

SaskTel

Saskatchewan Telecommunications  
Holding Corporation



2004

# Annual Report



HOWARD ROSS LIBRARY  
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**Growth**  
Away From Home

MEETING OUR  
RESPONSIBILITIES

Focus on the  
CUSTOMER

**STRONG**  
FINANCIAL  
PERFORMANCE



# letter of transmittal

Regina, Saskatchewan  
March 31, 2005

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, 2004, 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 Communications Holding Corporation Act*.

Respectfully submitted,

A handwritten signature in black ink that reads "Maynard Sonntag". The signature is fluid and cursive.

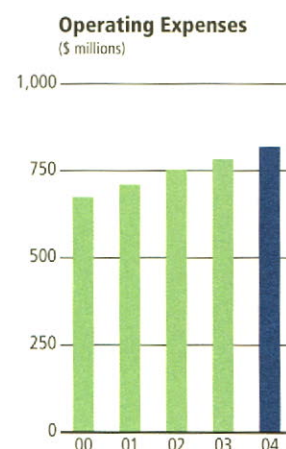
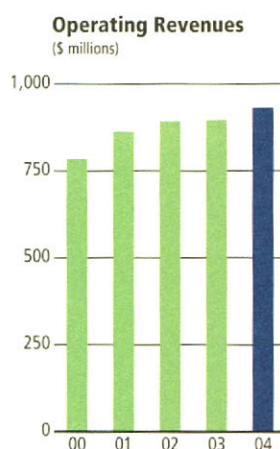
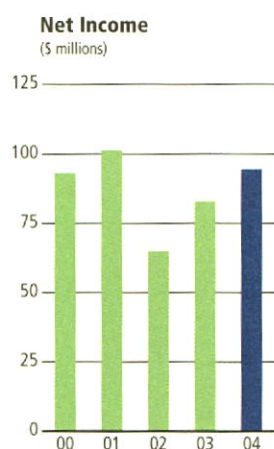
Honourable Maynard Sonntag  
Minister Responsible for SaskTel

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# financial highlights



**Net Income** for the year was \$94.5 million and cash provided by operating activities was \$277.2 million. During the year, SaskTel recorded a gain on sale of investments of \$8.0 million. Income from operations was \$113.3 million.

**Operating Revenues** were higher in 2004 due to increased revenues from cellular, internet and entertainment services.

**Operating Expenses** were higher than the previous year. The increase was driven mainly by restructuring charges of \$40.5 million. In addition there was increased spending on growth initiatives.

**Capital Expenditures** were consistent with the previous year. SaskTel continued to focus on growth initiatives, such as *Max*<sup>™</sup> Interactive Services, high speed internet, and cellular network expansion.

**Declared Dividends** of \$88.0 million in 2004.



# president's message

ANOTHER SUCCESSFUL YEAR



As SaskTel's new President and CEO it is my privilege to address our customers, shareholders, partners, and employees on behalf of the executive. First, it has been exciting for me to join SaskTel at this stage in its evolution, and to add my perspective to the accomplished leadership team already in place. I truly appreciate the welcome I have received from staff and the efforts of all those who have helped bring me up to speed. I am beginning to see that making people feel at home is a core value in this province and in this Corporation.

Anyone who has travelled will know the feeling of coming home. At some point in most journeys, the appeal of the exotic and new fades and the traveller begins to long for familiar faces. In today's telecommunications market, customers will sometimes become lost amidst a boggling array of service providers offering a multitude of choices bundling various combinations of landline, wireless, internet, and broadcast services. Whether it is a large multinational competitor presenting itself as agile and rejuvenated, or a small start-up business doing its best to look well-established and reliable, customers will always be vulnerable to the allure of new options.

Having said that, in my discussions with customers and employees around the province, I have seen something in this

Corporation that cannot be overemphasized, though I suspect it is sometimes forgotten in day-to-day busyness. And it is simply this: behind all the striving for novelty in this marketplace, there is still the comfort and safety of the communications provider that has been here right from the very beginning. SaskTel is the home place, the home team, the familiar face that our customers depend upon for their daily lives in accessing a world of entertainment and communication.

With this in mind, I intend to focus on customer loyalty, along with operational efficiency and growth, as key strategies we will follow. If we can continue to foster relationships with our customers that are too valuable

for them to abandon, and if we are allowed to compete on pricing and bundling, customer loyalty will see us through every challenge that we

I intend to focus on customer loyalty as a cornerstone of all we do at SaskTel.



encounter in our industry and marketplace.

In the near future, we can expect to see some new and powerful competitors entering our market, and we will have our work cut out for us to try to maintain revenues. VoIP (voice over internet protocol) is a market that shows a lot of promise and we have done well so far in nailing down some major contracts. Come what may, SaskTel will carry on its tradition of responding to new forms of competition with hard work, ingenuity and unsurpassed customer service.

With new levels of competition threatening our top line, our operational efficiency strategy will become all the more important. In 2004 we introduced new cost reduction measures, including an Early Retirement Program, which resulted in nearly \$20 million in savings. While we will continue to look for ways to reduce costs and increase efficiencies, we will as always take care to achieve these goals in ways that will not impinge on other values, *i.e.* customer service, growth, and employee morale.

Diversification initiatives like *Max* Interactive Services, as successful as they are, will become even more important as our traditional lines of revenue come under a second wave of attack. In 2004, *Max* Interactive Services surpassed 25,000 customers. That represents about 12% market penetration. This is a significant landmark, one worth celebrating, but we need to keep up the current momentum to reach our 2005 target.

SaskTel's success in following the vision of customer focus, operational efficiency, and growth flows from its people.

In addition to *Max* and VoIP, SaskTel's growth strategy in the months to come will see further expansion of our wireless services, prudent investment, and the export of SaskTel products, services and expertise outside Saskatchewan.

It must be said also that SaskTel's success in following this vision of customer focus, operational efficiency, and growth flows from its people. As we go forward, effective employee relations, performance management, staffing, training and development are what will take our strategies off the page and into the reality of our day to day business. To put it more simply, satisfied employees lead to satisfied customers. As you will see in the stories that fill this report, we have had another impressive year. Our financial results are excellent, we were for the fifth year running listed in the top one hundred employers, and we can be proud of several technological and marketing achievements. Despite the challenges and pitfalls that lie just ahead, I feel certain that I will be able to say the same next year – and that confidence comes directly from my encounters with the people that make up SaskTel. Our talented employees, management team, members of the executive and the board of directors have given me every reason to believe that SaskTel will continue to be the communications company of choice for our customers.



Robert Watson  
President and Chief Executive Officer





# Growth

## Away from Home

### SaskTel International and SaskTel Investments

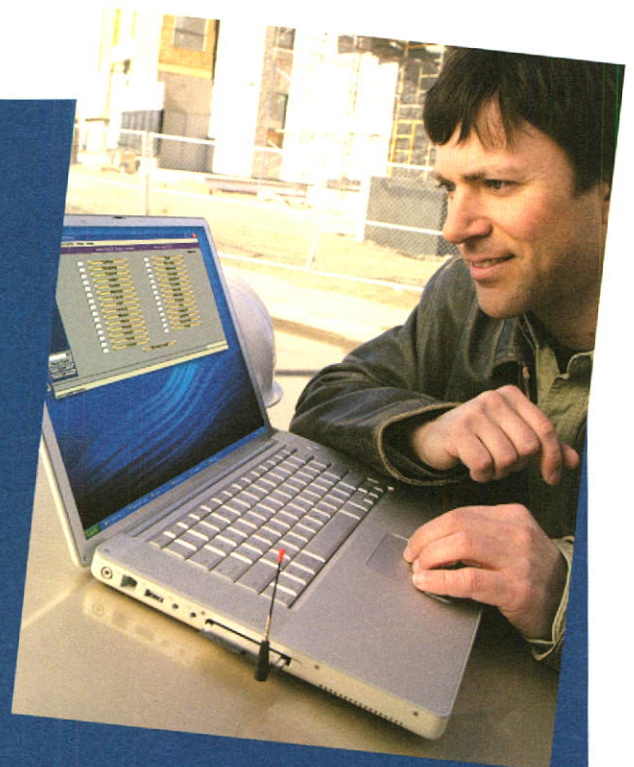
SaskTel has developed a presence away from home, in Canada and abroad, since the mid-1980s. These undertakings, both through SaskTel International and other ventures, have become an established part of the Corporation's strategy for growth, bringing in more than half a billion dollars in revenue.

This was the year **Business Watch International (BWI)** signed a \$1.12 million contract with the Metropolitan Washington Council of Governments (COG) for the design and development of a regional

pawn transaction data sharing system. BWI, which is 95.2% owned by SaskTel, leverages the internet to enable pawnshops and other second-hand property dealers to report their transaction data to law enforcement agencies.

### SaskTel International

has been crowned "**telecom provisioning king**" by industry expert, Telecom Research Institute (TRI). According to the market analysis of TRI, SaskTel International is the industry leader in supplying Operational Support System (OSS) solutions to North American local exchange carriers, beating out many better-known industry players.





SI has generated  
**\$59** million  
worth of contracts  
in East Africa alone

**T**elecomunicações de Moçambique, S.A.R.L. awarded SaskTel International (SI) a \$6.2 million contract to complete a rural network infrastructure project in Mozambique. In this our first contract in Mozambique, we will install and commission the microwave backbone, rural radio and external line plant in the northern province of Tete. The project will provide initial and upgraded service to over 175,000 square kilometres of Mozambique. Also, in 2004, SI completed a \$600,000 infrastructure project for Tanzania Telecommunications Company Limited (TTCL). Since 1986, SI has generated \$59 million worth of contracts in East Africa alone, with total worldwide revenues of \$486 million, and total profits of \$121 million.

During the year SI completed a **rural telecommunications project in India** undertaken by the Canadian International Development Agency (CIDA). The project created a model for delivering information and communications technologies in a sample group of villages in rural India.



**M**eanwhile, the **Canadian Minister for International Trade** awarded SaskTel International for its success in working with international financial institutions to complete telecommunications projects in developing countries. Also, SI completed a contract for more than \$192,000 to conduct a comprehensive assessment of rural telecom infrastructure in Ukraine.

This year SI also opened a **marketing office in the United Arab Emirates (UAE)**. SI established the office – similar to its current one in Dar es Salaam, Tanzania and a previous office in the Philippines – in order to develop contract project and professional service opportunities.

In 2004, we sold our remaining shares in Austar United Communications Limited. With this sale of shares, from a cash perspective, SaskTel made \$5.9 million on the investment.

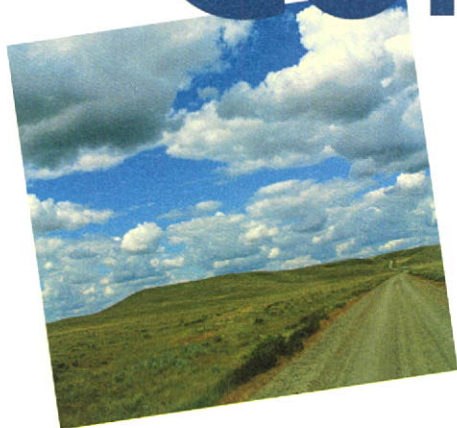
SaskTel International  
worldwide revenues  
since 1986 total over  
**\$486**  
million





## Meeting our Responsibilities

# SaskTel in the Community



Saskatchewan is home for the vast majority of our customers and it is our home too. All that we take on as a Corporation, whether it is a contract overseas or a commitment to bring high speed internet down the rural routes of this province, is measured against our responsibilities to the community we serve. Here are some of the ways we lived up to that responsibility in 2004:

**W**e improved our **energy efficiency and reduced our use of fossil fuels** by adding three new gas/electric hybrid trucks to our fleet and by removing 2,761 lamps from our buildings, which will save approximately 379,622 KWhr per year.

Many of our **employees** in their private lives are **active in community affairs**. Pat Parrott is a Sales Manager in Swift Current and in his free time he has been involved with Action Swift Current, a registered, not-for-profit organization that's all about encouraging the business community to position itself in the role of community and economic development leaders. In 2004 Action Swift Current received the Saskatchewan Economic Development Award of Excellence. Congratulations to Pat for striving to make his community a better place!

SaskTel fosters **opportunities for employees** to become involved both at work and in their local communities in programs and services that **improve the quality of life** in Saskatchewan. At SaskTel, employees can attend luncheon meetings and presentations on workplace diversity, or help the SaskTel Aboriginal Employees Network to promote a work environment that values and supports First Nations and Metis employees. Announcements

encourage staff to give blood during regular SaskTel Blood Donor clinics, to participate in community fundraisers, and to support their local symphony, theatre, or sports teams.

One of the primary ways SaskTel and its employees are active in the community is through the **SaskTel Pioneers**, an organization of retired and active employees who donate time and energy to community projects that enrich the lives of Saskatchewan people. In 2004, the SaskTel Pioneers contributed \$401,318 in charitable donations and 75,219 hours of volunteer time. Their hard work resulted in an unprecedented second consecutive President's Award (now called Chapter Excellence), the highest international honour available to a TelecomPioneer group.

Each year, SaskTel supports community events and organizations across Saskatchewan through our Community Investment Program, event marketing efforts, and venue partnerships. In 2004, these initiatives resulted in total contributions of **\$2,667,281** to 1,652 provincial groups, including a significant contribution to our province's post-secondary institutions. Meanwhile, our **community benevolent fund**,

SaskTel Telcare, donated \$254,099, which SaskTel matched by 50% for a total of **\$381,149** donated directly to more than 90 Saskatchewan charities.





# Focus on the Customer

## Bringing the Best of Information, Communications, and Entertainment to Your Home



**F**or SaskTel, when we think of home we think of our customer. And we consider it a great privilege whenever we are invited into the homes of our customers. Serving customers the way they like to be served wherever they live, work or move, delivering the best products and services the way they want them delivered, is what keeps our loyalty and market share figures high. Our customer surveys tell us we are doing very well, but we want to continue improving. Here are some of the ways we anticipated and met customer needs in 2004:

**T**his year we invested more than \$121 million to maintain and upgrade our provincial network, allowing Saskatchewan residents and business owners to connect to the global marketplace. In addition to bringing high speed internet to more of our rural customers, part of this investment was spent on improvements to the SaskTel Mobility wireless networks. As well, we invested further in developing the capabilities of *Max Interactive Services* and in establishing a scalable VoIP network that can support traditional voice and Centrex-like features, as well as new advanced multimedia features and IP integration.

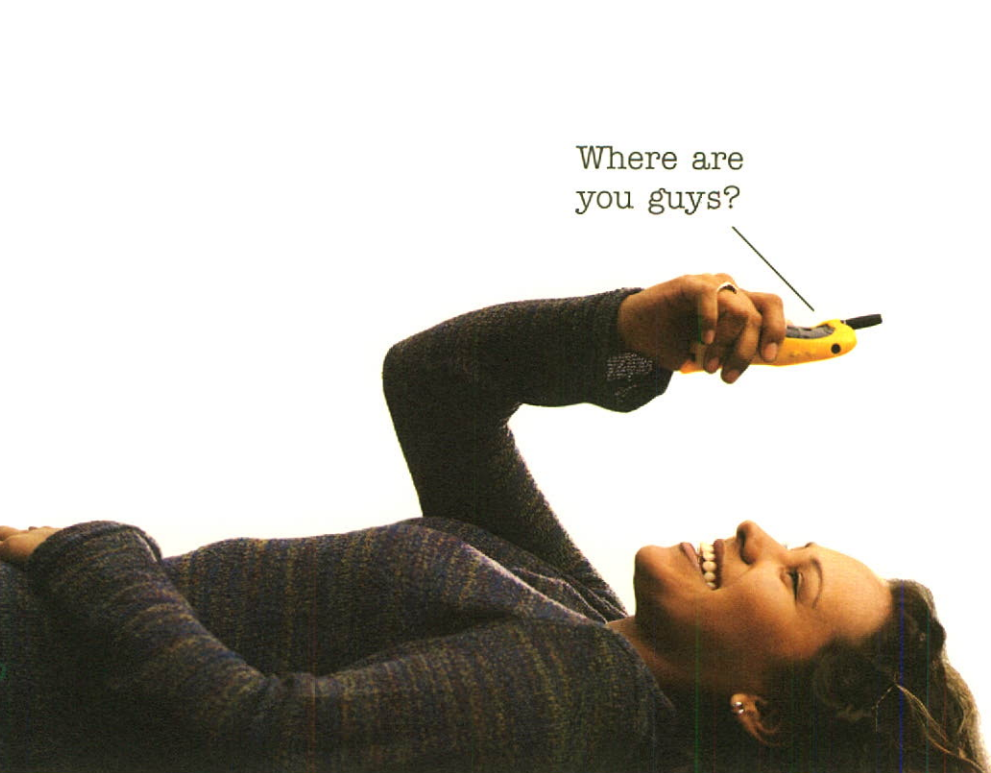
**T**he \$25 million we invested in 2004 in SaskTel Mobility's digital cellular network in the province improved existing coverage areas and built new towers along the Saskatchewan oil patch in the southeast and northwest parts of the province, and along some highway corridors. The current wireless data technology of choice, 1xRTT, is now available throughout SaskTel Mobility's digital cellular coverage area reaching 94% of Saskatchewan residents. 1xRTT (1X) gives our business customers wireless access to e-mail, corporate databases and the internet on devices such as laptops and Personal Digital Assistants (PDAs) including *Blackberry™*, with speeds up to five times faster than previously offered. With 1X network enhancements in 2004, our customers enjoy faster upload and download speeds. New business-focused devices allow customers to use one device for both voice communications and various data applications.

