› Participate ‹

Letter of Transmittal

Regina, Saskatchewan
March 31, 2000

To Her Honour
The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

Dear Lieutenant Governor:

I have the honour to submit herewith the annual report of SaskTel for the year ending December 31, 1999, 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,

John T. Nilson

Honourable John T. Nilson, Q.C.
Minister Responsible for Crown Investments Corporation (CIC)

Find

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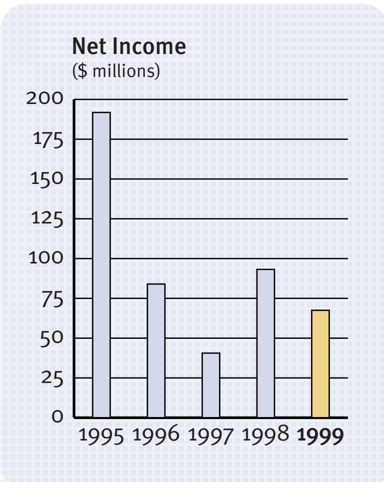
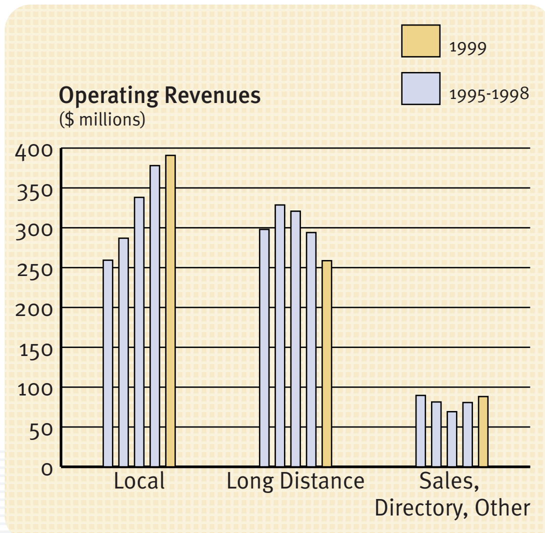
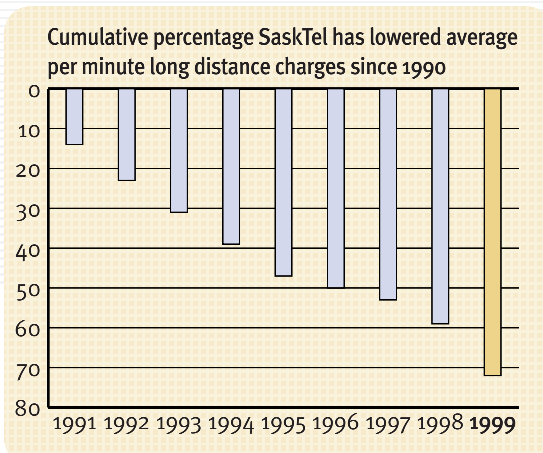
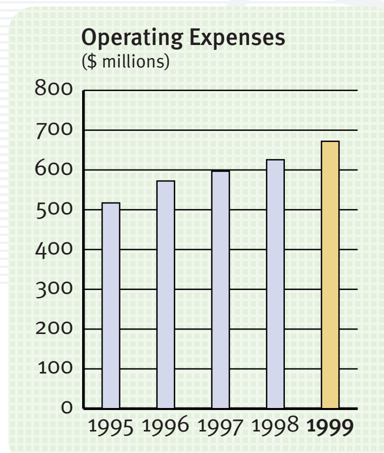
› Financial Highlights

- Net income was $67.5 million in 1999. Net income, before non-cash restructuring and other charges of $34.2 million, was $101.7 million. Cash from operating activities was $196.3 million.
- A non-cash gain of $39.0 million was recorded on the sale of SaskTel's 35% equity position in Saturn. Consideration received for the Saturn shares was 13,659,574 common shares of Austar United Communications Limited (Austar), which were valued at $62.7 million at the time of the transaction.
- A local rate increase implemented on January 1, 1999 for residential customers of $2 per month in rural areas and $1 per month in smaller cities outside of Regina and Saskatoon contributed to an increase in local service revenues.
- Despite retaining a 93% long distance market share, long distance revenues declined due to further reductions in long distance rates and lower inter-provincial revenue settlements.
- Operating expenses increased due to demand, growth initiatives, technology development and enhancements, and CRTC regulation preparations, as well as restructuring and other charges. Depreciation expenses increased due to net capital expenditures in 1999 of $155.3 million.
- Investment activities included the divestiture of Saturn and investments in Austar, SecurTek Monitoring Solutions Inc., Regional Cable TV (Western) Inc., and IQ&A Partnership.

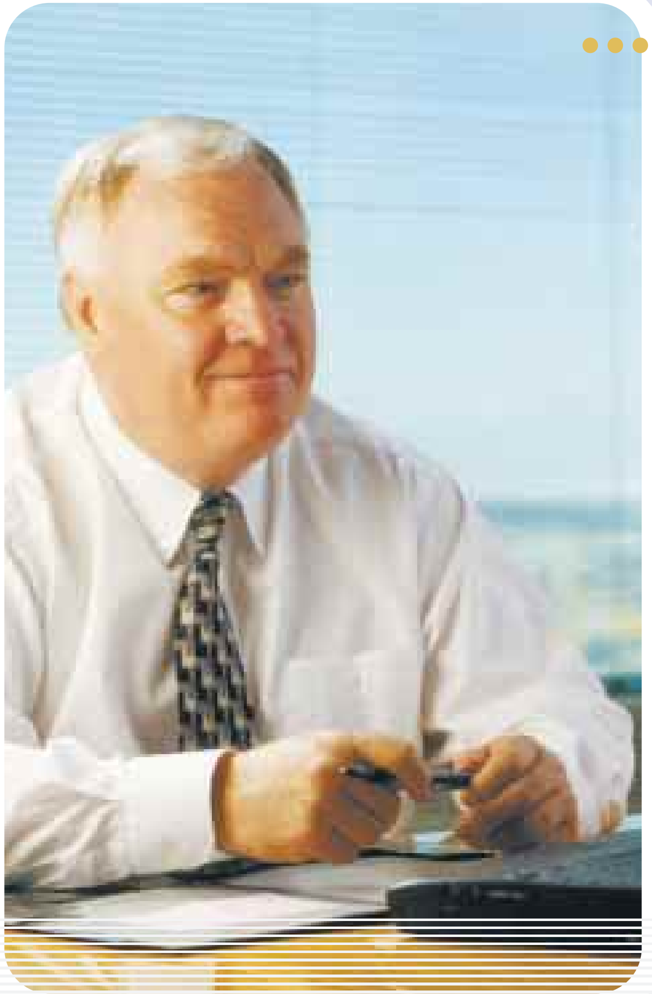








Letter from the President



TO PARTICIPATE IS TO JOIN in a larger activity, to take part in a community of shared interest. When we accept the invitation to participate in such a community, in a sense we become joint-owners of that community. Saskatchewan people have always led the way in using the communications system to participate in their communities. They cooperated to establish rural phone service across the province in the earliest years of the last century, with the result that 54% of Saskatchewan communities had phone service as far back as 1924. That same year, just 29% of communities across Canada had phone service, 18% in the United States and barely 1% in Europe.

Throughout its history, SaskTel has helped people participate in the world around them in a variety of ways. The dial tone that greets your ear when you lift the receiver is not only a reminder that you share in a telecommunications network. It is also your invitation to participate in the human networks accessible through modern communications. Today, the same digital systems that continue to deliver simple dial tone are extending to you a much broader invitation: come and try some new ways of sharing and exchanging ideas and information, new ways to research, to learn, to collaborate, to chat, to manage, to buy, and to sell. New ways to participate in the world of communities outside your home or business.

By linking people to one another over networks—wireless or wireline, transmitting voice, image, or data—SaskTel provides the connectivity that people need to participate. It may be an oil well being monitored remotely from a resource company's office, or it may be a fifth-grader downloading a biography of Billy Bishop from a web site in Ottawa, but it amounts to the same thing. The networks we design, build, and improve upon, and the services we offer, connect devices and people, allowing them to maximize participation in their community and the Internet community.

What have we done recently to provide the connections that make it easier for you to participate? Well, in 1999 we invested over $8.2 million in our network to bring high-speed Internet access to new areas of the province. Now more than 570,000 Saskatchewan people in ten different communities have a high-speed alternative to dial-up access. In fact, SaskTel spends over $100 million every year upgrading and maintaining our network, providing advanced communications solutions to help improve economic and social opportunities for our customers.

1999 marked a positive turning point for SaskTel's growth and diversification strategy as well. This strategy is designed to expand our business in new directions, providing new and innovative services to our customers here at home, and helping us earn new revenues from outside Saskatchewan. In 1999, SaskTel exchanged its two year-old investment in Saturn Communications Limited of Wellington, New Zealand for a share in Austar United Communications Limited, a new pay television, Internet and mobile resale company operating in Australia and New Zealand. The deal brought SaskTel an economic gain of $23 million on its original Saturn investment, with the potential for more returns should we decide to sell our shares in Austar down the road.

This was also the year SaskTel moved into a new market here at home, connecting homes and businesses to SecurTek—a remote monitoring service that allows residents and business managers to relax in the knowledge that their property is monitored by a state-of-the-art security monitoring system. Then there are the wireless advances on the drawing board, including SaskTel Mobility's commitment to invest $12.3 million next year to expand our Digital Personal Communications Services (PCS) network, making SaskTel's digital coverage the largest in Saskatchewan. Add this to the expansions and improvements we made to analog cellular coverage during the year and it is clear that we are working to help our customers access the new wireless services as they emerge—services such as Lightning Mobile Commerce, SaskTel Mobility's new point of sale solution.

SaskTel is proud to have played a role also in helping students and learners of all ages to participate in the educational opportunities offered by the Internet. According to Statistics Canada, Internet access in Saskatchewan's elementary schools is well above the national average (96% versus 88% for all of Canada). In partnerships with educational institutions in the province, we are working on several IP-based (Internet Protocol) distance education and educational enrichment projects.

In the midst of some momentous industry power shifts and mergers, we continue to grow and re-invent SaskTel's business. A large part of that renewal will be our penetration into the e-business markets at home and abroad. The SaskTel of the twenty-first century will be defined by its diversification into IP-based enterprises, in particular broadband and e-commerce. As the main pillar of our strategic growth initiative, e-business will be featured prominently in this annual report. To succeed in this new realm, we will have to ensure, as we do with every diversification effort, that the business is anchored well to the foundation formed by our core operations and the customer loyalty we have built over a century of providing world-class and affordable telecommunications.

We spent a great deal of time and effort in 1999 preparing for another change in our operating environment—regulation by the Canadian Radio-television and Telecommunications Commission (CRTC), which begins next June. Although we are making every effort to ensure that the transition is as seamless as possible for customers, we still expect the change in regulators to have an impact on our future pricing, products, service development and financial performance.

Before closing, I would like to welcome two new board members, both outstanding individuals with impeccable qualifications. John A. MacDonald is President and Chief Executive Officer of Leitch Technology Corporation, a company that provides interactive solutions to the broadcasting community. Mr. MacDonald was previously President and Chief Operating Officer of Bell Canada and has served on a wide variety of telecommunications and engineering boards. Donald James Lowry is currently President and Chief Executive Officer of Edmonton-based EPCOR Utilities Inc. Prior to joining EPCOR, Mr. Lowry was President and Chief Operating Officer of Telus Communications Inc. in Alberta.

As always, I extend my heartfelt thanks to all of our staff, our executive, and members of our Board of Directors for doing the work that makes SaskTel one of Canada's finest corporate citizens and a successful, diverse, and innovative participant in the global communications revolution.

And, most importantly, I express my gratitude on behalf of all SaskTel employees to our customers, whose continued participation makes SaskTel the leading communications company in Saskatchewan.


