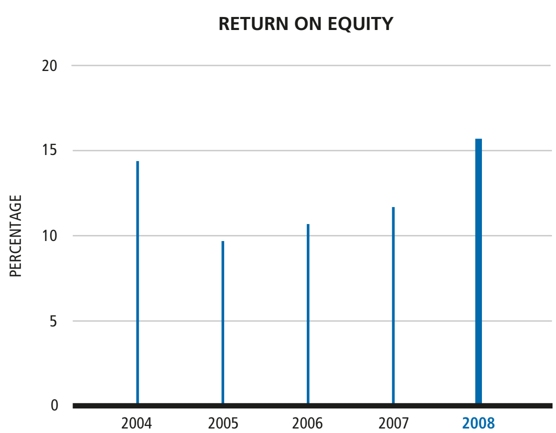
Restructuring charges decreased to $21.5 million in 2008, down $24.1 million (52.9%) from 2007. Restructuring costs were driven by the Early Retirement Program which was implemented in 2004 with the goal of reducing operating costs in traditional lines of business, while at the same time creating opportunities for growth in non-traditional areas. The number of employees electing to retire under this program decreased to 123 in 2008 as compared to 163 in 2007.

Write-down of assets held for sale

During the fourth quarter of 2008, SaskTel, through its subsidiary Saskatchewan Telecommunications, approved a plan whereby specific underperforming out-of-province assets of Saskatchewan Telecommunications will be divested. The out-of-province long-lived assets classified as held for sale, have been written down to the lower of their carrying amount and fair value, less cost to sell, resulting in a charge to operations of $8.3 million.

Return on Equity

	2008	2007	Change	%
Return on equity	**15.7**	**11.8**	3.9	33.1

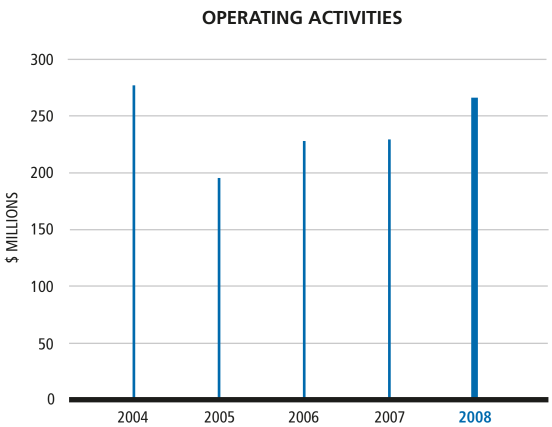


LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities

($ millions)	2008	2007	Change	%
Years ended December 31	**$266.3**	$229.5	$36.8	16.0

Cash provided by operating activities was $266.3 million, up $36.8 million from 2007. Cash provided by operations increased $25.9 million compared to 2007 primarily due to increased earnings. Working capital changes resulted in an increase in cash of $10.9 million compared to 2007. This increase was primarily related to decreased accounts receivable due to increased collection activities.



Cash used by investing activities

($ millions)	2008	2007	Change	%
Years ended December 31	**$217.1**	$175.4	$41.7	23.8

In 2008, cash used in investing activities was $217.1 million, up $41.7 million from 2007, primarily due to the purchase of wireless spectrum of $66.0 million, partially offset by a reduction in property, plant and equipment expenditures of $24.7 million.

Investing Activities

Capital Spending

SaskTel's property, plant and equipment spending in 2008 was $147.5 million, down $24.7 million from 2007. The decrease was driven by planned spending reductions in the Efficient Activation & Sales Integration (EASI) Program, the Access/Core Network program and the CDMA Expansion Phase III program as well as construction efficiencies in the Next Generation Access Infrastructure (NGAI) Program. The decrease was partially offset by investment to support SaskTel's bandwidth infrastructure, designed to meet customer requirements in established services such as *Max* Entertainment Services, high speed internet, and all future Internet Protocol service needs.

SaskTel invested approximately $111.5 million in growth initiatives in 2008 compared to $129.3 million in 2007. Expenditures to sustain capital assets decreased to $29.0 million in 2008 from $39.7 million in 2007.

Growth and diversification initiatives in 2008 included:

- $40.4 million in additional investment into the Access & Core Network Growth program to ensure the SaskTel Wireline and Wireless network continues to meet customer needs.
- $19.1 million in capital expenditures to enhance the *Max* Entertainment Services program. *Max* Entertainment Services provides customers with a full line-up of digital and HD quality television channels, as well as unlimited high speed internet on their TV and PC.
- $16.3 million in capital spending on state-of-the-art equipment to prepare the SaskTel network for the future exponential growth in Wireline data requirements.
- $11.7 million in capital spending on the EASI program to create a user-friendly, web-based front-line sales tool. This program will integrate back-end systems for more effective order management when fulfilling and billing customer requests.
- $6.4 million in capital investment on the Rural Broadband Expansion program. This Program will deliver Wireless Broadband Internet primarily to rural communities, farms and remote areas using Multipoint Communications System (MCS) technology.
- $5.2 million in capital spending on the Code Division Multiple Access (CDMA) Expansion Phase III program to improve digital wireless network coverage in rural areas across Saskatchewan.

Significant investments to sustain capital assets in 2008 included:

- $11.8 million in capital sustainment spending on the Wireline and Wireless networks to ensure the SaskTel network remains a leader in quality while still being able to meet growth in customer demand.
- $8.5 million in capital spending for systems infrastructure and desktop computer provisioning initiatives. These upgrades will replace and establish new data and communications infrastructure needed to sustain current technology and provide for future growth.
- $4.1 million was spent in capital for the maintenance and construction of facility and equipment buildings across Saskatchewan.

Targets for 2009

Capital expenditures in 2009 will focus on further investment in growth initiatives, while sustaining current capital assets. A large portion of the growth expenditures will see capital investment to increase bandwidth to our customers. Capital investments will include a cellular network upgrade to High Speed Packet Access, network growth and refurbishment, further investment in *Max* Entertainment Services, the EASI program, and improved high speed internet quality.

Cash used by financing activities

($ millions)	2008	2007	Change	%
Years ended December 31	**$53.7**	$53.1	0.6	1.1

Cash used in financing activities was $53.7 million, up $0.6 million from 2007, primarily due to increased dividend payments to Crown Investment Corporation of Saskatchewan of $24.8 million and increased debt repayment of $7.2 million, offset by increased short-term borrowings of 31.7 million. During the last five years, SaskTel paid a total of $301.4 million in dividends while maintaining a debt ratio below 40%.

($ millions)	2008	2007	Change	%
Long-term debt	**$331.1**	$352.4	$(21.3)	(6.0)
Short-term debt	**31.7**	–	31.7	*nmf*
Less: Sinking funds	**62.5**	56.4	6.1	10.8
Cash and short-term investments	**4.9**	12.0	(7.1)	(59.2)
Net Debt	**295.4**	284.0	11.4	4.0
Equity	**785.1**	742.7	42.4	5.7
Capitilization	**$1,080.5**	$1,026.7	53.8	5.2
Debt ratio	**27.3%**	27.7%	(0.3)	(1.2)

The debt ratio decreased in 2008 while SaskTel continued to self-finance its capital and dividend requirements for most of the year. The overall level of debt increased by $11.4 million because of increased short-term borrowing and reduced cash and short-term investments, partially offset by reduced long-term debt and increased sinking funds. Retained earnings increased $42.4 million after recording net income of $121.4 million and declaring dividends of $78.9 million.

Debt Instruments

SaskTel's debt portfolio consists of short-term and long-term debt. Both are issued through, and guaranteed by, the Province of Saskatchewan. Short-term debt is issued at market rates in effect on the issue date. Long-term debt is at fixed interest rates.

The average interest rate on SaskTel's fixed rate debt was approximately 7.52% in 2008 and 7.68% in 2007. The average interest rate of the short-term debt was 1.35%.

The interest rate on SaskTel's debt depends on the credit rating of the Province of Saskatchewan which issues debt on SaskTel's behalf. The following table lists the credit ratings of the Province at December 31, 2007.

	S&P	DBRS	Moody's
Long-Term debt	AA+ Stable	AA low Stable	Aa1stable
Short-Term Liabilities	A-1 +	R-1 (mid)	Not Rated

Access to Capital

The primary uses of cash in 2009 will be property, plant and equipment expenditures, growth initiatives, and dividend payments.

The 2009 plan assumes that funding of capital expenditures, growth initiatives and dividend payments will be initially from operations. Additional funding will be accessed through short-term notes, and potentially, long-term debt issued through the Province of Saskatchewan.

Credit facilities consist of up to $125 million in combined lines of credit with financial institutions and advances from the Province of Saskatchewan. At December 31, 2008, SaskTel had accessed $31.7 million of these facilities.

Besides this credit facility, SaskTel has authority to issue up to $1.3 billion in combined short-term and long-term debt. At December 31, 2008 total outstanding debt was $362.8 million compared to $352.4 million in 2007.

Use of Financial Instruments

SaskTel uses derivative instruments to manage exposure to interest rate risk and foreign exchange risk. Derivative instruments are not used to speculate. Because derivative instruments are related to specific financial exposures, there is no significant liquidity risk. At December 31, 2008, there were no derivative financial instruments outstanding.

SIGNIFICANT ACCOUNTING POLICIES

SaskTel's consolidated financial statements are prepared according to Canadian Generally Accepted Accounting Principles (GAAP). Please refer to Notes 2 and 3 to the consolidated financial statements for information about the accounting principles that SaskTel uses in preparing its financial statements.

Key Accounting Estimates and Assumptions

In preparing the consolidated financial statements, management is required to make estimates and assumptions in determining transaction amounts and financial statement balances, and is required to constantly evaluate the estimates and assumptions used. Management bases these estimates and assumptions on past experience and other factors considered reasonable under the circumstances. Because of the judgment and uncertainty involved, the amounts currently reported in the financial statements could, in the future, prove to be inaccurate.

Employee Defined Benefit Plans

SaskTel maintains defined benefit plans that provide pension, other retirement and post-employment benefits for employees. The primary plan is the SaskTel Pension Plan which has been closed to membership since 1977. Reported financial statement amounts relating to these benefits are determined using actuarial calculations that are based on several assumptions.

SaskTel performs a valuation at least every three years to determine the actuarial present value of the accrued pension and other retirement benefits. The valuation uses management's assumptions for the discount rate, expected long-term rate of return on plan assets, rate of compensation increase and expected average remaining years of service of employees. Management believes these assumptions are appropriate; however, differences in actual results or changes in assumptions could affect employee benefit obligations and future income or expense. SaskTel accounts for differences between actual and assumed results by recognizing differences in benefit obligations and plan performance over the working lives of the employees who benefit from the plans.

The two most significant assumptions used to calculate the net employee benefit plan's obligation are the discount rate and the expected long-term rate of return on plan assets.

Discount Rate

The discount rate is the interest rate used to determine the present value of the future cash flows that SaskTel expects will be required to settle employee benefit obligations. It is usually based on the yield of long-term, high-quality, corporate fixed income investments with terms reflecting the profile of the plan members.

SaskTel determines the appropriate discount rate at the end of every year. SaskTel's discount rate was 7.50% at December 31, 2008, up 2.00% from 5.50% used in 2007. Changes in the discount rate could have an effect on SaskTel's earnings through an effect on the projected benefit obligation. A lower discount rate results in a higher obligation, which could at some point require additional contributions to the plan.

Expected Long-term Rate of Return

In 2007, SaskTel assumed an expected long-term rate of return on plan assets of 6.75% consistent with the rate used in 2007. This rate is not currently anticipated to change in 2009.

Allowances for Doubtful Accounts

SaskTel and its subsidiaries maintain allowances for losses expected to result from customers who do not make their required payments. Estimates of the allowances are based on the likelihood of collecting accounts receivable based on past experience, taking into account current and expected collection trends. If economic conditions or specific industry trends become worse than anticipated the allowances for doubtful accounts will be increased by recording an additional expense.

Depreciation and Amortization

Depreciation and amortization is an estimate to allocate the cost of an asset over its estimated useful life on a systematic and rational basis. Estimating the appropriate useful lives of assets requires significant judgment and is generally based on past experience with similar assets, taking into account expected technological or other changes. If technological changes happen more quickly or in a different way than anticipated, management may have to shorten an asset's estimated useful life. This could result in a higher amortization expense in future periods or an impairment charge to reflect the write down in value of the asset.

Long-lived Assets

Long-lived assets, including property, plant and equipment, are amortized over their useful lives. SaskTel reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset, or group of assets, to be held and used when the carrying value exceeds the total undiscounted cash flows expected from use and eventual disposal. Estimating the cash flows from the use and eventual disposal of long-lived assets requires significant judgement and is generally based on current and anticipated asset potential, including future technological trends. Declines in future cash flow potential or significant unanticipated technology changes could impact the carrying value and potential impairment. In addition, SaskTel cannot predict whether an event that may trigger an impairment will occur, when it will occur or how it will affect the asset values reported.

Goodwill

SaskTel management does not amortize goodwill and tests it for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment testing is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. The estimates of future cash flows and fair value reflect management's best estimates, but they include uncertainties that cannot be controlled. As a result, the amounts reported for these items could change if assumptions are different or if conditions vary in the future. SaskTel cannot predict whether an event that triggers impairment will occur, when it will occur or how it will affect the asset values reported.

Intangible Assets

SaskTel records intangible assets at the most appropriate value depending on the method of acquisition; cost for purchased and internally developed intangible assets, and fair value for intangible assets acquired in business combinations. Intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value. Estimating the cash flows from the use and eventual disposal of intangible assets requires significant judgement and is generally based on current and anticipated asset potential, including future technological trends. Declines in future cash flow potential or significant unanticipated technology changes could impact the carrying value and potential impairment, in addition, SaskTel cannot predict whether an event that triggers an impairment will occur, when it will occur or how it will affect the asset values reported.