1X technology also allows us to offer new services such as picture and video messaging, which gives our customers the ability to send photographs and short video clips to any capable phone or e-mail address. Agreements with The Walt Disney Company, Pixar Animation Studios, and the Sony Corporation also allowed our customers to personalize their phones with ringtones and screensavers and to play games featuring their favourite movies, classic cartoons, and hottest new characters.



Data is now  
up to 5 times  
faster for the  
wireless user





# Push to talk

**O**ur 2004 trial of **push-to-talk service** was a great success and we are working towards being able to offer it commercially in 2005. Push-to-talk lets you use your cell phone to connect with people one on one or in a group at the push of a button, and has many applications for both businesses and consumers. As an up-and-coming wireless trend and potential alternative for *FleetNet 800™* service, push-to-talk is going to be a big part of the way SaskTel Mobility meets customer needs.

Under **Phase II of CommunityNet**, we will be expanding high speed internet service in Saskatchewan over the next three years to include virtually every community of 200 people or more, and every community of 100 people or more with a school. As it is today, 75% of the residents of Saskatchewan already have access to SaskTel High Speed Internet service. CommunityNet Phase II will

add many more communities increasing total high speed access to approximately 86% of the population. If you live in an existing CommunityNet location with a population over 100 and a school served by Saskatchewan Communication Network (SCN) satellite technology, then this expansion will bring high speed to your area. As well, the wireless technology used in this expansion is expected to capture businesses, farmsteads and residents within a radius of up to 30 kilometres of a SaskTel wireless internet tower, dependant on terrain. With the introduction of CommunityNet II, many more residents and business owners in rural communities across Saskatchewan will have access to high speed internet service sooner than many urban residents in other areas of

Canada. This latest phase will bring us nearer our long-term goal of offering high speed access to 95% of Saskatchewan's population.





"It's not every day that  
someone will phone  
you up to have a  
conversation in Cree."

**E**arly in the year we launched a new service called **Network Assessment Service (NAS)** that provides the business customer with an evaluation of their data network, including a LAN/WAN network



inventory, an analysis of current systems and network infrastructure. This health check prepares the customer for services such as

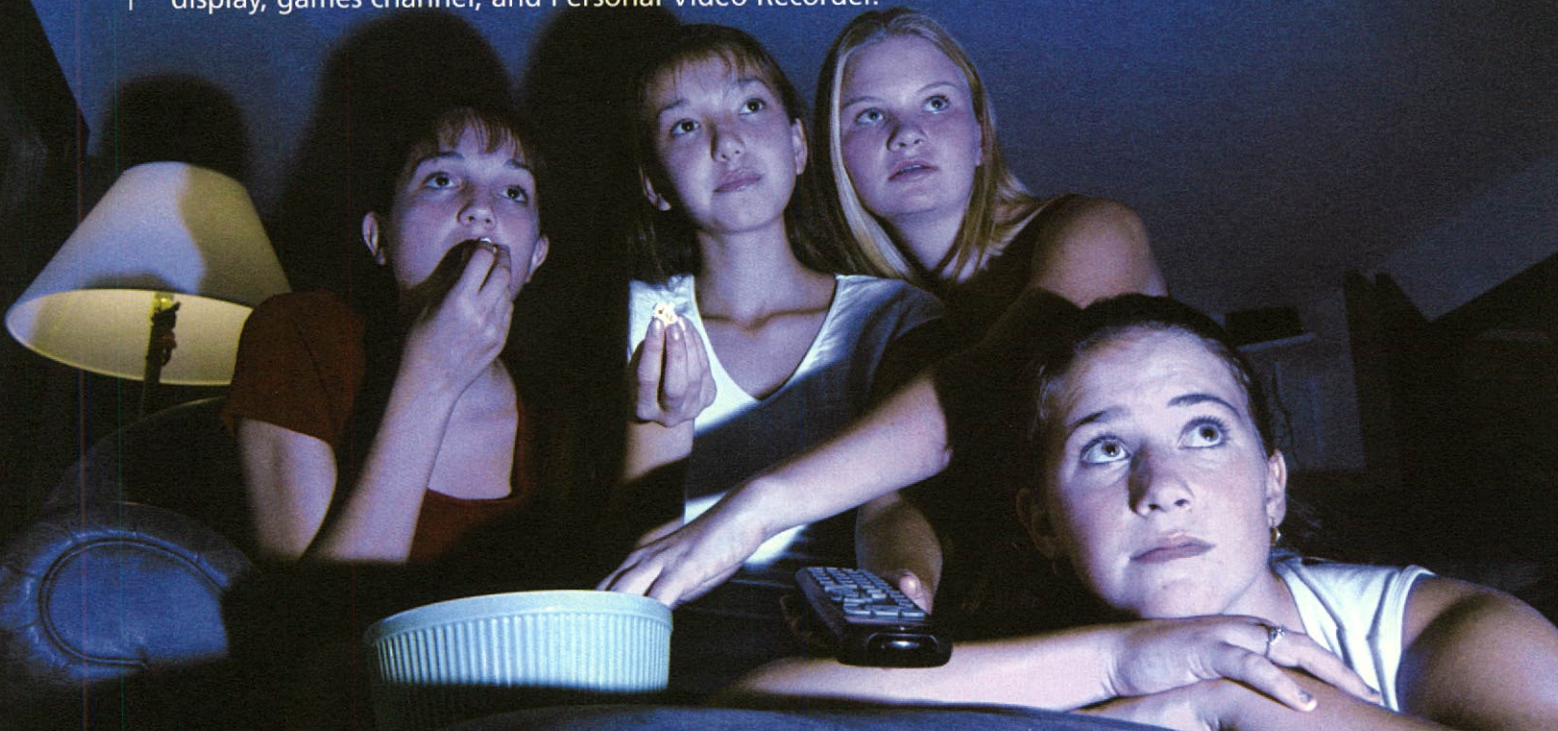
VoIP, collaboration, instant messaging, or video conferencing. A network assessment is one way to ensure performance and reliability.

SaskTel's **First Connection Call Centre (FCCC)** was established so that our Aboriginal customers have the option of communicating in their native language when

they speak to SaskTel customer representatives. Here are some of the things our Aboriginal customers in 2004 said about the experience of speaking to our FCCC reps: "Speaking Dene made it easier for me to understand options that the representative talked about." "I speak very little English and the FCCC representative helped me understand what SaskTel had to offer." "It's not every day that someone will phone you up to have a conversation in Cree."

In February, Hewlett-Packard (HP) presented SaskTel with one of its highest levels of achievement. Through the HP Service Provider Certification Program, SaskTel became the **first hosting service provider in Canada to achieve Signature Certified status**. The program establishes SaskTel as an industry-recognized service provider.

**W**ith the magic of *Max*, 25,000 of our customers now can watch television and movies, surf the internet, send and receive e-mail and participate in electronic commerce such as home banking or shopping – all in one bundle, all through SaskTel's high speed internet network, all on their television. One of the **many improvements we made to Max this year** was an agreement we signed with Twentieth Century Fox to provide movies for SaskTel's **Max Front Row™** Video on Demand (VOD) service. This agreement represents a significant expansion in the variety and quality of content available to SaskTel's *Max Front Row* customers from a top Hollywood studio. *Max* subscribers have even more features coming their way in 2005, including additional channels, more VOD content, calling name and number display, games channel, and **Personal Video Recorder**.





### Introduction

The following discussion focuses on the strategies, consolidated financial position and results of operations of Saskatchewan Telecommunications Holding Corporation (SaskTel or the Corporation), including its major strategic business units, its subsidiaries, and its investments in significantly influenced companies. This discussion and analysis should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes on pages 40 to 62 of this report.

### Forward-Looking Information

Many sections of this discussion include forward-looking statements about SaskTel, its objectives, strategies and financial condition. A statement is forward-looking when it uses information known today to make an assertion about the future. Forward-looking statements may include words such as *anticipate, believe, could, expect, intend, may, should, will* and similar expressions. Since these forward-looking statements reflect expectations and intentions at the time of writing, actual results could differ materially from those anticipated if known or unknown risks and uncertainties impact the business, or if estimates or assumptions turn out to be inaccurate. As a result, SaskTel cannot guarantee that any of the predictions forecasted by forward-looking statements will occur. As well, forward-looking statements do not take into consideration the effect of transactions or non-recurring items announced or occurring subsequently. Therefore, SaskTel disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a more detailed assessment of the risks and uncertainties that could impact future results, please refer to the *Risk Assessment* section of this report on page 35.

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### Overview and Strategic Focus

SaskTel is the leading full service communications provider in Saskatchewan, providing competitive voice, data, dial-up and high speed internet, entertainment and multimedia services, security, web hosting, secure electronic transactions, text and messaging services over its digital network. The Corporation also provides cellular and wireless data services through SaskTel Mobility, security monitoring services through SecurTek, directory services through DirectWest, in-room communications services to the healthcare sector through Hospitality Network, telecommunications consulting services through SaskTel International and national telecommunications services through Navigata Communications. This growth is a key part of SaskTel's financial viability that allows the Corporation to deliver state-of-the-art communications services to every corner of Saskatchewan.

With a workforce of approximately 3,800 employees living throughout Saskatchewan, SaskTel provides communication services to more than 425,000 customers living in 13 cities and 535 smaller communities and their surrounding rural areas and about 49,000 farms. SaskTel's subsidiaries also have points of presence throughout Canada and internationally.

SaskTel is a highly innovative and competitive communications solutions provider for its customers worldwide, delivering sound financial returns and public policy benefits to the people of Saskatchewan. In striving to achieve this vision, SaskTel has identified six long-term strategic imperatives (see the *Performance Management* section of this report, page 16 to 19). However, SaskTel's success in achieving its vision depends on the following three overall key strategies: *Focus on the Customer*, *Operational Efficiency*, and *Growth*. Together these three overarching strategies form a way of thinking and behaving that drives positive performance. Management attributes the Corporation's success over the last 11 years to its consistent focus on these three strategies.

### FOCUS ON THE CUSTOMER

As evidenced by market share and customer studies, SaskTel currently enjoys industry-leading market share in most key lines of business, very strong public perception and customer service indicators. Over the last 11 years, SaskTel has been successful in evolving from its former status as a monopoly supplier to a highly competitive customer-focused company. SaskTel's future success will depend on its capacity to continue building and improving customer relationships and loyalty so that service remains a differentiator for the Corporation. SaskTel needs to ensure that each customer interaction delivers true service excellence. The relationship between SaskTel and its customers remains crucial to the Corporation's future success.



### OPERATIONAL EFFICIENCY

Since the early 1990s, SaskTel has been managing the introduction of competition and regulation within the constraints of a large organization with a significant cost base. Operational efficiency and cost reduction programs have been ongoing. SaskTel has aggressively reduced its debt to capitalization ratio and interest costs. Other cost containment measures have included process improvements, personnel reductions within the Wireline business and product exits. Today, this pressure comes from the introduction of new internet protocol-based competitors who offer lower cost services with advanced features. Expanding into new products and services, while maintaining legacy services and support, exerts upward pressure on operating costs. Through cost reduction programs and increased efficiency, total operating costs may not come down, but the rate of increase can be managed to ensure long-term viability. In 2004, SaskTel introduced a new cost reduction program. Current forecasts project the need to eliminate \$87 million of annualized costs by the end of 2007. Many savings initiatives are underway, including the introduction of an Early Retirement Program (ERP), which resulted in close to \$20 million of savings realized in 2004. Cost efficiencies are an important component of SaskTel's strategy; however, cost curtailment alone will not lead to SaskTel's future success. Cost reduction programs are pursued within the framework of maintaining customer loyalty and high-quality service, while minimizing negative impacts on employee morale. A continued focus on growth is also important if SaskTel is to meet its targets and continue to deliver to customer, shareholder and employee expectations.

### GROWTH

In the early 1990s, SaskTel recognized that revenue and margins from traditional sources would diminish over time due to market share loss, price reductions, and regulation. In preparation, management developed a *growth strategy* to take advantage of new product and service opportunities and replace revenues lost from traditional sources. The purpose of this strategy is to increase revenues and profitability from new sources and to add value for customers and the shareholder, *without significantly increasing the overall risk profile of the Corporation and without changing or jeopardizing the Corporation's primary purpose of serving Saskatchewan first.*

A key component of the Corporation's growth strategy is risk mitigation and management. Not all new services and ventures can reasonably be expected to be successful; however, a number of appropriate parameters and governance structures are in place to mitigate risk. For a more detailed discussion of how the Corporation manages its investment risk, see the *Risk Assessment* section of this report on page 35.

Much of the Corporation's current investment portfolio is in the development stage. This means that the initial investment necessary to grow a business is still in progress. The businesses' financial plans call for profitable operations within three to five years from the beginning of operations.

The Corporation's external investment program is increasing in value, fulfilling its goal for the future. Based on the most recent business plans for these investments, the estimated value of the Corporation's current external investment portfolio is \$251 million to \$316 million compared to the \$152 million net amount invested.

SaskTel's *growth strategy* focuses on increasing revenues and profits by deploying:

1. New products in existing markets; and
2. Existing products in new markets.

#### 1. New Products in Existing Markets

The Corporation has aggressively introduced new services in existing markets as a significant component of its growth strategy. The Corporation's key growth areas are within Saskatchewan Telecommunications, its 100% wholly owned operating company which includes two operating segments, SaskTel Wireline and SaskTel Wireless.

#### SaskTel Wireline

SaskTel Wireline provides traditional voice services, and has expanded to include evolving data, dial-up and high speed internet, data storage and web-hosting, text and messaging services and enhanced services such as calling features like Call Display and Name Display and **MessageManager™** service. The company leverages its digital network to offer additional services to its customers. **Max™** Interactive Services continued to evolve throughout 2004, with over 25,000 Max customers at December 31, 2004. During 2004, SaskTel expanded the movie offerings of **Max Front Row™** video-on-demand service. Product enhancements to Max will continue in 2005 including **Max Caller ID**. SaskTel Wireline introduced Virus Screening and SPAM Blocking for all sasktel.net e-mail accounts as a value-add service. **SaskTel Messenger** service was also launched in 2004. **SaskTel Messenger** enables peer-to-peer VoIP calling for SaskTel High Speed Internet customers. SaskTel also continued to evolve IP services targeting the business community with increased sales of IP PBX equipment, customer network assessments and VoIP technology trials. SaskTel further expanded its high speed internet service to five new communities as part of the Community Net II program.

#### SaskTel Wireless (SaskTel Mobility)

SaskTel Mobility provides high-quality, advanced wireless communication and information services to Saskatchewan people, the travelling public, communication and application providers, and select markets in North America. This business unit has an extensive share of the

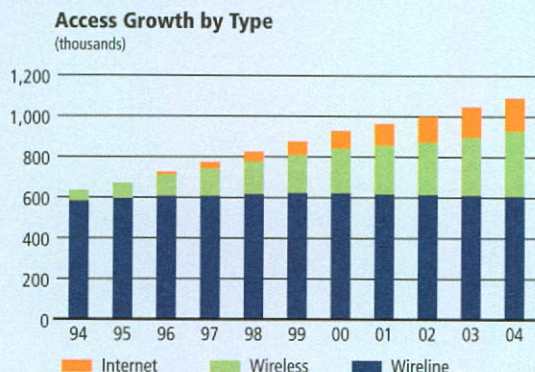


Saskatchewan market and one of the lowest churn rates in the industry. SaskTel Mobility continues to grow by expanding into new services, products, and markets. Since its inception in 1989, this business unit's annual operating revenues have grown to \$193 million and wireless subscribers have increased to 322,000.

SaskTel Mobility has invested extensively in its 1xRTT and digital cellular network bringing wireless services to more than 94% of Saskatchewan's population. In 2004, a \$12 million network expansion and improvement project was completed, bringing SaskTel Mobility's total investment in digital cellular since 1998 to \$92 million.

### Saskatchewan Telecommunications Access Growth

The following graph illustrates the areas of growth and focus, and how significantly the nature of Saskatchewan Telecommunications has changed:



Today, evolving wireline, internet and wireless accesses are core service requirements of the Corporation's customers.

### DirectWest Publishing Partnership (DirectWest)

DirectWest, a wholly owned subsidiary of the Corporation, has been publishing telephone directories in Saskatchewan for over 45 years. The business has evolved to include new media opportunities and expanded into the internet market and the agricultural advertising and publishing market. DirectWest publishes and distributes 10 telephone directories in the cities and districts across Saskatchewan, and provides all its directories online at Saskatchewan's leading internet portal: [www.mysask.com](http://www.mysask.com). Besides consistently generating value through its directories (print and online), the company continues to add new services and solutions for its customers such as web site development, online advertising, e-mail marketing, e-commerce and agricultural advertising. DirectWest's head office is in Regina, with a second office in Saskatoon. The company employs over 100 people in Saskatchewan.