› Learn ‹


› Meet ‹

Lightning Mobile Commerce

SaskTel Mobility and Soft Tracks, along with the participation of the Royal Bank, MTS Mobility and TELUS Mobility, have introduced a new wireless service called Lightning™ Mobile Commerce. Lightning allows for secure credit and debit card transactions through portable hand-held sets. With all the freedom of a mobility service, Lightning can be used in a variety of industries, including business to business sales and service, food delivery, home service and maintenance, trade show sales, temporary kiosk locations, and taxi service.

WHETHER YOU ARE THE BUYER or the seller, the supplier or the retailer, whether you are dealing on a vintage Chevy or selling hand-sewn moccasins on-line to a gift shop in Kansas, every successful business transaction requires a level of comfort and security. The customer needs to know that their payment will be handled safely and that their purchased service or product will in fact be delivered as promised. The merchant needs to know that they will receive the funds remitted and that their inventory and privacy will remain intact.

Taking care of e-business

This level of security and comfort is now available for doing business on the Web, thanks to the state-of-the-art security technologies provided by SaskTel's Internet Division, QUANTUMLYNX.com. securelynx™, developed in partnership with CUETS (Credit Union Electronic Transaction Services) and Mastercard™, verifies instantaneously that both the buyer and the seller have a record with the credit card company that will allow the transaction to occur—all without the merchant ever seeing the buyer's credit card number. The technology securelynx uses is called SET™ (Secure Electronic Transaction). SaskTel worked with CUETS, IBM, and MasterCard to run Canada's first pilot of the SET technology.

securelynx™ is only one element of SaskTel's move into the world of e-business. This past year saw several important online initiatives for the corporation, including Canada's online auction service, clickabid.com. SaskTel's entry into this fast-growing segment of the Internet economy resulted in over 19 million hits on its website after only five months in business.

QUANTUMLYNX.com

In 1999, as well, SaskTel QUANTUMLYNX.com introduced QUANTUMLYNX™ Office—a virtual private office solution that allows users to create a closed work environment for staff, customers, distributors, and suppliers to easily and securely share information via the Internet. In this closed environment users can exchange messages and documents with colleagues via e-mail, online calendar and newsgroups. QUANTUMLYNX Office delivers this intranet solution using Netscape's Communicator™ and Suite Spot™ servers. An enhanced version of QUANTUMLYNX Office is scheduled for early 2000 and will include StarOffice, as well as private and public file directories.

Sun microsystems NETSCAPE ALLIANCE

A word about the e-business partnerships and alliances SaskTel formed in 1999. The Internet community has a way of bringing together individuals and corporations that can benefit from one another's expertise and market reach. In the past year, SaskTel signed important agreements to work with two of the world's foremost developers of on-line technology: the Sun-Netscape alliance, leaders in online software, and Cisco Systems, a leader in IP networking. By making these connections, SaskTel is well positioned for the evolution toward enriched services delivered using IP systems.

BWIdent

A new Internet-based system for tracking property is now on-line in Regina pawn shops and secondhand stores. The system, called BWIdent, was developed in a partnership between Business Watch International, the Regina Police Service, and SaskTel's QUANTUMLYNX.com. Using BWIdent, a real-time Internet-based program that automates existing reporting and transactions at pawn and secondhand stores, the Regina Police Service has been able to improve its efforts to identify, track and recover stolen property. As well, the Moose Jaw Police Service has been one of the first to sign up for the new system.

SecurTek™

One of SaskTel's latest diversification successes is SecurTek, a Yorkton-based wholly owned subsidiary of SaskTel that specializes in remote monitoring services, including province-wide security for homes and businesses. SecurTek offers a variety of wired and wireless security system options such as heat, smoke and motion sensors, glass-break detectors and Panic/Medical alert. These products and services are available at competitive prices through a province-wide SecurTek dealer network. The monitoring staff and systems are located in Yorkton at SecurTek's state-of-the-art, 24/7 facility.

clickabid™
Canada's Online Auction

clickabid™

In June SaskTel launched a new Canadian on-line auction service called clickabid. On-line auctions are the fastest growing segment of the e-commerce industry. According to Forrester Research, industry sales volumes reached $1.4 billion (US) in 1998 and are predicted to grow to $19 billion (US) in 2003.

mysask.com

mysask.com is a new interactive community website from DirectWest, a SaskTel subsidiary and the publishers of the original Saskatchewan telephone directories. As the popularity of the company's former site, saskyellowpages.com, grew, so did the needs, expectations and sophistication of Saskatchewan consumers. From this demand, mysask.com was born, offering full directory services, on-line shopping, community information, provincial news and entertainment listings, and a feedback forum called cyber-soapbox that allows you to post and review opinions on current events.

mysask.com

The Cost of Making the Net Work

• 34.4: percentage of increases in SaskTel Internet accesses in 1999.

• 1521: number of community associations sponsored by SaskTel's corporate sponsorship program.

• 67,391: hours of volunteer time donated by SaskTel Pioneers members during 1999.

• 643,722: network accesses in Saskatchewan

HISTORIANS HAVE SAID THAT, **without the networks of railroads, roads and telephones connecting people to one another, agrarian settlement of the northern Great Plains would have lasted one or two generations at best. Here we are several generations later: the most rural province in Canada, with approximately 280,000 people still living on individual land holdings or in settlements of fewer than 1000. The peak of railroad and highway construction may have passed, but the day is yet to come when we realize the full potential of our communications networks. Futurists speculate that, within a decade or two, wireless communication from person to person, person to machine, and machine to machine will cover the sphere of human endeavour in a web of networks more organic, more transparent, and more powerful than those that form today's Internet. Facing such a future, the question for many of SaskTel's customers is—*will this new realm of communication make it easier or harder for me and my family to live and work in our home community?***

It is a valid question. The distance-defying technologies of modern telecommunications can either weaken or enrich local communities, depending upon the policies and regulatory constraints levied by government regulators. Handled the right way, the Internet and other advanced communication services can be powerful tools for rural renewal, rejuvenating the economic and social well-being of our small towns, northern settlements, and farm communities.

For rural Saskatchewan to renew itself by getting connected to the commercial and educational opportunities available over IP networks, these advanced services, just like basic service, must be made available and affordable to every home, business, school, library and farm in the countryside. However, bringing a network of enriched connectivity to places where there are more coyotes than people per square mile is expensive. In the past, the costs of extending services to remote areas was subsidized to a great extent by profits from long distance. This traditional subsidy is disappearing for two reasons: first, competition is reducing long distance rates and revenues and therefore the source of cross-subsidization; and, second, current Canadian Radio-television and Telecommunications Commission (CRTC) policy is to move the industry away from cross-subsidization and toward cost recovery and rate re-balancing. While some national service providers in the market would prefer not to contribute to a fund that keeps local access affordable in high-cost areas, SaskTel has advocated that the CRTC establish a national universal service fund that all providers pay into on a percentage-of-revenue basis.

Overall costs of communicating have dropped

Long distance rates have dropped by 72% since 1990. As well, if you combine an overall basket of goods that SaskTel offers, those customers who use long distance have actually seen significant decreases in cost over the past ten years. This is even more significant when you consider that the consumer price index increased by 26% from 1989 to 1999.

Undeniably, there are economic and regulatory forces external to Saskatchewan that are challenging SaskTel's ability to fund the delivery of world-class telecommunication services throughout the province. SaskTel, however, has always led the way in offering attractive savings plans and advanced services that nurture rural economies and communities. In the last two years, SaskTel's Exchange Area program eliminated over 100 exchanges, providing over 100,000 rural families and businesses with greater toll-free calling options. In addition, we introduced the Community Savings plan, which allows Real Plus Extra™ customers to make unlimited calls to their top-called exchange within 40 miles for $5 per month—this is particularly useful for rural customers who live near a town or city. Our consumer bundle plans, which offer unlimited long distance, have also been extremely popular with rural residents who make a high volume of long distance calls. At the same time, SaskTel was the first in Canada to introduce fiber optics, to eliminate party lines, to complete a fully digital network, to offer universal toll-free dial-up Internet access, and to launch high-speed Internet using digital subscriber line (DSL) technology.

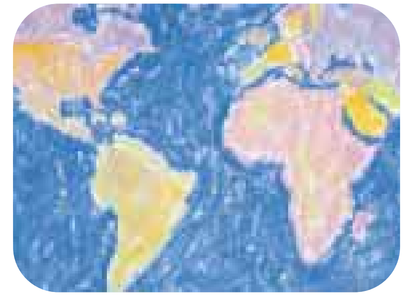
Naturally, the world-class telecommunications system characterized by these firsts did not arise out of thin air. It descended, one technological advance built upon the last, from the original grid of copper wires strung from farm to town to city by hundreds of rural telephone co-operatives, the pioneer organizations that first sent rural voices across the silent distances of Saskatchewan. Our commitment to these origins is renewed whenever we strive to bring new communications services to the people of Carnduff, Consul, La Loche or Sandy Bay, whenever we choose a community organization to partner with on a social cause, whenever we sponsor a curling bonspiel or help a new supplier get started. This awareness forms the foundation of our case to the CRTC on High Cost Serving Areas, supports the rationale behind our application for transition to federal regulation, and strengthens our recent Industry Canada license application for 2500 MHz MCS (Multi-point Communication Services) spectrum—a wireless system that could reduce the cost and revolutionize the process of delivering affordable high-bandwidth and telephone services to rural areas.

And so our hopes are high for the potential of Internet-based and wireless technologies to revitalize the cultural, educational, and commercial life of Saskatchewan's remote and rural areas. Given the evolving telecom marketplace and regulatory environment, our success over the next five years will to a great extent be measured by our ability to find efficient ways to continue bringing such advanced telecommunications to all of Saskatchewan—and, today, that means connecting the Internet community to your community.

SaskTel Pioneers

Chapter 59 of the SaskTel Pioneers can be very proud of their accomplishments in 1999. In the spring, SaskTel and the SaskTel Pioneers hosted a very successful Region 1 Conference of the Telephone Pioneers of America. Throughout the year, more than 3,900 members in Saskatchewan raised $312,392 for non-profit and charitable organizations and donated more than 67,000 hours of their time, skills and talent to a wide variety of fundraising and charitable activities. The SaskTel Pioneers are dedicated to helping children through their Computers for Schools Program and assisting those people in the province who are disabled and disadvantaged.

SaskTel International–Participating on a Global Scale



IN THE INTERNATIONAL TELECOMMUNICATIONS CONSULTING BUSINESS, you know you are on the right track when the world's largest institutional source of development assistance recognizes your accomplishments. SaskTel International (SI) was asked to come to Washington, D.C. to deliver a presentation on rural telecommunications to the World Bank. While other companies may spend years lobbying for such an opportunity, SI was granted the invitation on the strength of its reputation as an authority on providing modern telecommunications networks in rural and remote serving areas. Lending development assistance to its client nations around the globe, the World Bank has recently placed a priority on bringing modern telecommunications to the developing world. SI is expecting that its new relationship with the World Bank will lead to future business opportunities.

In 1999 SaskTel International had 63 employees posted outside of Canada:
1 in Brazil, 7 in England, 2 in Italy, 6 in Belgium, 5 in Tanzania, 3 in the Philippines,
3 in France, 21 in USA, 8 in New Zealand, 3 in Australia, and 4 in Chile.