Contingencies

SaskTel becomes involved in various litigation and regulatory matters as a regular part of its business. Pending litigation, regulatory initiatives or regulatory proceedings represent potential financial loss to SaskTel. SaskTel will accrue a potential loss if it is probable and it can reasonably be estimated. This decision is based on information available at the time.

FIVE YEAR RECORD OF SERVICE

ANNUAL CONSOLIDATED FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

($ millions)	**2008**	2007	2006	2005	2004
Operating revenues	**$1,137.8**	$1,061.7	$1,009.6	$978.8	$930.6
Operations expenses	**793.8**	740.0	709.7	684.4	631.2
Restructuring charges	**21.5**	45.6	55.1	41.0	40.5
EBITDA	**322.5**	276.1	244.8	253.4	258.9
Depreciation and amortization	**172.5**	169.0	152.6	149.7	145.5
Write-down of long-lived assets	**8.3**	–	–	15.3	–
Income from operations	**141.7**	107.1	92.2	88.4	113.4
Other items	**4.8**	5.3	5.6	1.2	8.1
Interest & related costs	**(23.1)**	(25.0)	(25.3)	(25.2)	(27.0)
Income from continuing operations	**123.4**	87.4	72.5	64.4	94.5
Loss from discontinued operations	**2.0**	3.3	–	–	–
Net income	**$121.4**	$84.1	$72.5	$64.4	$94.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

($ millions)	**2008**	2007	2006	2005	2004
Current assets	**$136.2**	$150.4	$138.6	$218.6	$216.1
Property, plant and equipment, at cost	**2,932.8**	2,893.9	2,793.0	2,640.6	2,568.0
Accumulated depreciation and amortization	**1,996.1**	1,928.0	1,834.9	1,766.1	1,675.2
Total assets	**1,360.8**	1,296.5	1,254.9	1,213.6	1,230.7
Current liabilities	**237.5**	213.8	206.6	218.0	203.9
Long-term debt	**327.4**	327.8	348.9	320.7	362.3
Dividends declared	**78.9**	30.0	50.0	57.9	88.0
Total equity	**785.1**	742.7	687.6	665.1	658.6

ANNUAL CONSOLIDATED FINANCIAL INFORMATION

CONSOLIDATED CASH FLOW STATEMENT

($ millions)	**2008**	2007	2006	2005	2004
Cash and cash equivalents, beginning of year	**$12.0**	$16.1	$97.1	$141.5	$90.6
Cash provided by operating activities	**266.3**	229.5	228.1	195.4	276.0
Cash used in investing activities	**(217.1)**	(175.4)	(231.1)	(144.7)	(110.2)
Cash used in financing activities	**(53.7)**	(53.1)	(78.0)	(95.1)	(114.9)
Decrease in cash from discontinued operations	**(2.6)**	(5.1)	–	–	–
Cash and cash equivalents, end of year	**$4.9**	$12.0	$16.1	$97.1	$141.5

FINANCIAL RATIOS

($ millions)	**2008**	2007	2006	2005	2004
Return on equity	**15.7%**	11.8%	10.7%	9.7%	14.4%
Debt ratio	**27.3%**	27.7%	30.4%	28.3%	25.7%

QUARTERLY CONSOLIDATED FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

($ millions)	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Operating revenues	$289.4	$287.5	$283.2	$277.7	$271.3	$272.4	$261.2	$256.8
Operations expenses	209.0	194.2	198.2	192.4	188.9	187.6	190.6	172.9
Restructuring charges	7.1	0.2	14.2	–	23.9	–	21.7	–
EBITDA	73.3	93.1	70.8	85.3	58.5	84.8	48.9	83.9
Depreciation and amortization	43.7	43.4	43.0	42.4	45.3	43.3	41.2	39.2
Write-down of assets held for sale	8.3	–	–	–	–	–	–	–
Operating income	21.3	49.7	27.8	42.9	13.2	41.5	7.7	44.7
Other items	2.6	1.2	0.6	0.4	2.9	0.4	0.5	1.5
Interest & related costs	(4.5)	(6.7)	(6.7)	(5.2)	(4.4)	(5.8)	(8.2)	(6.6)
Loss from discontinued operations	2.0	–	–	–	3.3	–	–	–
Net income (loss)	$17.4	$44.2	$21.7	$38.1	$8.4	$36.1	–	$39.6

ANNUAL OPERATING STATISTICS

($ millions)	**2008**	2007	2006	2005	2004
Wireless*					
Total wireless access services	**510,886**	460,277	411,918	368,817	326,916
Cellular access services	**502,020**	452,218	402,676	360,137	318,102
Cellular average revenue per access ($)	**60.8**	57.9	55.5	53.6	50.9
Wireline*					
Network access services	**555,668**	565,647	576,289	581,812	584,899
Internet access services (includes *Max* accesses)	**216,062**	205,837	192,623	179,388	162,117
Max customers	**70,463**	62,244	51,277	42,089	25,800
Originated long distance minutes (000's)	**1,397,661**	1,388,800	1,393,824	1,390,614	1,426,493
Employees and payroll					
Total employees	**5,063**	5,209	5,152	5,134	4,852
Salaries earned (000's)	**$296,494**	$292,765	$275,679	$272,032	$268,082

**Does not include SaskTel internal use*

Consolidated Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements, included in the annual report of Saskatchewan Telecommunications Holding Corporation for the year ended December 31, 2008, are the responsibility of management and have been approved by the Board of Directors. Management has prepared the consolidated financial statements in accordance with generally accepted accounting principles in Canada. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

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

The Board of Directors fulfills its responsibility with regard to the financial statements principally through its Audit Committee, consisting 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 KPMG LLP Chartered Accountants, as appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan.

Robert Watson
President and
Chief Executive Officer
February 23, 2009

Mike Anderson
Chief Financial Officer

AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan.

We have audited the consolidated statement of financial position of Saskatchewan Telecommunications Holding Corporation as at December 31, 2008 and the consolidated statements of operations and comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada
February 23, 2009

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended December 31, (Thousands of dollars)	**2008**	2007
Operating revenues	**$1,137,826**	$1,061,740
Operating expenses		
Operations	**793,812**	739,984
Depreciation and amortization	**172,478**	169,012
Restructuring charges (Note 6)	**21,506**	45,630
Write-down of assets held for sale (Note 7)	**8,274**	–
	996,070	954,626
Income from operations	**141,756**	107,114
Other items	**4,793**	4,261
Interest and related items (Note 8)	**(23,091)**	(25,031)
Income before the following	**123,458**	86,344
Gain on sale of investment	**–**	1,059
Income from continuing operations	**123,458**	87,403
Loss from discontinued operations (Note 7)	**2,080**	3,284
Net income	**121,378**	84,119
Other comprehensive income	**–**	–
Comprehensive income	**$121,378**	$84,119

See Accompanying Notes

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31, (Thousands of dollars)	**2008**	2007
Retained earnings, beginning of year	**$492,660**	$438,541
Net income	**121,378**	84,119
	614,038	522,660
Dividends	**78,896**	30,000
Retained earnings, end of year	**$535,142**	$492,660

See Accompanying Notes

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, (Thousands of dollars)	**2008**	2007
Assets		
Current assets		
Cash and short-term investments	**$3,808**	$11,294
Accounts receivable (Note 18a)	**91,375**	104,345
Inventories	**8,521**	10,662
Prepaid expenses (Note 18a)	**18,462**	18,667
Assets held for sale (Note 7)	**14,040**	5,382
	136,206	150,350
Property, plant and equipment (Note 9)	**936,723**	965,939
Goodwill	**18,079**	18,079
Intangible assets – finite-life (Note 10)	**26,975**	28,098
Intangible assets – indefinite-life (Note 11)	**65,981**	–
Sinking funds (Note 12)	**62,540**	56,408
Deferred pension costs (Note 20)	**91,518**	60,761
Other assets (Note 13)	**14,761**	15,224
Assets held for sale (Note 7)	**7,967**	1,629
	$1,360,750	$1,296,488
Liabilities and Province's equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 18a)	**$112,960**	$130,369
Notes payable (Note 14)	**31,700**	–
Dividend payable	**26,612**	7,500
Services billed in advance (Note 18a)	**53,513**	48,987
Current portion of long-term debt (Note 15)	**3,699**	24,573
Liabilities related to assets held for sale (Note 7)	**9,006**	2,323
	237,490	213,752
Deferred revenue	**10,714**	12,274
Long-term debt (Note 15)	**327,404**	327,802
	575,608	553,828
Province of Saskatchewan's equity		
Equity advance (Note 16)	**250,000**	250,000
Retained earnings	**535,142**	492,660
	785,142	742,660
	$1,360,750	$1,296,488

See Accompanying Notes

On behalf of the Board: Grant Kook Blair Davidson

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, (Thousands of dollars)	**2008**	2007
Operating activities		
Income from continuing operations	**$123,458**	$87,403
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	**172,478**	169,012
Pension expense of defined benefit plans	**(12,741)**	(5,810)
Special termination benefits cost (Note 20)	**11,584**	31,884
Contributions to defined benefit pension plans	**(29,727)**	(40,321)
Sinking fund earnings	**(3,367)**	(1,923)
Change in fair value of financial instruments	**501**	(136)
Other	**(4,771)**	(315)
Write-down of assets held for sale (Note 7)	**8,274**	–
Net change in non-cash working capital (Note 18b)	**589**	(10,314)
Cash provided by operating activities	**266,278**	229,480
Investing activities		
Property, plant and equipment expenditures	**(147,508)**	(172,191)
Spectrum licenses	**(65,981)**	–
Proceeds on sale of investments	**–**	1,800
Customer accounts	**(3,601)**	(4,994)
Cash used in investing activities	**(217,090)**	(175,385)
Financing activities		
Proceeds from notes payable	**31,700**	–
Sinking fund installments	**(3,266)**	(3,266)
Repayment of long-term debt	**(21,040)**	(13,844)
Capital lease obligations	**(144)**	143
Dividends paid	**(59,784)**	(35,000)
Financing leases	**(1,140)**	(1,119)
Cash used in financing activities	**(53,674)**	(53,086)
Increase (decrease) in cash from continuing operations	**(4,486)**	1,009
Decrease in cash from discontinued operations (Note 7)	**(2,618)**	(5,073)
Cash and cash equivalents, beginning of year	**12,046**	16,110
Cash and cash equivalents, end of year	**$4,942**	$12,046
Comprised of:		
Cash of continuing operations	**$3,808**	$6,299
Short-term investments of continuing operations	**–**	4,995
Cash and cash equivalents of continuing operations	**3,808**	11,294
Cash of discontinued operations	**1,134**	752
	$4,942	$12,046

See Accompanying Notes

Note 1 – The Corporation

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

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

One of the Corporation's subsidiaries, Saskatchewan Telecommunications is regulated by the Canadian Radio-television and Telecommunications Commission (CRTC) under the *Telecommunications Act* (Canada).

Note 2 – Change in accounting policies

Effective January 1, 2008, the Corporation adopted the accounting recommendations for capital disclosures (Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535) in accordance with the transition provisions of the section. This section requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether externally imposed capital requirements have been complied with. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results.

Effective January 1, 2008, the Corporation adopted the accounting recommendations for financial instruments - disclosures (CICA Handbook Section 3862) and financial instruments - presentation (CICA Handbook Section 3863) in accordance with the transition provisions of the sections. These sections replace the existing disclosure and presentation recommendations contained in financial instruments – disclosure and presentation (CICA Handbook Section 3861). The new disclosure standards increase the disclosures related to financial instruments, and the nature, extent and management of the Corporation's risks arising from financial instruments. The presentation standards carry forward unchanged from the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results.

Effective January 1, 2008, the Corporation adopted the accounting recommendations for inventories (CICA Handbook Section 3031). The new recommendations establish standards for the determination of the cost of inventories and the subsequent recognition as expense, including any write-down to net realizable value and reversals of previous write-downs for increases to net realizable value. In addition, the new recommendations require inventories of major spare parts to be reclassified as property, plant and equipment. The new recommendations have been implemented retroactively resulting in the following adjustments:

Total adjustments to January 1, 2008 balances are as follows:

Increase (decrease)	(Thousands of dollars)
Inventory	$(1,248)
Property, plant and equipment	1,248

Note 3 – Summary of significant accounting policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (GAAP).

Subsidiaries and investments

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

Declines in value below cost, of investments accounted for using the equity or cost method, are recognized as a charge to income when such declines are considered to be other than temporary.

The following is a summary of the operating entities in which the Corporation has an interest:

Operating entities	Percentage ownership	Basis for inclusion
Saskatchewan Telecommunications	100.0%	Consolidation
Saskatchewan Telecommunications International, Inc.	100.0%	Consolidation
DirectWest Corporation	100.0%	Consolidation
DirectWest Canada, Inc.	100.0%	Consolidation
SecurTek Monitoring Solutions Inc.	100.0%	Consolidation
Hospitality Network Canada Inc.	100.0%	Consolidation
Saskatoon 2 Management Ltd.	70.0%	Proportionate consolidation
Saskatoon 2 Properties Limited Partnership	70.0%	Proportionate consolidation
Manalta Investment Company Ltd.	1.0%	Cost
NSI Global Inc.	0.1%	Cost

The following is a summary of the non-operating entities of the Corporation: 675161 British Columbia Ltd., Abernethy Enterprises, Inc., Avonlea Holding, Inc., Battleford International, Inc., Esterhazy Holding, Inc., Hollywood At Home Inc., Wild River Resources Ltd. (formerly Hygait Resources Ltd.), Lootah SaskTel LLC (United Arab Emirates Corporation), Navigata Communications Ltd., Craik Enterprises, Inc. (formerly Navigata Holding CCIV, Inc.), Nokomis Holding, Inc., Qu'Appelle Holding, Inc., Saskatchewan Telecommunications International (Tanzania) Limited, SaskTel International Consulting, Inc., SaskTel Investments Inc., SecurTek Partnership No. 8, SecurTek Partnership No. 9, Shellbrook Holding, Inc., Vanguard Holding, Inc., Wadena Holding, Inc., Xavier Holding, Inc., Yellowgrass Holding, Inc., and Zenon Park Holding, Inc.