### Hospitality Network Canada Partnership (Hospitality Network)

Hospitality Network, a venture founded with private Saskatchewan business interests to provide entertainment services to the hospitality industry in Saskatchewan, began operations in 1994 and has evolved to become Canada's leading provider of television and telephone services in hospitals and long term care homes. Hospitality Network ([www.hospitalitynetwork.ca](http://www.hospitalitynetwork.ca)) will strive to improve its customer value proposition in the Canadian healthcare industry. In 2005, the company will continue to grow by pursuing opportunity in its three market segments: hospitals, long-term care facilities, and point-of-sale terminals. Hospitality Network plans to grow through new product development initiatives and new customer acquisitions in its existing markets. Hospitality Network expects to maintain a dominant share in the Canadian acute care hospitals and is also strategically positioned to capture a leading market share in the long-term segment of the Canadian healthcare market. Its head office is in Regina, Saskatchewan, with 334 employees nationwide including 35 in Saskatchewan. The Corporation currently owns 94.0% of Hospitality Network. This venture has been profitable since 2000 and continues to evolve its products, pursue growth opportunities and build value for its shareholders.

### SecurTek Monitoring Solutions Inc. (SecurTek)

SecurTek, a wholly owned subsidiary of the Corporation, provides commercial and residential security monitoring services to customers in Saskatchewan, Alberta, Manitoba, British Columbia, and selectively in Ontario, from its Yorkton, Saskatchewan and Winnipeg, Manitoba monitoring centres. Operating a security monitoring centre leverages the Corporation's call centre, network management and process expertise. Through its established dealer program, SecurTek partners with small businesses that provide security sales and service to end customers. At year-end, SecurTek had 110 dealers, including 13 in Saskatchewan. SecurTek has over 110 employees, including 98 who work at SecurTek's head office in Yorkton. SecurTek has been profitable since 2002 and expects to continue developing and improving its business and financial performance in 2005.

### Streamlogics Inc. (Streamlogics), (formerly TappedInto.com, Inc.)

Streamlogics is a leading provider of web presentation and collaboration solutions to more than 500 businesses, associations, and government organizations worldwide. Streamlogics' head office is located in Toronto, Ontario and its research and development and support facility is in Regina, Saskatchewan. SaskTel invested in Streamlogics to combine the Corporation's existing data hosting and video streaming competencies with marketing and sales reach outside of Saskatchewan. Streamlogics' service offerings include webcasting, web conferencing and media hosting. The Corporation has a 37.4% equity interest in Streamlogics. As of the end



of 2004, Streamlogics had not achieved positive net income; however, it improved its financial position and expects to continue developing and improving its financial position during 2005.

### **Business Watch International Inc. (BWI)**

BWI's technology leverages the internet to enable pawnshops and other second-hand property dealers to report their transaction data to law enforcement agencies. In turn, BWI provides the police with a web-based application that delivers a comprehensive software tool to assist in the investigation of the secondhand goods transactions. SaskTel established an equity ownership in BWI to combine private sector ideas and concepts with the Corporation's hosting, internet and e-business expertise and security protocols.

During 2004, the Corporation invested an additional \$0.5 million in BWI, increasing its ownership percentage to 95.2%. The company is continuing to gain market traction and acceptance in Canada and the United States (U.S.). During 2004, BWI completed the development of a customized Regional Pawn Data Sharing System for the Metropolitan Washington D.C. Council of Governments, a product that is targeted to be the national standard for such systems in the U.S.

Successful execution of BWI's business plan depends partly on legislation to make automated reporting mandatory for the pawn and second-hand industry. BWI's head office is in Regina, Saskatchewan and the company employs nine people, with seven employed in Regina.

### **Saskatoon 2 Properties Limited Partnership (Saskatoon Square)**

Saskatoon Square is one of Saskatoon's premier office towers. SaskTel has a 70% ownership of this property with three other business partners each holding a 10% interest. This ownership secures long-term stability for SaskTel's office space requirements while demonstrating the Corporation's commitment to the city of Saskatoon. As well, SaskTel enjoys a reduced effective rental rate due to the earnings from its ownership interest in this property.

### **Interactive Tracking Systems Inc. (Itracks)**

Itracks is a data collection company based in Saskatoon with an expertise in online data collection solutions. The Corporation has a strategic partnership with Itracks to lend this Saskatchewan-based company SaskTel's call centre expertise and further enhance Itracks' expansion plans. SaskTel does not have an equity position in this company, however, the Corporation provided Itracks \$1.8 million of convertible debt through 2003-2004 to expand and further develop their Saskatoon call centre and their Computer Assisted Telephone Interviewing service. Before SaskTel's funding, Itracks had approximately 38 employees. As of the end of December, Itracks employed 44 full-time and 166 casual staff which is approximately 102 full-time equivalents.

## **2. Existing Products in New Markets**

### **Saskatchewan Telecommunications International, Inc. (SaskTel International)**

SaskTel International, a wholly owned subsidiary of the Corporation, helps its clients in countries around the world develop, improve and expand their telecommunications systems by providing infrastructure project management services. SaskTel International was created to leverage SaskTel's core strengths of designing, building and operating advanced networks in new markets. According to a recently released global market analysis on telecom consulting, SaskTel International ranks among the top 20 international telecom consulting firms in the world. During 2004, SaskTel International, in partnership with S.S. Lootah, opened a marketing office in the United Arab Emirates (UAE) to develop contract project and professional services opportunities in the UAE and selected countries in the surrounding Middle East region.

Over its 18 plus years of existence, SaskTel International has helped bring total revenues of \$486 million and total profits of \$121 million to the Corporation, and has earned a profit every year since 1992. All SaskTel International's revenues and profits are repatriated to the Corporation, where they are used to sustain and improve the Corporation's network and services in Saskatchewan and enhance returns to the Province in the form of dividends. SaskTel International provides employment for 76 people.

### **Navigata Communications Partnership (Navigata)**

Navigata, a majority owned subsidiary of the Corporation, operating as Navigata Communications Ltd., provides a full range of telecommunications products and services including local, long distance, internet, telephone cards (pre-paid and post-paid), high speed data, hosting, web services and wholesale carrier services to customers across Canada and internationally. Navigata presents a marketing and sales vehicle for the Corporation to expand its services to markets outside Saskatchewan.

In 2004, Navigata incurred operating losses of approximately \$16 million. Navigata is undertaking, and will continue to undertake, cost cutting initiatives to bring costs in line with revenues. Navigata plans to actively pursue streamlining and synergies with SaskTel throughout the first half of 2005 in order to attain profitability.

Despite the financial challenges currently facing Navigata, the Corporation believes that Navigata will be successful as a vehicle for delivering next generation IP-based services to customers throughout Canada. Navigata is transforming its business to move away from product reselling so that it need not rely on competitors to deliver its services. Its new business plan is to develop products and services both internally and with SaskTel, so as to take advantage of the Corporation's network and systems. Navigata is currently undertaking a trial of delivering data and IP voice services through fixed



## Management's Discussion and Analysis Overview and Strategic Focus

wireless technology in British Columbia. VoIP services, fixed wireless access through Wi-Fi and similar technologies, and continued outstanding customer service are keys to Navigata's success.

In addition, Navigata continues to provide synergistic benefits to SaskTel. Operating Navigata allows SaskTel to serve its Saskatchewan-based customers with operations elsewhere in Canada and North America. Prior to this acquisition these customers would have been lost to national service providers.

### INVESTMENT PORTFOLIO SUMMARY

The following charts provide a summary of SaskTel's current investment portfolio.

#### Investments as of December 31, 2004

(\$ millions)	Book Value	Value Low	Valuation High
DirectWest	\$14.4	\$148	\$181
SaskTel International	2.8	10	20
SecurTek	33.9	38	46
Non-wholly owned subsidiaries	45.4	55	69
Total	\$96.5	\$251	\$316

#### Non-wholly owned subsidiaries as of December 31, 2004

(\$ millions)	Book Value
Business Watch International Inc.	\$0.7
Manalta Investment Company Ltd. (formerly Craig Wireless International Inc.)	—
Hospitality Network Canada Partnership	29.0
Interactive Tracking Systems Inc.	1.7
Navigata Communications Partnership	13.3
Nokomis Holding (U.S.) Ltd. (formerly Retx)	(0.1)
Saskatoon 2 Properties Limited Partnership	0.5
Streamlogics Inc.	0.3
Total	\$45.4

### Divestitures and non-active investments

#### Austar United Communications Limited (Austar United)

Austar United delivers subscription television services throughout regional Australia and subscription television, data services and telecommunications services in New Zealand. During the year, the Corporation disposed of its remaining shares (9,550,574) in Austar United Communications Limited for net proceeds of \$6.9 million resulting in a gain on sale of \$4.4 million.

#### Manalta Investment Company Ltd. (formerly Craig Wireless International Inc.) (Manalta)

During 2004, Craig Wireless amalgamated with Manalta Investment Company Ltd. (Manalta). The amalgamated entity continues to provide video broadcast and internet access services using wireless technologies and licensed spectrum in Manitoba and British Columbia. The Corporation owns approximately 1% of the amalgamated entity.

#### Nokomis Holding (U.S.), Inc. (formerly Retx, Inc.) (Nokomis)

Nokomis provided an internet-based load monitoring and curtailment service to the energy sector in North America. The Corporation considered that its experience with industry deregulation, data hosting and internet services would bring value to Nokomis. The market for Nokomis' solution did not materialize as quickly as expected due to slow market acceptance. During 2004, the Corporation sold the operating assets of Nokomis. (For more details, refer to Note 9 in the Notes to the consolidated financial statements.)

#### Persona Inc. (Persona)

Persona, formerly Regional Cablesystems, provides cable TV, internet access and telecommunications services to communities in Canada. During the year, the Corporation disposed of its remaining shares (1,223,491) in Persona Inc. for cash proceeds of \$8.3 million which was equivalent to the carrying value of the investment.

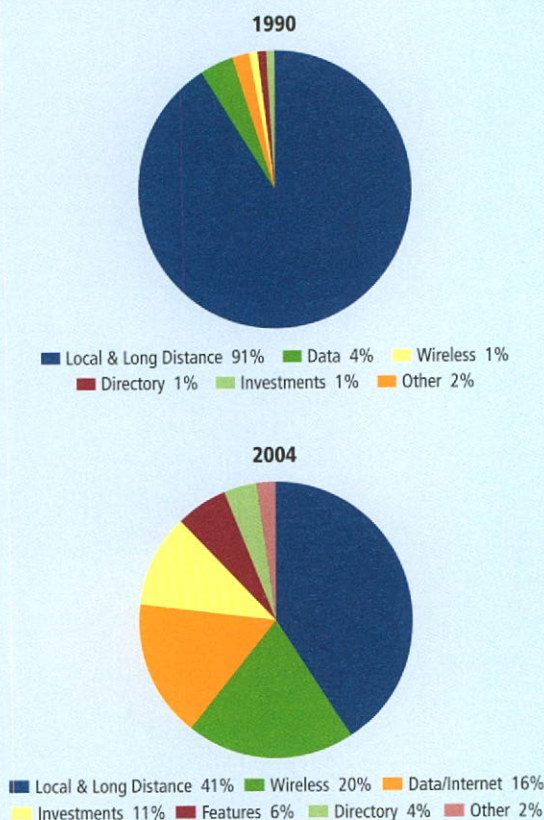
#### 675161 British Columbia Ltd. (formerly Soft Tracks Enterprises Ltd.) (Soft Tracks)

Soft Tracks was a software solutions provider that delivered a suite of mobile commerce and electronic payment products to the wireless communication and electronic payment industries. SaskTel entered into this investment as a research and development opportunity for future services in the wireless business and held a 20.5% equity position in Soft Tracks. The market for Soft Tracks' solutions did not materialize as quickly as expected due to slow commercialization and market acceptance of wireless payment services. The operating assets of Soft Tracks were sold during 2004. (For more details, refer to Note 4 in the Notes to the consolidated financial statements.)



### RESULTS OF GROWTH

SaskTel's growth strategy has been relatively successful. The Corporation has grown from \$574.5 million in revenues in 1990 to \$932.4 million in 2004, despite a reduction in long distance revenues of approximately \$250 million per year. Comparing the revenue from the existing products in 1990 to the products available in 2004, approximately 57% of the Corporation's revenue directly resulted from its *growth strategy*, as compared to about 7% in the early 1990s:



The following are some of the important benefits of the Corporation's *growth strategy*, including both internal and external components:

- SaskTel has a strong entrepreneurial culture, shifting the Corporation from a monopoly telephone company into a flexible competitor. This shift has contributed to the success of new products launched by the Corporation.
- SaskTel partners with local businesses throughout Saskatchewan by establishing dealer networks to market products and services. At the end of 2004, the Corporation's Saskatchewan dealer network included 102 SaskTel Mobility dealers, 67 SaskTel High Speed Internet Service dealers, 32 Max dealers and 13 SecurTek dealers. In 2004, SaskTel paid over \$21.2 million in commissions to its wireless, high speed, Max and SecurTek dealers in Saskatchewan.
- The Corporation has significantly reduced its debt load. Its debt ratio has fallen from 72.2% as of December 31, 1990 to 25.7% as at December 31, 2004.
- The Corporation has paid substantial dividends to Crown Investments Corporation – a total of \$883 million in the last 15 years.
- The Corporation has invested in excess of \$2.5 billion in infrastructure in Saskatchewan in the last 15 years. The additional revenue earned by SaskTel's growth initiatives has helped SaskTel build one of the best wireline networks in the world and a cellular network that covers approximately 94% of the Saskatchewan population. High speed internet access is now offered to 75% of the Saskatchewan population.
- The Corporation offers and maintains some of the most innovative and best-valued communications services in Canada. Even though Saskatchewan has a high proportion of Canadian Radio-television and Telecommunications Commission (CRTC) defined high cost serving areas, Saskatchewan people and businesses receive the benefit of some of the lowest rates in Canada.

The Corporation's management believes that a selective, disciplined focus on growth is important to maintain and enhance revenues and shareholder value. Without continued growth, the Corporation's operating results, its value, its infrastructure and its products and services would diminish and erode. Recent history has shown that today's growth initiatives are tomorrow's core services.

- SaskTel now has seven business units contributing net income to the Corporation (SaskTel Wireline, SaskTel Wireless, DirectWest, SaskTel International, Hospitality Network, SecurTek and Saskatoon Square). As well, the Corporation has three business units and ventures in various developmental stages (BWI, Streamlogics and Navigata) which, while not yet profitable, are projected to achieve long-term value for the Corporation.



### Performance Management

SaskTel is a subsidiary of Crown Investments Corporation (CIC), the holding company for Saskatchewan's commercial Crown Corporations.

In 1999, CIC and its subsidiaries developed a Crown Sector Strategic Plan to provide long-term direction to the Crown sector and facilitate long-term planning. The plan includes a consistent vision statement for the Crown sector, its primary business purposes, common business values and strategic business objectives. The Corporation has developed its corporate strategic plan to support CIC's five strategic objectives: customer service excellence, financial health, mandate and role, public purpose, and human resources.

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

The Corporation's vision is: *SaskTel is a highly innovative and competitive communications solutions provider for our Customers worldwide, delivering sound financial returns and public policy benefits to the people of Saskatchewan. Our focus is our Customer. Our strength is our People.* The Corporation has six strategic imperatives that flow from this vision to form the Balanced Scorecard: financial management, customer, technology, growth, people, and public policy. These strategic imperatives are aligned with CIC's overall strategic objectives. Each strategic imperative is defined by a statement of direction. From this statement, SaskTel sets objectives, measures and targets. The scorecard is not static; it may change from year to year when the Corporation's business changes.

The following are the key components of SaskTel's 2004 Balanced Scorecard, including a discussion of performance.

### FINANCIAL MANAGEMENT

**Statement of Direction:** SaskTel will continue to create value for its shareholders. This will be accomplished through growth and improved operational efficiencies in all subsidiaries.

Objective	Measure	Results	
		2004 Target	2004 Actual
Provide a positive return to shareholder.	<u>Consolidated Net Income</u> Net income is the amount remaining when all expenses incurred and accrued during an accounting period are deducted from all revenues received and accrued during that same period. Consolidated net income is the accumulated net income of SaskTel and its subsidiaries after adjusting for inter-company transactions.	\$40M to \$85M	\$94.5M
	<u>Return on Equity</u> Net income expressed as a percentage of average total equity.	6% to 13%	14.4%
	<u>Dividends Declared</u> The share of profits that will be paid to Crown Investments Corporation.	\$36M to \$77M	\$88.0M
Self-sustaining growth.	<u>Debt Ratio</u> Long-term debt expressed as a percentage of total long-term debt and equity. Long-term debt less cash as a percentage of total long-term debt less cash and equity.	39% to 45%	35.9% 25.7%
Operational efficiency.	<u>Cumulative Expense Reductions in the Year</u> The cumulative total of annualized savings achieved over the year under SaskTel's Operational Efficiency Program. Target is set to remove costs from traditional operations.	\$18.7M	\$19.9M

### 2004 Financial Management Results

SaskTel achieved all of the financial targets for 2004.



## Management's Discussion and Analysis Performance Management

### CUSTOMER

**Statement of Direction:** SaskTel earns customer loyalty by understanding and delivering what customers value. We place a high priority on establishing and maintaining mutually beneficial, long-term customer relationships that are managed on a corporate-wide level.