Local children by the SI office in Dar, Tanzania

Tanzania Railway in Dar Es Salaam

BechTel Project, Philippines

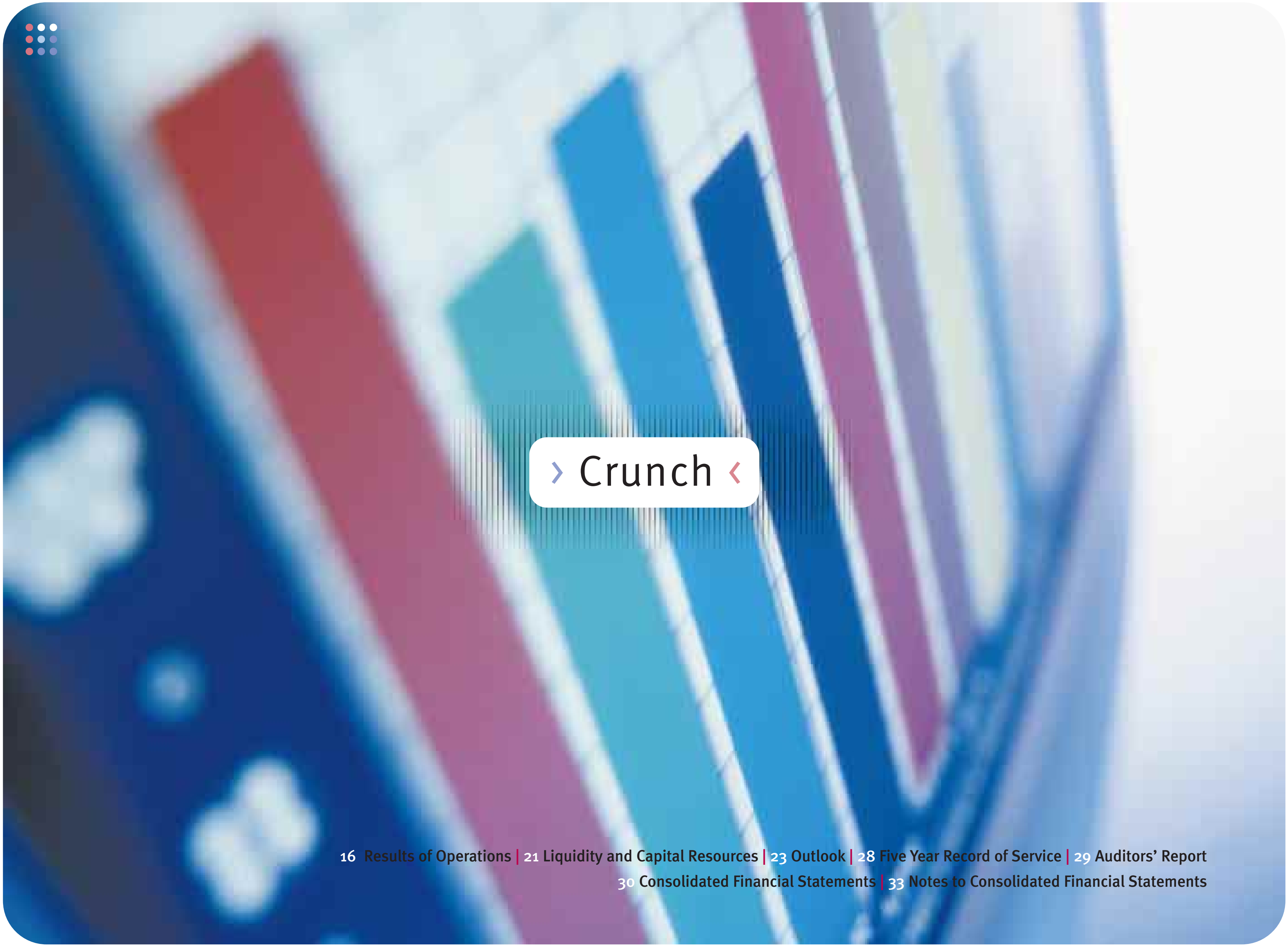
"SI is expecting that its new relationship with the World Bank will lead to future business opportunities."

Share

The World Bank was interested in SI because of its accomplishments in building rural telecommunications infrastructure in countries such as the Philippines and Tanzania. SI continues to market its expertise through its permanent office in the Philippines, and, in October signed another contract with the Tanzania Railway Corporation (TRC) worth $8.2 million. Throughout the two-year project, SI will supply and install fiber optic cable and transmission equipment along a critical railway route between the major cities of Morogoro and Dodoma. This is the second phase of the TRC's network improvement program, placing trackside fiber from the port city of Dar es Salaam to the interior city of Mwanza, situated on Lake Victoria. The new fiber optic technology will provide faster and more reliable communications along this busy portion of Tanzania's railway system. The year also marked excellent progress on SI's $5.8 million contract to build a rural telecom network in the Kagera region of Tanzania, working for the Canadian International Development Association (CIDA) and Tanzanian Telecommunications Company Limited (TTLC).

Perhaps the biggest international story for SaskTel in 1999, however, came in July when it exchanged its 35 per cent equity in Saturn Communications Limited (a pay television company in Wellington, New Zealand) for just under three per cent ownership of a large new enterprise called Austar United Communication Limited. In the process, Saturn became a subsidiary of Austar, which offers pay television, Internet and mobile resale services in Australia. Austar shares are traded on the Australian stock exchange (symbol: AUN), and the major shareholder is SaskTel's former partner in Saturn, UnitedGlobalCom (formerly United International Holdings). The transaction resulted in a $39 million gain for SaskTel—a 60 per cent return in two years. SaskTel will continue to provide support to Saturn by way of a technical assistance agreement.

On the software side of SI's operations, a licensing agreement was signed with ALEC Holdings, Inc. for two of SI's software products. ALEC Holdings, Inc. owns Alaskam Communications Systems, Inc. (ACS), based out of Anchorage, Alaska. ACS is the 16th largest telephone company in the USA. ACS will operate SaskTel International's MARTENS Facility Management and Service Activation Systems in one of the most highly competitive local access markets in the world. MARTENS Facility Management and MARTENS Service Activation (instant provisioning and activation of local service and calling features) provide the competitive advantage ACS requires to enjoy continued growth and success.



› Crunch ‹

Management's Discussion and Analysis

THE MANAGEMENT'S DISCUSSION AND ANALYSIS focuses on the overall performance of Saskatchewan Telecommunications Holding Corporation (the Corporation), as well as the major lines of business or "operating segments" that make up the majority of the Saskatchewan Telecommunications Holding Corporation group of companies. The major operating segments are: Saskatchewan Telecommunications (SaskTel), SaskTel Mobility, Saskatchewan Telecommunications International, Inc. (SaskTel International) and DirectWest Publishing Partnership (DirectWest). The information on each of the major operating segments details the various business activities that the Corporation is engaged in and the performance associated with these business activities.

The discussion and analysis should be read in conjunction with the Corporation's audited, consolidated financial statements which are on pages 30 to 41 of this report.

Overview of Operations

The Corporation is the leading full service communications company in Saskatchewan, providing competitive voice, data, dial and high-speed Internet, web-hosting, QUANTUMLYNX™ Office applications, secure electronic transactions, text and messaging services over a fiber optic-based, fully digital network, as well as digital and analog cellular, paging, wireless data and FleetNet 800™ service through its SaskTel Mobility division. The Corporation's major asset is a wholly owned subsidiary, SaskTel, which has been the principal supplier of telecommunications in Saskatchewan for over 90 years. The Corporation also maintains investments in companies which provide directory publishing, remote security monitoring, system design, project management, engineering consulting, software sales, multimedia and cable television services. Through interconnection agreements with the Canadian telecommunications industry—primarily Bell Canada—SaskTel is part of the national and global communications network.

Results of Operations

Consolidated Net Income

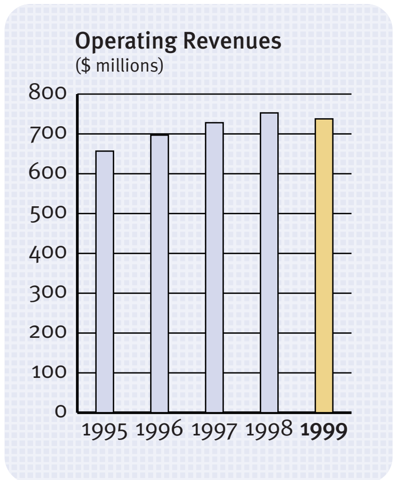
		1999		1998
		(Millions of dollars)		
Operating Income:				
SaskTel	$	**48.0**	$	94.7
SaskTel Mobility		**6.1**		16.0
SaskTel International		**0.2**		1.1
DirectWest		**1.6**		1.5
Other		**20.8**		25.3
		76.7		138.6
Intercompany Eliminations		**(11.0)**		(11.6)
Income from Operations		**65.7**		127.0
Other Items		**(1.2)**		(4.9)
Interest and Related Costs		**(36.0)**		(36.5)
Gain on Sale of Investment		**39.0**		7.6
Consolidated Net Income	$	**67.5**	$	93.2

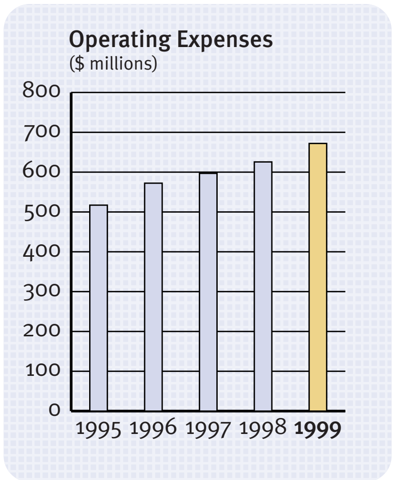
The Corporation's consolidated net income decreased to $67.5 million in 1999 (1998 - $93.2 million). Income from operations decreased from the prior year as downward pressures on long distance prices continued. SaskTel and SaskTel Mobility accounted for the majority of the decline. Furthermore, restructuring and other charges of $34.2 million against income from operations were offset by the gain on the sale of Saturn Communications Limited (Saturn).

On July 27, 1999, the Corporation divested its 35% equity position in Saturn, which resulted in a non-cash gain of $39.0 million. As consideration the Corporation received 13,659,574 common shares of Austar United Communications Limited (Austar) for a 2.9% interest. The total value of the Austar shares received was $62.7 million based on the subscription price of Austar's initial public offering that occurred on the same day on the Australian Stock Exchange. Prior to the sale, the Corporation's share of the net loss from its equity investment in Saturn during 1999 was $4.6 million.

The majority of the $34.2 million restructuring and other charges related to $19.8 million of bridging costs and retirement allowances that pertained to an early retirement program announced in 1999. Other charges totalled $14.4 million and were comprised of a $11.3 million write-down of assets and $3.1 million for costs to implement local service competition and provide local number portability.

Operating revenues for 1999 were $737.7 million, down from $752.6 million in 1998. Operating expenses for 1999 were $672.0 million, an increase of $46.3 million from 1998. In the sections that follow, detailed reviews of the Corporation's major segments will comment on their performance in terms of operating revenues and expenses.





Saskatchewan Telecommunications

Saskatchewan Telecommunications (SaskTel), a wholly owned subsidiary of the Corporation, provides a comprehensive range of communications solutions and support services, including telephony (wireline), data networking, Internet access, as well as a rapidly evolving set of e-business solutions, including Internet applications and professional services. In 1999 SaskTel accounted for 79% of the Corporation's total operating revenues.

SaskTel Operating Revenues

(Millions of dollars)

	1999	1998
Local Service	**$ 322.5**	$ 306.4
Long Distance Service	**244.0**	276.6
Sales, Directory, Other	**46.7**	43.1
Total	**$ 613.2**	$ 626.1

Local Service

Local service revenues increased $16.1 million or 5.3% from 1998.

Contributing to the increase in local service revenues was a local rate increase implemented on January 1, 1999 for residential customers of $2 per month in rural areas and $1 per month in smaller cities outside of Regina and Saskatoon. As well, network accesses increased from 641,523 in 1998 to 643,722 in 1999 with the majority of the growth reflected in business accesses.

Enhanced local service revenues, such as SmartTouch™ and MessageManager™ sales, improved 24.0% over 1998. SmartTouch™ services continued to grow in 1999 due to an increase in regular usage and the introduction of bundles at the end of 1998. Residential MessageManager™ service revenues increased primarily due to increased promotion of the service.

Contributions received from other telecommunication companies to terminate calls on the local network declined $5.0 million from 1998. The contribution rate decreased 28.0% in 1999 and has dropped more than 50% since 1997, due to rate rebalancing and long distance minutes growth.