Cash and short-term investments

Cash and short-term investments include investments in money market instruments, which are purchased with maturity dates of less than 90 days. Short-term investments are stated at fair value.

Inventories

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

Note 3 – Summary of significant accounting policies, continued

Property, plant and equipment

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

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

Asset	Estimated useful life
Buildings	25 - 35 years
Plant and equipment	2 - 50 years
Office furniture, equipment and leaseholds	2 - 17 years

With respect to property, plant and equipment acquired, constructed or developed over time, the Corporation follows the policy of capitalizing related equipment, construction, development and installation costs, including direct labour, as plant under construction. These costs are then depreciated and amortized on a basis consistent with the Corporation's depreciation and amortization policy from the date the asset is substantially completed and put into productive use.

Assets held for sale and discontinued operations

Long-lived assets are classified as held for sale when certain criteria are met, which include: the Corporation's commitment to a plan to sell the assets; the assets are available for immediate sale in their present condition; an active program to locate buyers and other actions to sell the assets have been initiated; the sale of the assets is probable and their transfer is expected to qualify for recognition as a completed sale within one year; the assets are being actively marketed at reasonable prices in relation to their fair value; and it is unlikely that significant changes will be made to the plan to sell the assets or that the plan will be withdrawn.

A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction represent a disposal group and are reflected as assets and liabilities held for sale.

The Corporation measures long-lived assets held for sale at the lower of carrying amount or fair value less cost to sell. These assets are not depreciated or amortized.

A component of the Corporation that is held for sale is reported as a discontinued operation if the operations and cash flows of the component will be eliminated from the ongoing operations as a result of a disposal transaction and the Corporation will not have a significant continuing involvement in the operations of the component after the disposal transaction.

Note 3 – Summary of significant accounting policies, continued

Impairment of long-lived assets

Long-lived assets, including property, plant and equipment, are amortized over their useful lives. The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of loss recorded is determined by deducting the asset's fair value (based on discounted cash flows from its use and disposition) from its carrying value.

Asset retirement obligations

Legal obligations associated with the retirement of property, plant and equipment are initially measured at fair value and are adjusted for any changes resulting from the passage of time and any changes to the timing or amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized as part of the related asset and is amortized into earnings over the asset's useful life. There were no significant asset retirement obligations as at December 31, 2008.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the tangible and intangible assets acquired less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Corporation's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination as described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statement of operations and comprehensive income.

Intangible assets

Finite-life intangible assets, including customer accounts acquired individually, with a group of other assets or through the Corporation's authorized dealers are recorded at cost.

Finite-life intangible assets acquired in a business combination are recorded at their fair values.

Other finite-life intangible assets, including customer contracts, are recorded at cost of acquisition or development, and may include direct development costs, overhead costs directly attributable to development activity and betterment costs.

Note 3 – Summary of significant accounting policies, continued

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Asset	Estimated useful life
Customer accounts	3 - 10 years
Customer contracts	8 years
Non-competition agreement	6 years
Customer list and relationships	10 years

The Corporation annually reviews the amortization method and useful lives of finite-life intangible assets.

Finite-life intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

Indefinite-life intangible assets

Intangible assets with an indefinite life are not subject to amortization; they are tested annually for impairment to ensure that their fair value is greater than, or equal to, their carrying value. Any excess of carrying value over fair value is charged to income in the period in which impairment is determined.

Revenue recognition

Revenues are recognized in the period the services are provided when there is clear proof that an arrangement exists, amounts are determinable and the ability to collect is reasonably assured. Revenues from local telecommunications, data, internet, entertainment and security services are recognized based on access to the Corporation's network and facilities at the rate plans in effect during the period the service is provided. Certain service connection charges and activation fees, along with corresponding direct costs, are deferred and recognized over the average expected term of the customer relationship. Revenues from long distance and wireless airtime are recognized based on the usage or rate plans in the period service is provided. Revenues from equipment sales are recognized when the equipment is delivered to, and accepted by, the customer. Revenues for longer term contracts are recognized based on a percentage of completion. Payments received in advance are recorded as deferred revenue until the product or service is delivered.

Customer solutions may involve the delivery of multiple services and products that occur at different points and over different periods of time. The multiple services are separated into their respective accounting units and consideration is allocated among the accounting units. The relevant revenue recognition policies are applied to each accounting unit.

Revenues are earned through the sale of print and electronic telephone directory advertising, on-line advertising and advertising in agricultural publications. Advertising revenues are generally recognized, in accordance with the contractual terms with advertisers, on a monthly basis over the life of the print directory or electronic directory advertising commencing with the delivery or display date, respectively. Amounts billed in advance for directory advertising are deferred and recognized over the corresponding life of the directory.

Note 3 – Summary of significant accounting policies, continued

Operating revenues for perpetual licenses are recognized on delivery or according to the terms of the license agreement. Revenues related to customized software contracts are recognized upon customer acceptance or when customer acceptance provisions of the contract are satisfied. Where the arrangement includes multiple elements, perpetual license revenues are recognized on delivery, provided the undelivered elements are not essential to the functionality of the license and the Corporation has evidence of fair value for all the undelivered items. If payment is subject to customer acceptance, revenue is not recognized until customer acceptance or expiration of the acceptance period. Fees for professional services, other than in the context of multiple element arrangements, are recognized as services are rendered. Support and maintenance fees are recognized over the term of the contract.

Revenues for turn-key telecommunication projects and consulting services are recognized using the percentage of completion method or the achievement of contract milestones. Amounts billed or paid in advance of services provided are recorded as deferred revenue.

The CRTC has established a National Subsidy Fund to subsidize Local Exchange Carriers (LECs), like the Corporation, that provide service to residential customers located in high cost service areas (HCSAs). The CRTC has set the rate per line and band for all LECs. The Corporation recognizes the revenue on an accrual basis by applying the rate to the number of residential network access lines served during the period in HCSAs.

Employee future benefits

The Corporation has: a defined benefit pension plan (a), a defined contribution pension plan (b), and a service recognition defined benefit plan (c).

a) Defined benefit pension plan

The Corporation accrues its obligations under the Saskatchewan Telecommunications Pension Plan and the related costs, net of plan assets. The Corporation has adopted the following policies related to the defined benefit plan:

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

Pension plan assets are valued at fair value, which is determined using current market values.

Expected return on plan assets is calculated based on a five year weighted average of actuarial gains and losses, expected returns on plan assets, and contributions and benefit payments made in the current year.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees who were active on the day of the amendment but not yet fully eligible to receive benefit (8.3 years). This represents the period that economic benefits from the amendments are expected to be realized.

Note 3 – Summary of significant accounting policies, continued

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market related value of the plan assets is amortized over the average remaining life of retired members of the plan. The average remaining life of retired members was calculated as a weighted average of 22 years.

When the restructuring of a benefit plan results in a settlement and a curtailment of obligations, the curtailment is accounted for prior to the settlement.

b) Defined contribution pension plan

Defined contribution plan costs are recognized as employees render services during the year.

c) Service recognition defined benefit plan

The Corporation also provides a service recognition defined benefit program for its employees. The cost of the plan is determined using the projected benefit method prorated on service.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates.

Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Financial instruments

Upon initial recognition, financial instruments are measured at fair value and are classified as held-to-maturity, held-for-trading, available-for-sale, loans and receivables or other liabilities. Held-to-maturity assets are carried at amortized cost with amortized premiums or discounts and other than temporary losses due to impairment included in net income. Held-for-trading assets and liabilities are carried at fair value with any gains or losses included in net income. Available-for-sale assets are carried at fair value with revaluation gains or losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, and other liabilities are accounted for at amortized cost using the effective interest method. Transaction costs are included in the initial carrying value of the financial instrument except for held-for-trading instruments in which case they are expensed as incurred.

Derivative financial instruments are used by the Corporation in the management of its financial exposures as deemed appropriate, and based on the risk management strategy of the Corporation. The Corporation's policy is not to use derivative financial instruments for trading or speculative purposes.

Note 3 – Summary of significant accounting policies, continued

The Corporation, from time to time, is party to certain derivative financial instruments, principally interest rate swap contracts (used to manage the exposure to market risks from changing interest rates) and forward foreign exchange contracts (used to manage foreign currency exposures).

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

For fair value hedges, changes in the fair value of the derivatives and corresponding changes in fair value of the hedged items attributed to the risk being hedged will be recognized in net income. For cash flow hedges, the effective portion of the changes in the fair values of the derivative instruments will be recorded in other comprehensive income until the hedged items are recognized in net income.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of property, plant and equipment and underlying estimations of useful lives of depreciable assets and capitalization of labour and overhead, the carrying amount of goodwill and intangible assets and underlying estimates of future cash flow, the carrying amounts of accounts receivable and underlying provision for bad debts and the carrying amounts of deferred pension costs and underlying actuarial assumptions. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 4 – Accounting policy developments

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation and its subsidiaries, will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting in fiscal years beginning on, or after, January 1, 2011, including comparative figures for the prior year. The Corporation has commenced an IFRS conversion project including initiating the development of a high level IFRS implementation plan. An external advisor has been engaged to assist with the development of this plan and to perform a detailed review of major differences between current Canadian GAAP and IFRS. Work is in the early stages and, as a result, the impact on the Corporation's future financial position and results of operations is not reasonably determinable.

Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets.* Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. This section also provides further information on the recognition of internally generated intangible assets (including research and development costs). As for the subsequent measurement of intangible assets, goodwill, and disclosure, Section 3064 carries forward the requirements of the old Section 3062, *Goodwill and Other Intangible Assets*. These changes will be effective for year-ends beginning on, or after, October 1, 2008. The Corporation is currently evaluating the effect of the adoption of this new section on the consolidated financial statements.

Rate regulated operations

The CICA has amended certain sections of the CICA Handbook to remove the rate regulation exemption for recognition of certain assets and liabilities arising from rate regulation as well as other recognition and measurement guidance. These changes will be effective for year-ends beginning on, or after, January 1, 2009. The Corporation is currently assessing the impact of implementation of these recommendations.

Note 5 – Rate regulation

The Corporation's telecommunications and broadcast services are regulated by the CRTC. However, the CRTC only regulates rates for specific telecommunications services and only in locations where the Commission believes that the level of competition in that service is not high enough that market forces can be relied on to protect the interests of customers. For these 'non-forborne' services, the rate which the Corporation may charge must receive CRTC approval prior to being implemented and may not be set below the long run incremental cost of the service, calculated according to CRTC costing rules. The CRTC also regulates the rates for all services that are designed for use by competitors. The CRTC requires rates for many of these services to be based on long run incremental costs plus approved mark-ups.

Note 5 – Rate regulation, continued

In addition, the CRTC has implemented a price cap framework which: limits the Corporation's flexibility in the pricing of some rate regulated retail services; subjects certain competitor service rates to potential annual decreases; and prohibits the Corporation from altering basic residential access rates in areas deemed to be Low Cost Serving Areas. The CRTC has established a subsidy mechanism aimed at keeping basic residential access affordable in areas deemed by the CRTC to be High Cost Serving Areas (HCSAs). In these areas the Corporation receives a subsidy from the National Contribution Fund equal to the difference between long-run incremental costs in these areas and the rates charged to subscribers. Therefore the revenue received by the Corporation in these areas is effectively the rate charged to subscribers plus the subsidy per line. The cost component of the subsidy calculation amount is adjusted annually based on assumed productivity gains less inflation. The rate component is also adjusted annually as the CRTC has given the Corporation the ability to make annual rate increases equal to the rate of inflation in HCSAs; however, even if the Corporation does not raise rates in these areas, the increase is assumed to have been applied and the subsidy per line is decreased.

Approximately 18% (2007 – 28%) of the Corporation's operating revenues are currently subject to CRTC rate regulation. Rate regulation does not result in the Corporation selecting accounting policies that would differ from generally accepted accounting principles.

Note 6 – Restructuring charges

During 2008, $21,506,097 (2007 - $45,630,369) was recorded to restructuring charges. The charges relate to phase three of a three–phase, voluntary early retirement program (ERP) for Saskatchewan Telecommunications.

The ERP has been undertaken to reduce operating costs and manage the employee demographic profile in the context of a changing labour market. During 2008, 123 employees (2007 – 163) elected to receive a package that included a cash allowance and immediate pension benefits.

An additional charge of approximately $6.4 million is expected to be incurred in 2009. These costs are not eligible for recognition at December 31, 2008 and will be expensed as incurred.

The table below provides a summary of the costs recognized and the liability recorded at December 31:

	2008	2007 (Thousands of dollars)
Balance in accounts payable and accrued liabilities, beginning of year	**$9,760**	$8,102
Restructuring charges	**21,506**	45,630
Less:		
Cash payments	**10,542**	12,088
Special termination benefits costs (Note 20)	**11,584**	31,884
Balance in accounts payable and accrued liabilities, end of year	**$9,140**	$9,760

Note 7 – Discontinued operations and assets held for sale

During the fourth quarter of 2008, the Corporation, through its subsidiary Saskatchewan Telecommunications (SaskTel), approved a plan whereby specific underperforming out-of-province assets of SaskTel will be divested and the criteria for classification as assets held for sale have been met. In addition, during the fourth quarter of 2008, the Corporation, through its subsidiary DirectWest Corporation (DirectWest) approved a plan whereby the underperforming operations of DirectWest's wholly-owned subsidiary DirectWest Canada, Inc. will be divested and the criteria for classification as a discontinued operation have been met.