Objective	Measure	Results	
		2004 Target	2004 Actual
Understanding and delivering what customers value.	<u>Customer Survey Results</u> Every month, SaskTel completes a random survey of its residential and business customers to assess their perceptions of SaskTel on dimensions important to them when making their telecommunications buying decisions. The Corporation also benchmarks these perceptions against its competitors and other companies. For these measurements, the Corporation uses a standard methodology of rating customers' agreement with a particular statement. The customer must rate SaskTel an eight or better on a 10-point scale for their answer to be considered agreement.		
	Outstanding Customer Service – "SaskTel employees provide outstanding customer service."	71 to 74	72
	Easy to do Business With – "SaskTel is a company that is easy to do business with."	73 to 76	74
	SaskTel Provides Best Value – "When thinking of everything SaskTel provides, they provide the best value for my communications needs."	60 to 62	59
Establishing and maintaining long-term customer relationships.	<u>Market Share</u> SaskTel measures market share for each service based on the proportion of service units attributable to SaskTel in Saskatchewan.		
	Long Distance	86% to 89%	88%
	Local Access	99% to 100%	99%
	Internet – Provincial Dial-up and High Speed	71% to 73%	73%
	Mobility	83% to 85%	84%
	Directory	90% to 94%	93%
	SecurTek	33% to 35%	35%

### 2004 Customer Results

Customer feedback indicates that SaskTel is exceeding its targets in providing outstanding customer service, being easy to do business with, and offering value. SaskTel will continuously work to understand what customers need and what they value. Based on market share percentages, SaskTel is also doing very well at establishing and maintaining long-term customer relationships. The Corporation is proud to be a Saskatchewan company and is thankful for the loyalty its customers have shown.



## Management's Discussion and Analysis Performance Management

### TECHNOLOGY

**Statement of Direction:** SaskTel will be an early adopter of advanced networks and information technologies to support business driven initiatives to improve our financial performance, generate new growth and deliver excellent customer service. Our people will be recognized for their skill and knowledge in deploying an integrated multimedia network and in transforming our internal processes, the services we deliver, and our relationships with our customers and partners.

Objective	Measure	Results	
		2004 Target	2004 Actual
Increase Internet Protocol (IP) network reliability.	<u>Managed Service Provider</u> These key indicators measure availability/reliability of the Internet Protocol (IP) core network. Indicators are based on server and network availability within and to/from the data centre, using unplanned outages as a percentage of total time available. The measure of success is availability of CommunityNet and/or the stand-alone data centre for SaskTel's major customers. <b>LANspan IP™</b> service supports the CommunityNet Program by connecting educational institutions, health care facilities, government offices and private sector businesses.		
	LANspan IP Availability	99.85%	99.93%
	10/100 Mbps Data Centre(s) Availability	99.99%	99.96%
Competitive high speed internet service provider.	% of Saskatchewan Population with Access to SaskTel's High Speed Internet Service	78%	75%

### 2004 Technology Results

The Corporation made significant progress towards its technology objectives in 2004. The availability and reliability of SaskTel's core IP network in 2004 was excellent; however, SaskTel will aim for continuous yearly improvement in this area as part of delivering best of class IP services to its customers. Part of the Corporation's mandate is to expand its high speed internet service into rural Saskatchewan. To date 75% of the Saskatchewan population is served, and SaskTel is exploring ways of economically serving as much of the population as possible.

### GROWTH

**Statement of Direction:** SaskTel operates in a highly competitive and dynamic market in Saskatchewan. Accordingly, SaskTel continues to pursue opportunities without geographic limits to increase the scope or scale of its business ventures resulting in ever increasing revenues from non-traditional sources.

Objective	Strategy
Diversify SaskTel's business.	SaskTel is working to provide long-term value for its shareholder through growth and diversification. SaskTel expects positive net earnings from its external investments in 2004 and forecasts that 30% of its 2004 revenues will be generated from diversified operations.

### 2004 Growth Results

During 2004, 57% of the Corporation's revenues were generated from operations directly related to its growth strategy.



### PEOPLE

**Statement of Direction:** SaskTel employees are a team of highly motivated individuals, diverse in our skills, experiences and backgrounds. Together, we enjoy personal and corporate success.

Objective	Strategy
Representative Workforce	SaskTel wants to create an environment that values and more closely reflects the diversity of the communities we serve. In 2004, SaskTel will continue to move towards its long-term goal of having a representative workforce.
Engaged Employees	SaskTel will continue its strong commitment to its employees. SaskTel will act on any action items identified by the 2003 employee survey and will conduct another survey in 2004.

### 2004 People Results

SaskTel exceeded its 30% targeted percentage of equity hires in 2004. This helps move the Corporation towards having a more representative work force.

SaskTel's motto is "Our focus is our Customer, Our Strength is our People" and demonstrates this philosophy in a number of ways. The Corporation undertakes an employee survey annually, conducted by a professional human resources firm, to show corporate strengths as well as opportunities for improvement. The 2004 employee survey showed that 80% of SaskTel employees rate the Corporation as an above average place to work. This is 21% higher than the norm experienced by the 500 North American companies in the survey firm's database.

SaskTel's commitment to its employees has been validated externally. For the fifth consecutive year, SaskTel was recognized as one of "Canada's Top 100 Employers", by Mediacorp Canada Inc (as highlighted in *Maclean's Magazine*). SaskTel is the first and only Saskatchewan firm to be given this award for five consecutive years.

### PUBLIC POLICY

**Statement of Direction:** SaskTel provides reasonably and competitively priced communications products and services to the people and businesses of Saskatchewan, including affordable, universal access to basic telephone service on a province-wide basis. As a socially responsible Corporation, SaskTel contributes to the social and economic well-being of the province through its skilled and diverse workforce; technical innovation and leadership; an advanced communications network; economic diversification and growth; support for community events and organizations; and environmental responsibility and stewardship.

Objective	Strategy
SaskTel is committed to Saskatchewan communities and is socially and environmentally responsible.	SaskTel will continue to provide affordable, accessible basic telephone service at rates comparable to those set by the CRTC in other jurisdictions across Canada. The Corporation will continue to fulfill its public policy statement of direction by further expanding high speed internet service to cover 78% of the Saskatchewan population; donating to non-profit and charitable organizations around the province; supplying volunteer hours to community projects through the SaskTel Pioneers; and spending money on materials and services from Saskatchewan suppliers. SaskTel will maintain its position as a company committed to Saskatchewan communities, maintaining customers' awareness of our community support. SaskTel will also continue to focus on being an environmentally friendly organization.

### 2004 Public Policy Results

At the end of the year, 75% of the Saskatchewan population had coverage of High Speed Internet service.



## Results of Operations

### NET INCOME

#### Consolidated Net Income

(\$ millions)	2004	2003 Restated <sup>1</sup>	Change	%
Operating Income:				
SaskTel Wireline	\$65.3	\$80.5	\$(15.2)	(18.9)
SaskTel Wireless	39.7	28.1	11.6	41.3
Other	11.9	10.7	0.8	7.2
	116.9	119.3	(2.8)	(2.3)
Intercompany Eliminations	(3.6)	6.0	2.8	(43.8)
Income from operations	113.3	113.3	0.0	0.0
Other items	0.5	1.2	(0.7)	(58.3)
Interest and related costs	(27.0)	(9.2)	(17.8)	193.5
Net income before the following	86.8	105.3	(18.5)	(17.6)
Gain on sale of investments	8.0	0.1	7.9	100.0
Writedown of investments	—	(10.1)	10.1	(100.0)
Income from continuing operations	94.8	95.3	(0.5)	(0.5)
Loss from discontinued operations	(0.3)	(12.3)	12.0	(97.6)
Consolidated net income	\$94.5	\$83.0	\$11.5	13.9

<sup>1</sup> See Note 3 of the consolidated financial statements

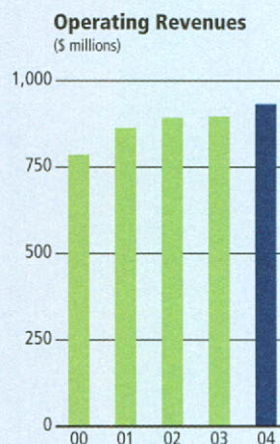
The Corporation's 2004 income from operations, at \$113.3 million, was consistent with 2003. Positive and significant contributions to income from operations included increased revenues from cellular and *Max Interactive Services*. These were offset by increased expenses due to restructuring programs introduced during the year.

Interest and related costs of \$27.0 million was \$17.8 million higher than in 2003. This increase was primarily due to a reduction in foreign currency gains in 2004 as compared to 2003. As well, interest on long-term debt decreased by \$3.3 million as the Corporation continued to reduce its debt levels.

The Corporation's consolidated net income increased by 13.9% in 2004. This increase resulted from a number of variables changing from 2003 to 2004. In 2004, the Corporation recognized an \$8 million gain on the sale of investments, compared to 2003, a year in which the Corporation wrote down some investments. This increase, however, was offset partially by higher interest and related costs.

### OPERATING REVENUES

Operating revenues for 2004 increased to \$932.4 million, up \$35.2 million (3.9%) from \$897.2 million in 2003. SaskTel Wireless (SaskTel Mobility) revenues accounted for a significant portion of this increase as strong subscriber growth generated additional network access and long distance revenues. Strong subscriber growth also generated increased revenues in *Max Interactive Services*. As well, Hospitality Network Canada Partnership and Saskatoon 2 Management Ltd. contributed to the increase in revenues. These increases were partially offset by changes in revenue recognition related to the Canadian Institute of Chartered Accountants, Emerging Issues Committee, Abstract 141 adopted during 2004. This resulted in deferral of approximately \$6.0 million of service connection charges in 2004 which will be recognized over the estimated useful life of customers using the services.



### OPERATING EXPENSES

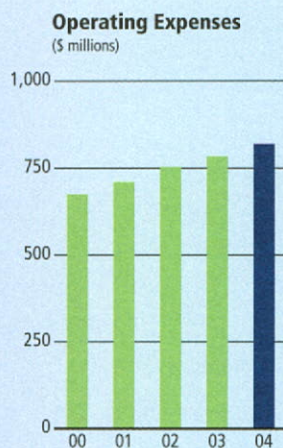
Operating expenses for 2004 increased to \$819.1 million, up \$35.2 million (4.5%), from \$783.9 million in 2003. This was driven mainly by restructuring charges of \$40.5 million that include the implementation of the ERP in SaskTel Wireline and a workforce reduction plan at Navigata. The ERP will help SaskTel achieve its cost reduction targets, while enabling the Corporation to manage its employee demographic profile within the changing labour market. It is planned to occur in three, two-year phases. Phase 1 began during the fourth quarter of 2004 and will continue throughout 2005. The workplace reduction plan has been implemented in response to competitive conditions. These increased expenditures were partially offset by decreases in depreciation of \$9.0 million, one-time adjustments to previously estimated expenses and deferred service connection charges expenses related to deferred revenues discussed above.

Interest and related costs, which include both debt related interest and foreign currency gains and losses, increased by \$17.7 million from 2003. This was primarily due to reduced foreign currency gains arising from the restatement of long-term U.S. debt to reflect current Canadian dollars. These gains were \$1.7 million in 2004 compared to \$22.9 million in 2003. During 2004, the Corporation reduced debt by \$39.2 million which contributed to a decrease in interest expense of \$3.3 million.



## Management's Discussion and Analysis Results of Operations

To mitigate foreign currency risk, the Corporation initiated a cross currency swap through the Province of Saskatchewan during the fourth quarter to convert its U.S. debt (\$100.0 million) to equivalent Canadian funds. The swap was recorded at the carrying value of the debt and related sinking fund as of the date of the transaction. The sinking fund was converted to Canadian dollars under the same terms and conditions that applied to the U.S. based debt.

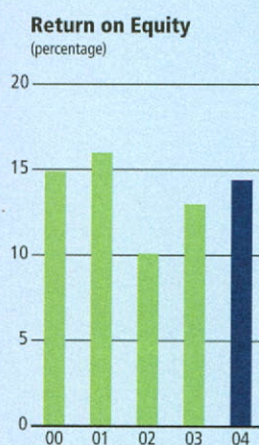


### GAIN ON SALE OF INVESTMENTS

The Corporation recognized gains on sale of investments of \$8.02 million. A gain of \$4.35 million was realized on the sale of 9,550,574 shares of Austar United Communications (Austar). In addition, the Corporation also recorded a non-cash gain of \$3.67 million on the sale of Navigata Holdings Inc.

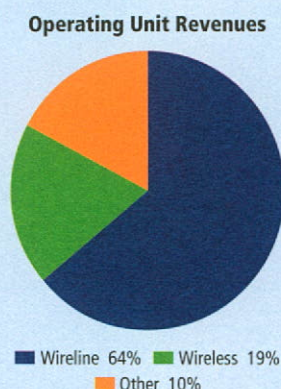
### RETURN ON EQUITY

(\$ millions)	2004	2003	Change	%
Return on equity	14.4%	13.0%	1.4	10.8



### REVIEW BY MAJOR OPERATING UNITS

The Corporation has two major operating units that are currently the foundation of its operations. These are SaskTel Wireline and SaskTel Wireless. All other business units, subsidiaries and investments, described in the *Overview and Strategic Focus* section on page 10 of this management discussion and analysis, are currently part of SaskTel's investment portfolio that is building additional value for the Corporation. The pie chart summarizes the Corporation's revenues by segment.



### Major operating units:

(\$ millions)	SaskTel Wireline	SaskTel Wireless	All Other <sup>1</sup>	Total
<b>2004</b>				
Total revenue	\$656.4	\$193.8	\$176.5	\$1,026.7
Depreciation and amortization	113.0	18.6	13.9	145.5
Income from operations	65.3	39.7	11.9	116.9
Other significant non-cash items:				
Gain on investments	—	—	(8.0)	(8.0)
Net share of loss of significantly influenced companies	—	—	0.4	0.4
Total assets	846.3	143.2	508.0	1,497.5
Equity method investments	—	—	0.4	0.4
Goodwill	—	—	19.4	19.4
Net property, plant and equipment expenditures	86.7	28.8	7.6	123.1



## Management's Discussion and Analysis Results of Operations

	SaskTel Wireline	SaskTel Wireless	All Other <sup>1</sup>	Total
<b>2003</b>				
Restated				
(See Note 3 in consolidated financial statements)				
Total revenue	\$647.7	\$167.2	\$169.6	\$984.5
Depreciation and amortization	122.3	16.9	15.4	154.6
Income from operations	80.5	28.1	10.7	119.3
Other significant non-cash items:				
Write-down of goodwill and investments	—	—	19.5	19.5
Net share of loss of significantly influenced companies	—	—	1.5	1.5
Total assets	889.2	128.4	526.1	1,543.7
Equity method investments	—	—	0.8	0.8
Goodwill	—	—	19.4	19.4
Net property, plant and equipment expenditures	85.3	30.8	11.5	127.6

<sup>1</sup> All Other includes subsidiaries, investments and divisions of the Corporation. A complete list of subsidiaries and investments is provided in Note 2 of the financial statements.

### Reconciliation to major operating units:

	2004	2003 Restated <sup>1</sup>
(\$ millions)		
Total revenues for major operating units	\$1,026.7	\$984.5
Elimination of inter-unit revenues	94.3	87.3
<b>Consolidated operating revenues</b>	<b>\$932.4</b>	<b>\$897.2</b>
Total income from operations for major operating units	\$116.9	\$119.3
Elimination of inter-unit income	3.6	6.0
<b>Consolidated income from operations</b>	<b>\$113.3</b>	<b>\$113.3</b>
Total assets for major operating units	\$1,497.5	\$1,543.6
Elimination of inter-unit assets	266.8	311.8
<b>Consolidated total assets</b>	<b>\$1,230.7</b>	<b>\$1,231.8</b>

<sup>1</sup> See Note 3 in consolidated financial statements.

### SaskTel Wireline

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

In 2004, SaskTel Wireline generated 64% of the Corporation's total operating revenues.

### Operating Revenues

(\$ millions)	2004	2003	Change	%
Local Service	\$321.9	\$324.3	\$(2.4)	(0.7)
Long Distance Service	126.1	125.4	0.7	0.6
Data, Internet and MAX Services	159.2	147.2	12.0	8.2
Other	49.2	50.8	(1.6)	(3.1)
<b>Total</b>	<b>\$656.4</b>	<b>\$647.7</b>	<b>\$8.7</b>	<b>1.3</b>

### Local Service

Local service revenue declined to \$321.9 million in 2004 from \$324.3 million in 2003, a reduction of \$2.4 million (0.7%). Increased revenues from local features of \$1.6 million, due to greater market penetration and rate increases, were more than offset by reductions in subsidies from the National Subsidy Fund (\$1.4 million) and other reductions in service connection charges, local access, directory assistance and paystation revenues.

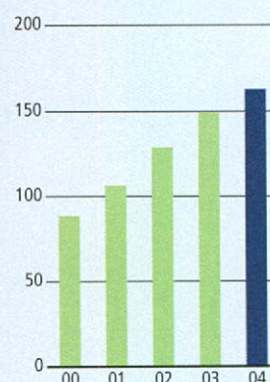
### Long Distance

Long distance revenue increased to \$126.1 million in 2004 from \$125.4 million in 2003, an increase of \$0.7 million (0.6%). The impact of reductions in long distance rates introduced in 2004 and reductions in long distance minutes carried on behalf of other carriers was offset by the implementation of system administration fees to business and residential customers.

### Data, Internet and Entertainment Services

Revenues from data, internet and entertainment services increased to \$159.2 million in 2004 from \$147.2 million in 2003, an increase of \$12.0 million (8.2%). This was driven primarily by strong customer growth in Max Interactive Services that translated into revenue increases of \$10.0 million. At year end, there were over 25,000 Max customers compared to approximately 14,000 at the end of 2003. Max services deliver digital video signals, including network and specialty television channels, and "always on" high speed internet. This interactive home entertainment and information service allows customers the choice of accessing all their services through one television, to split between two televisions, or between televisions and a personal computer.