Long Distance

SaskTel's long distance revenues decreased to $244.0 million (an 11.8% decrease). SaskTel's average revenue per minute declined 32.8% in 1999 in large part caused by an increase in minutes coupled with the introduction of new plans for business and residential customers.

Amidst intense competition, SaskTel continued to offer lower long distance prices, while maintaining the highest level of quality in its services and products. Early in the year, SaskTel provided ninety minutes worth of prepaid long distance cards to residential long distance customers to reward their loyalty and commemorate SaskTel's 90th anniversary. 1999 also marked the first full year of the Community Savings Plan™, the Straight Rate Plan™, and SaskTel Bundles™, all of which offer flat rate or unlimited long distance calling. In October, SaskTel launched the Business Builder program. Business Builder is a bundled service offering that combines network access, calling line features and a very competitive flat rate long distance plan. Also in 1999, SaskTel's Christmas promotion offered customers $0.09 per minute on all calls made within Canada and $0.15 per minute on all calls made to the United States.

The Exchange Area Boundary (EAB) program was completed in 1999, reducing the number of exchanges from 342 in November, 1997 to 231 in June, 1999 (a reduction of over 32%). The average exchange size for rural exchanges increased from 447 customers before the EAB program to 712 customers after completion of the program. Approximately 100,000 residential and business customers in rural Saskatchewan benefited from the program through reduced long distance charges. For SaskTel, the EAB program further reduced long distance revenues, as increased geographical size of exchanges resulted in long distance calls to previously adjacent exchanges being eliminated.

Changes to the Stentor Settlement Agreement have resulted in lower payments received for terminating and transiting calls for other Stentor companies. The average terminating rate decreased 44.7% while the average transiting rate decreased 68.7%. These rate declines translated to a $9.4 million reduction in revenue compared to 1998, which was partially offset by a reduction in the payments to other Stentor companies. Revenues decreased a further $14.3 million as a result of other scheduled changes defined in the Stentor Settlement Agreement.

The decline in long distance revenues was partially offset by an increase in revenues from increased data network usage in the business market.

Sales, Directory, Other

Equipment sales and Internet revenues account for most of the growth experienced. Internet revenues increased with the introduction of new lower cost plans and expansion of high-speed Internet to new areas in 1999. Total Internet accesses increased 34.4% to 66,435 accesses in 1999.

Operating Expenses

In 1999 operating expenses were $565.2 million, an increase of $33.8 million from 1998. Restructuring and other charges accounted for $21.7 million of the increase in operating expenses. Of this amount, $18.6 million is related to the Early Retirement Program (ERP) announced in 1999. The ERP was introduced to provide the flexibility needed to grow new areas of SaskTel's business, while reducing costs in the traditional core business of the Corporation. The ERP is one of several cost reduction measures taken by SaskTel to ensure strong financial health in the future. Other charges included $3.1 million for non-recoverable start-up costs to implement local service competition and provide local number portability. During the year, salaries earned increased $18.3 million due to the implementation of the Job Evaluation process (program to provide equal pay for work of equal value), negotiated increases, and growth in the number of employees in emerging businesses, such as QUANTUMLYNX.com. Cost containment measures reduced general operating and maintenance expenses by $14.4 million in 1999, which included reductions in marketing, advertising and promotional activities. Depreciation expense also increased $6.0 million for 1999.

SaskTel Mobility

SaskTel Mobility is Saskatchewan's largest wireless service provider offering customers a broad range of wireless products and services including cellular, digital Personal Communication Services (PCS), paging, FleetNet 800™ and wireless data services. SaskTel Mobility operates as a division of the Corporation.

SaskTel Mobility Operating Revenues

(Millions of dollars)

	1999	1998
Local Service	**$ 86.8**	$ 89.7
Long Distance Service	**20.2**	23.3
Sales, Directory, Other	**3.7**	3.7
Total	**$ 110.7**	$ 116.6

Total 1999 operating revenues for SaskTel Mobility decreased 5.1% from 1998 to $110.7 million. Operating revenues declined in 1999 due to the impact of new competitive cellular plans that provide customers with lower long distance and access rates, as well as more free minutes of local airtime. This decline in revenue was partially offset by a 17.2% increase in cellular accesses during 1999. Cellular accesses totalled 188,002 by year-end. Consistent with trends in the wireless industry, SaskTel Mobility's monthly average revenue per user (ARPU) from cellular customers continued to decline in 1999. A decline of 17.1% in monthly ARPU was a result of continued growth into the lower revenue consumer segment, greater acceptance of prepaid service and lower rates in cellular plans. Other revenues of $3.7 million in 1999 included cellular features, FleetNet 800™ terminal and paging revenues consistent with those generated in 1998.

Operating Expenses

A strong focus on cost reduction during the year resulted in total operating expenses of $92.3 million, before restructuring and other charges, a decrease of $8.3 million from 1998.

Part of the decrease is attributed to process improvements such as a new accounts receivable management program, improvements in Customer Care Centre productivity and a new service delivery project. As well, decreases in roaming costs and in advertising and promotion expenses were realized. These cost reductions helped offset the increase in other operating expenses such as long distance, dealer commissions and salaries, which grew along with the customer base. Network facilities, depreciation and Industry Canada license fees increased with network expansion and modernization of the cellular and digital PCS networks. Restructuring and other charges in SaskTel Mobility were $12.3 million.

SaskTel International

SaskTel International is a wholly owned subsidiary of the Corporation, with its head office located in Regina, Saskatchewan, Canada. SaskTel International offers technical solutions internationally, including network integration, advanced network management, and interactive services, as well as global investments.

Operating Revenue

SaskTel International revenues were $18.8 million (1998 – $17.4 million), a year over year increase of 8.0%. Consulting and equipment revenues were $10.6 million, up 32.5% from $8.0 million in 1998. Consulting and equipment revenues in 1999 were generated mainly from SaskTel International's contracts in Tanzania and the Philippines, as well as Europe and the United States, through contracts with Nortel.

The software division recorded sales of $7.4 million (1998 – $8.3 million). Software revenues in 1999 were generated mainly from sales and support related to MICA/SICA Client Associations, SaskTel Work Management, MARTENS Local Competition, and others.

Operating Expenses

1999 total operating expenses of $18.7 million increased 14.4% from $16.3 million in 1998. The variance was due to an increase in the cost of sales and salaries. The salary increase reflects the accomplishment of SaskTel International business plan objectives of increasing its sales force, investing in software development and seeking out new investment opportunities.

DirectWest

DirectWest provides directory services through its ten directories within the cities and districts in Saskatchewan, as well as interactive services through the Internet at www.mysask.com. DirectWest is a wholly owned subsidiary of the Corporation.

Operating Revenues

Operating revenues for the year reached $30.7 million, which represents 4.7% growth over 1998. The business has shown continued growth in both the print directory and new media business areas.

During the year, competition in Saskatchewan print directories expanded to all markets served by DirectWest. The new customer programs introduced during the year as well as the continual refinement of DirectWest's directories have resulted in positive feedback from both consumers and businesses. DirectWest is positioned to continue print directory growth by increasing the value it provides to Saskatchewan consumers and businesses.

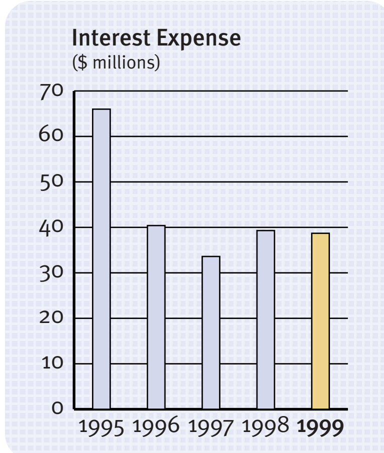
During 1999, DirectWest increased its focus on the new media environment. The DirectWest portal moved from www.saskyellowpages.com to www.mysask.com. This change was well received, as the new site featured additional community information and provided new ways for businesses to move online, including an e-commerce offering. The new site has shown a continual increase in traffic, which is attributable to ongoing consumer demand and interest. As DirectWest continues to invest and add to this new business area, strong online growth is expected to continue.

Operating Expenses

Operating expenses for the year were $29.1 million. In 1999, additional expenditures were required for competitive programs, production expenses, depreciation and new media initiatives. Overall, operating expenses were maintained at a level to promote income growth within the operations.

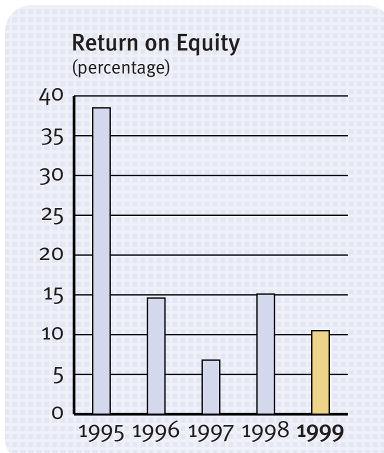
Interest Expense

The Corporation's overall level of debt decreased moderately over the past year. At the same time, interest and related costs also declined moderately from $36.5 million in 1998 to $36.0 million. Netted against interest expense are sinking fund earnings that were down $2.6 million in 1999. This decrease in sinking fund earnings was offset by foreign exchange-related costs, which were $1.6 million lower in 1999. As well, a $1.5 million reduction in interest expense in 1999 can be attributed to the refinancing of debt with lower interest rates.



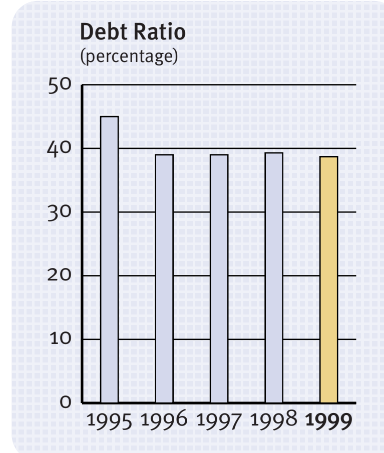
Return on Equity

The 1999 return on equity (ROE) declined to 10.5% (1998 – 15.1%). ROE measures the Corporation's profitability as a ratio of net income over average equity. Reduced margins on long distance services and increased costs to support growth, diversification, competitive responses, CTRC preparations and technology changes have contributed to a drop in ROE from 1998. The nonrecurring restructuring and other charges had a negative impact of 4.9% on ROE, while the sale of the investment in Saturn had a positive effect of 5.9%. While gains on disposal of investments, such as Saturn, are infrequent, the Corporation has had some success in recent history realizing gains on the sale of LCL Cable Communications Inc. ($114.4 million), ISM Information Systems Management Corporation ($10.5 million) and Alouette Telecommunications Inc. ($7.6 million).



Capital Structure

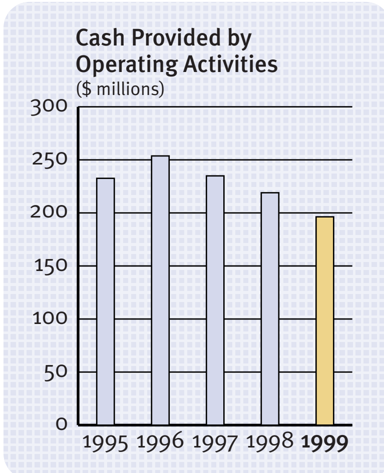
The debt ratio is currently at 38.7% (1998 – 39.3%). The Corporation's capital structure remains one of the strongest in the industry. The Corporation ensures its strong financial position into the future by continued self-financing of capital and dividend requirements, and by maintaining the debt ratio at or below the target of 40%. The debt ratio has remained below the target of 40% for the last four years. Gross debt decreased by $24.0 million during the year, and retained earnings within the Corporation increased by $6.8 million after taking into account the 1999 net income of $67.5 million and dividend of $60.8 million.