As a result, the assets and liabilities related to SaskTel's out-of-province operations (the disposal group) have been reported as assets held for sale and liabilities related to assets held for sale in the Statement of Financial Position for the current period; the results of operations of DirectWest Canada, Inc. have been presented as discontinued operations in the Consolidated Statements of Operations and Cash Flows and the DirectWest Canada, Inc. assets and liabilities have been reported as assets of discontinued operations and liabilities of discontinued operations in the Consolidated Statement of Financial Position for all periods presented.

The out-of-province long-lived assets held for sale, have been written down to the lower of their carrying amount and fair value less cost to sell resulting in a charge to operations of $8,273,760.

The results of discontinued operations related to the operations of DirectWest Canada, Inc. are as follows:

	2008	2007 (Thousands of dollars)
Revenues	**$7,457**	$5,651
Cost of sales	**4,548**	4,132
Operating expenses	**4,751**	4,495
Depreciation and amortization	**273**	359
Interest income	**35**	38
Non-controlling interest	**–**	13
Loss from discontinued operations	**$2,080**	$3,284

Note 7 – Discontinued operations and assets held for sale, continued

The assets held for sale and the related liabilities, including the assets and liabilities of discontinued operations are as follows:

	2008	2007 (Thousands of dollars)
Assets		
Current assets		
Assets held for sale		
Accounts receivable	**$7,401**	$ –
Prepaid expenses	**22**	–
	7,423	–
Discontinued operations		
Cash	**1,134**	752
Accounts receivable	**1,222**	995
Prepaid publishing costs and expenses	**4,261**	3,635
	6,617	5,382
Current assets held for sale	**$14,040**	$5,382
Assets held for sale		
Property, plant and equipment	**$6,601**	$ –
Discontinued operations		
Property, plant and equipment	**131**	187
Intangible assets	**954**	1,161
Goodwill	**281**	281
	1,366	1,629
Long-lived assets held for sale	**$7,967**	$1,629
Liabilities		
Liabilities related to assets held for sale		
Accounts payable and accrued liabilities	**$4,586**	$ –
Other liabilities	**1,984**	–
	6,570	–
Discontinued operations		
Accounts payable and accrued liabilities	**1,413**	1,237
Deferred revenue	**1,023**	1,086
	2,436	2,323
Liabilities related to assets held for sale	**$9,006**	$2,323

Note 7 – Discontinued operations and assets held for sale, continued

The cash flows from discontinued operations are as follows:

	2008	2007 (Thousands of dollars)
Operating activities	**$(2,608)**	$(4,588)
Investing activities	**(10)**	(485)
	$(2,618)	$(5,073)

Note 8 – Interest and related items

	2008	2007 (Thousands of dollars)
Interest on long-term debt	**$26,722**	$28,058
Sinking fund earnings	**(3,367)**	(1,923)
Change in fair value of sinking funds	**501**	(136)
Interest on short-term investments	**(765)**	(968)
	$23,091	$25,031

Note 9 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2008	2007 (Thousands of dollars)
Buildings	**$283,620**	**$155,711**	**$127,909**	$120,500
Plant and equipment	**2,342,101**	**1,751,349**	**590,752**	615,768
Office furniture, equipment and leaseholds	**171,979**	**88,999**	**82,980**	88,916
Plant under construction	**107,257**	**–**	**107,257**	116,008
Materials and supplies	**17,737**	**–**	**17,737**	14,682
Land	**10,088**	**–**	**10,088**	10,065
	$2,932,782	**$1,996,059**	**$936,723**	$965,939

Depreciation and amortization for the year totalled $165,778,007 (2007 - $163,181,077).

Note 10 – Intangible assets – finite-life

	Cost	Accumulated amortization	Net book value	
			2008	2007
				(Thousands of dollars)
Customer accounts	**$56,121**	**$31,606**	**$24,515**	$26,378
Customer contracts	**2,087**	**577**	**1,510**	750
Software	**970**	**20**	**950**	970
	$59,178	**$32,203**	**$26,975**	$28,098

Amortization during the year totalled $5,777,895 (2007 – $5,146,699).

Note 11 – Intangible assets – indefinite-life

Indefinite-life intangible assets consist of spectrum licenses in Saskatchewan acquired during the year, in the amount of $65,980,507. The licenses have been determined to have an indefinite life and as such are not amortized.

Note 12 – Sinking funds

Sinking funds are established under conditions attached to a portion of the long-term debt. The fund is administered by the Province of Saskatchewan and includes the Corporation's required contributions, its proportional share of earnings and its proportional share of revaluation gains or losses.

The changes in the carrying amount of sinking funds are as follows:

	2008	2007
		(Thousands of dollars)
Sinking funds, beginning of year	**$56,408**	$50,207
Installments	**3,266**	3,266
Earnings	**3,367**	1,923
Valuation adjustment, during the year	**(501)**	1,012
Sinking funds, end of year	**$62,540**	$56,408

Note 13 – Other assets

	2008	2007
		(Thousands of dollars)
Deferred expenses	**$12,044**	$11,974
Financing leases	**2,456**	2,164
Other	**261**	1,086
	$14,761	$15,224

Amortization for the year totalled $921,910 (2007 - $788,999).

Note 14 – Notes payable

The balance represents interim financing arranged under established lines of credit. As at December 31, 2008 there were $31,700,000 (2007 – Nil) of outstanding unsecured notes payable to the Province of Saskatchewan bearing interest at a rate of 1.35% due March 31, 2009.

Note 15 – Long-term debt

	Years to Maturity	Weighted Average Interest Rate (%)	**2008**	2007 (Thousands of dollars)
Province of Saskatchewan				
Canadian dollar issues (a)	2	6.15	**$90,265**	$111,190
Canadian dollar issue (a)	12	10.08	**125,751**	125,716
Canadian dollar issues (a)	21	5.70	**108,105**	108,058
			324,121	344,964
Other (b)			**6,982**	7,411
Total long-term debt			**331,103**	352,375
Less current portion			**3,699**	24,573
			$327,404	$327,802

(a) 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 debt outstanding (see note 12).

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

	(Thousands of dollars)
2009	$3,535
2010	104,666
2011	2,671
2012	2,689
2013	7,735

(b) This includes amounts related to mortgage on real property. The mortgage bears an annual interest rate of 6.28% and is amortized over 20 years. The principal repayments due in the next five years are as follows:

	(Thousands of dollars)
2009	$269
2010	286
2011	305
2012	323
2013	5,369

Note 16 – Equity advance and additional capital disclosures

a) Equity advance

As a Saskatchewan Provincial Crown corporation, the Corporation's equity financing is in the form of equity advances of $250,000,000 (2007 - $250,000,000) from CIC.

b) Additional capital disclosures

The Corporation's objectives when managing capital are to ensure adequate capital to support the operations and growth strategies of the Corporation, and to ensure adequate returns to the shareholder.

The capital structure is determined in conjunction with the shareholder based on the approved business plans.

The Corporation monitors capital on the basis of the debt ratio. The ratio is calculated as net debt divided by end of period capitalization. Net debt is defined as total debt, including long-term debt, notes payable and the current portion of long-term debt, less sinking funds, and cash and cash equivalents. Capitalization includes net debt, equity advances and retained earnings at the period end.

The Corporation's strategy, which is unchanged from 2007, is to maintain a debt to equity ratio of below 45%.

The debt ratio is as follows:

	2008	2007 (Thousands of dollars)
Total debt	**$362,803**	$352,375
Less: Sinking funds	**62,540**	56,408
Cash and short-term investments	**4,942**	12,046
Net debt	**295,321**	283,921
Equity	**785,142**	742,660
Capitalization	**$1,080,463**	$1,026,581
Debt ratio	**27.3%**	27.7%

The Corporation is not subject to any externally imposed capital requirements.

Note 17 – Commitments and contingencies

Commitments

The future minimum payments under operating leases and contractual obligations for services in each of the next five years are as follows:

	(Thousands of dollars)
2009	$37,991
2010	34,947
2011	25,246
2012	24,116
2013	15,686

The above payments include $20,940,102 for leases with related parties.

Contingencies

On August 9, 2004, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning system administration fees. The Plaintiffs seek unquantified damages from the defendant wireless communications service providers. Similar proceedings have been filed by, or on behalf of, Plaintiffs' counsel in other provincial jurisdictions. On July 18, 2006, the Saskatchewan court declined to certify the action as a class action, but granted the Plaintiffs leave to renew their application in order to further address certain statutory requirements respecting class actions. The Plaintiffs renewed their application for certification and the renewed application was heard in June of 2007. On September 17, 2007, the Saskatchewan court certified the Plaintiff's proceeding as a class action with respect to an allegation of unjust enrichment only. The Corporation, together with all other defendants in the proceedings, have filed motions with the Saskatchewan Court of Appeal seeking leave to appeal the decision of the court certifying the action as a class action. The Corporation's leave to appeal application is presently before the Court of Appeal. No specific date has yet been set for the hearing of that application. The application has recently been adjourned pending two motions that need to be decided before SaskTel's application for leave to appeal can be heard. The Corporation continues to believe that it has strong defences to the allegations and that legal errors were made by the court in the certification proceeding.

On March 20, 2007, R.L.T.V. Investments Inc. brought a lawsuit against Saskatchewan Telecommunications Holding Corporation, Saskatchewan Telecommunications and several current and former officers and employees of Saskatchewan Telecommunications. The lawsuit includes allegations that the Corporation wrongfully obtained its Multipoint Communication Systems (MCS) licence in Saskatchewan and is legally responsible for the failure of Image Wireless Communications Inc. as a consequence of alleged breach of contract, intentional interference with trade or business, deceit, misrepresentation and breach of the Competition Act. The Plaintiff claims damages in excess of $87 million. The Corporation believes that it has strong defences to the allegations and a motion to strike all claims against the defendants was heard on September 25, 2007. The court struck the lawsuit in its entirety and the Plaintiff's appeal of the decision to the Saskatchewan Court of Appeal was heard on November 20, 2008 with the decision to be given at a later date.

Note 17 – Commitments and contingencies, continued

On June 26th, 2008, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireline, wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireline and wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning fees and charges paid for 9-1-1 service. The Plaintiffs seek unquantified damages from the defendant communications service providers. Thus far, the claim has simply been issued by the Plaintiffs. The Corporation is not aware whether all the named defendant carriers have been served with the claim yet. The Corporation believes that it has strong defences to the allegations that are made by the Plaintiffs in the claim and will be strongly defending and opposing the claims that have been made. External legal counsel has been retained by the Corporation to handle this matter.

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

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2008 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's consolidated financial position or results of operations.

Deferral account

The previous price cap framework, which expired in May of 2007, included a mechanism known as the "deferral account." This mechanism was used to mitigate potential adverse effects on competition in the local market which the CRTC felt might be caused by mandated reductions in the price of local residential service. Rather than lowering rates, as the price cap formula would otherwise have required, the CRTC directed the Corporation to keep a record of the amount of revenue which would otherwise have been lost. Various adjustments to this amount were allowed or required as a result of specific CRTC policy directives.

A new price cap framework, which no longer contains a deferral account mechanism, became effective May 2007. However, there is an outstanding deferral account balance generated during the previous price cap period, which, in Saskatchewan must be used to fund initiatives such as service improvements for the disabled.

On January 17, 2008, the CRTC released its decision in the proceeding determining the specific uses of the deferral account and approving the Corporation's proposals. The Corporation will spend the deferral accounts remaining balance of $1.1 million over the next three years on items designed to improve service for the disabled.

Note 18 – Additional financial information

a) Balance sheet

	2008	2007
		(Thousands of dollars)
Accounts receivable		
Customer accounts receivable	**$80,832**	$82,941
Accrued receivables - customer	**4,990**	5,040
Allowance for doubtful accounts	**(9,159)**	(4,599)
	76,663	83,382
High cost serving area subsidy	**5,110**	5,651
Other	**9,602**	15,312
	$91,375	$104,345
Prepaid expenses		
Prepaid expenses	**$12,102**	$12,354
Deferred service connection charges	**6,360**	6,313
	$18,462	$18,667
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	**$50,080**	$66,955
Payroll and other employee-related liabilities	**52,413**	52,421
Taxes payable	**5,450**	5,730
Interest payable	**4,460**	4,809
Other	**557**	454
	$112,960	$130,369
Services billed in advance		
Advance billings	**$40,361**	$37,040
Deferred customer activation and connection fees	**8,694**	8,612
Customer deposits	**4,458**	3,335
	$53,513	$48,987

b) Supplementary cash flow information

	2008	2007
		(Thousands of dollars)
Net change in non-cash working capital		
Accounts receivable	**$6,937**	$(9,341)
Inventories	**891**	(2,492)
Prepaid expenses	**(444)**	(3,498)
Accounts payable and accrued liabilities	**(12,203)**	(943)
Services billed in advance	**5,888**	5,917
Deferred revenues	**(480)**	43
	$589	$(10,314)
Interest paid	**$26,666**	$28,058

Note 19 – Financial instruments

The Corporation's financial instruments include cash and short-term investments, accounts receivable, sinking funds, accounts payable, accrued liabilities, notes payable, dividend payable and long-term debt, which by their nature are subject to risks.

a) Fair value

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

The following table represents the carrying amounts and fair values of financial assets and liabilities measured at fair value or amortized cost:

(Thousands of dollars)		**2008**		2007	
Financial Instruments	Classification[1]	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial Assets					
Cash and short-term investments	HFT	**$3,808**	**$3,808**	$11,294	$11,294
Cash of discontinued operations	HFT	**1,134**	**1,134**	752	752
Accounts receivable	LAR	**91,375**	**91,375**	104,345	104,345
Accounts receivable - held for sale	LAR	**7,401**	**7,401**	–	–
Accounts receivable - discontinued operations	LAR	**1,222**	**1,222**	995	995
Sinking funds	HFT	**62,540**	**62,540**	56,408	56,408
Financial Liabilities					
Accounts payable and accrued liabilities	OL	**$112,960**	**$112,960**	$130,369	$130,369
Accounts payable and accrued liabilities - held for sale	OL	**4,586**	**4,586**	–	–
Accounts payable and accrued liabilities - discontinued operations	OL	**1,413**	**1,413**	1,237	1,237
Notes payable	OL	**31,700**	**31,700**	–	–
Dividend payable	OL	**26,612**	**26,612**	7,500	7,500
Long-term debt	OL	**324,121**	**408,784**	344,965	436,908
Other long-term debt	OL	**6,982**	**7,668**	7,419	8,089

[1] Classification details are:
HFT – held-for-trading
LAR – loans and receivables
OL – other liabilities

Note 19 – Financial instruments, continued

The carrying values of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities, notes payable, and dividend payable approximate their fair values due to the short-term maturity of these financial instruments.