Internet Accesses  
(thousands)





## Management's Discussion and Analysis Results of Operations

Increased revenues were also generated in high speed internet services, partially the result of the Corporation expanding the service to more Saskatchewan communities. This was offset by revenue decreases in dial up internet service as customers migrated to *Max Interactive Services* and high speed.

### Operating Expenses

(\$ millions)	2004	2003	Change	%
Operating expenses	<b>\$440.3</b>	\$444.8	\$(4.5)	(1.0)
Depreciation and amortization	<b>113.0</b>	122.3	(9.3)	(7.6)
Restructuring charges	<b>37.8</b>	—	37.8	—
Total	<b>\$591.1</b>	\$567.1	\$24.0	4.2

Operating expenses decreased to \$440.3 million in 2004 from \$444.8 million in 2003, a decrease of \$4.5 million (1.0%). This was primarily due to one-time expense adjustments and amortization of service connection charges, a new accounting policy implemented in 2004. Other expense reductions were realized due to the Corporation's ongoing cost reduction activities. These reductions were offset by increases in pension expense, *Max Interactive Services* operating costs and cost of sales. Market declines contributed to an increase in pension expense while growth in the customer base for *Max Interactive Services* resulted in an increase in operating expenses to support the service.

### Depreciation and Amortization

Depreciation and amortization expense decreased to \$113.0 million in 2004 from \$122.3 million in 2003, a reduction of \$9.3 million (7.6%). This was driven by a reduction in depreciation rates. New depreciation rates were implemented subsequent to engineering studies that resulted in depreciation parameter changes, including extensions to anticipated service lives.

SaskTel Wireline recorded a prior period adjustment in 2004 upon discovering that property, plant and equipment had been overstated due to certain assets being retired prior to being fully amortized.

### Restructuring charges

In 2004, the Corporation announced an ERP with the goal of reducing operating costs in traditional lines of business while at the same time creating opportunities for growth in non-traditional areas. This resulted in an expense to SaskTel Wireline of \$37.8 million in 2004. The ERP is a major cost reduction measure taken by the Corporation to ensure strong financial health in the future.

### SaskTel Wireless (SaskTel Mobility)

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

SaskTel Mobility's core business is centred around the cellular voice network, with an increasing emphasis on wireless data applications. At year end, SaskTel Mobility's digital and analog cellular networks spanned approximately 94% of the Saskatchewan population. Through its partnership with a local independent retail distribution network, SaskTel Mobility offers sales and service for its products and services in approximately 100 dealer locations in Saskatchewan.

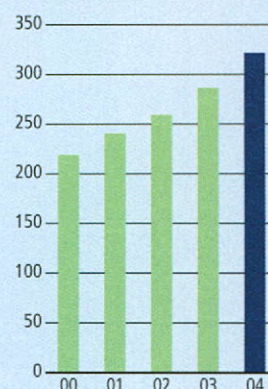
### Operating Revenues

(\$ millions)	2004	2003	Change	%
Total	<b>\$193.8</b>	\$167.2	\$26.6	15.9

SaskTel Mobility's revenue growth is attributable to increased cellular and wireless data revenues.

Cellular revenue growth is mainly due to a 12.4% increase in the number of cellular subscribers, from 286,250 in 2003 to 321,673 in 2004 which resulted in increased network access and roaming revenues. Wireless data revenue growth is attributed mainly to growth in 1xRTT data access and provincial data network coverage.

**Cellular Accesses**  
(thousands)



### Operating Expenses

(\$ millions)	2004	2003	Change	%
Total	<b>\$154.1</b>	\$139.1	\$15.0	10.8

Operating and maintenance expenses were \$15 million higher year over year mainly due to increased expenses to acquire and support a growing customer base. Depreciation expense was \$1.8 million higher than the prior year due to increased property plant and equipment, driven by cellular expansion programs.

### Other operating units

Other significant operating units of the Corporation include DirectWest, SaskTel International, SecurTek, Hospitality Network, and Navigata.



## Management's Discussion and Analysis Results of Operations

Of particular importance during the year was the reorganization of Navigata's operations. On March 29, 2004, Navigata Holding Inc. underwent a corporate restructuring with Navigata Holding, Inc. becoming Navigata Communications Partnership. This change resulted from the acquisition of a minority interest in Navigata by Monarch Cable of Medicine Hat, Alberta. Subsequent to the restructuring, SaskTel retained just over 95% of the new entity.

Rather than achieving positive net income in 2004, Navigata recorded a loss of \$16.4 million. However, offsetting this loss was a \$3.6 million gain that SaskTel recorded as part of the corporate restructuring.

As a result of the corporate reorganization, Navigata's audited financial statements reflect the nine month period starting on March 30, 2004 and concluding on December 31, 2004. The results for the entire calendar year of 2004 to allow for comparison with the results from the 2003 financial year are:

### Navigata Statement of Operations

For the year ended December 31 (\$ thousands)	2004	2003 (Restated <sup>1</sup> )
<b>Operating revenues</b>	<b>\$64,658</b>	\$63,889
<b>Inter-carrier and other costs of sales</b>	<b>45,739</b>	43,109
<b>Gross margin</b>	<b>18,919</b>	20,780
<b>Operating expenses</b>		
Operating expenses	26,443	27,652
Depreciation and amortization	5,860	4,787
	<b>32,303</b>	32,439
<b>Loss from operations</b>	<b>(13,384)</b>	(11,659)
<b>Interest and other expense</b>	<b>3,004</b>	648
<b>Loss before income taxes</b>	<b>(16,388)</b>	(12,307)
<b>Provision for income taxes</b>	<b>15</b>	67
<b>Net income (loss)</b>	<b>\$(16,403)</b>	\$(12,374)

<sup>1</sup> During 2004, an adjustment was made to operating results previously reported for Navigata Holding, Inc. Operating revenue for Navigata Communications Inc. was overstated due to accruals of estimated revenues, which were reversed inappropriately in subsequent periods. Accordingly, 2003 results have been restated and operating revenues have been reduced by \$0.8 million.



## Liquidity and Capital Resources

The Corporation was able to fund all its capital expenditures, acquisitions, debt obligations and dividend requirements with cash generated from operations.

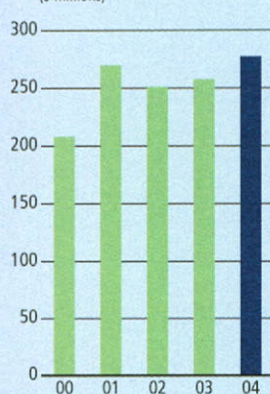
### Cash provided by operating activities

(\$ millions)	2004	2003	Change	%
Years ended December 31	<b>\$277.2</b>	\$257.6	\$19.6	7.6

Cash provided from operations was up \$19.6 million. Operating revenues were \$35.2 million higher, however defined benefit pension plan funding increased substantially, \$30.0 million more than in 2003. In addition cash provided by working capital requirements increased \$39.6 million which was driven by lower accounts receivable due to the CIC rebate payments applied to customer accounts during December and increases in accounts payable and accrued liabilities. Accounts payable increased approximately \$15 million due to volume increases and accrued liabilities and higher liabilities related to the ERP. For details on items not affecting cash from operations see Note 18 to the consolidated financial statements.

The Corporation's accounts receivable were \$57.2 million at December 31, 2004. This is a decrease of \$33.7 million from 2003. In November 2004, CIC contracted the Corporation to provide administrative services related to application of the Lowest Cost Utility Program rebate to certain of the Corporation's customers on behalf of CIC. The Corporation received a cash payment from CIC in November, of \$50.9 million, which represented rebates applied to customer accounts and is the significant contributing factor to the decrease in accounts receivable.

**Operating Activities**  
(\$ millions)



### Cash provided (used) by financing activities

(\$ millions)	2004	2003	Change	%
Years ended December 31	<b>\$ (115.0)</b>	\$ (64.5)	\$ (50.5)	78.3

Cash used in financing activities was \$50.4 million higher than in 2003. This increased use of cash was primarily driven by long-term debt repayment of \$32.4 million and dividend payments of \$80.0 million to Crown Investment Corporation of Saskatchewan. During the last five years, the Corporation paid a total of \$386.4 million in dividends while maintaining a debt ratio below 40%. During 2004, the Corporation changed the method of calculating debt ratio. The method now used considers debt net of cash on hand. The debt ratio for previous years has been restated.

### Debt ratio

(\$ millions)	2004	2003	Change	%
Long-term debt	<b>\$369.0</b>	\$408.2	\$ (39.2)	(9.6)
Less: cash and short-term investments	<b>141.5</b>	90.6	50.9	56.2
Net Debt	<b>227.5</b>	317.6	(90.1)	(28.4)
Equity	<b>658.6</b>	652.2	6.4	1.0
Capitalization	<b>\$886.1</b>	\$969.8	\$ (83.7)	(8.6)

Debt ratio	<b>25.7%</b>	32.7%	7.0	(21.4)
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The Corporation's debt ratio continued to decrease in 2004, as it continues to self-finance its capital and dividend requirements. The overall level of debt decreased by \$39.2 million primarily due to long-term debt repayments of \$32.4 million. Retained earnings increased \$6.5 million after recording net income of \$94.5 million and dividends declared of \$88.0 million.

### Cash provided (used) by investing activities

(\$ millions)	2004	2003	Change	%
Years ended December 31	<b>\$ (110.2)</b>	\$ (134.5)	\$24.3	(18.1)

In 2004, cash used in investing activities was \$24.3 million lower than in 2003. The Corporation spent less on capital purchases, business acquisitions, and investments and received net proceeds of \$15.4 million on the sale of investments during 2004.

## INVESTING ACTIVITIES

### Capital Spending

The Corporation's net capital spending in 2004 was \$123.1 million, compared to \$127.6 million in 2003. These decreases are attributable to planned reductions in capital spending initiatives and lower capital spending in Navigata. The focus of capital spending was on investment to support the telecommunications networks and meet customer demand and on investment to support growth, including established initiatives such as Max Interactive Services and cellular network expansion.

### SaskTel Wireline

SaskTel Wireline invested approximately \$63.8 million in growth and diversification initiatives in 2004 compared to \$61.0 million in 2003. Expenditures to sustain capital assets decreased to \$23.7 million in 2004 from \$26.9 million in 2003.

Growth and diversification initiatives in 2004 included:

- \$2.9 million on the Voice over Internet Protocol (VoIP) initiative. VoIP allows a customer to make telephone calls and send facsimiles over the internet.



- \$11.0 million to further develop *Max* Interactive Services. This development allowed SaskTel Wireline to provide new services to *Max*, improve the *Max* Front Row Service, its video-on-demand service, and grow its customer base.
- \$1.4 million on the high speed internet service.
- \$2.2 million to deliver wireless broadband internet primarily to rural communities, farms, and remote areas utilizing Multipoint Communications System (MCS) technology.
- \$7.8 million on the Multimedia Expansion Program (MMEP) which provides the infrastructure necessary in the major communities in Saskatchewan to provide both new and improved IP services.
- \$2.7 million to provide customers with utility based business solutions, such as hosting services, security, eMessaging, and eSolutions.
- \$39.8 million invested into the network infrastructure which ensures the network is accommodating the needs of our customers.

Significant investments to sustain capital assets in 2004 included:

- \$11.9 million for systems infrastructure and desktop computer provisioning initiatives that provide for the replacement and establishment of new data and communications infrastructure required for future growth as well as sustaining the current information technology infrastructure.
- \$7.8 million for network infrastructure to ensure the Corporation continues to meet customer demand without compromising quality of service.

Capital expenditures in 2005 will focus on further investment in growth and diversification initiatives, while sustaining current capital assets. A large portion of the growth expenditures will see additional investment in IP-based technologies (VoIP). The Corporation will also continue to expand the coverage and improve the quality of the high speed internet and digital cellular networks. Capital investments will include network growth and refurbishment, further investment in *Max* Interactive Services, hosted multimedia services, managed information services and digital cellular expansion.

### SaskTel Wireless (SaskTel Mobility)

Capital expenditures totaled \$28.8 million in 2004, a decrease of \$2.6 million from 2003. The majority of this investment was used for digital network expansion and coverage improvements in the active oil and gas field regions of the province.

SaskTel Mobility added 41 new cellular sites to its digital cellular network in 2004, seven of them providing cellular coverage to areas with no previous cellular coverage. With these additional sites, SaskTel Mobility has been able to build the infrastructure needed for increased call

capacity and digital service coverage, ensuring that greater than 94% of Saskatchewan's population has access to digital cellular service.

### Debt Instruments

SaskTel's debt portfolio consists of long-term debt. Long-term debt is issued through, and guaranteed by, the Province of Saskatchewan. Long-term debt is at fixed interest rates.

The average interest rate on SaskTel's fixed rate debt was approximately 7.9% in 2004 compared to 8.0% in 2003.

The interest rate on the Corporation's debt depends on the credit rating of the Province of Saskatchewan which issues debt on the Corporation's behalf. The following table lists the credit ratings of the Province.

	S&P	DBRS	Moody's
Long-Term Debt	AA-	A	Aa3
Short-Term Liabilities	Not Rated	R-1 (low)	Not Rated

### ACCESS TO CAPITAL

The primary uses of cash in 2005 will be capital expenditures, diversification initiatives, and dividend payments.

The 2005 plan assumes that funding of capital expenditures, diversification initiatives and dividend payments will be from operations and cash balances on hand at the end of 2004. Any additional funding required will be accessed through short-term notes issued through the Province of Saskatchewan.

Credit facilities consist of up to \$125 million in combined lines of credit with financial institutions and advances from the Province of Saskatchewan. These facilities are not currently being used except for normal operating overdrafts.

Besides this credit facility, the Corporation has authority to issue up to \$1.3 billion in combined short-term and long-term debt. At December 31, 2004 total outstanding debt was \$407.2 million compared to \$442.6 million in 2003.

### USE OF FINANCIAL INSTRUMENTS

SaskTel uses derivative instruments to manage exposure to interest rate risk and foreign exchange risk. Derivative instruments are not used to speculate. Because derivative instruments are related to specific financial exposures, there is no significant liquidity risk. At December 31, 2004, the Corporation had purchased a contract to sell U.S. \$3.0 million in February 2005.



### Significant Accounting Policies

SaskTel's consolidated financial statements are prepared according to Canadian Generally Accepted Accounting Principles (GAAP), and in conformity with prevailing practices in the Canadian communications industry. Please refer to Note 2 to the consolidated financial statements for information about the accounting principles the Corporation uses in preparing its financial statements.

### Key Accounting Estimates and Assumptions

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

#### EMPLOYEE DEFINED BENEFIT PLANS

SaskTel maintains defined benefit plans that provide pension, other retirement and post-employment benefits for most of its employees. The primary plan is the SaskTel defined benefit pension plan which has been closed to membership since 1978. Reported financial statement amounts relating to these benefits are determined using actuarial calculations that are based on several assumptions.

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

The two most significant assumptions used to calculate the net employee benefit plans credit or expense are the discount rate and the expected long-term rate of return on plan assets.

#### Discount rate

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

The Corporation determines the appropriate discount rate at the end of every year. The Corporation's discount rate was 5.90% at December 31, 2004, down 0.3% from 6.20% used in 2003. Changes in the discount rate do not have a significant effect on the Corporation's earnings. They do, however, have a significant effect on the projected benefit obligation. A lower discount rate results in a higher obligation, which could at some point require additional contributions to the plan.

#### Expected long-term rate of return

In 2004, SaskTel assumed an expected long-term rate of return on plan assets of 7.0% and this rate is not currently anticipated to change in 2005.

#### ALLOWANCES FOR DOUBTFUL ACCOUNTS

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

#### DEPRECIATION AND AMORTIZATION

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

#### GOODWILL

SaskTel management does not amortize goodwill and tests it for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment testing is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the



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

### CONTINGENCIES

On August 9, 2004, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including the Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, and breach of statutory obligations concerning system administration fees. The plaintiffs seek unquantified damages from the defendant wireless communications service providers. The Corporation believes that it has strong defenses to the allegations. It is not currently known whether the proceedings will be certified as a class action and the outcome of this matter is not determinable at this time.

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

### New Accounting Standards in 2004

In 2004, the Corporation adopted several new accounting standards as recommended by the Canadian Institute of Chartered Accountants (CICA), the organization responsible for establishing accountings standards in Canada. The standards adopted during 2004 are as follows:

- Section 3063, Impairment of long-lived assets
- Section 3110, Asset retirement obligations
- Section 3475, Disposal of long-lived assets and discontinued operations
- Accounting Guideline – 13, Hedging relationships
- Emerging Issue Committee (EIC) Abstract 141, Revenue Recognition
- EIC Abstract 142, Revenue Arrangements with Multiple Deliverables
- EIC Abstract 143, Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts

For further information on the Corporation's implementation of these changes and their impacts, please read Note 2 of the consolidated financial statements on pages 43 to 48.



### Future Accounting Changes

Several new and potential accounting standards have either been approved for application in the future or are in draft form awaiting approval by the CICA Accounting Standards Board (AcSB) or the Emerging Issues Committee (EIC). Several approved and proposed standards, and the impact to the Corporation of adopting these standards, are described below. The Corporation has not yet fully considered whether there will be an affect on its consolidated financial statements for any new standards that are not mentioned; however, management does not anticipate a material impact.