Liquidity and Capital Resources

Self-funded

Internally generated funds were 90.6% in 1999 compared to 79.4% in 1998. This measurement reflects the Corporation's ability to fund its capital, investments and dividend from cash generated by operations. The Corporation's strategy of self-financing has a positive impact on the debt ratio and allows the Corporation to manage its debt obligations, continue to invest in a high-quality network and pursue new investment opportunities. In 1999, cash generated from operating activities was $196.3 million (1998 - $219.0 million). Cash used in financing activities was $45.1 million (1998 - $48.6 million), while investing activities required cash disbursements of $162.9 million (1998 - $166.5 million). Despite a decrease in capital expenditures, the Corporation realized a decrease in cash of $11.6 million during the year primarily due to a reduction in cash generated by operating activities.



Financing

During 1999, debt related activities generated net cash of $8.8 million compared to $30.4 million in 1998. In 1999 dividends declared to Crown Investments Corporation (CIC) of Saskatchewan amounted to $60.8 million (1998 - $51.3 million). In the last 5 years, the Corporation has paid a total of $268.3 million in dividends while still managing to maintain the debt ratio below the target of 40%.

Investing Activities

Capital Spending

The Corporation's net capital spending in 1999 amounted to $155.3 million, a decrease of $14.9 million from 1998 levels. Rationalization of capital spending saw the reduction of capital resources for the purpose of sustaining and maintaining the network. However, the Corporation continued to dedicate capital resources for growth initiatives.

SaskTel

SaskTel invested approximately $72.9 million for growth initiatives in 1999, an increase of $8.1 million. Conversely, expenditures relating to sustaining capital assets decreased in 1999 to $67.7 million as compared to the $88.2 million in 1998. Spending continued on the Core Network Evolution Program (CNEP) and the First Nations Service Improvement Program, which provide for the modernization, upgrading and replacement of key elements of the switching and transmission network. These two major programs are near completion and are expected to be complete by 2001. Meeting the demand requirements of the province of Saskatchewan is becoming more challenging as voice and data traffic increase in response to growing Internet usage and unlimited calling plans. In 1999 SaskTel spent $63.4 million, an increase of $9.2 million from 1998, to ensure that these demands can be met without compromising quality of service.

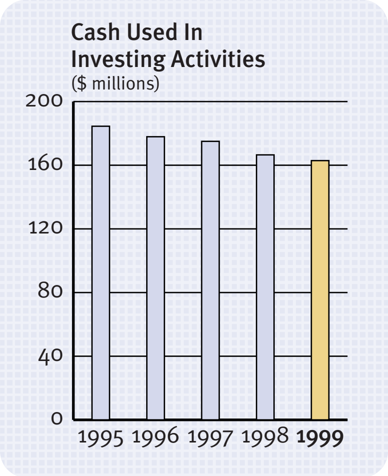
As part of the continuing strategy of growth and diversification, SaskTel undertook several new initiatives in 1999. One such initiative is the Access Network Infrastructure Program (ANIP) for which SaskTel spent $5.9 million. The ANIP initiative provides for the installation of a high-speed access network infrastructure in nine major centres, including Regina and Saskatoon over a three-year period. This program will position the network for additional high-speed service offerings, aligning with the company's strategy for a fiber-based access network. QUANTUMLYNX.com (a division of SaskTel formerly known as Advanced Interactive Solutions) spent $6.4 million to build e-commerce infrastructure which was driven, in part, by the alliance SaskTel formed with Netscape early in the year. This alliance supports SaskTel's growth strategy by creating more advanced e-business applications and hosting services, which provide global opportunities for revenue.

Mobility

Capital investment in 1999 was $15.2 million for SaskTel Mobility, a decrease of $10.6 million from 1998. SaskTel Mobility's investing activities in 1999 included capital spent on additional network infrastructure for analog cellular, digital PCS, Year 2000 remedial activities and further investment in information technologies. Capital spending involved construction of four new cellular sites to provide service to the communities and surrounding areas of Big River, Pierceland, Turtleford, Major and Smiley. The digital cellular network in the Regina and Saskatoon markets provides 45% of the population with enhanced features, clarity and privacy, while the analog cellular network coverage has now been extended to more than 92% of the population.

Long-term Investments

The Corporation's long-term investments increased by $39.0 million from 1998 as a result of the Saturn/Austar share exchange. The non-cash share exchange replaced the Corporation's investment in Saturn of $23.7 million with an investment in Austar of $62.7 million. Austar is a leading broadband communications provider in Australia and New Zealand. Through its wholly owned subsidiary, Austar Entertainment, the company is the second largest pay TV operator in Australia reaching over one-third of the market primarily with its digital satellite network and serving over 330,000 subscribers today.



Austar is also a significant owner/distributor of pay TV channels through its 50 percent owned programming venture XYZ Entertainment. Additionally, through its wholly owned subsidiary, Saturn, Austar is the first and only integrated provider of video, voice, and Internet/data services in New Zealand.

During the year, the Corporation established SecurTek Monitoring Solutions Inc. (formerly 591227 Saskatchewan Ltd.) to provide residential, business and wholesale security monitoring services. In the fall of 1999, SecurTek purchased customer contracts through two separate acquisitions. The acquisitions were structured as share purchases and in each case the only assets acquired were customer contracts. The total purchase price of these two transactions was $2.6 million.

Effective July 19, 1999, the Corporation acquired the remaining 40% interest in IQ&A Partnership.

Outlook

The following is a list of some of the factors affecting the Corporation's near-term financial outlook:

- Traditional revenues continuing to decline as a result of a fully competitive environment across all business units.
- Long distance revenues declining further due to the new flat rate plans, further enhancements to saving plans, special savings events, and further reductions in toll settlement revenues received from other telecommunications companies.
- Changes to services and pricing, including local rate increases for residential and business customers. New rates could be implemented as early as March of 2000, depending on regulatory approvals.
- Cost saving initiatives, including reduced staffing levels through attrition, early retirement, and implementation of operational efficiency initiatives.
- Changes to operating and competitive environment, depending on the outcome of the Corporation's application to the CRTC for a transitional regulatory framework.
- Increased competitive pressures resulting from continued industry consolidation and convergence.
- New revenue growth opportunities, particularly in the IP (Internet protocol) networking, broadband, new media, and e-business markets.
- Mobility operating within a new alliance and preparing for regulation while expanding its digital network, and making further advances in wireless data applications.

Market Issues

Competition

The Corporation currently operates in the competitive cellular, Internet and long distance markets and has been preparing for local access competition for two years. Although Saskatchewan has been open to local access competition since April, 1998, to date there are no local access competitors operating in the province. The Saskatchewan payphone market was opened to competition on July 15, 1999, and, to date, SaskTel has not lost any market share.

The competition in Saskatchewan's long distance markets is expected to continue, with both resellers and interexchange carriers operating in the province.

In the wireless markets, competition is increasing steadily and is expected to continue intensifying in the foreseeable future. In 1999, the former members of Mobility Canada agreed to allow re-sale to each other and to compete in one another's serving areas. SaskTel Mobility subsequently formed an alliance with Manitoba Telecom Services (MTS), Bell Mobility, and Aliant, but it is expecting to receive competition from TELUS Mobility as early as the first quarter of 2000. As well, a significant national wireless competitor has recently entered the Saskatchewan market and is expected to step up its marketing efforts in the near future. These factors could contribute to market share losses for SaskTel Mobility in both digital and analog cellular markets.

The Internet market is increasingly becoming national in character. Standardized national Internet access offerings by the cable television companies and by large national Internet service providers are setting the agenda. The market is dynamic, with competitors entering and exiting regularly. The steadily decreasing prices for Internet services in Saskatchewan are the clearest demonstration of healthy competition. This competitive activity can be expected to affect the Corporation's revenues from Internet services. However, the Corporation is well-positioned with respect to dial and high-speed Internet services. The Corporation's high-speed service was expanded in 1999 and will be expanded further in 2000. Prices for this service were reduced in 1999 and new dial Internet plans may be launched in 2000.

Rate Rebalancing

SaskTel plans to introduce further rate rebalancing measures in 2000, subject to regulatory approvals. Presently, SaskTel offers among the lowest local service charges in Canada, due mainly to the high subsidy provided by long distance revenues. To sustain its competitive position in the national long distance market, SaskTel needs to continue offering customers competitive long distance services, which means further declines in long distance revenues. Decreased revenue limits its ability to continue with the current level of subsidization and exerts pressure to bring local service charges closer to the cost of providing the service. SaskTel estimates that in 1999, the local and related utility services shortfall was $73 million. This shortfall was in part funded internally through the Corporation's revenues from optional services and directory publishing revenues. The remainder, $58 million, was explicitly subsidized through contribution payments from long distance services.

To redress this situation, in the first quarter of 2000, SaskTel intends to begin restructuring and rebalancing its local business and residential access services. SaskTel's business customers have not seen a rate increase since 1993 and, even with the expected rate action, will still have among the lowest access rates in Canada. SaskTel plans to introduce new business long distance plans to offset the increases to local access charges.

Even after the rate adjustments are made in 2000, the average shortfall per residential customer access line will still be well over $10 per month, and as much as $100 per month in high cost rural and northern areas. Despite SaskTel's high-cost challenge, its new basic residential access rates will be comparable to rates approved by the CRTC in other provinces. Services to remote areas present a challenge for SaskTel because it serves the most geographically dispersed population in Canada. SaskTel's network serves 3.7 customers per kilometre of infrastructure. By comparison, Ontario, Quebec and B.C. have over 20 customers per kilometre of infrastructure. Manitoba and Alberta each have over 11 customers per kilometre of infrastructure.

Industry Alliances and Mergers

Significant mergers and alliances in the communications and information technology industries will continue to set the pace for competition in the Corporation's markets. Meanwhile, the dissolution of the Stentor Alliance will continue to affect the Corporation's financial picture, through the Mobility Canada re-organization and changes to settled revenue, interconnection, and intellectual property agreements. Bell Canada and TELUS have agreed to a new model for managing national network operations previously performed by Stentor Canadian Network Management (SCNM). Bell Canada is to provide national operational support services to TELUS and to Bell's partners, Aliant Inc., SaskTel and Manitoba Telecom Services (MTS).

With the restructuring of Mobility Canada in 1999, TELUS Mobility can compete in Saskatchewan and throughout the areas served by members of the Bell Mobility alliance. Under the new agreement, Mobility Canada will continue to provide advanced wireless communications capabilities across Canada and abroad for the duration of all existing contracts with national customers. It will also continue its role as a provider of billing and settlement services for all member companies.

By joining in an alliance with Bell Canada Enterprises (BCE) in 1999, the Corporation secured its capacity to continue serving customers on a national and international basis. The alliance agreement ensures that the Corporation and its customers will continue to benefit from access to products, services and intellectual property. At the same time, the Corporation retains its corporate independence and its freedom to grow and diversify.

The Corporation made another important alliance during 1999, which will continue to play a role in its financial outlook in 2000 and beyond. The Corporation's strategic partnership with Netscape has allowed QUANTUMLYNX.com access to the newly formed iPlanet alliance which combines the resources of both Netscape and Sun Microsystems. This relationship is producing exclusive opportunities for QUANTUMLYNX.com to reach broader audiences with its advertising and products and gain early access to the Beta releases of the latest Internet application software.

Regulatory Issues

Transition to Federal Regulation

On June 30, 2000 SaskTel will move under the regulation of the Canadian Radio-television and Telecommunications Commission (CRTC). In 1999 SaskTel continued to proactively manage the transition and implement the changes required to align with national regulatory and competition models. SaskTel's goal is to make the transition as seamless as possible for customers and ensure that SaskTel continues to have the ability to respond quickly and flexibly to customer service needs.

Consistent with this goal, on September 21, 1999 SaskTel submitted an application to the CRTC, outlining SaskTel's proposed regulatory framework and requesting forbearance of telecommunication services currently forborne for other Canadian telecommunications companies (including Terminal Equipment; Toll and Toll-free services; Inter-Exchange Private Line and Packet Data services; retail end-user Internet services; Public Switched Mobile Voice services and other mobile wireless services offered by SaskTel and SaskTel Mobility).