Sinking funds are recorded at fair value based on quoted market prices for the securities held by the fund.

The fair values of the Corporation's long-term debt are estimated based on quoted market prices for the issues or for similar issues.

b) Currency risk

The Corporation is exposed to currency risk, primarily US dollars, through transactions with foreign suppliers, foreign currency denominated revenues and short-term foreign commitments. Assuming all other variables remained constant at December 31, 2008, currency fluctuations in excess of 15% would have a material impact on net income. Specifically, a 15% weakening in the Canadian dollar versus US dollar exchange rate would have a 3.5% unfavourable effect on net income while a 15% strengthening would have a 3.5% favourable effect on net income. The Corporation uses a combination of derivative financial instruments to manage these exposures when deemed appropriate. The Corporation does not actively trade derivative financial instruments.

c) Interest rate risk

The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on short-term investments, sinking funds, short-term obligations and long-term debt. The most significant of these is interest rate risk related to issuance of long-term debt. However, assuming all other variables remained constant at December 31, 2008, a 10% (25 basis point) increase or decrease in interest rates would not have a material impact on net income.

Interest rate risk on short and long-term liabilities are managed based on the refinancing needs of the Corporation using derivative financial instruments when deemed appropriate.

The average effective interest rate on the Corporation's long-term debt was 7.52% as was the average actual interest rate on long-term debt.

d) Market risk

The Corporation is exposed to market risk primarily through the sinking funds. Fair value adjustments will fluctuate based on changes in market prices. The sinking funds consist of mostly Provincial government and Federal government bonds with varying maturities to coincide with related debt maturities, and are managed based on this maturity profile and market conditions. Fair value adjustments similar to those experienced up to December 31, 2008 would not have a material impact on net income.

e) Credit risk

The Corporation is exposed to credit risk through its short-term investments, accounts receivable and sinking fund assets. Credit risk related to short-term investments and sinking fund assets is minimized by dealing with institutions that have strong credit ratings. Credit risk related to customer accounts receivable is minimized because of the large and diverse customer base covering many consumer and business sectors. The Corporation evaluates customer credit risk and limits credit availability when necessary.

Note 19 – Financial instruments, continued

The carrying amount of financial assets represents the maximum credit exposure as follows:

	2008	2007 (Thousands of dollars)
Cash and short-term investments	**$3,808**	$11,294
Cash from discontinued operations	**1,134**	752
Accounts receivable	**91,375**	104,345
Accounts receivable – held for sale	**7,401**	–
Accounts receivable – discontinued operations	**1,222**	995
Sinking funds	**62,540**	56,408
	$167,480	$173,794

The aging of customer receivables, which indicates potential impairment losses, is as follows:

Continuing operations	2008	2007 (Thousands of dollars)
Current	**$56,588**	$62,289
30-60 days past billing date	**12,651**	14,695
61-90 days past billing date	**5,197**	3,733
Greater than 90 days past billing date	**6,396**	2,224
Total	**$80,832**	$82,941

Assets held for sale	2008	2007 (Thousands of dollars)
Current	**$3,554**	$ –
30-60 days past billing date	**3,391**	–
61-90 days past billing date	**1,336**	–
Greater than 90 days past billing date	**2,107**	–
Total	**$10,388**	$ –

Discontinued operations	2008	2007 (Thousands of dollars)
Current	**$514**	$295
30-60 days past billing date	**334**	299
61-90 days past billing date	**173**	104
Greater than 90 days past billing date	**1,269**	513
Total	**$2,290**	$1,211

Note 19 – Financial instruments, continued

Provisions for credit losses are maintained and regularly reviewed by the Corporation, based on an analysis of the aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance account are as follows:

Continuing operations	**2008**	2007 (Thousands of dollars)
Allowance for doubtful accounts, opening balance	**$3,597**	$4,909
Accounts written off	**(8,902)**	(12,007)
Recoveries	**2,849**	4,379
Provision for losses	**11,615**	7,318
Allowance for doubtful accounts, closing balance	**$9,159**	$4,599

Assets held for sale	**2008**	2007 (Thousands of dollars)
Allowance for doubtful accounts, opening balance	**$1,003**	$ –
Accounts written off	**(1,376)**	–
Recoveries	**271**	–
Provision for losses	**3,068**	–
Allowance for doubtful accounts, closing balance	**$2,966**	$ –

Discontinued operations	**2008**	2007 (Thousands of dollars)
Allowance for doubtful accounts, opening balance	**$342**	$253
Accounts written off	**(239)**	(578)
Recoveries	**34**	135
Provision for losses	**957**	532
Allowance for doubtful accounts, closing balance	**$1,094**	$342

Note 19 – Financial instruments, continued

f) Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments:

December 31, 2008

	Carrying Amount	Contractual cash flows	6 mths or less	7-12 mths	2 years	3-5 years	More than 5 years
							(Thousands of dollars)
Long-term debt							
Province of Saskatchewan	$324,121	$619,392	$12,284	$12,284	$114,569	$57,101	$423,154
Other long-term debt	6,982	8,949	783	336	673	2,018	5,139
Notes payable	31,700	31,700	31,700	–	–	–	–
Dividend payable	26,612	26,612	26,612	–	–	–	–
Accounts payable and accrued liabilities							
- continuing operations	112,960	112,960	112,960	–	–	–	–
- held for sale	4,586	4,586	4,586	–	–	–	–
- discontinued operations	1,413	1,413	1,413	–	–	–	–
	$508,374	$805,612	$190,338	$12,620	$115,242	$59,119	$428,293

December 31, 2007

	Carrying Amount	Contractual cash flows	6 mths or less	7-12 mths	2 years	3-5 years	More than 5 years
							(Thousands of dollars)
Long-term debt							
Province of Saskatchewan	$344,965	$666,836	$13,333	$34,112	$24,569	$152,636	$442,186
Other long-term debt	7,309	9,678	951	336	673	2,018	5,700
Dividend payable	7,500	7,500	7,500	–	–	–	–
Accounts payable and accrued liabilities							
- continuing operations	130,369	130,369	130,369	–	–	–	–
- discontinued operations	1,237	1,237	1,237	–	–	–	–
	$491,380	$815,620	$153,390	$34,448	$25,242	$154,654	$447,886

Sufficient operating cash flows are expected to be generated to fund these contractual obligations. In addition, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows.

Note 20 – Employee future benefits

The Corporation has: a defined benefit pension plan (a), a defined contribution pension plan (b), and a service recognition defined benefit plan (c).

a) Defined benefit pension plan

The defined benefit pension plan is governed by Saskatchewan Telecommunications (SaskTel) which has been closed to new membership since 1977. The SaskTel defined benefit pension plan is registered under *The Pension and Benefit Act*, 1992, Saskatchewan, the *Income Tax Act*, Canada and regulated by the Saskatchewan Financial Services Commission – Pension Division. The Corporation is responsible for adequately funding the defined benefit pension plan. Contributions are determined by actuarial valuations. The contributions reflect actuarial assumptions about future investment returns, salary projections and future service benefits. A valuation is performed at least every three years to determine the actuarial present value of the accrued pension benefit. The latest valuation dated September 30, 2008 was performed as of December 31, 2007.

The SaskTel defined benefit pension plan provides a full pension at age 65, at age 60 with at least 20 years of service or upon completion of 35 years of service. The pension is calculated to be 2% times the average of the highest three years of pensionable earnings times the number of years of service up to a maximum of 35 years of service. A reduced pension may be opted for if certain age and years of service criteria are met.

For employees that retire before the age of 65, but meet other age plus service requirements, either a reduced or unreduced pension may be payable. Pensions are subject to annual indexing with the Consumer Price Index (CPI) up to a maximum of 2% per year.

The introduction of the ERP for the Corporation resulted in a curtailment to the defined benefit pension plan and recognition of special termination benefits costs. The impact of the curtailment was to reduce the accrued benefit obligation by $18,010,317 (2007 - $24,987,614). Special terminations benefits costs totalled $11,584,266 (2007 - $31,884,084).

Key assumptions used as inputs to the actuarial calculations are:

	2008	2007
Discount rate	**7.50%**	5.50%
Expected return on plan assets	**6.75%**	6.75%
Inflation rate	**2.50%**	2.50%
Expected salary increase	**3.00%**	3.00%
Post-retirement index (not to exceed 2%)	**100% of CPI**	100% of CPI

Note 20 – Employee future benefits, continued

The table below shows the allocation of pension plan assets:

Asset category	**2008**	2007
Equity securities	**52.7%**	52.9%
Bonds	**32.6%**	27.9%
Short-term investments (treasury bills, notes and commercial paper)	**4.6%**	11.4%
Real estate	**10.1%**	7.8%
	100%	100%

The table below shows the components of the defined pension plan cost:

	2008	2007
		(Thousands of dollars)
Current service cost – defined benefit plan	**$2,663**	$4,436
Interest cost	**54,350**	52,328
Expected return on pension plan assets	**(63,367)**	(59,897)
Special termination benefits costs	**11,584**	31,884
Amortization of net transitional asset	**(11,651)**	(11,651)
Amortization of past service costs	**3,538**	3,808
Amortization of actuarial loss	**1,726**	5,166
Net pension (income) expense	**$(1,157)**	$26,074

The accrued benefit obligation, plan assets and deferred pension cost tables below show the change in the defined benefit pension plan and the change in the fair value of the plan's assets during the year and the status of the plan as at December 31.

Accrued benefit obligation	**2008**	2007
		(Thousands of dollars)
Accrued benefit obligation, beginning of year	**$1,015,444**	$1,049,368
Impact due to change in actuarial valuation	**7,389**	–
Current service cost	**3,413**	5,622
Curtailment gain	**(18,010)**	(24,988)
Interest cost	**54,348**	52,329
Benefits paid	**(63,273)**	(58,529)
Impact due to change in discount rate	**(184,125)**	(40,242)
Special termination benefits costs	**11,584**	31,884
Accrued benefit obligation, end of year	**$826,770**	$1,015,444

Note 20 – Employee future benefits, continued

Plan assets	2008	2007 (Thousands of dollars)
Fair value of plan assets, beginning of year	**$1,044,655**	$1,007,653
Actual return on plan assets	**(167,182)**	54,080
Employer contributions	**29,599**	40,265
Employee contributions	**749**	1,186
Benefits paid	**(63,273)**	(58,529)
Fair value of plan assets, end of year	**$844,548**	$1,044,655

Deferred pension costs	2008	2007 (Thousands of dollars)
Funded status surplus	**$17,778**	$29,211
Unamortized transitional asset	**(3,844)**	(15,496)
Unamortized past service costs	**1,056**	4,595
Unamortized net actuarial losses	**76,528**	42,451
Deferred pension costs	**$91,518**	$60,761

b) Defined contribution pension plan

The defined contribution pension plan requires the Corporation to contribute 7% of employees' pensionable earnings and employees to contribute a minimum of 4% of pensionable earnings. The total cost for the defined contribution plan is equal to the Corporation's required contribution. The Corporation's 2008 pension cost and employer contributions for the Public Employees Pension Plan are $17,033,523 (2007 - $15,279,569).

c) Service recognition defined benefit plan

The service recognition defined benefit plan provided a retiring allowance of two days salary per year of service which is payable on retirement. Based on the Collective Agreement between the Corporation and the Communications, Energy and Paperworkers Union of Canada, ratified April 22, 2005, the service recognition defined benefit program was curtailed effective March 19, 2005. Employees will no longer earn two days pay per year of service, however will continue to earn incremental pay increases for the earned service at March 19, 2005 until retirement. Key assumptions used as inputs to the actuarial calculations are:

	2008	2007
Discount rate	**7.40%**	5.00%
Expected salary increase	**3.00%**	3.00%
Estimated average remaining employee service life	**14.1 years**	14.1 years

Note 20 – Employee future benefits, continued

Accrued benefit obligation	**2008**	2007 (Thousands of dollars)
Accrued benefit liability, beginning of year	**$17,830**	$19,432
Defined benefit service cost	**343**	1,282
Benefit payments	**(1,853)**	(2,884)
Accrued benefit liability, end of year	**$16,320**	$17,830

Note 21 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, 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:

	2008	2007 (Thousands of dollars)
Operating revenues	**$79,875**	$72,194
Operating expenses	**72,784**	46,383
Other income	**52**	89
Accounts receivable	**5,661**	6,453
Property, plant and equipment	**2,530**	1,373
Accounts payable and accrued liabilities	**2,403**	1,587

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

A director of the Corporation has an indirect minor interest in a related party from which the Corporation recorded operating revenues of $228,437, operating expenses of $20,301,393 for services provided to the Corporation, accounts receivable of $22,122 and accounts payable and accrued liabilities of $1,738,027.