#### FINANCIAL INSTRUMENTS

The CICA recently issued the typescript copy of Section 3855 Financial Instruments – Recognition and Measurement, the new standard on the recognition and measurement of financial instruments. Financial assets or financial liabilities are only recognized when contractual provision would allow. Financial assets and liabilities are initially measured at fair value. After initial recognition, the measurement varies depending upon the category; financial assets held for trading, held to maturity, loans and receivables and available for sale. The standard will be effective for years beginning on or after October 1, 2006. The Corporation is assessing the impact on its consolidated financial statements.

#### COMPREHENSIVE INCOME

CICA Handbook Section 1530 sets the standard for the reporting and display of comprehensive income. Comprehensive income is defined as "the change in equity (net assets) of an enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners" (CICA 1530 .03 (a)). A statement of comprehensive income is included in a full set of financial statements for both interim and annual statements. The new statement presents net income and each component that is recognized in comprehensive income. Components included in comprehensive income would include, for example, unrealized exchange gains and losses from self-sustained foreign operations, unrealized gains or losses on hedges for foreign currency, unrealized gains or losses on financial assets held for sale and gains or losses on derivatives designated as cash flow hedges. In addition, CICA Handbook Section 3250, Equity will replace Section 3250, Surpluses. Section 3250 will require that comprehensive income will be included as part of the equity section of the balance sheet. The standards will be effective for years beginning on or after October 1, 2006. The Corporation is assessing the impact on its consolidated financial statements.

#### CHANGES IN ACCOUNTING POLICIES AND ESTIMATES, AND ERRORS

The Accounting Standards Board has issued an Exposure Draft that would replace CICA Handbook Section 1506, Accounting Changes with a new Section, Changes in Accounting Policies and Estimates, and Errors. The following key changes are anticipated:

- Accounting policy changes would only be permitted when it is required by a primary source of generally accepted accounting principles (GAAP), or when the change would result in a reliable and more relevant presentation in the financial statements;
- Changes in accounting policy would be applied retroactively, unless specifically permitted by a primary source of GAAP;
- Enhanced disclosure would be required regarding changes in accounting policy, estimates and errors in financial statements;

This new standard is expected for fiscal years beginning on or after January 1, 2005.

#### NON-MONETARY TRANSACTIONS

An Exposure Draft has been issued that amends the current standard on non-monetary transactions. Once implemented, all non-monetary transactions will be measured at fair value unless:

- The transaction lacks commercial substance;
- The transaction is an exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange;
- Neither the fair value of the assets or services received nor the fair value of the assets or services given up is reliability measurable or
- The transaction is a non-monetary, non-reciprocal transfer to owners that represents a spin-off or other form of restructuring or liquidation.

The new standards on non-monetary transactions are expected in 2005.



### 2005 Outlook

#### THE COMMUNICATIONS INDUSTRY

The Canadian communications industry continued a slow recovery during 2004. After several years of significant layoffs, investment losses, debt writedowns, debt restructuring, labour difficulties and bankruptcies, the industry is still attempting to cut costs and find new revenue streams to recuperate.

For incumbent telephone companies (ILECs), revenue growth remains weak and will follow economic growth recovery. The Royal Bank of Canada (RBC) anticipates the compounded annual growth rate (CAGR) for Canadian communication revenues will be 3% from 2003 to 2010. This is a blended rate incorporating the continued decline in long distance, local access and some data products and the growth of wireless and broadband products. Stock price recovery, aided by general strength in the markets, reflects a slow recovery in operating performance. Telecommunications companies are expected to continue focusing on cost reduction initiatives to offset increased operating and pension costs.

As well, to combat the emerging view of telecommunications as a commodity rather than a service, both incumbents and market entrants will continue to differentiate their offerings. Some of the predominant differentiation strategies are service bundles, customer convenience options and product enhancements.

Service bundles are gaining popularity throughout North America. These are typically achieved through marketing pacts among telecommunications and broadcast providers. For cable companies, deploying Internet Protocol (IP) voice services over the cable network is emerging as the preferred way to achieve service bundles. A number of Canadian ILECs, including SaskTel, are delivering IP service bundles via Digital Subscriber Line (xDSL) technology.

Customer convenience options are value-add components provided as service enhancements at no additional charge (for example, Internet Service Providers implementing spam filtering and virus detection). Product enhancements are typically improvements to existing functionality also provided at no additional charge (for example, Internet Service Providers increasing upload and download speeds and mailbox capacity). The challenge is for service providers to deliver value-add options and product enhancements cost effectively, without sacrificing profitability. In previous years these types of improvements were considered chargeable options; however, with the drive for differentiation they are now standard service improvements.

As technology evolves from Time Division Multiplexing (TDM) to Internet Protocol (IP) the telecom industry is in a transition period similar to the movement from analog to digital. Internet Protocol is a disruptive technology that is and will be used for much more than internet transport. The growing proliferation of IP based products and

services including voice over IP and broadcast over IP, will continue to reduce barriers of competitive entry and drive the cannibalization of traditional revenue streams for both telecommunications and broadcast suppliers. Physical geographic presence in a market is no longer a requirement. This provides both challenges and opportunities for incumbents and market entrants who choose to expand reach.

#### FINANCIAL AND GROWTH OUTLOOK

SaskTel is facing many challenges. Some of these have been encountered by SaskTel before, such as the impacts of a sluggish economy, the difficulties associated with a home market where the population is not growing and demographics are changing, and the constant obstacles presented by an ever changing and increasingly competitive environment. New to SaskTel are the significant financial and competitive challenges posed by recent and pending regulatory decisions, market challenges related to the defined benefit pension plan, and the growing proliferation of IP based products and services.

To succeed in this challenging environment, SaskTel will maintain the three key strategies and areas of concentration discussed in the Overview section of this management discussion and analysis: *Focus on the Customer, Operational Efficiency, and Growth.*

SaskTel will concentrate on cost containment in 2005. The Corporation will evaluate operational and structural options to further decrease costs within the traditional business with a goal of removing \$87 million of annualized costs by the end of 2007. This will help the Corporation address the challenges of declining long distance revenues, an increasing cost base, the changing competitive landscape, CRTC regulation and evolving technologies.

SaskTel Wireline ([www.sasktel.com](http://www.sasktel.com)) will continue to provide Saskatchewan people with the latest technology and quality of service and use its experiences at home to seize opportunities in new markets. The Corporation's growth strategy will focus on providing new products in existing markets and providing existing products in new markets.

For 2005 and beyond, SaskTel's growth initiatives will centre on:

- Pursuing opportunities that enable existing business units to achieve greater success in their markets.
- Pursuing service bundling opportunities.
- Strengthening wireless network superiority and growth in Saskatchewan, and exponentially growing diversified wireless services.
- Finding opportunities to deliver core services outside of the Saskatchewan marketplace.



SaskTel expects 30% of its revenues will be from diversified operations in 2005 and anticipates positive net earnings from its diversified investment portfolio. Therefore, it is important for all business units and subsidiaries to continue to focus on growth.

On February 3, 2005, the CRTC released Telecom Decision CRTC 2005-6, *Competitor Digital Network Services*, which finalized the terms and conditions under which the Corporation is to provide digital network services to other telecommunications carriers. The CRTC determined that the Corporation's interim Competitor Digital Network Access rates are to be replaced, retroactively to June 1, 2002, by rates equal to the Corporation's retail digital network access rates. As a result of the decision, the Corporation will record revenues of \$11.3 million in 2005 related to services previously provided from June 1, 2002 through December 31, 2004. The rates determined by this decision will be applied on an ongoing basis.

SaskTel Mobility ([www.sasktelmobility.com](http://www.sasktelmobility.com)) continues to operate in an increasingly competitive market and the demand for wireless services continues to exhibit strong growth. In addition, in 2005, SaskTel Mobility will maintain its focus on growth in wireless data and related data content services, and diversified services such as the *LoadTrak* service. The company will continue to pursue growth opportunities in Saskatchewan and selectively outside the province to contribute to our diversification and expansion strategies.

In 2005, SaskTel Mobility expects to invest an additional \$25 million in its network to continue to provide customers with the most extensive and highest quality voice and data coverage in Saskatchewan. SaskTel Mobility is once again well-positioned to capture a majority of the market growth due to its digital network coverage and quality, competitive rate plans, strong customer service, and broad external dealer channel. Despite intense competition in the wireless market, SaskTel Mobility expects to remain the premiere wireless service provider in the province.

DirectWest ([www.directwest.com](http://www.directwest.com)) holds a 93% **Yellow Page**™ directory advertising market share despite facing competition in all 10 markets. Saskatchewan's struggling agricultural sector continues to pose challenges, but DirectWest will face these challenges, move forward with modest future growth, and maintain their leadership position. DirectWest's internet business solutions continue to lead and innovate, and further growth is expected in this area. DirectWest's products in the agricultural market are also expected to show year over year growth. This growth may be limited by the current challenges in the agricultural sector. Overall, DirectWest expects moderate revenue growth and increased profitability.

SaskTel International ([www.sasktel-international.com](http://www.sasktel-international.com)) will continue to operate in a challenging and demanding environment where it is difficult to secure international projects due to low investor confidence and an

unwillingness to move back into the technology sector. SaskTel International will persevere, pursuing consulting and large telecommunications projects worldwide that leverage SaskTel's core strengths of designing, building and operating advanced networks. These projects, like the one that SaskTel International secured in Mozambique to complete a rural network telephony project, may lead to additional business in Africa, Middle East, the Americas, Asia and other areas of the world. SaskTel International will continue to develop its software suite of products to meet changing business objectives and increase market share.

SecurTek ([www.securtek.net](http://www.securtek.net)) expects to see continued growth in 2005 through its existing retail dealer network. Much of the marketing focus for 2005 will be on further developing its presence outside of Saskatchewan, where SecurTek will look to add new dealers and increase the strength of its existing dealers. Within Saskatchewan, SecurTek will be introducing new offerings that broaden its revenue base and reduce the impact of any potential downswing in the traditional security alarm industry.

Hospitality Network ([www.hospitalitynetwork.ca](http://www.hospitalitynetwork.ca)) will strive to improve its customer value proposition in the Canadian healthcare industry. In 2005, the company will continue to grow by pursuing opportunities in its three market segments: hospitals, long-term care, and point-of-sale terminals. Hospitality Network plans to grow through new product development initiatives and new customer acquisitions in its existing markets. Hospitality Network expects to maintain a dominant market share in Canadian acute care hospitals and is also strategically positioned to capture a leading market share in the long-term care segment of the Canadian healthcare market.

Navigata ([www.navigata.ca](http://www.navigata.ca)) is undergoing a reorganization that will pursue both streamlining of the operations and synergies with SaskTel throughout the first half of 2005 in order to attain profitability. Despite the financial challenges currently facing Navigata, the Corporation believes that Navigata will be successful as a vehicle for delivering next generation IP based services to customers throughout Canada.



### TARGETS FOR 2005

The following are the key assumptions for the 2005 financial and operational targets included in SaskTel's 2005 Balanced Scorecard:

- Revenues from diversified operations are projected to grow while revenues from traditional sources will decline. Overall revenue is expected to remain at the same level as 2004.
- There will be increased competition in all markets, which will negatively impact market share in most market segments.
- Estimated restructuring charges of \$13 million are expected in 2005.
- The Corporation expects to spend approximately \$276 million on capital and external investments during 2005. No significant divestitures are anticipated.
- Dividends declared to the Crown Investments Corporation will be 90% of earnings.
- 2% Canadian inflation, 6% interest rate on new debt are anticipated.

There is no assurance that these assumptions or the 2005 financial and operating targets will turn out to be accurate.

### FINANCIAL MANAGEMENT

**Statement of Direction:** SaskTel will continue to create value for its shareholders. This will be accomplished through growth and improved operational efficiencies in all subsidiaries.

Objective	Measure	Results	
		2005 Target	2004 Actual
Provide a positive return to shareholder.	<u>Consolidated Net Income</u> Net income is the amount remaining when all expenses incurred and accrued during an accounting period are deducted from all revenues received and accrued during that same period. Consolidated net income is the accumulated net income of SaskTel and its subsidiaries after adjusting for inter-company transactions.	\$94.2M	\$94.5M
	<u>Return on Equity</u> Net income expressed as a percentage of average total equity.	14.2%	14.4%
	<u>Dividends Declared</u> The share of profits that will be paid to Crown Investments Corporation.	\$84.8M	\$88.0M
Revenue growth.	<u>Gross Revenue</u>	\$946M	\$932M
Self-sustaining growth.	<u>Debt Ratio</u> Long-term debt expressed as a percentage of total long-term debt and equity.	40.7%	35.9%
	Long-term debt less cash as a percentage of total long-term debt less cash and equity.	40.8%	25.7%
Operational efficiency.	<u>Cumulative Expense Reductions in the Year</u> The cumulative total of annualized sustainable savings achieved over the year under SaskTel's Operational Efficiency Program. Target is set to remove costs from traditional operations. (2004 is the start of a new program.)	\$43.7M	\$19.9M



## Management's Discussion and Analysis 2005 Outlook

### CUSTOMER

**Statement of Direction:** SaskTel earns customer loyalty by understanding and delivering what customers value. We place a high priority on establishing and maintaining mutually beneficial, long-term customer relationships that are managed on a corporate-wide level.

Objective	Measure	Results	
		2005 Target	2004 Actual
Understanding and delivering what customers value.	<u>Customer Survey Results</u> Every month, SaskTel completes a random survey of its residential and business customers to assess their perceptions of SaskTel on dimensions important to them when making their telecommunications buying decisions. The Corporation also benchmarks these perceptions against its competitors and other companies. For these measurements, the Corporation uses a standard methodology of rating customers' agreement with a particular statement. The customer must rate SaskTel an eight or better on a 10-point scale for their answer to be considered agreement.		
	Outstanding Customer Service – "SaskTel employees provide outstanding customer service."	71	72
	Easy to do Business With – "SaskTel is a company that is easy to do business with."	76	74
	SaskTel Provides Best Value – "When thinking of everything SaskTel provides, they provide the best value for my communications needs."	60	59
Establishing and maintaining long-term customer relationships.	<u>Market Share</u> SaskTel measures market share for each service based on the proportion of service units attributable to SaskTel in Saskatchewan.		
	Long Distance	85%	88%
	Local Access	96%	99%
	Internet – Provincial Dial-up and High Speed	72%	73%
	Urban High Speed	59%	57%
	Mobility	82%	84%
	Directory	90%	93%
	SecurTek	36%	35%

### TECHNOLOGY

**Statement of Direction:** SaskTel will be an early adopter of advanced networks and information technologies to support business driven initiatives to improve our financial performance, generate new growth and deliver excellent customer service. Our people will be recognized for their skill and knowledge in deploying an integrated multimedia network and in transforming our internal processes, the services we deliver, and our relationships with our customers and partners.

Objective	Measure	Results	
		2005 Target	2004 Actual
Reduce legacy capital spending.	<u>Planned legacy capital spending.</u>	\$17.4M	\$12.3M
Increase Internet Protocol (IP) network reliability.	<u>Managed Service Provider</u> These key indicators measure availability/reliability of the Internet Protocol (IP) core network. Indicators are based on server and network availability within and to/from the data centre, using unplanned outages as a percentage of total time available. The measure of success is availability of CommunityNet and/or the stand-alone data centre for SaskTel's major customers. <b>LANspan IP™</b> service supports the CommunityNet Program by connecting educational institutions, health care facilities, government offices and private sector businesses.		
	LANspan IP Availability	99.85%	99.93%
	10/100 Mbps Data Centre(s) Availability	99.99%	99.96%



## Management's Discussion and Analysis 2005 Outlook

### GROWTH

**Statement of Direction:** SaskTel operates in a highly competitive and dynamic market in Saskatchewan. Accordingly, SaskTel continues to pursue opportunities without geographic limits to increase the scope or scale of its business ventures resulting in ever increasing revenues from non-traditional sources.

Objective	Strategy
Diversify SaskTel's business.	SaskTel is working to provide long-term value for its shareholder through growth. SaskTel expects positive net earnings from its external investments in 2005 and forecasts that 30% of its 2005 revenues will be generated from diversified operations.

### PEOPLE

**Statement of Direction:** SaskTel employees are a team of highly motivated individuals, diverse in our skills, experiences and backgrounds. Together, we enjoy personal and corporate success.

Objective	Strategy
Representative Workforce	SaskTel wants to create an environment that values and more closely reflects the diversity of the communities we serve. In 2005, SaskTel will continue to move towards its long-term goal of having a representative workforce.
Engaged Employees	SaskTel will continue its strong commitment to its employees. SaskTel will act on any action items identified by the 2004 employee survey and will conduct another survey in 2005.

### PUBLIC POLICY

**Statement of Direction:** SaskTel provides reasonably and competitively priced communications products and services to the people and businesses of Saskatchewan, including affordable, universal access to basic telephone service on a province-wide basis. As a socially responsible Corporation, SaskTel contributes to the social and economic well-being of the province through its skilled and diverse workforce; technical innovation and leadership; an advanced communications network; economic diversification and growth; support for community events and organizations; and environmental responsibility and stewardship.