SaskTel's application also requested final approval of the rates and conditions in effect on June 30, 2000 for services where tariffs are required, and proposed a full review of SaskTel's regulatory framework to be conducted as part of the forthcoming price cap review. Until this review is complete, SaskTel proposed that it would not increase rates for any of its utility services above the rates in effect on June 30, 2000. A decision on SaskTel's transitional proposal is expected in May 2000.

Filing the transitional application at this early date allows SaskTel to plan and prepare its customers and employees for the regulations that will be in place on June 30, 2000, and helps to ensure that SaskTel is not encumbered by greater regulatory oversight than other Canadian telephone companies, including its competitors.

SaskTel's transitional approach would also reduce regulatory costs, eliminate redundancy, and allow SaskTel to assess many key outstanding CRTC decisions that will impact SaskTel once it is under federal regulation.

A number of key aspects of the national regulatory model are currently under review by the Commission or have been appealed to federal Cabinet. The outcome of such reviews and appeals could significantly influence how SaskTel is affected by federal regulation. Prime among these are issues related to the collection and disbursement of subsidies to retain universal, affordable service in high cost serving areas (HCSA) and issues related to the future form of price cap regulation.

High Cost Serving Areas (HCSAs) and Contribution Reform

One of SaskTel's primary concerns with the current regulatory framework is that subsidies to support universal and affordable service are regionally versus nationally based. Exacerbating this problem, long distance services represent the only explicit source of subsidy that exists within the current national framework. With the most rural serving area in Canada, SaskTel is concerned with the impact this could have on price and quality of service for all Saskatchewan customers. SaskTel, along with other companies, governments and consumer groups, believes that this system is unsustainable, competitively inequitable, and can result in gaming and market distortions between the different areas of Canada.

SaskTel supports the establishment of a revenue-based, technologically neutral Universal Service Fund, assessed on a national level, and has called for such a fund in two key CRTC proceedings: the examination of service to high cost serving areas and the contribution reform proceedings. Although the CRTC's decision on Telephone Service to High-Cost Serving Areas released in October 1999 did not make any provisions for the establishment of a national Universal Service fund, the Government of Saskatchewan has subsequently appealed this decision. SaskTel is not formally a part of the appeal; however, it supports the Government of Saskatchewan's initiative and continues to forward the need for subsidy reform in related CRTC proceedings.

Price Cap Review

The review of the CRTC's Price Cap plan is to begin by the end of 2000. This CRTC proceeding will define the long-term regulatory strategy for Canadian carriers. It is also expected to include a full review of SaskTel, including its rates, policies, financial requirements and operating environment. SaskTel is preparing for this important regulatory proceeding where it will be discussing how its unique operating territory, with its extensive high cost serving areas, should be considered within the national regulatory model.

Saskatchewan Interim Rate Review Panel (SIRRP)

Until June 30, 2000, SaskTel remains under provincial regulatory authority. In November 1999 the Government of Saskatchewan established the Saskatchewan Interim Rate Review Panel (SIRRP) to review Crown corporation requests to change monopoly service rates. On January 14, 2000 SaskTel made a submission regarding local telephone rates to the SIRRP. Following a public review, the SIRRP expects to issue a report on the submission by March 10, 2000.

Year 2000

The Corporation's Year 2000 program began several years ago. By the end of 1999 the Corporation had invested close to $23 million preparing for the Year 2000 and future dates. The Corporation believes all the necessary steps have been taken to ensure its business and residential customers will continue to receive the customary standard of service reliability and excellence. Through the combined efforts of its employees and its suppliers, the Corporation completed the upgrade, conversion and testing of its network elements and computer information systems by the end of November 1999. Likewise, all of the Corporation's products and services were considered Year 2000 ready by the end of November 1999. As well, the Corporation's remediation process was declared complete as of August 31, 1999.

A "Preparedness for the Year 2000, Rollover Plan" was developed. This plan detailed actions and accountabilities for all Business Units. This plan was and will be used when the Emergency Operating Centre (EOC) is activated for any Year 2000 critical dates. The EOC will assume accountability for overall corporate coordination, direction, and control for all Year 2000 incidents that are identified. The Corporation's preparedness plan is synchronized with the National Crisis Management Plan, which includes links to other carriers, key vendors and key government stakeholders. Locally, the Corporation is linked with SaskPower, SaskEnergy and other local interest groups.

The Corporation is highly dependent on technology, and its Year 2000 efforts paid off both in terms of achieving a smooth rollover and in entering the year 2000 with the most up to date and well-managed processes and systems in place. The Corporation expects to complete the significant portion of the program by March 15, 2000 after the completion of the Leap Year rollover.

The Corporation, like its provincial partners in the telecommunications industry, cannot guarantee the compliance of systems not within its control—for example, the systems of other suppliers and telecommunications companies that interface with its network. The Corporation is using commercially reasonable efforts to prevent the occurrence of any date-compliance related problems, including interruptions or delays in the delivery and supply of any goods and services that interface with or are connected to networks outside its own.

Financial Outlook

Income Outlook

Amid unprecedented change, growth and intense competition in the telecommunications industry, the Corporation is well positioned to generate growth in net income and shareholder wealth. Management remains confident that its long-term strategy of growth balanced by cost containment, together with service excellence, will be the blueprints to future success.

In the near term, revenues are expected to increase from rate rebalancing and diversified operations but will be partially offset by continued reductions in long distance and market share losses. Cost containment is one of the primary focuses of the Corporation in the near term. Despite this, operating expenses are anticipated to increase caused by growth in expenses of diversified operations, technology advancements and costs to address regulatory and industry change. Given the long-term nature of the diversification initiatives, the Corporation is anticipating a reduction in diversified earnings over the next three to five years until full operations and profits are realized. In any event, there is the potential to realize some of the value in the Corporation's investments if the opportunity presents itself to be a financially wise decision.

IQ&A Partnership will actively pursue a strategic partner as an investor and as a technology resource. Without this strategic partner it is uncertain as to whether the Corporation will continue to operate it as a wholly owned subsidiary.

Growth

The Corporation's growth strategy will focus on the following three areas: new product development in existing markets; new market development with existing products; and new products in new markets. Growth will be achieved through service development initiatives and external investments. By 2004, the Corporation may have invested as much as $200 million in external investments. At the same time, the Corporation understands that its health and profitability in its home market and core business are critical to fund any future growth in new markets. The Corporation's first priority is to be "Saskatchewan's Communications Company". It is prepared to step outside its current market and business provided that the opportunities leverage core competencies or invest in intellectual property and human capital that contribute value to the Corporation's shareholder in the long term.

The cornerstones of this strategy are SaskTel International, SaskTel Mobility, DirectWest, QUANTUMLYNX.com, SecurTek™ and Hospitality Network Canada Inc. However, diversification also includes contributions from diversified services such as the SmartTouch™ calling features (e.g. Three-way Calling, Call Forward, Call Waiting, Name Display), MessageManager™, and data services such as Megalink and Microlink.

SaskTel International will continue to pursue large telecommunications infrastructure projects. These projects may lead to additional business within Africa, Asia and around the globe. SaskTel International will investigate potential partnerships and alliance opportunities within the telecommunications software marketplace.

Wireless data opportunities will start to play an important role in Mobility's diversification efforts. Wireless data solutions are gaining an increased awareness and acceptance in the business segment as technology that will make their businesses more productive and efficient. Improvements will continue to be made in digital quality, capacity and coverage. It is expected that a sufficient supply of Tri-mode CDMA handsets will be available to meet customer expectations for seamless service while roaming on other carriers' networks in other provinces or out of country.

QUANTUMLYNX.com will be focusing upon enhancing and growing its suite of Internet value add services. QUANTUMLYNX.com will be targeting the Saskatchewan business market and will be extending services beyond the Saskatchewan borders to be economically viable via e-business channels and partnerships. As well, QUANTUMLYNX.com will continue to develop virtual businesses such as clickabid™ and leverage the strategic alliance with Netscape to pursue emerging global opportunities.

In 1999 Hospitality Network Canada Inc. (HNCI) established a new core competency of providing cable television rental services. These services were provided to three hospitals in Prince Albert and Regina. By being awarded competitive bids for hospitals in Alberta, Manitoba and Ontario in 1999, HNCI positioned itself as a significant national player. The near-term growth strategy will continue to focus on securing provincial and national hospital contracts, and adding new services such as telephone rental.

Operational Efficiency

Operating in a competitive environment creates significant pressure to operate with greater efficiency and focus on improved cost structures over the long-term. In the years to come all of the business units of the Corporation will continue to engage in cost containment and process improvement measures specific to their operating plans. Some cost containment initiatives will be addressed from a corporate-wide perspective to better integrate processes and functions across business functions and to improve overall competitiveness in delivering full customer solutions. Through its strategy of growth and improved operational efficiency, the Corporation will continue to deliver value to its shareholder while providing quality products and service.

Five Year Record of Service

	1999	1998	1997	1996	1995
Finance					
(Thousands of dollars)					
Operating revenues	**$ 737,724**	$ 752,636	$ 728,037	$ 696,897	$ 646,871
Operating expenses	**671,958**	625,613	596,889	572,288	517,070
Other	**37,765**	2,689	(56,902)	(248)	127,964
Interest and related costs	**36,009**	36,514	33,612	40,361	65,965
Net income	**67,522**	93,198	40,634	84,000	191,800
Dividends	**60,770**	51,259	36,571	46,200	73,500
Gross construction expenditures	**161,642**	173,892	175,015	177,877	184,539
Property, plant & equipment*	**2,256,534**	2,205,045	2,120,589	2,025,022	1,922,763
Long-term debt (gross)*	**453,089**	420,373	441,999	485,981	551,631
Financial ratios					
Return on equity	**10.5%**	15.1%	6.8%	14.6%	38.5%
Debt ratio	**38.7%**	39.3%	39.0%	39.2%	44.5%
Internally generated funds	**90.6%**	79.4%	95.8%	114.4%	148.4%
Employees and payroll					
Number of permanent employees (excluding part-time)					
Diversified operations**	**435**	456	398	249	248
Saskatchewan Telecommunications	**3,819**	3,771	3,574	3,543	3,518
Total	**4,254**	4,227	3,972	3,792	3,766
Salaries earned (thousands of dollars)	**$ 223,589**	$ 208,529	$ 194,947	$ 170,358	$ 165,503
Operational Highlights					
Network Access Services*	**643,722**	641,523	626,924	607,092	595,101
Originated Long Distance Minutes (in thousands)	**1,273,545**	932,745	969,533	1,008,200	906,200
Internet Access Services*	**66,435**	49,435	30,844	12,796	n/a
Cellular Access Services*	**188,002**	160,434	135,623	104,994	76,225

* At December 31.
** Includes SaskTel International, Mobility, DirectWest, Other

Auditors' Report

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

We have audited the consolidated statement of financial position of Saskatchewan Telecommunications Holding Corporation as at December 31, 1999, and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1999, and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants
Regina, Saskatchewan

February 21, 2000

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, 1999, are the responsibility of management of the corporation and have been approved by the Board of Directors. Management has prepared the consolidated financial statements in accordance with generally accepted accounting principles in Canada. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

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

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

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

Donald R. Ching
President & Chief Executive Officer
February 21, 2000

R Stephanson

Randy Stephanson
Chief Financial Officer

Consolidated Statement of Operations

For the year ended December 31 *(Thousands of dollars)*	1999	1998 (Note 20)
Operating revenues		
Local service	**$ 390,757**	$ 377,981
Long distance service	**258,741**	293,982
Sales, directory, other	**88,226**	80,673
	737,724	752,636
Operating expenses		
Operating expenses	**483,519**	478,937
Depreciation and amortization	**154,276**	146,676
Restructuring and other charges (Note 4)	**34,163**	–
	671,958	625,613
Income from operations	**65,766**	127,023
Other items (Note 5)	**(1,238)**	(4,951)
Interest and related costs (Note 6)	**36,009**	36,514
Net income before the following	**28,519**	85,558
Gain on sale of investment (Note 8)	**39,003**	7,640
Net income	**$ 67,522**	$ 93,198