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

Note 22 – Subsequent event

Subsequent to the year end, the Corporation, through its subsidiary DirectWest Corporation, disposed of the Alberta operations of DirectWest Canada, Inc. for consideration of $4,683,000.

Note 23 – Comparative figures

Certain of the 2007 figures have been reclassified to conform to the current year's presentation.

Board of Directors

Grant Kook – Chair

- Founder, past Chairman and Chief Executive Officer of Golden Opportunities Fund Inc.
- President/CEO of private equity and venture capital portfolio manager, Westcap Mgt. Ltd.
- Fund manager of First Nations and Métis Fund and Golden Opportunities Fund Inc.
- President and Chief Executive Officer of Cheung On Investments Group Ltd.
- Owner, President and Chief Executive officer of the Ramada Hotels in Saskatchewan since 1992.
- Serves on the boards of numerous private and publicly traded companies and is active in many community organizations such as: Canadian Venture Capital and Private Equity Association (CVCA), the World Entrepreneurs Association, First Nation Trust Funds, Children's Health and Hospital Foundation, Mike Weir Miracle Golf Drive for Kids, PotashCorp Vanier Cup and Nokia Brier, 2010 World Junior Hockey Championship, as well as the Heart and Stroke Foundation of Saskatchewan.
- Recipient of the Commemorative Medal for the Centennial of Saskatchewan, B'nai Brith – We are Proud of You Award, Ernst & Young nominee for Entrepreneur of the Year in 1998 and 2003, and in 2008 was recognized as one of the Province's Most Influential People by *Saskatchewan Business* Magazine.

Darcy Bear – Vice Chair

- Chief of the Whitecap Dakota First Nation since 1994.
- Initiated a governance and administration program to improve accountability and fiscal responsibility on the Whitecap Reserve.
- Developed Dakota Dunes Golf Links, awarded the "Best New Canadian Course, 2005" by Golf Digest magazine.
- Serves on numerous boards and commissions.
- Named one of the "Ten Most Influential People in Saskatchewan" by *Saskatchewan Business* magazine.

Blair Davidson

- Chartered Accountant and a partner in the accounting firm of Hergott, Duval, Stack LLP since 1989.
- Active on several committees with the Institute of Chartered Accountants of Saskatchewan, Chair of the Discipline Committee, former representative for Saskatchewan on the Public Liability Committee of the Canadian Institute of Chartered Accountants and board member of AICA Inc., the administrator of the public liability insurance program for the Canadian Institute of Chartered Accountants.
- Has served on several Saskatoon area boards, including: Saskatoon Golf & Country Club; the Board of Directors of Saskatoon City Hospital, Saskatoon City Hospital Foundation, the Board of Directors of the Saskatoon Airport Authority, the Saskatoon Zoo Foundation and the Royal University Hospital Foundation.
- Member of the Institute of Corporate Directors.

Terry Dennis

- Member of Canora Town Council since 1997, and has served as the town's mayor since 2000.
- An owner and operator of Dennis Foods, a family enterprise that has been a fixture in the Canora business community since 1947.
- Active supporter of the sports community, serving as a player, coach and volunteer in hockey, baseball and curling.

Dave Doepker

- Executive Chairman of the Board and Vice-President of International Business for Doepker Industries Ltd., a family business founded in 1948.
- Previously, spent 12 years in the education field and five years in the sales and management of an agricultural equipment business.
- At Doepker Industries, held positions of Director of Personnel, Vice-President of Marketing, as well as President from 1997 to 2005 before assuming his current responsibilities.
- Served as a Director on the Saskatchewan Chamber of Commerce.
- A founding member of Action Humboldt, an economic development think tank for the Humboldt region.
- Sits on the advisory board for another Saskatchewan manufacturing company.
- Served on fundraising committees for St. Elizabeth Hospital Foundation, and Humboldt Jaycees.

Board of Directors, continued

Reg Howard

- Vice-President Operations and Corporate Development at The Phoenix Group.
- Prior to joining The Phoenix Group, was the Regional Manager for Saskatchewan and Manitoba with The Co-operators Insurance Company for 19 years.
- Serves on the boards of The Regina Exhibition Association, Regina Crime Stoppers and The Chris Knox Foundation.
- Is involved with North Central Family Centre, and has served as Co-Chair of the 1966 Grey Cup Anniversary Celebration for the Saskatchewan Roughriders.

Pamela Lothian

- First female partner of McDougall Ready in the firm's 100 plus year history.
- Practiced law for 13 years before electing to concentrate on her second "career" as a homemaker, raising two daughters.
- Past-President of the Regina Bar Association and a director of Regina Community Basketball Association and the Arthritis Society of Saskatchewan.
- Currently a director of Lex Capital Corp., a private equity management company.
- Co-chairing the Volunteer Committee for the CIS Women's National Basketball Championships being hosted by the University of Regina, in March 2009.

Gayle MacDonald

- Formerly, an orthoptic technician at the Orthoptic Clinic in Regina's Pasqua Hospital.
- Along with her husband, Garth presently owns and operates G-Mac's AgTeam Inc., a full-service crop input retail business, in west-central Saskatchewan.
- Serves on the board of the Sun West School Division.

Douglas B. Richardson, Q.C.

- Partner and past Chair of McKercher, McKercher & Whitmore, Saskatchewan law firm.
- Previously worked in the investment banking industry, as well as in government in Ottawa.
- Formerly a principal of a family-owned real estate business with assets in Saskatchewan, Alberta, and U.S.A.
- SGI Board member (past), Canadiana Fund, Historica Board and past trustee of National Chamber of Commerce.

John Ritchie

- First Vice-President, Branch Manager and Investment Advisor CIBC for Wood Gundy.
- Chair (past) for the Investment Dealers Association of Saskatchewan.
- Division Chair (past) for the Regina United Way.
- Vice-Chair of Skate Canada, Regina.
- Co-founder and Chair of the Saskatchewan Open Squash Championships.
- Board member (past) Potash Corporation of Saskatchewan.

Glenys Sylvestre

- Associate Dean (Undergraduate), Paul J. Hill School of Business at the University of Regina.
- Formerly an audit and assurance manager at Deloitte & Touche.
- Councilor with the Institute of Chartered Accountants of Saskatchewan, currently President.
- Has volunteered with the Queen City Kinsmen Gymnastic Club, the 2005 Canada Summer Games and as treasurer for the Arcola East Community Association.

Dale Bloom, Secretary to the Board of Directors

Board Committees

Audit Committee

Blair Davidson - Chair
Terry Dennis
Reg Howard
John Ritchie
Glenys Sylvestre

Environment and Human Resources Committee

Glenys Sylvestre - Chair
Chief Darcy Bear
Dave Doepker
Reg Howard
Pamela Lothian

Governance Committee

Douglas Richardson - Chair
Chief Darcy Bear
Terry Dennis
Pamela Lothian
Gayle MacDonald

Corporate Growth and Technology Committee

John Ritchie - Chair
Blair Davidson
Dave Doepker
Gayle MacDonald
Douglas Richardson

2008 SaskTel Executive

Robert Watson – President and Chief Executive Officer

- Before coming to SaskTel in November, 2004, held several senior executive positions in the Canadian Telecom industry, including Vice-President of Business Development at GT Group Telecom/360 Networks; Executive Vice-President – Carrier Services, Engineering, Operations, Customer Services and Chief Quality Officer at Group Telecom; President of Shaw FiberLink Ltd.; President of Shaw Mobilecomm; and President of WIC Connexus.
- Has held numerous director and affiliation appointments within the telecommunications industry, as well as in the education and community sectors.
- A recipient of the Saskatchewan Centennial Medal, he currently sits on the Board of Directors for the Conference Board of Canada, the Canadian Prostate Cancer Network (CPCN) and the Information Technology Association of Canada (ITAC).
- Graduate in Electrical Technologies from Ryerson University.
- Has attended the International Executive Development Program at the INSEAD Centre in Fountainbleau, France, as well as the Executive Management Program at Ashridge College in the United Kingdom. Holds an ICD.D designation from the institute of Corporate Directors.

Mike Anderson – Chief Financial Officer

- 29 years with SaskTel in a variety of positions in Marketing, Operations, Customer Services, Digital Interactive Video and Corporate Development.
- Previously served on the boards of DirectWest Publishing Partnership and Navigata Communications Partnership.
- Currently sits on the boards of Saskatoon Square, SaskFilm, SaskTel International, SaskTel Pension Board and DirectWest
- B.Admin, University of Regina, Certified Management Accountant (CMA); member of the Society of Management Accountants.

Doug Burnett – Vice-President, Human Resources & Corporate Services, Acting President, SaskTel International

- 20 years with SaskTel, initially as Corporate Counsel and subsequently promoted to his current role.
- Serves as executive Sponsor for Saskatoon Square Investment, as well as on the boards of Wicihitowin Foundation, SecurTek Monitoring Solutions Inc., DirectWest Publishing Partnership, Hospitality Network Canada Inc. and INROADS, Inc.
- Member of the Conference Board of Canada's Human Resource Executives Council (West) and the National Industrial Relations Executive Council.
- Prior to SaskTel, practiced law in Regina.
- B.A, University of Regina; LL.B., University of Saskatchewan; and a Certified Human Resources Professional (CHRP) designation.
- Member of both the Canadian Bar Association and the Law Society of Saskatchewan.

Ken Keesey – Vice-President, Customer Services-Sales

- 28 years with SaskTel in a variety of positions in both Customer Services and Sales, and Operations.
- Serves on the boards of Saskatchewan Crime Stoppers, Saskatoon City Hospital Foundation, and the Canadian and International Telecom Pioneers Advisory Boards.
- One of the founding members of the SaskTel Helping Our Own People (HOOP) organization.
- Governor for Junior Achievement of Northern Saskatchewan.
- B.Admin, University of Regina.

John Meldrum – Vice-President, Corporate Counsel and Regulatory Affairs & Chief Privacy Officer, Acting Vice-President, Business Development

- 32 years with SaskTel, first as a solicitor, and later as General Counsel and Corporate Secretary.
- Serves on the boards of DirectWest Corporation, Saskatoon Properties Limited Partnership, Hospitality Network Canada Inc., and SecurTek Monitoring Solutions Inc.
- Member of The Canadian Bar Association and The Law Society of Saskatchewan.
- LL.B., University of Saskatchewan.
- Received Q.C. (Queen's Counsel) designation in 2000.

Jim Pitt – President, SaskTel Expansion Division

- Before joining SaskTel, held executive positions at GT Group Telecom from 1999 to 2005, where he was responsible for multiple divisions including International Development and the National Partner Programs, and at Shaw Communications from 1995 to 1999, where he was VP/GM for Shaw Communications Paging and Mobilecomm Divisions.

2008 SaskTel Executive, continued

Previous to Shaw, held various executive positions dating back to 1985, when he was involved with the launch of Cantel's cellular service in Canada.

- Member of the Salveo Steering Committee.
- Attended McGill University.
- Attended the McGill Management Institute focusing on finance, transportation and distribution management.

Stacey Sandison – Vice-President, Holdco Marketing

- 25 years with SaskTel including positions in Marketing, Sales, Mobility, Customer Services and Operations.
- Previously served on the SaskTel Superannuation Board, SecurTek and The Canadian Wireless Telecom Association.
- Currently serves on the Board of Canadian Women in Communications.
- B.Admin, University of Regina, MBA, Ellis College, New York.

Kym Wittal – Chief Technology Officer

- 26 years with SaskTel including positions as General Manager –Technology Performance & Operations; and positions in Information Technology, Customer Service and Human Resources.
- Previously served on the Board of Navigata.
- Serves on the Board of Directors of TRLabs and is the past Chair.
- BScEE, P.Eng, University of Saskatchewan; member of Association of Professional Engineers and GeoScientists of Saskatchewan (APEGS).

Corporate Directory

SaskTel Subsidiaries Executive Officers

Gord Farmer	President, DirectWest
Barry Rogers	President, SecurTek
Doug Jesse	President, Hospitality Network; Chief Executive Officer, SecurTek

SaskTel Senior Operating Managers

(As of December 31, 2008)

Dale Baron	Senior Director – Finance (Controller)
Gail Lefebvre	Senior Director – EASI
Darcee MacFarlane	Senior Director – Corporate Communications
Al Rogers	Senior Director – ITM (Enterprise Solutions)
Pat Tulloch	Senior Director – Operations (Salveo)
Barry Ziegler	Senior Director – Productivity

SASKTEL INTERNATIONAL SENIOR OPERATING MANAGERS

Doug Burnett	Acting President, SaskTel International
Scott Fedec	Vice-President, Finance
Steve Sousa	Vice-President, Software Solutions & Network Operations

Corporate Governance Statement

AUTHORITY

SaskTel is a Crown corporation governed by *The Saskatchewan Telecommunications Holding Corporation Act*, and subject to the provisions of *The Crown Investments Corporation Act, 1993.* The Crown Investments Corporation of Saskatchewan (CIC), as the holding company for Saskatchewan's commercial Crown corporations, has authority to establish direction for SaskTel related to certain matters set out in legislation.

Through the Chair, who is an independent director, the Board of Directors is accountable to the Minister Responsible for SaskTel. The Minister Responsible is a key communications link among the Corporation, CIC, Cabinet, the Legislature and the public.

BOARD APPOINTMENTS

The Lieutenant Governor in Council appoints members of the Board, and designates the Chair and Vice Chair. Subject to applicable legislation, directors are appointed for a fixed term and their appointments can be renewed at expiry. There are eleven (11) members on the Board.

KEY ACCOUNTABILITIES

The Board of Directors is responsible for supervising the management and affairs of the Corporation. While focusing on the strategic leadership of the Corporation, the Board delegates day-to-day operations to management and holds them accountable for the Corporation's performance.