Objective	Strategy
SaskTel is committed to Saskatchewan communities and is socially and environmentally responsible.	SaskTel will continue to provide affordable, accessible basic telephone service at rates comparable to those set by the CRTC in other jurisdictions across Canada. The Corporation will continue to fulfill its public policy statement of direction by further expanding high speed internet service to cover 95% of the Saskatchewan population; donating to non-profit and charitable organizations around the province; supplying volunteer hours to community projects through the SaskTel Pioneers; and spending money on materials and services from Saskatchewan suppliers. SaskTel will maintain its position as a company committed to Saskatchewan communities, maintaining customers' awareness of our community support. SaskTel will also continue to focus on being an environmentally friendly organization.



### Risk Assessment

SaskTel places significant emphasis on risk management, including regular reporting to senior management and the Audit Committee of the Board of Directors, and uses the internationally recognized risk management processes of identification, mitigation, transfer and assumption. The Corporation evaluates its exposures through a model that categorizes risk into four quadrants: Market & Social; Financial; Operational; and Legal. The following are the most important risks and uncertainties in these categories that could affect SaskTel's future performance.

#### MARKET AND SOCIAL RISKS

##### Competition

SaskTel is a full service communications provider operating in a fully competitive telecommunications marketplace and faces a myriad of competitors. In some cases, competitors focus on a narrow range of service or product suites offered by SaskTel, while other competitors are competing with SaskTel for a broad range of products and services. Competitive activity and pressures are expected to increase, both from traditional competitors and new entrants to the markets where SaskTel operates; renewed competitive fervor is arising from competitors who have successfully restructured. The cable television companies are and will become a more aggressive competitive force in key internet, video, data, and voice markets. Additionally, new competitive forces will continue to emerge as new technologies, products and services are developed to replace legacy technologies. Competition has adversely affected revenues and margins for major lines of business, particularly long distance, and could further impact these and other lines of business in the future as larger telecommunications and cable companies expand their markets.

SaskTel is constantly conducting due diligence on the changing marketplace and adjusting accordingly. The Corporation will continue to respond to these competitive pressures by focusing on building and improving customer relationships and loyalty, and providing exceptional customer service that differentiates SaskTel from its competitors. As well, SaskTel will grow and diversify the business portfolio to replace and improve revenue streams impacted by competition and other market and social pressures.

##### Economic Environment

Saskatchewan's overall economy and employment levels are predicted to be relatively robust over the planning horizon and should set the stage for SaskTel to succeed in delivering its business plan. However, should the provincial and national economies experience a downturn, SaskTel will experience a financial impact.

SaskTel's first priority is to be the communications service provider of choice in Saskatchewan but will look for external opportunities to bring profitable revenue streams back to the province. SaskTel expects future

profits from these ventures to allow the Corporation to maintain its unprecedented service for products like digital cellular, wireless data and high speed internet, and to continue its efforts towards providing these services to as much of the province as possible.

##### Technology

The telecommunications industry is characterized by constant technological change, evolving industry standards, changing customer needs, frequent new product and service introductions, and short product life cycles. These factors place the useful life of SaskTel's networks and assets at risk. Conversely, as SaskTel updates its networks and introduces new products, services and technologies, it may incur increased technology risk. New technologies may also become quickly obsolete and/or require more capital than originally anticipated. Additional investments are sometimes necessary before new technologies prove to be commercially viable.

SaskTel evaluates capital spending on new technology against both existing and future technologies in order to minimize the risks associated with stranded investment in infrastructure. SaskTel will continue to anticipate and respond to technological changes quickly and efficiently and will balance the risks of prematurely adopting new technologies with those of being late to market with new products and services. The Corporation will continue to be an early adopter of advanced networks and information technologies.

##### Human Resources

SaskTel's strength is in its people. Its employees are a team of highly motivated individuals, diverse in skills, experiences and backgrounds. However, a labour shortage is projected for Saskatchewan over the long term and SaskTel will be challenged to attract, retain, and develop human resources, particularly with key technical and business skills. Additionally, the Corporation's collective bargaining agreement, covering approximately 3,000 employees, expired at the end of March, 2004. Difficulties in negotiations, although not anticipated, could impact business, operating results and financial condition.

The Corporation has a very strong tradition of creating an atmosphere where both SaskTel and its employees enjoy personal and corporate success; evidence to support this is that SaskTel has been listed as one of "Canada's Top 100 Employers" for five years in a row. Maintaining this atmosphere will help the Corporation attract, retain and provide satisfaction for appropriately skilled individuals. SaskTel will emphasize retraining existing personnel in new technologies and services and will also develop specific programs to engage the growing Aboriginal sector of the Saskatchewan population.



### Regulatory

The telecommunications and broadcast industries in which SaskTel operates are governed by the Canadian Radio-television and Telecommunications Commission (CRTC). As a result, SaskTel is affected by changes in policies and regulations coming from CRTC decisions.

The CRTC price cap decision, released in 2002, set the overall framework of telecommunications regulation of the incumbent telephone companies until 2006. During the period of the current price cap framework, SaskTel has limited flexibility for pricing of local residential and business services, and the opportunities for bundling services are constrained. The price cap plan also results in annual reductions to the amount of funding available to support high cost areas and to the prices paid by competitors for services obtained from SaskTel. In addition, this plan includes penalties for any ILEC failing to meet CRTC-mandated quality of service standards established for consumers and competitors. A proceeding will be initiated by the CRTC in 2005 which will establish the appropriate regulatory framework for SaskTel and the other incumbent telephone companies beyond the current price cap period.

Subsequent to its price cap decision in 2002, the CRTC has taken several steps which it has deemed necessary to encourage telecommunications competition, particularly within local markets. Such regulatory intervention is expected to continue until competitors obtain sizable market share from the incumbent carriers, at least within Canada's major local markets. These decisions not only increase the regulatory burden for SaskTel, they affect the company's revenues and costs. The full effect of these "pro-competitor" actions on SaskTel will not materialize until local competition unfolds in the Saskatchewan marketplace.

In 2004 and beyond, a key outstanding development for the entire industry is the regulatory implications of the introduction of "next generation networks and services." SaskTel and other service providers are moving rapidly toward providing innovative IP-based services in various forms to consumers. For the most part however, significant regulatory and policy questions concerning the future competitive marketplace for these new communications and information services, and how these services may be made available to consumers in Canada, remain unanswered.

During 2004, increasing concerns were expressed regarding the role which the CRTC is exercising within the current regulatory framework and whether that is consistent with Canadian telecommunications policy objectives. Many parties, including SaskTel, have identified the urgent need to redefine Canada's regulatory priorities and focus for the telecommunications sector; and have suggested that the federal government undertake a review of telecommunications policy. In 2005, pressure for regulatory reform will continue to mount and it is expected that the federal government will evaluate the need for a policy review.

In the 2005 Federal Budget, the Federal Government indicated its intention to appoint a panel of Canadians to review Canada's telecommunications policy and regulatory framework. Reporting to the Minister of Industry, the panel will be asked to make recommendations before the end of 2005 on how to modernize the telecommunications framework.

### FINANCIAL RISKS

#### Investments

Growth is key to SaskTel's overall strategy, and inherent in this strategy is the risk that one or more of these new services and ventures will fail and/or not generate the value originally anticipated.

A number of appropriate parameters and governance structures are in place to mitigate risk, including decision parameters to reflect country risk, currency risk, investment size, investment focus, rate of return expectations and overall business risk. As well, SaskTel's strategy is to use a portfolio approach to new initiatives with an overall caveat that a failure of the entire portfolio could not put the future of the Corporation at risk. If management subsequently discovers that a particular venture within the portfolio is not expected to generate the value originally anticipated and will not be profitable within three to five years from the beginning of operations, the Corporation will explore exit strategies. Management believes that the Corporation's growth strategy creates and increases value, and does not unduly increase the overall risk profile of the Corporation.

#### Pension Plan

The combined effect of the decline in capital markets, historically low interest rates, and the recently announced early retirement program, has significantly reduced the pension income to the Corporation and resulted in the SaskTel Pension Plan (defined benefit) being in a deficit position. The Corporation mitigated overall pension plan risk by closing the Plan to new membership in 1978; resulting in the majority of current employees being enrolled in a defined contribution plan. SaskTel continues to effectively manage its commitments to the defined benefit plan by contributing to the maximum level permitted and by managing the asset mix to the optimal proportion of equities to bonds. To further minimize long term impact, SaskTel management completed an actuarial study in 2004, one year earlier than required by legislation. This has allowed SaskTel to significantly increase its funding to the plan.

SaskTel management continues to monitor the market rates of return, interest rates, and increased funding to determine the impact on deficit reduction. In the long-term, if capital markets do not generate sufficient growth within the plan, increased employer contributions will be required and will have a material and negative effect on net earnings. Capital markets exceeding expectations will have an opposite and positive effect on contributions and net earnings.



### Cost Reduction

An unfavourable regulatory environment, renewed competitive pressures, pension contribution costs and other variables challenge the financial projections of the Corporation, particularly the traditional wireline operations. Consequently, a focus on cost reduction is critical and an operational efficiency program was established for the 2004 to 2008 planning cycle (in 2000 the Corporation implemented a similar three year program and was successful in removing approximately \$60 million in annual operating costs from the legacy parts of the organization). SaskTel met the targeted reductions associated with the first year of the current program.

SaskTel will continue to face the challenges of meeting these targets while providing exceptional customer service and meeting the communications needs of the people of Saskatchewan. The early retirement program announced in 2004 is an integral component of the operational efficiency program.

### OPERATIONAL RISKS

#### Security

SaskTel processes electronic information on customers, employees, and operations. A significant investment in associated systems and networks is maintained to process, manage and store this information. SaskTel is conscious of external threats to these assets, including system and network intrusions from external sources (hackers), denial of service (DoS) attacks, viruses and worms, and physical threats. The impact of security failures include service interruption and access to and/or release of private information.

SaskTel has a comprehensive security program in place that identifies and classifies information with respect to its confidentiality, integrity and availability; identifies threats to assets; and identifies the vulnerabilities of infrastructure. Controls and risk management activities include: data classification; vulnerability assessment; intrusion detection; patch management; defined information security architecture; corporate anti-virus system; training and awareness; policies, standards and procedures; appropriate physical controls; and defined roles and responsibilities. The security program is continuously reviewed and updated.

#### System Failures

SaskTel's switching and transport networks and its integrated packet network provide local, long distance and broadband services to residential and business customers in Saskatchewan. The confidence level in the networks is high, but the possibility of customer impacting failures cannot be ruled out. The major system failure risks include physical hardware damage, hardware failure and software failure.

Mitigation strategies implemented to address these risks include regular operational reviews, business continuity plans, pre-arranged disaster recovery support from vendors and site hardening of critical locations. Business continuity planning, in particular, is emphasized at SaskTel and an extensive array of advance arrangements and procedures are in place. Complementary to these plans are disaster recovery plans specific to the Corporation's information technology division.

#### Physical Damage

SaskTel maintains a high level of investment in property, plant and equipment in order to serve its customers. These assets are in many locations, including over 1,400 in the province of Saskatchewan alone. This creates exposure to physical damage from varied sources and, if realized, could cause impact to the Corporation in the form of reduced revenues, increased expenses and impaired asset values.

SaskTel uses loss prevention and loss reduction techniques to manage the corporate exposure to physical damage risk. Loss prevention includes a stringent preventative maintenance program and regular inspections by independent loss prevention engineers. Loss reduction includes extensive site hardening at major switching centers and significant use of automatic sprinklers and fire detection systems. Additionally, a comprehensive insurance program is in place to mitigate any physical loss and resultant business interruption experienced.

#### Legal Liability Risks

SaskTel provides a wide range of services in a competitive environment, multiprovincial and multinational in scope and closely watched in terms of regulatory scrutiny. Its employees interact with thousands of people on a daily basis and its assets are numerous and visible. As such, like other corporations operating in similar environments, the Corporation is exposed to various aspects of legal risk, including contractual, professional, statutory and third party.

Although the legal risk environment that SaskTel operates in is reasonably stable, the Corporation dedicates significant effort to managing its legal exposures. Central to legal risk mitigation at SaskTel are the expertise and active business involvement of its corporate counsel division, a corporate structure that leverages the use of separate legal entities (subsidiaries) to limit liability; a focus on contractual assignment or limitation of liability; and sound operating procedures at the core of its business. Additionally, the corporate insurance program provides a degree of financial protection from specific third party legal liabilities.



## Five Year Record of Service

	2004	2003	2002	2001	2000
<b>Finance</b>					
(Thousands of dollars)					
Operating revenues	<b>\$932,358</b>	\$897,150	\$893,485	\$863,426	\$785,609
Operating expenses	<b>819,071</b>	783,850	753,999	710,579	675,194
Other	<b>8,135</b>	(21,009)	(40,625)	(9,360)	24,447
Interest and related costs	<b>26,952</b>	9,265	33,715	41,990	41,525
Net income	<b>94,470</b>	83,026	65,146	101,497	93,337
Dividends	<b>88,009</b>	76,564	58,631	91,347	87,280
Gross construction expenditures	<b>126,141</b>	137,208	166,979	128,271	116,227
Property, plant & equipment*	<b>2,568,011</b>	2,510,119	2,512,258	2,411,795	2,309,505
Long-term debt (gross)*	<b>407,241</b>	442,614	473,907	478,934	390,203

### Financial ratios

Return on equity	<b>14.4%</b>	13.0%	10.1%	16.0%	14.9%
Debt ratio	<b>25.7%</b>	32.7%	38.5%	38.9%	40.1%

### Employees and payroll

Number of permanent employees  
(excluding part-time)

Diversified operations**	<b>782</b>	763	802	747	507
SaskTel Wireline	<b>3,321</b>	3,390	3,370	3,354	3,370
<b>Total</b>	<b>4,103</b>	4,153	4,172	4,101	3,877

Salaries earned (thousands of dollars)	<b>\$278,050</b>	\$270,332	\$255,166	\$225,767	\$228,374
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### Operational highlights

Network access services*	<b>606,959</b>	610,720	613,695	616,292	621,766
Internet access services*	<b>162,646</b>	148,853	128,501	106,204	88,427
Cellular access services*	<b>321,673</b>	286,250	259,071	240,492	218,856
Originated long distance minutes (in thousands)	<b>1,426,493</b>	1,433,936	1,437,747	1,442,165	1,406,739

\*At December 31

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



## Management's Responsibility for Financial Statements

The accompanying consolidated financial statements included in the annual report of Saskatchewan Telecommunications Holding Corporation for the year ended December 31, 2004, are the responsibility of management and have been approved by the Board of Directors. Management has prepared the consolidated financial statements in accordance with generally accepted accounting principles in Canada. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

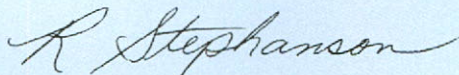
To ensure the integrity and objectivity of the financial data, management maintains a comprehensive system of internal controls including written policies and procedures, an organizational structure that segregates duties and a comprehensive internal audit program. These measures provide reasonable assurance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

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

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



Robert Watson  
President and Chief Executive Officer



Randy Stephanson  
Chief Financial Officer  
February 23, 2005

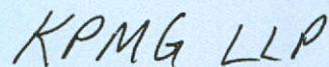
## Auditors' Report

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, 2004 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Regina, Canada  
February 23, 2005



## Consolidated Statement of Operations

For the year ended December 31,

(Thousands of dollars)

	2004	2003 Restated (Note 3)
<b>Operating revenues</b>	<b>\$932,358</b>	<b>\$897,150</b>
<b>Operating expenses</b>		
Operating expenses	633,011	629,288
Depreciation and amortization	145,563	154,562
Restructuring charges (Note 5)	40,497	—
	<b>819,071</b>	<b>783,850</b>
<b>Income from operations</b>	<b>113,287</b>	<b>113,300</b>
<b>Other items</b> (Note 6)	<b>461</b>	<b>1,272</b>
<b>Interest and related costs</b> (Note 7)	<b>(26,952)</b>	<b>(9,265)</b>
<b>Income before the following</b>	<b>86,796</b>	<b>105,307</b>
<b>Gain on sale of investments</b> (Note 8)	<b>8,023</b>	<b>131</b>
<b>Write-down of investments</b>	<b>—</b>	<b>(10,112)</b>
<b>Income from continuing operations</b>	<b>94,819</b>	<b>95,326</b>
<b>Loss from discontinued operations</b> (Note 9)	<b>(349)</b>	<b>(12,300)</b>
<b>Net income</b>	<b>\$94,470</b>	<b>\$83,026</b>

See Accompanying Notes

## Consolidated Statement of Retained Earnings

For the year ended December 31,

(Thousands of dollars)

	2004	2003 Restated (Note 3)
<b>Retained earnings, as previously reported</b>	<b>\$406,133</b>	<b>\$397,642</b>
<b>Prior period adjustment</b> (Note 3)	<b>(3,962)</b>	<b>(1,933)</b>
<b>Opening retained earnings, restated</b>	<b>402,171</b>	<b>395,709</b>
<b>Net income</b>	<b>94,470</b>	<b>83,026</b>
	<b>496,641</b>	<b>478,735</b>
<b>Dividends</b>	<b>88,009</b>	<b>76,564</b>
<b>Retained earnings, end of year</b>	<b>\$408,632</b>	<b>\$402,171</b>

See Accompanying Notes



# Consolidated Statement of Financial Position

As at December 31,

2004

2003  
Restated  
(Note 3)

(Thousands of dollars)