Consolidated Statement of Retained Earnings

For the year ended December 31 *(Thousands of dollars)*	1999	1998 (Note 20)
Retained earnings, beginning of year	**$ 390,176**	$ 348,237
Net income	**67,522**	93,198
	457,698	441,435
Dividends	**60,770**	51,259
Retained earnings, end of year	**$ 396,928**	$ 390,176

See Accompanying Notes

Consolidated Statement of Financial Position

As at December 31 *(Thousands of dollars)*	1999	1998 *(Note 20)*
Assets		
Current assets		
Cash and short-term investments	$ 581	$ 7,406
Accounts receivable	99,844	112,955
Inventories	8,468	7,293
Prepayments	13,953	17,486
	122,846	145,140
Property, plant and equipment (Note 7)	946,014	958,257
Investments (Note 8)	65,312	16,394
Other assets (Note 9)	85,418	90,019
	$ 1,219,590	$ 1,209,810
Liabilities and Province's Equity		
Current liabilities		
Bank indebtedness	$ 16,035	$ 11,232
Short-term borrowings (Note 10)	16,000	72,744
Accounts payable and accrued liabilities	104,272	108,948
Dividend payable	15,770	8,813
Service billed in advance	27,561	25,497
Current portion of long-term debt (Note 11)	5,990	38,736
	185,628	265,970
Long-term debt (Note 11)	387,013	302,746
	572,641	568,716
Minority interest	21	918
Province of Saskatchewan's equity		
Equity advance (Note 12)	250,000	250,000
Retained earnings	396,928	390,176
	646,928	640,176
	$ 1,219,590	$ 1,209,810

See Accompanying Notes

On behalf of the Board

Thomas V. Kehoe
Tom Kehoe

Alison Renny
Alison Renny

Consolidated Statement of Cash Flows

For the year ended December 31 *(Thousands of dollars)*	**1999**	1998 *(Note 20)*
Operating activities		
Net income before interest paid	**$ 110,012**	$ 136,036
Interest paid	**42,490**	42,838
Net income	**67,522**	93,198
Items not affecting cash from operations (Note 13)	**134,360**	133,062
Net change in non-cash working capital items	**(5,536)**	(7,282)
Cash provided by operating activities	**196,346**	218,978
Financing activities		
Repayment of long-term debt	**(44,498)**	(14,621)
Proceeds from long-term debt	**110,000**	-
Dividend payments	**(53,813)**	(79,017)
Short-term borrowings	**(56,744)**	44,996
Cash used in financing activities	**(45,055)**	(48,642)
Investing activities		
Capital expenditures	**(155,333)**	(170,239)
Net investment	**(4,997)**	5,194
Acquisitions (Note 3)	**(2,589)**	(1,430)
Cash used in investing activities	**(162,919)**	(166,475)
(Decrease) increase in cash	**(11,628)**	3,861
Cash and cash equivalents, beginning of year	**(3,826)**	(7,687)
Cash and cash equivalents, end of year	**$ (15,454)**	$ (3,826)
Comprised of:		
Cash and short-term investments	**$ 581**	$ 7,406
Bank indebtedness	**(16,035)**	(11,232)
	$ (15,454)	$ (3,826)

See Accompanying Notes

Notes to Consolidated Financial Statements

December 31, 1999

Note 1 -- The Corporation

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

In October 1998 the Federal Government granted to Saskatchewan Telecommunications (SaskTel) exemption from federal regulation by the Canadian Radio-television and Telecommunications Commission (CRTC) until June 30, 2000. In 1999 SaskTel continued to proactively manage the transition and implement the changes required to align with national regulatory and competition models. Regulation by the CRTC may have an impact on the Corporation's future pricing, products, service development and financial performance.

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

Note 2 -- Summary of significant accounting policies

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

Subsidiaries and investments

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

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

Name	Percentage ownership	Basis for inclusion
Operating entities:		
Saskatchewan Telecommunications	100%	Consolidation
Saskatchewan Telecommunications International, Inc.	100%	Consolidation
DirectWest Publishing Partnership	100%	Consolidation
SecurTek Monitoring Solutions Inc.	100%	Consolidation
SecurTek Partnership No. 1	100%	Consolidation
SecurTek Partnership No. 2	100%	Consolidation
Hospitality Network Canada Inc.	90%	Consolidation
3231518 Canada Ltd. (clickabid™)	100%	Consolidation
IQ & A Partnership	100%	Consolidation
Regional Cable TV (Western) Inc.	29.9%	Equity
Austar United Communications Limited	2.9%	Cost

The following is a summary of the non-operating entities of the Corporation: 101000606 Saskatchewan Ltd., 101000607 Saskatchewan Ltd., 3339807 Canada Ltd., 3364381 Canada Ltd., 604408 Saskatchewan Ltd., 620064 Saskatchewan Ltd., Avonlea Holding, Inc., Battleford International, Inc., Carlyle Holding, Inc., Dundurn Holding, Inc., Hollywood At Home Inc., Mobility Personancom Canada Inc., SaskTel Data Exchange Inc., SaskTel Holding (New Zealand) Inc., SaskTel Holding (U.K.) Inc., SaskTel New Media Fund Inc. and SaskTel Telecommunications Consulting Inc.

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 -- Acquisitions

Effective July 19, 1999, the Corporation acquired the remaining 40% interest in IQ&A Partnership.

On July 27, 1999, the Corporation acquired a 2.9% interest in Austar United Communications Limited (Austar). Austar is a leading broadband communications provider in Australia and New Zealand. Subsequent to the share acquisition, the Corporation entered into a cross currency swap to hedge its foreign currency denominated investment in Austar against fluctuations in foreign exchange rates.

During the year, the Corporation established SecurTek™ Monitoring Solutions Inc. (formerly 591227 Saskatchewan Ltd.) to provide residential, business and wholesale security monitoring services. On November 3 and December 17, 1999 SecurTek acquired 100% of the common shares of two corporations operating in Saskatchewan. Customer contracts were the only identifiable assets of the acquired companies. The total purchase price was $2.6 million, the full amount of which was assigned to goodwill. The goodwill is being amortized over ten years.

Note 4 -- Restructuring and other charges

The Corporation recorded restructuring and other charges of $19.8 million and $14.4 million, respectively. The restructuring charges include bridging costs and retirement allowances borne by the Corporation pertaining to an early retirement program offered in 1999. Other charges include $11.3 million related to the write-down of transmission, switching and associated infrastructure assets. Also included is $3.1 million for non-recoverable costs to implement local service competition and provide local number portability.

Note 5 -- Other items

	1999	1998
	(Thousands of dollars)	
Net share of loss of equity investments	$ **(4,264)**	$ (8,181)
Interest income	**1,630**	1,632
Other income	**826**	1,490
Minority interest and income taxes	**570**	108
	$ **(1,238)**	$ (4,951)

Note 6 -- Interest and related costs

	1999	1998
	(Thousands of dollars)	
Interest expense	$ **44,374**	$ 45,928
Amortization of unrealized net foreign currency losses	**577**	2,027
Amortization of unrealized debt discounts	**279**	296
	45,230	48,251
Less: Sinking fund earnings	**9,076**	11,649
Interest on short-term investments	**145**	88
	$ **36,009**	$ 36,514

Note 7 -- Property, plant and equipment

	1999	1998
	(Thousands of dollars)	
Buildings, plant and equipment	$ **2,114,337**	$ 2,081,558
Plant under construction	**122,125**	101,953
Materials and supplies	**11,025**	12,612
Land	**9,047**	8,922
	2,256,534	2,205,045
Less: Accumulated depreciation	**1,310,520**	1,246,788
	$ **946,014**	$ 958,257

The composite depreciation rate on the average depreciable telecommunications property in service was 7.3% in 1999 (1998 – 7.1%).

As at December 31, 1999, the ratio of accumulated depreciation to depreciable telecommunications property was 62.0% (1998 – 59.9%).

Note 8 -- Investments

	1999	1998
	(Thousands of dollars)	
Equity method investments:		
Saturn Communications Limited (Saturn)	$ –	$ 14,885
Regional Cable TV (Western) Inc.	2,564	1,471
Other	38	38
Portfolio investment:		
Austar United Communications Limited	62,710	–
	$ 65,312	$ 16,394

On July 27, 1999, the Corporation divested its 35% equity position in Saturn. As consideration the Corporation received 13,659,574 common shares (or a 2.9% interest) in Austar. The value of the Austar share consideration received was determined by the subscription price of Austar's initial public offering on the Australian Stock Exchange that occurred on the same day.

The sale transaction resulted in a $39.0 million gain on disposition of the Saturn investment as follows:

	1999
	(Thousands of dollars)
Consideration received	$ 62,710
Carrying value of investment	23,707
Gain on sale of investment	$ 39,003

Note 9 -- Other assets

	1999	1998
	(Thousands of dollars)	
Deferred pension costs	$ 42,149	$ 31,846
Unrealized net foreign currency losses on long-term debt	22,008	31,049
Competition implementation costs	7,818	8,159
Goodwill	6,253	13,147
Unamortized discount on long-term debt	3,923	1,566
Sales-type leases	2,966	2,731
Other	301	1,521
	$ 85,418	$ 90,019

Note 10 -- Short-term borrowings

Short-term borrowings are notes payable representing interim financing arrangements under established lines of credit with the Province of Saskatchewan.

At December 31, 1999 there were $16,000,000 (1998 – $72,744,000) of outstanding notes payable bearing interest at an average rate of 5.02% (1998 – 5.93%).

Note 11 -- Long-term debt

	Years to Maturity	Average Fixed Interest Rate (%)	1999	1998
			(Thousands of dollars)	
Province of Saskatchewan:				
Canadian dollar issues	1 - 5 years	12.57	**$ 125,831** (a)(b)	$ 96,875
Canadian dollar issues	6 - 10 years	9.99	**66,974** (b)	129,126
Canadian dollar issues	29 years	5.38	**110,000** (c)	–
U.S. dollar issue	21 years	9.38	**144,330** (d)	153,330
			447,135	379,331
Telebonds – II Credit Bonds	–	–	**–**	33,349
Other	3 years	–	**5,954**	7,693
			453,089	420,373
Less: Sinking funds			**60,086** (e)	78,891
Total long-term debt			**393,003**	341,482
Less: Current portion of long-term debt			**5,990**	38,736
Long-term debt, excluding current portions			**$ 387,013**	$ 302,746

(a) Long-term debt totaling $88,693,000 contains call provisions whereby the Corporation may call the debt on specific dates as outlined in the terms and conditions.

(b) Long-term debt totaling $104,112,000 is subject to redemption at the option of the holder on six months notice as outlined in the terms and conditions.

(c) Long-term debt totaling $35,000,000 contains a one-time redemption provision exercisable on March 5, 2006, whereby the investor may redeem the debt. The debenture pays interest at 5% to March 5, 2006 and 5.6% thereafter.

(d) Represents long-term debt repayable in U.S. dollars having a U.S. dollar face value of $100,000,000 converted to $115,360,000 Canadian at the time of issue. The recorded amount is based on the foreign exchange rate at December 31, 1999 of 1.4433 (1998 – 1.5333).

(e) Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds administered by the Province of Saskatchewan, 1% of the debt outstanding. The sinking funds include investments denominated in U.S. dollars held in the fund having a U.S. dollar value of $12,229,658 recorded at $17,651,066 Canadian dollar equivalent.