The Board discharges its responsibilities directly, by delegation to management and through Committees of the Board. There are four Committees of the Board: the Audit Committee; the Corporate Growth and Technology Committee; the Environment & Human Resources Committee; and the Governance Committee.

CORPORATE GOVERNANCE PRACTICES

The SaskTel Board has implemented a comprehensive set of governance practices and is committed to clear disclosure of its governance practices in accordance with current best practice disclosure standards.

On June 30, 2005, the Canadian Securities Administrators (CSA) National Policy 58-201 on Corporate Governance Guidelines and National Instrument 58-101 on Governance Disclosure Rules came into effect. The CSA standards supercede the Toronto Stock Exchange Corporate Governance Guidelines, which the Board used previously to assess its practices. The Governance Committee has reviewed the Guidelines with a view of adapting the Board's governance practices to the Guidelines, where effective and beneficial. Although SaskTel is not required to comply with the CSA Governance Guidelines, the Corporation has used them to benchmark its corporate governance practices in the following section.

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
COMPOSITION OF THE BOARD **NP 58-201, section 3.1** 3.1 The board should have a majority of independent directors.	The majority of directors on the SaskTel Board (11 out of 11) are independent.	Yes
NI 58-101F1, sections 1(a) and (d) 1(a) Disclose the identity of directors who are independent; (b) Disclose the identity of directors who are not independent and the basis for that determination; (c) Disclose whether the majority of directors are independent; and (d) Disclose whether a director is a director of any other issuer that is a reporting issuer.	**Grant Kook**, Chair: *Independent* - President and CEO, Westcap Mgt. Ltd. **Chief Darcy Bear**, Vice Chair: *Independent* - Chief, Whitecap Dakota First Nations **Blair Davidson**: *Independent* - Chartered Accountant & Partner, Hergott Duval Stack LLP **Terry Dennis**: *Independent* - Entrepreneur – Business Owner **Dave Doepker**: *Independent* - Executive Chairman & VP International Business - Doepker Industries Ltd. **Reg Howard**: *Independent* - VP Corporate Development - Phoenix Advertising Group **Pam Lothian**: *Independent* - Lawyer **Gayle MacDonald**: *Independent* - Owner & Operator of G-Mac's AgTeam Inc. **Douglas Richardson, Q.C.**: *Independent* - Partner & Chairman of the Law Firm, McKercher, LLP **John Ritchie**: *Independent* - First Vice-President, Branch Manager and Investment Advisor, CIBC Wood Gundy **Glenys Sylvestre**: *Independent* - Associate Dean (Undergraduate Programs) for the Paul J. Hill School of Business Administration at the University of Regina The determination of independence is made by the Governance Committee and is based on an assessment of the requirements in Multilateral Instrument 52-110, Audit Committees. Section 1(d) does not apply to SaskTel as SaskTel does not have share capital, and is not an issuer.	Yes
NP 58-201, section 3.2 3.2 The chair of the board should be an independent director who is the effective leader of the board and who ensures that the board's agenda will enable it to successfully carry out its duties.	The Chair of the Board is an independent director who provides leadership in Board organization, processes, effectiveness and renewal, serves as liaison between the Board and the shareholder and ensures Board agendas reflect an effective balance between the role of the Board and that of management.	Yes

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
NI 58-101F1, sections 1(f)		
1(f) Disclose whether the chair of the board is an independent director; disclose the identity of the chair and describe the role of the chair	Grant Kook is the Chair of the Board and he is an independent director. The Chair reports to the Board and ultimately to the shareholder and is responsible for presiding over meetings of the Board and ensuring that the Board discharges its fiduciary and legal responsibilities. The Chair's primary duties include: • chairing meetings of the Board and ensuring meetings are properly convened and business is conducted legally • working with the CEO and the Corporate Secretary to set Board meeting schedules and establish agendas • monitoring meeting attendance and encouraging full participation by directors at meetings • communicating with directors between meetings • taking a lead role in assessing and addressing any concerns related to Board, committee or director performance • assisting directors to achieve full utilization of individual abilities • promoting an open and constructive working relationship between senior management and the Board • working with committee Chairs to maintain effective communications and division of responsibilities • providing advice and counsel to the CEO and senior management • representing the shareholders' interests and perspective to management, and representing management's views to the shareholder • in conjunction with the CEO, developing productive relationships and representing the Corporation with the shareholder and key stakeholders	Yes
MEETINGS OF INDEPENDENT DIRECTORS **NP 58-201, section 3.3**		
3.3 The independent directors should hold regularly scheduled meetings at which non-independent directors and members of management are not present.	As a Standing Agenda item, the Board holds an in camera session without management present at each regular meeting of the Board. All directors participate in the sessions, except where a director has a conflict with an item under discussion.	Yes
NI 58-101F1, sections 1(e)		
1(e) Disclose whether the independent directors hold regularly scheduled meetings at which members of management are not present; disclose the number of such meetings held in the previous 12 months; if such meetings are not held, disclose what the board does to facilitate open and candid discussion among independent directors.	There were six (6) regular Board meetings held in 2008, and during each regular meeting in camera sessions without management present but including all directors were held. Board practices that facilitate open and candid discussion among and independent judgement by directors include: • holding in camera sessions of no fixed duration where directors are encouraged to raise any issues of concern • having an independent director as Chair of the Board • clearly delineating the division of responsibilities between Board and management • providing for the Board/directors to access external advice The Board is satisfied that its governance practices foster full and open discussion and debate and that it retains the independence of mind to make decisions in the best interests of the Corporation and the shareholder.	Yes

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?

NI 58-101F1, sections 1(g)

1(g) Disclose the attendance record of each director for board meetings held in the most recently completed financial year.

The Board held six (6) meetings in 2008. The number of Board meetings attended by each director in 2008 is set out below.

Director	Meetings Attended*
Grant Kook, Chair	6(6)**
Chief Darcy Bear, Vice-Chair	1(6)
Blair Davidson	4(6)
Terry Dennis	5(6)
Dave Doepker	4(6)
Reg Howard	6(6)
Pam Lothian	6(6)
Gayle MacDonald	6(6)
Douglas Richardson	6(6)
John Ritchie	4(6)
Glenys Sylvestre	6(6)

* For the purposes of this report, members who attended meetings in part were considered to be present.
** Figures in brackets represent the maximum number of meetings for the period in which the individual was a board member.

Yes

BOARD MANDATE

NP 58-201, section 3.4

3.4 The board should adopt a written mandate which explicitly acknowledges responsibility for the stewardship of the corporation and responsibility for:

(a) to the extent possible, satisfying itself as to the integrity of the CEO and executive and that they have created a culture of integrity throughout the organization;

(b) adopting a strategic planning process and approving at least annually a strategic plan which takes into account, among other things, the opportunities and risks of the business;

(c) identification of the principal risks of the Corporation's business and ensuring the implementation of appropriate systems to manage these risks;

(d) succession planning, including appointing, training and monitoring senior management;

(e) adopting a communications policy for the Corporation;

(f) the integrity of the Corporation's internal control and management information systems; and

(g) developing the Corporation's approach to corporate governance, including a set of principles and guidelines specific to the Corporation.

The Board has written Terms of Reference that contain the majority of the elements required by the Policy. The Terms of Reference outline the Board's principal duties and responsibilities, including responsibility to function as stewards of the Corporation and to:

- provide leadership in setting the Corporation's long-range strategic direction and annually approve the Corporation's overall strategic plan
- participate in identifying the principal risks of the business in which the Corporation is engaged and oversee the implementation of appropriate systems to manage the risks
- appoint the CEO, evaluate the performance of senior management and ensure effective succession planning processes
- adopt policies and processes to enable effective communication with the shareholder, stakeholders and the public
- monitor the integrity of the Corporation's internal control and management information systems

The Board has approved Terms of Reference for Directors where the expectations and responsibilities of individual directors are delineated.

SaskTel regularly surveys internal and external stakeholders to obtain feedback about Corporate activities. The Chair of the Board participates in a forum established by CIC, which is comprised of the chairs of all subsidiary Crown boards and senior CIC officials, where issues of mutual interest and concern are shared.

Elements of the Policy not specifically identified in the Terms of Reference for the Board include (a) and (g). Respecting (a), the Board has established practices which promote a culture of ethical

Substantial compliance

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
NP 58-201, section 3.4, continued The written mandate should also address measures for receiving feedback from stakeholders (for example, a process for stakeholders to contact independent directors); and the expectations and responsibilities of directors, including basic duties to attend meetings and review materials in advance.	business conduct (see discussion under section 3.8 of NP 58-201). With respect to (g) the Board has delegated responsibility to the Governance Committee to oversee the Corporation's approach to corporate governance.	
NI 58-101F1, section 2 2 Disclose the text of the board's written mandate.	The Board's principal responsibilities are described above. The text of the Board's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.	Yes
POSITION DESCRIPTIONS **NP 58-201, section 3.5** 3.5 The board should: develop clear position descriptions for the chair of the board and the chair of each board committee; together with the CEO, develop a position description for the CEO delineating management's responsibilities; develop or approve corporate goals and objectives that the CEO is responsible to meet.	The Board has approved Terms of Reference for the Board, the Chair of the Board, the Chair of each Committee, each Committee and individual directors and has adopted a Position Description for the CEO. The CEO's Position Description sets out the CEO's primary accountabilities and responsibilities. The Board Terms of Reference address management duties, and a Final Authorization Policy, applicable to monetary and non-monetary matters, sets out those matters that require Board approval and delegates other matters to management. The Environment & Human Resources Committee annually recommends performance indicators for the Corporation and personal goals for the CEO that are approved by the Board. The Board annually approves a business plan that includes Corporate objectives, priorities and performance indicators. The CEO is responsible to see that the Corporation achieves the business plan and to meet any other targets assigned by the Board.	Yes
NI 58-101F1, sections 3(a) and (b) 3(a) Disclose whether the board has developed written position descriptions for the chair of the board and the chair of each board committee and, if not, describe how the board delineates the role and responsibilities of each such position. (b) Disclose whether the board and CEO have developed a written position description for the CEO.	The Board has developed written position descriptions for the Chair of the Board, the Chair of each Committee and the CEO.	Yes

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
ORIENTATION &CONTINUING EDUCATION **NP 58-201, sections 3.6 and 3.7** 3.6 The board should ensure new directors receive comprehensive orientation and fully understand the role of the board and committees, the contribution individual directors are expected to make and the nature and operation of the business. 3.7 The board should provide continuing education opportunities for all directors to enhance their skills and abilities and ensure their knowledge of the Corporation's business is current.	Management provides new directors with a comprehensive orientation to the business and the industry. CIC delivers a training program that focuses on the skills that directors need to do their jobs, effective Board processes and best practices in corporate governance. Other development opportunities made available to directors are described below.	Yes
NI 58-101F1, sections 4(a) and (b) 4(a) Describe the measures taken to orient new directors to the role of the board, committees and directors and to the nature of the Corporation's business (b) Describe the measures taken to provide continuing education opportunities for all directors.	The Corporation provides all members appointed to the Board with a comprehensive *Directors' Reference Manual*, and new directors receive an orientation session delivered by management. The orientation session addresses key industry trends, critical business risks and challenges, the strategic plan, organizational structure and responsibilities of senior staff. New directors are able to meet informally with senior managers to learn about the business, and tours of Corporate operations are arranged periodically. Prior to each regular Board meeting, outside experts in various aspects of the telecommunications industry are invited to speak to the Board and senior management. Management has also delivered educational sessions to directors to explain technical aspects of the business. Each year, CIC sponsors a comprehensive education program for directors of CIC subsidiary Crown boards. The program has focused on the key roles and responsibilities of boards, committees and directors, the skills directors need to effectively discharge their responsibilities and best practices and new developments in corporate governance. Directors can participate in external development opportunities related to their duties as directors where authorized by the Corporation or the Board.	Yes

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	**COMMENTS AND DISCUSSION**	**Does SaskTel align?**
CODE OF BUSINESS CONDUCT AND ETHICS		
NP 58-201, section 3.8		
3.8 The board should adopt a written code of business conduct and ethics applicable to directors, officers and employees of the Corporation designed to promote integrity and deter wrongdoing. The code should address: (a) conflicts of interest, including transactions and agreements where a director or officer has a material interest; (b) protection and proper use of corporate assets and opportunities; (c) confidentiality of corporate information; (d) fair dealing with the Corporation's security holders, customers, suppliers, competitors and employees; (e) compliance with laws, rules and regulations; and (f) reporting of illegal or unethical behavior.	Board members must comply with the *Directors' Code of Conduct*, which was developed by CIC and applies to the directors of all its subsidiary Crown boards. Officers and employees of the Corporation and its subsidiaries must comply with SaskTel's Business Code of Conduct, which includes a whistle blowing policy. Both Codes are designed to promote integrity and deter wrongdoing, address the elements of the Policy as they apply to a Crown corporation and provide a mechanism to report illegal or unethical behavior.	Yes
NI 58-101F1, sections 5(a)		
5(a) Disclose whether the board has adopted a written code of ethical business conduct for the directors, officers and employees of the corporation; how to obtain a copy of the Code; how the board monitors compliance with the Code; and reference any material change report in the most recent financial year relating to any conduct of a director or officer that constitutes a departure form the Code.	A copy of the *Directors' Code of Conduct* can be obtained by contacting CIC. A copy of the Business Code of Conduct can be obtained by contacting SaskTel. Committees of the Board monitor compliance with the *Directors' Code* and the Business Code. The Governance Committee monitors compliance with Corporate donation and sponsorship policies and is responsible to administer, monitor and enforce the *Directors' Code*. The Chair of the Committee reports to the Board at each regular meeting any such issues addressed by the Committee, and submits an annual report to the Board regarding compliance with the *Directors' Code*. The Audit Committee monitors the financial performance of the Corporation and assists the Board to meet its responsibilities respecting accounting and financial reporting, risk management, internal controls and accountability. The Committee interacts directly with the internal and external auditors, who report to the Committee concerning, among other things, any instances of illegal or improper treatment of Corporate assets. The Audit Committee receives quarterly risk management reports, including reports related to legal risks. The Chair of the Committee reports to the Board at each regular meeting any such issues addressed by the Committee, and all directors receive summaries of risk management reports. The Environment & Human Resources Committee monitors compliance with environmental, health and safety and human resource programs, including compliance with the Business Code. The Committee receives reports from management that address, among other things, compliance with related policies, legislation and regulations. The Chair of the Committee reports any issues raised at the Committee level to the Board at each regular meeting of the Board. SaskTel does not have share capital and is not an issuer. Therefore, no material change reports have been filed.	Yes

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
NP 58-201, section 3.9 3.9 The board should monitor compliance with the code and any waivers granted for the benefit of directors and executive officers should be granted by the board or a board committee. Any waivers for a material departure from the code for any directors or officers should disclose full details of the material change.	The Board has delegated to its Committees the responsibility to monitor compliance with the Codes of Conduct. The Committees report any issues dealt with pursuant to the Codes to the full board. No waivers from either Code have been granted to any director or officer in 2008.	Yes
NI 58-101F1, sections 5(b) 5(b) Describe steps the board takes to ensure directors exercise independent judgement in considering transactions and agreements where a director or officer has a material interest.	Where a director has, or may be perceived to have, a personal interest in a transaction being considered by the Corporation, the director is responsible to declare any such interest at the meeting where the matter is considered and not to participate in discussions about or vote on the matter. In 2005, the Board adopted a Disclosure form to enable directors to declare their directorships on and material interests in business other than SaskTel, their knowledge of the business their associates have or may transact with SaskTel and any material contracts they may have entered into with SaskTel or its subsidiaries. The required information excludes the acquisition of services available to the general public. The completed form is provided to the Governance Committee, the Corporate Secretary and their advisors to assist them in proactively addressing potential conflict of interests. In 2008, the Governance Committee requested and received from all directors, disclosure information respecting which Board members and their immediate families currently hold shares in telecom companies. Management monitors agenda items to identify any issues where a director may have a material interest and such items are not distributed to the director.	Yes
NI 58-101F1, sections 5(b) 5(c) Describe other steps the board takes to encourage and promote a culture of ethical business conduct.	The Board encourages and promotes a culture of ethical business conduct by following current best practices in corporate governance. These practices are reinforced by open and honest discussion about business issues at Board meetings and at informal gatherings between the Board and senior management. The Board expects management to act ethically in its business dealings, in accordance with all applicable legislation, the Business Code of Conduct and any directives or policies of the Board or the shareholder. In 2005, the Business Code of Conduct was revised to incorporate a whistle blowing mechanism to facilitate reporting by employees of issues of concern. Issues arising under the Business Code of Conduct are reported to and monitored by the Environment & Human Resources Committee and management reports annually to the Governance Committee respecting significant issues that have arisen pursuant to the whistle blowing policy.	Yes

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
NOMINATION OF DIRECTORS		
NP 58-201, section 3.10 3.10 The board should appoint a nominating committee composed of entirely independent directors.	The Governance Committee functions as the nominating committee. All five (5) members of the Governance Committee, including the Committee Chair, are independent directors.	Yes
NI 58-101F1, sections 6(a) and (b) 6(a) Describe the process by which the board identifies new candidates for board nomination. (b) Disclose whether the board has a nominating committee composed entirely of independent directors and, if not, describe the steps the board takes to encourage an objective nomination process.	The Board, through the Governance Committee, reviews the composition and skill sets of directors annually with a view to maintaining an appropriate mix of expertise, experience and diversity on the Board to support the strategic direction and operating needs of the Corporation. The Governance Committee is responsible for identifying the skill sets needed on the Board, developing and maintaining a Skills Profile that delineates the competencies of current directors and identifies any skill gaps and seeking and recommending to the Board nominees that have the required competencies and fill any identified gaps. In addition to competencies and skills, the appointment practices encourage diversity in the composition of the Board. In seeking candidates, the Committee receives recommendations from the directors, senior management and the shareholder. Potential candidates are interviewed to determine their overall fit with the needs of the Board, any conflicts that would preclude their effective participation and whether they have the time to devote to board work. The Committee recommends a list of candidates for each vacant position to the Board which in turn recommends a list of recommended candidates to the shareholder for approval. The shareholder has the legislative authority to make Board appointments. The Committee believes that following best practices related to Board appointments, maintaining a skills matrix and recruiting candidates who possess the required combination of skills, background and diversity to add value to Corporate decision-making supports an objective nomination process.	Yes
NP 58-201, section 3.11 3.11 The nominating committee should have a written charter establishing the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual directors or subcommittees) and manner of reporting to the board. In addition, the nominating committee should be given authority to engage and compensate outside advisors necessary to permit it to carry out its work. Where a third party has a legal right to nominate directors, the selection and nomination of those directors need not involve the approval of an independent nominating committee.	The Governance Committee has written Terms of Reference setting out its purpose and principal responsibilities, which address the Committee's responsibility to lead the process of recruiting and nominating candidates for appointment to the Board, as well as the other elements of the Policy except member qualifications and the ability to delegate tasks. The Committee has authority to engage outside advisors to assist it in performing its duties, subject to the approval of the Board. The shareholder has the right to nominate candidates for appointment to the Board, and the candidates are assessed by the Governance Committee in the same way as other candidates.	Substantial compliance

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
NI 58-101F1, sections 6(c) 6(c) If the board has a nominating committee, describe the responsibilities, powers and operation of the committee.	The Governance Committee performs the functions of a nominating committee, and its Terms of Reference describe the responsibilities, powers and operation of the Committee. The Committee is appointed by the Board, serves in an advisory capacity and makes recommendations to the Board within its area of responsibility. A copy of the Committee's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.	Yes
NP 58-201, section 3.12 3.12 The board should adopt a nomination process which considers the competencies and skills of the board as a whole; assesses the competencies and skills possessed by each existing director; and considers the personality and other qualities of each director. The board should also consider the appropriate size of the board, with a view to effective decision-making, and should consider the advice and input of the nominating committee.	The Board's nomination process is described above, and it meets the guidelines of the Instrument. By legislation, the Board is comprised of a maximum of 12 directors. As the Committee responsible for the Board's approach to corporate governance, the Committee makes recommendations to promote timely and effective decision-making.	Yes
NP 58-201, section 3.13 3.13 The nominating committee should be responsible for identifying individuals qualified to become new board members and recommending to the board the new director nominees.	The Governance Committee, serving as the nominating committee, is responsible for leading the process to identify, recruit and recommend qualified candidates for appointment to the Board.	Yes
NP 58-201, section 3.14 3.14 In making its recommendations the nominating committee should consider: the competencies and skills that the board considers necessary for the board as a whole to possess; the competencies and skills of existing directors; the competencies and skills of each nominee; and whether each new nominee can devote sufficient time and resources to board work.	The process followed by the Governance Committee complies with that set out in the Policy and is described above.	Yes
COMPENSATION **NP 58-201, section 3.15** 3.15 The board should appoint a compensation committee composed entirely of independent directors.	The Environment & Human Resources (EHR) Committee performs the functions of a compensation committee. All five (5) members of the EHR Committee, including the Committee Chair, are independent directors.	Yes

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
NI 58-101F1, sections 7(a) and (b) 7(a) Describe the process by which the board determines compensation for the directors and officers of the Corporation. (b) Disclose whether the board has a compensation committee composed entirely of independent directors and, if not, describe the steps the board takes to ensure an objective process for determining such compensation.	All of the members of the Environment & Human Resources Committee, which serves as the compensation committee, are independent directors. CIC has the legislative authority to fix remuneration levels and set expense guidelines for directors. The Governance Committee has authority to recommend to the Board (and the Board to CIC) adjustments to directors' compensation. The Committee receives quarterly reports respecting the remuneration received by members of the Board, and reports any anomalies to the Board. Each director receives an annual retainer for acting as a board member. The remuneration levels established by CIC for members of the Board are set out below. **Director Remuneration Schedule** Board Chair retainer $11,000.00 Board member retainer $8,000.00 Board Chair meeting fee $900.00 Committee Chair meeting fee $800.00 Board member meeting fee $700.00 A copy of CIC's remuneration and expense guidelines for directors can be obtained by contacting CIC. CIC has established a framework for executive compensation, and the Board can approve compensation packages within that framework. The Board has delegated responsibility for addressing and making recommendations concerning management compensation issues to the Environment & Human Resources Committee. The Environment & Human Resources Committee reviews and recommends to the Board: changes to the design of the Corporation's overall compensation and benefits plans; management compensation packages that reflect industry standards; performance compensation programs; and annual Corporate indicators, including a sub-set used to determine performance compensation for senior management. In discharging this function, the Committee has the ability to retain external advisors, subject to approval by the Board.	Yes
NP 58-201, section 3.16 3.16 The compensation committee should have a written charter establishing the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure, operations (including any authority to delegate to individual directors or subcommittees) and manner of reporting to the board. In addition, the compensation committee should be given authority to engage and compensate outside advisors necessary to permit it to carry out its work.	The Board has approved Terms of Reference for the EHR Committee, which address the Committee's responsibilities with respect to compensation, as well as the other elements of the Policy except member qualifications and the ability to delegate tasks. The Committee has authority to engage outside advisors to assist it in performing its duties, subject to the approval of the Board.	Substantial compliance

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
NI 58-101F1, sections 7(c) (c) If the board has a compensation committee, describe the responsibilities, powers and operation of the committee.	The Environment & Human Resources Committee serves as the compensation committee, and its Terms of Reference describe the Committee's responsibilities respecting compensation issues, as well as the powers and operation of the Committee. The Committee is appointed by the Board, serves in an advisory capacity and makes recommendations to the Board within its area of responsibility. A copy of the Committee's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.	Yes
NP 58-201, section 3.17 3.17 The compensation committee should be responsible for: reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining the CEO's compensation level based on the evaluation; making recommendations to the board respecting non-CEO officer and director compensation, incentive-compensation plans and equity-based plans; and reviewing executive compensation prior to public disclosure.	The Environment & Human Resources Committee annually recommends to the Board the CEO's performance targets, and leads the annual performance evaluation process for the CEO. The CEO's performance is assessed against the established Corporate objectives and the CEO's individual targets. The results of the CEO's performance are approved by the full Board, and are used in determining compensation. Respecting non-CEO officer compensation, the Committee is responsible for recommending to the Board management compensation packages, performance compensation programs and annual performance targets. The Board reviews and approves the achievement of Corporate targets annually and the extent to which the targets are achieved determines management's eligibility for performance compensation. Executive compensation decisions are subject to any guidelines established by CIC. As a Crown corporation, SaskTel does not have equity-based plans. Director compensation is determined by CIC. Executive compensation information is available to the public through publication of Crown payee reports. The Committee does not review executive compensation reports prior to public disclosure.	Substantial compliance
NI 58-101F1, sections 7(d) (d) If a compensation consultant has been retained, at any time during the Corporation's most recently completed fiscal year, to assist in determining compensation for any of the Corporation's directors and officers, disclose the identity of the consultant and briefly summarize their mandate. If retained to perform any other work, state that fact and briefly describe the nature of the work.	In 2008, the Corporation did not retain any compensation consultants to assist in determining compensation for the directors or officers.	Yes

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
OTHER BOARD COMMITTEES		
NI 58-101F1, section 8		
8 If the board has standing committees of the board, other than audit, compensation and nominating committees, identify the committees and describe their function.	In addition to the Audit, Governance and Environment & Human Resources Committees, the Board has appointed a Corporate Growth & Technology (CGT) Committee. The CGT Committee: works with management to develop a growth strategy and related policies; reviews and recommends investments and divestitures; monitors and reports to the Board respecting the performance of investments; and reviews and makes recommendations concerning the evolution of technology in the Corporation, long-term technology strategies and technology investments. A copy of the Committee's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.	Yes
BOARD ASSESSMENTS		
NP 58-201, section 3.18		
3.18 The board, its committees and each individual director should be regularly assessed. An assessment should consider: with respect to the board or committees, its mandate or charter; with respect to an individual director, the applicable position description(s), as well as the competencies and skills each individual director brings to the board.	Board, Board Chair, Committee evaluations and director peer assessments are performed annually on a two (2) year cycle, with comprehensive Board and Board Chair evaluations being conducted one year, and director peer and Committee evaluations being conducted the following year. The evaluations take into consideration the elements of the Policy. In 2008, Board and Board Chair evaluations were conducted.	Yes
NI 58-101F1, section 9		
9 Disclose whether the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution and, if yes, describe the process used.	The Governance Committee oversees the implementation of the above evaluation processes, and uses an external consultant in the case of director peer assessments. The evaluations are survey-based, using an instrument developed by CIC in consultation with an outside consultant and with Crown board members. Board, Chair, Committee and director performance is measured against the duties and expectations set out in their respective Terms of Reference and the specific standards outlined in the evaluation instruments. The purpose of the evaluations is to identify areas where the Board, Committee, Chair or director is managing well and to highlight areas that may benefit by additional focus and attention. Directors complete surveys to provide feedback in writing on the effectiveness and contribution of the Board, Committees, Chairs and individual directors. The Board Chair or a third party follows up the written responses with interviews of directors to elicit additional concerns or suggestions for improvement. The Governance Committee prepares reports outlining the evaluation results, which are submitted to the Board for review and approval. The Committee recommends follow-up action required as a result of recommendations made in the evaluation reports, and tracks implementation of any action items.	Yes

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