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

	(Thousands of dollars)
2000	$ 5,990
2001	$ 5,018
2002	$ 37,140
2003	$ 21,407
2004	$ 31,499

Note 12 -- Equity advance

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

Note 13 -- Items not affecting cash from operations

	1999	1998
	(Thousands of dollars)	
Depreciation and amortization	**$ 154,276**	$ 146,676
Gain on sale of investment	**(39,003)**	(7,640)
Restructuring and other charges	**34,163**	–
Pension income on defined benefit plan	**(10,303)**	(10,588)
Sinking fund earnings	**(5,992)**	(7,898)
Net share of loss of equity investments	**4,264**	8,181
Premium and foreign exchange adjustments	**1,052**	1,462
Other	**(4,097)**	2,869
	$ 134,360	$ 133,062

Note 14 -- Financial instruments

Credit risk

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

Currency exposure

The Corporation has entered into a perpetual cross currency swap to exchange Australian Dollars for Canadian Dollars in order to hedge currency risk inherent in the Australian Dollar denominated investment in Austar United Communications Limited. Due to the uncertainty around the holding period of the investment, the swap has no termination date, but has a three year reset to mitigate counterparty credit risk. The principal amount to be received under the cross currency swap is $62,710,560, and the principal amount owed is $64,200,000.

Interest rate risk

The interest rates on long-term debt are fixed and notes payable are issued by the Province of Saskatchewan at market rates.

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties, based on current markets for instruments of the same risk, principal and remaining maturities. Fair values are estimated based on 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 which reflect varying degrees of risk.

Therefore, due to the use of subjective judgement and uncertainties, the aggregate fair value amount should not be interpreted as being realizable in an immediate settlement of the instruments.

The fair value of the investment in Regional Cable TV (Western) Inc., a private company, is not readily determinable because the investment is not publicly traded. The Corporation believes that the carrying amount is less than the fair value.

At December 31, 1999 and 1998, the carrying value of all financial instruments approximates fair value with the following exceptions (thousands of dollars):

	1999		1998	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Austar United Communications Limited	$ 62,710	$ 80,033	$ –	$ –
Equity in sinking funds	$ 60,086	$ 60,399	$ 78,891	$ 90,638
Liabilities:				
Long-term debt,				
Province of Saskatchewan	$ 447,135	$ 507,777	$ 379,331	$485,431
Derivative financial instruments, net asset position:				
Cross currency swap	$ –	$ 1,006	$ –	$ –

Note 15 -- Segmented information

The Corporation has four reportable segments: SaskTel, SaskTel Mobility, Saskatchewan Telecommunications International, Inc. (SaskTel International) and DirectWest Publishing Partnership (DirectWest). SaskTel is the principal supplier of telecommunication products and services such as voice, data, value-add network and IP based applications in the province of Saskatchewan. SaskTel Mobility provides a full range of wireless products and services such as cellular, paging and Fleetnet 800™, as well as wireless data connectivity. SaskTel International offers technical solutions internationally including network integration, advanced network management and interactive services as well as global investments. DirectWest provides directory services through its ten directories within the cities and districts in Saskatchewan, and interactive services through the Internet.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Corporation accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.

The Corporation's reportable segments are the major strategic business units that offer different products and services. They are managed separately because each business unit provides different products and services requiring different technology and marketing strategies.

Reportable operating segments:

(Thousands of dollars)

	SaskTel	SaskTel Mobility	SaskTel International	DirectWest	All Other[1]	Total
1999						
Total revenue	$ 613,154	$ 110,726	$ 18,834	$ 30,739	$ 25,351	$ 798,804
Depreciation and amortization	130,127	18,435	110	1,271	4,333	154,276
Income from operations	47,992	6,097	173	1,564	20,854	76,680
Other significant non-cash items:						
Gain on sale of investment	---	---	---	---	39,003	39,003
Net share of loss of equity investments	---	---	---	---	(4,264)	(4,264)
Total assets	981,220	93,776	15,632	13,142	331,931	1,435,701
Equity method investments	---	---	---	---	2,602	2,602
Net capital expenditures	134,453	15,153	55	2,713	2,959	155,333
1998						
Total revenue	$ 626,099	$ 116,629	$ 17,435	$ 29,354	$ 28,656	$ 818,173
Depreciation and amortization	124,081	17,497	82	1,231	3,785	146,676
Income from operations	94,697	16,006	1,123	1,488	25,241	138,555
Other significant non-cash items:						
Gain on sale of investment	7,640	---	---	---	---	7,640
Net share of loss of equity investments	---	---	---	---	(8,181)	(8,181)
Total assets	992,484	108,698	11,851	13,962	298,221	1,425,216
Equity method investments	---	---	---	---	16,394	16,394
Net capital expenditures	137,624	25,771	458	1,584	4,802	170,239

[1] The All Other category includes subsidiaries, investments, and divisions of the Corporation. A complete list of subsidiaries and investments is provided in Note 2.

Reconciliation to reportable segments:

(Thousands of dollars)	**1999**	1998
Total revenues for reportable segments	**$ 798,804**	$ 818,173
Elimination of intersegment revenues	**61,080**	65,537
Consolidated operating revenues	**$ 737,724**	$ 752,636

	1999	1998
Total income from operations for reportable segments	**$ 76,680**	$ 138,555
Elimination of intersegment income	**10,914**	11,532
Consolidated income from operations	**$ 65,766**	$ 127,023

	1999	1998
Total assets for reportable segments	**$1,435,701**	$1,425,216
Elimination of intersegment assets	**216,111**	215,406
Consolidated total assets	**$1,219,590**	$1,209,810

Note 16 -- Pension plans

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

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

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

Effective January 1, 1999, the defined benefit plan was registered under The Pension Benefits Act, 1992. The plan will continue under the name of The Saskatchewan Telecommunications Pension Plan.

	1999	1998
	(Thousands of dollars)	
Details of the defined benefit plan are as follows:		
Plan assets at market related value	**$ 770,151**	$ 713,705
Present value of accrued pension benefits	**620,033**	587,356
Surplus	**$ 150,118**	$ 126,349

	1999	1998
	(Thousands of dollars)	
Pension expense (income) for the year was as follows:		
Defined contribution plan	**$ 9,243**	$ 6,980
Defined benefit plan	**(10,303)**	(10,588)
	$ (1,060)	$ (3,608)

Note 17 -- Related party transactions

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

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

	1999	1998
	(Thousands of dollars)	
Operating revenues	**$ 52,836**	$ 50,274
Operating expenses	**28,552**	16,749
Accounts receivable	**3,646**	5,048
Accounts payable	**389**	419
Capital expenditures	**736**	466

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

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

Note 18 -- Commitments

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

	(Thousands of dollars)
2000	$ 23,726
2001	$ 24,071
2002	$ 24,221
2003	$ 22,767
2004	$ 21,518

The above payments include $31.5 million for leases with related parties.

Note 19 -- Year 2000 issue

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

Note 20 -- Comparatives

1998 figures have been reclassified to conform to the current year's presentation.

SaskTel Holding Corporation
Board of Directors, 1999


Tom Kehoe
Chair of the Board


Jim Scharfstein
Vice-Chair


Wendy Dean
Corporate Secretary


Allan Blakeney


Delores Burkart


Donald R. Ching
President and CEO


Richard Gladue


Karen Leir


Donald Lowry


John Macdonald


Alison Renny


Garf Stevenson


Gord Young

› SaskTel Committees of the Board (1999)

Audit Committee
- Alison Renny, Chair
- Allan Blakeney
- Gord Young
- Delores Burkart

Corporate Growth Committee
- Tom Kehoe, Chair
- Jim Scharfstein
- Richard Gladue
- Delores Burkart

Governance and CEO Evaluation Committee
- Jim Scharfstein, Chair
- Tom Kehoe
- Garf Stevenson
- Karen Leir

Environment and Human Resources Committee
- Garf Stevenson, Chair
- Gord Young
- Alison Renny
- Allan Blakeney

Corporate Directory

SaskTel Executive Officers

Donald R. Ching	President and Chief Executive Officer
Garry Simons	President – *SaskTel International*
Dan Baldwin	Senior Vice President – *Marketing and Corporate Planning*
Kelvin Shepherd	Senior Vice President and Chief Technology Officer
Diana Milenkovic	Senior Vice President – *Customer Service and Mobility*
Randy Stephanson	Chief Financial Officer
John Meldrum	Vice President – *Corporate Counsel and Regulatory Affairs*
Byron Pointer	Vice President – *Human Resources and Industrial Relations*
Gord Farmer	President and CEO – *DirectWest*

SaskTel Senior Operating Managers

Mike Anderson	General Manager, *Marketing*
Dave Birnie	General Manager, *Corporate Services*
Doug Burnett	General Manager, *Human Resources/Industrial Relations*
Sean Caragata	General Manager, *Corporate Affairs*
Don Cherewayko	General Manager, *Customer Services – Saskatoon*
Ken Keesey	General Manager, *Customer Services – Regina*
Tom Laird	General Manager, *Customer Care*
Dave Lozinski	General Manager, *Customer Services – Planning, Provisioning & Implementation*
Candice Molnar	General Manager, *Regulatory Affairs*
Garry Reichert	General Manager, *Customer Services – Districts*
Al Rogers	General Manager, *SecurTek*
Stacey Sandison	General Manager, *Customer and Marketing Services*
Daryl Silzer	General Manager, *Strategic Business Development*
Curt Smith	General Manager, *Information Technology Management (ITM)*
Shelly Smith	General Manager, *QUANTUMLYNX.com*
Dennis Terry	General Manager, *Business Planning and Technology*
Kym Wittal	General Manager, *Network Performance and Operations*
Al Yam	General Manager, *Network Planning, Provisioning and Access*

Senior Operating Managers – SaskTel International

Garry Simons	President
Scott Fedec	Vice President, *Finance*
Mike Le Cren	Vice President, *Business Operations*
Don Prokopetz	Vice President, *Marketing & Sales (Network)*
Barry Ziegler	Vice President, *Investments*
Eric Daku	Vice President, *Business Operations (Software Solutions)*
Mike Ryan	Vice President, *Marketing & Operations, Africa*

SaskTel International

Head Office
3rd Floor, 2121 Saskatchewan Drive
Regina, SK Canada S4P 3Y2
Tele: 800-669-5801/306-777-4509
Fax:306.359-7475
www.sasktel-international.com

Tanzanian Office
Msasani Peninsula, Plot 1385
P.O. Box 1424
Dar es Salaam, Tanzania, Africa
Tele: 255-51-601-195
Fax:225-51-600-408
Email: sasktel@cats-net.com

Philippine Office
4th Floor, Textron Building
168 Luna Mencias Street
San Juan, Metro Manila, Philippines
Tele: 63-2-725-7246
Fax: 63-2-275-7242
Email: sasktel@evoserve.com

SaskTel Head Office

2121 Saskatchewan Drive
Regina, SK. S4P 3Y2
1-800-727-5835

District Offices

Yorkton
70 - 1st Avenue North, Yorkton, SK S3N 1J6
(306) 786-3424

Moose Jaw
83 Ominica Street West, Moose Jaw, SK S6H 1W8
(306) 693-8142

Swift Current
1831 North Service Road, Swift Current, SK S9H 3T2
(306) 778-9660

Prince Albert
47 - 12th Street East, Prince Albert, SK S6V 1B3
(306) 953-6551

Weyburn
314 Coteau Avenue, Weyburn, SK S4H 0G6
(306) 848-2605

North Battleford
1201 - 100th Street, North Battleford, SK S9A 3Z9
(306) 446-5302

Saskatoon
410 - 22nd Street East, Saskatoon, SK S7K 5T6
(306) 931-5921

SaskTel Mobility

2250 Empress Road, Regina, SK S4P 3Y2
(306) 777-2822

SaskTel SecurTek

70-1st Avenue N., Yorkton, SK S3N 1J6
1-877-777-7590

DirectWest Publishing

1900 Albert St., Regina, SK S4P 4K8
(306) 777-0333

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Participate

For more information about SaskTel, our initiatives and operations, or to obtain additional copies of the 1999 SaskTel Annual Report, please contact SaskTel Corporate Affairs at **1-877-337-2445** or visit our website at **www.sasktel.com**.

SaskTel