## Assets

### Current assets

Cash and short-term investments (Note 10)	\$141,486	\$90,409
Accounts receivable	57,223	90,852
Inventories	7,089	4,052
Prepaid expenses	8,921	10,329
Current assets of discontinued operations (Note 9)	27	315

214,746 195,957

### Property, plant and equipment (Note 11)

892,776 912,602

### Investments (Note 12)

390 11,635

### Goodwill (Note 13)

19,411 19,386

### Customer accounts (Note 14)

29,498 30,601

### Other assets (Note 15)

73,909 61,555

### Non-current assets of discontinued operations (Note 9)

– 71

\$1,230,730 \$1,231,807

## Liabilities and Province's equity

### Current liabilities

Accounts payable and accrued liabilities	\$129,777	\$114,797
Dividend payable	31,215	23,197
Service billed in advance	34,169	31,644
Current portion of long-term debt (Note 16)	6,698	35,678
Current liabilities of discontinued operations (Note 9)	154	1,099

202,013 206,415

### Deferred revenue

6,346 –

### Long-term debt (Note 16)

362,300 372,547

570,659 578,962

### Non-controlling interest

1,439 669

### Province of Saskatchewan's equity

Equity advance (Note 17)	250,000	250,000
Cumulative translation adjustments	–	5
Retained earnings	408,632	402,171

658,632 652,176

\$1,230,730 \$1,231,807

See Accompanying Notes

On behalf of the Board

Reg Bird

Alison Renny



# Consolidated Statement of Cash Flows

For the year ended December 31,

**2004**

2003  
Restated  
(Note 3)

(Thousands of dollars)

## Cash provided by (used in):

### Operating activities

Income from continuing operations	<b>\$94,819</b>	\$95,326
Items not affecting cash (Note 18)	<b>166,184</b>	139,171
Other operating items (Note 19)	<b>16,172</b>	23,149
	<b>277,175</b>	257,646

### Financing activities

Repayment of long-term debt	<b>(32,367)</b>	(10,935)
Proceeds from long-term debt	<b>-</b>	7,700
Capital lease obligations	<b>(2,519)</b>	(2,660)
Dividends paid	<b>(79,991)</b>	(58,608)
	<b>(114,877)</b>	(64,503)

### Investing activities

Property, plant and equipment expenditures	<b>(123,109)</b>	(127,595)
Proceeds on sale of investments	<b>15,216</b>	-
Investments acquired	<b>-</b>	(844)
Customer accounts	<b>(3,440)</b>	(6,756)
Other assets	<b>1,094</b>	852
	<b>(110,239)</b>	(134,343)

<b>Increase in cash from continuing operations</b>	<b>52,059</b>	58,800
<b>Decrease in cash from discontinued operations (Note 9)</b>	<b>(1,146)</b>	(2,588)
<b>Cash and cash equivalents, beginning of year</b>	<b>90,579</b>	34,367
<b>Cash and cash equivalents, end of year</b>	<b>\$141,492</b>	\$90,579

## Comprised of:

Cash of continuing operations	<b>\$64</b>	\$ -
Short-term investments of continuing operations	<b>141,422</b>	91,011
Bank indebtedness of continuing operations	<b>-</b>	(602)
Cash and cash equivalents of continuing operations	<b>141,486</b>	90,409
Cash of discontinued operations	<b>6</b>	170
	<b>\$141,492</b>	\$90,579
Interest Paid	<b>\$33,918</b>	\$36,182

See Accompanying Notes



## Notes to the Consolidated Financial Statements

December 31, 2004

### Note 1 – The Corporation

Saskatchewan Telecommunications Holding Corporation (the Corporation) markets and supplies a range of voice, data, internet, wireless, text, image, security and entertainment products, systems and services. The Corporation is a Saskatchewan Provincial Crown Corporation operating under the authority of *The Saskatchewan Telecommunications Holding Corporation Act* and, as such, the Corporation and its wholly owned subsidiaries, except as identified in Note 24, are not subject to Federal or Provincial income taxes in Canada.

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

Two of the Corporation's subsidiaries, Saskatchewan Telecommunications and Navigata Communications Ltd., are regulated by the Canadian Radio-television and Telecommunications Commission (CRTC) under the *Telecommunications Act* (Canada).

### Note 2 – Summary of significant accounting policies

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

#### Subsidiaries and investments

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

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

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

Operating entities	Percentage ownership	Basis for inclusion
Saskatchewan Telecommunications	100.0%	Consolidation
Saskatchewan Telecommunications International, Inc.	100.0%	Consolidation
DirectWest Publishing Partnership	100.0%	Consolidation
SecurTek Monitoring Solutions Inc.	100.0%	Consolidation
Navigata Holding CCIV, Inc. (formerly Dundurn Holding, Inc.)	100.0%	Consolidation
Navigata Communications Ltd. (formerly Pleasantdale Holding, Inc)	100.0%	Consolidation
Navigata Communications Partnership	96.3%	Consolidation
Business Watch International Inc.	95.2%	Consolidation
Business Watch International (U.S.) Inc.	95.2%	Consolidation
Hospitality Network Canada Inc.	93.9%	Consolidation
Hospitality Network Canada Partnership	94.0%	Consolidation
Saskatoon 2 Management Ltd.	70.0%	Proportionate consolidation
Saskatoon 2 Properties Limited Partnership	70.0%	Proportionate consolidation
Lootah SaskTel LLC (United Arab Emirates Corporation)	49.0%	Equity
Streamlogics Inc.(formerly TappedInto.com, Inc.)	37.4%	Equity
Manalta Investment Company Ltd. (formerly Craig Wireless International Inc.)	1.0%	Cost
NSI Global Inc.	0.1%	Cost



## Notes to the Consolidated Financial Statements

December 31, 2004

### *Note 2 – Summary of significant accounting policies, continued*

The following is a summary of the non-operating entities of the Corporation: 1081972 Alberta Ltd. (formerly Soft Tracks Enterprises Ltd.), 101000606 Saskatchewan Ltd., 101000607 Saskatchewan Ltd., 3339807 Canada Ltd., 3364381 Canada Ltd., 675161 British Columbia Ltd. (formerly Soft Tracks Enterprises Ltd.), Avonlea Holding, Inc., Battleford International, Inc., Esterhazy Holding, Inc., Hollywood At Home Inc., Nokomis Holding (U.S.), Inc. (formerly Retx, Inc.), Qu'Appelle Holding, Inc., Saskatchewan Telecommunications International (Tanzania) Limited, SaskTel Holding (Australia), Inc., SaskTel Holding (New Zealand) Inc., SaskTel Holding (U.K.) Inc., SaskTel International Consulting, Inc., SaskTel Investments Inc., SaskTel New Media Fund Inc., Shellbrook Holding, Inc., STI Communications Pty Limited, Unity Holding, Inc., Vanguard Holding, Inc., Wadena Holding, Inc., Xavier Holding, Inc. and Yellowgrass Holding, Inc.

#### **Cash and short-term investments**

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

#### **Inventories**

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

#### **Property, plant and equipment**

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

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

Asset	Estimated useful life
Buildings	20 - 35 years
Plant and equipment	2 - 50 years
Office furniture, equipment and leaseholds	2 - 17 years

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

#### **Goodwill**

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

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



### *Note 2 – Summary of significant accounting policies, continued*

#### **Customer accounts**

Customer accounts acquired individually, with a group of other assets or through the Corporation's authorized dealers are recorded at cost. Customer accounts are amortized over 10 years using the straight line method. The Corporation annually reviews the amortization method and useful lives of customer accounts.

#### **Revenue recognition**

Effective January 1, 2004 the Corporation adopted the recommendations included in the Canadian Institute of Chartered Accountants (CICA) Emerging Issues Committee Abstracts 141, 142 and 143 issued in December 2003 regarding revenue recognition and classification of certain revenues and expenses. These standards have been adopted on a prospective basis.

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

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

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

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

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

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

#### **Employee future benefits**

The Corporation has (a) two defined benefit plans (b), a defined contribution plan (c) and a service recognition defined benefit program:



### *Note 2 – Summary of significant accounting policies, continued*

#### **a) Defined benefit pension plans**

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

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

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

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

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

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market related value of the plan assets is amortized over the average remaining service life of active employees of the plan. The remaining service life of active employees was calculated as a weighted average of 6.0 years.

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

#### **b) Defined contribution pension plan**

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

#### **c) Service recognition defined benefit program**

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

### **Foreign currency translation**

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

### **Income taxes**

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

### **Use of estimates**

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



### *Note 2 – Summary of significant accounting policies, continued*

#### **Recent changes to accounting standards and policies**

##### **Impairment of long-lived assets**

Effective January 1, 2004 the Corporation adopted the recommendations in section 3063 of the CICA Handbook, *Impairment of Long-Lived Assets*. Long-lived assets, including property, plant and equipment and purchased intangibles subject to amortization are amortized over their useful lives. The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of loss recorded is determined by deducting the asset's fair value (based on discounted cash flows from its use and disposition) from its carrying value. Prior to January 1, 2004, the amount of the loss was determined by deducting the asset's net recoverable amount, based on undiscounted net cash flows expected to be generated by the asset, from its carrying value.

Adopting this section has not had a material effect on the Corporation's consolidated financial statements because no impairment of long-lived assets existed at December 31, 2004.

##### **Asset retirement obligations**

Effective January 1, 2004, the Corporation adopted the recommendations in Section 3110 of the CICA Handbook, *Asset Retirement Obligations*. This section is effective for years beginning on or after January 1, 2004. The standard provides guidance on how to recognize and measure liabilities related to the legal obligations associated with the retirement of property, plant and equipment. Obligations are initially measured at fair value and are adjusted for any changes resulting from the passage of time and any changes to the timing or amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized as part of the related asset and is amortized into earnings over the asset's useful life.

Adopting this section has not had a material effect on the Corporation's consolidated financial statements because no significant asset retirement obligations exist.

##### **Disposal of long-lived assets and discontinued operations**

Effective January 1, 2004 the Corporation adopted the recommendations in Section 3475 of the CICA Handbook, *Disposal of Long-Lived Assets and Discontinued Operations*. The new section provides guidance on how to recognize, measure, present and disclose long-lived assets that are held for disposal. Criteria are provided for classifying assets held for sale. It requires an asset classified as held for sale to be measured at the lower of its carrying value or fair value less disposal costs. The section also provides criteria for classifying a disposal of a business as discontinued operations and how to present and disclose discontinued operations and other disposals of long-lived assets.

Adopting this section had no impact on the Corporation's consolidated financial statements.

##### **Derivative financial instruments**

Derivative financial instruments are used by the Corporation in the management of its foreign currency and interest rate exposures. The Corporation's policy is not to use derivative financial instruments for trading or speculative purposes.

The Corporation, from time to time, is party to certain derivative financial instruments, principally interest rate swap contracts (used to manage the exposure to market risks from changing interest rates) and forward foreign exchange contracts (used to manage foreign currency exposures on international sales). These instruments are not recognized in the consolidated financial statements on inception. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on long-term debt. Gains and losses on forward foreign exchange contracts are recognized in revenues in the same period as the foreign currency revenues to which they relate. The carrying amounts of derivative financial instruments, which comprise accrued gains and losses not yet realized, are included in other receivables and prepaid expenses in the case of contracts in a gain position and in accounts payable and accrued liabilities in the case of contracts in a loss position.

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated



## Notes to the Consolidated Financial Statements

December 31, 2004

### *Note 2 – Summary of significant accounting policies, continued*

transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Corporation purchases forward foreign exchange contracts to hedge anticipated sales to customers in foreign jurisdictions and the related accounts receivable. Foreign exchange gains and losses on these contracts are recognized as an adjustment of the revenues when the sales are recorded. The portion of the premium or discount on the contract relating to the period prior to consummation of the sale is also recognized as an adjustment of the revenues when the sales are recorded and the portion of the premium or discount relating to the resulting accounts receivable is amortized as an adjustment of interest expense over the remaining term of the contract.

The Corporation also enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its short-term and long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Corporation designates its interest rate hedge agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current or non-current assets or liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

### **Note 3 – Prior period adjustment**

During the year the Corporation adjusted amounts previously reported for accounts receivable and property, plant and equipment.

Accounts receivable for Navigata Communications Inc. was overstated due to accruals of estimated revenues which were reversed inappropriately in subsequent periods.

Property, plant and equipment for Saskatchewan Telecommunications was overstated due to certain assets being retired prior to being fully amortized.

The corrections were accounted for retroactively with restatement of all prior periods reported. The effect of the corrections to the financial statements as at December 31, 2003 is outlined below as increase (decrease):

(Thousands of dollars)	2003
<b>Consolidated Statement of Operations</b>	
Operating revenues	\$(766)
Depreciation and amortization	1,263
Income from operations	(2,029)
Net income	(2,029)
<b>Consolidated Statement of Retained Earnings</b>	
Prior period adjustments	(1,933)
<b>Consolidated Statement of Financial Position</b>	
Accounts receivable	(1,909)
Property, plant and equipment	(2,053)
<b>Consolidated Statement of Cash Flows</b>	
Items not affecting cash – depreciation and amortization	1,263
Other operating items – accounts receivable	(766)



## Notes to the Consolidated Financial Statements

December 31, 2004

### Note 4 – Acquisitions and disposals

#### Investments and disposals: consolidation method

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

During 2004, the Corporation made an additional investment of \$0.5 million in Business Watch International Inc. (BWI), increasing its ownership to 95.2%. BWI provides crime prevention computer software to police agencies, pawnbrokers and other businesses engaged in the acquisition and resale of used goods.

The Corporation completed a corporate reorganization of Navigata Holding, Inc., Navigata Communications Inc. and Navigata Holding CCIV Ltd. (formerly Dundurn Holding, Inc.). This resulted in the transfer of the operating assets and liabilities of Navigata Communications Inc. to Navigata Communications Ltd., which acts as the bare trustee for a partnership formed by Navigata Holding Ltd. and Navigata Holding, Inc., named Navigata Communications Partnership (Partnership). After the reorganization, Navigata Holding CCIV Ltd. and Navigata Holding, Inc. owned 95.4% and 4.6% respectively of the newly formed partnership.

On March 29, 2004, all of the shares of Navigata Holding, Inc. were sold for \$4.5 million to Monarch Cablesystems Ltd., an unrelated party. The proceeds consisted of \$2.8 million of fibre optic cable facilities and a 0% interest bearing note receivable of \$1.7 million, callable July 1, 2005 and due and payable on March 28, 2006. The ownership interest in the Partnership is held as security on the note receivable. A non-cash gain of \$3.7 million was recorded on the transaction. The agreement also provides for future consideration of either \$1.4 million cash or \$2.8 million in fibre optic facilities depending on the occurrence of future events. As the timing and outcome of these future events is not determinable, any amount received will be recognized as a gain in the period of receipt.

During 2004, the Corporation made an additional net investment of \$9.3 million in Navigata Communications Partnership, increasing its ownership from 95.4% to 96.3%.

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

(Thousands of dollars)	The Partnership	BWI	Total
Total consideration	\$9,250	\$519	\$9,769
Total assets	9,465	496	9,961
Total liabilities	215	2	217
Net assets acquired	9,250	494	9,744
Goodwill acquired during 2004	\$ –	\$25	\$25

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

During the year, Soft Tracks Enterprises Ltd. completed a corporate reorganization separating into two legal entities; Soft Tracks Enterprises Ltd. and 675161 British Columbia Ltd. In January 2004, the Corporation sold 10,033,874 shares of Soft Tracks Enterprises Ltd. for proceeds of \$0.08 million, which approximated the carrying value. The Corporation retains a 20.5% ownership in 675161 British Columbia Ltd.



## Notes to the Consolidated Financial Statements

December 31, 2004

### Note 5 – Restructuring charges

During 2004, \$40,496,864 was recorded to restructuring charges. The charge relates to phase one of a proposed three-phase, voluntary Early Retirement Program (ERP) for Saskatchewan Telecommunications and a workforce reduction plan at Navigata Communications Partnership due to competitive conditions. Workforce reductions are ongoing and expected to be complete by June, 2005.

The ERP has been undertaken to reduce operating costs and manage the employee demographic profile in the context of a changing labour market. The first phase began in the fall of 2004 and will be completed during 2005. During 2004, 185 employees elected to receive a package that included a cash allowance and immediate pension benefits.

An additional charge of approximately \$13 million is expected to be incurred in 2005. These costs are not eligible for recognition at December 31, 2004 and will be expensed as incurred.

The table below provides a summary of the costs recognized in 2004 and the liability recorded at December 31, 2004:

	(Thousands of dollars)
Restructuring charges	\$40,497
Less:	
Cash payments	3,096
Special termination benefit costs (Note 21)	28,412
Balance in accounts payable and accrued liabilities	\$8,989

### Note 6 – Other items

	2004	2003
	(Thousands of dollars)	
Net share of loss from significantly influenced companies	\$ (375)	\$ (1,527)
Interest income	1,095	1,138
Non-controlling interest	461	659
Other	(720)	1,002
	\$461	\$1,272



## Notes to the Consolidated Financial Statements

December 31, 2004

### Note 7 – Interest and related costs

	2004	2003
	(Thousands of dollars)	
Interest expense	\$33,749	\$37,025
Foreign currency translation gains	(1,746)	(22,944)
Other	19	19
	<b>32,022</b>	14,100
Less:		
Sinking fund earnings	2,230	2,682
Interest on short-term investments	2,840	2,153
	<b>\$26,952</b>	\$9,265

### Note 8 – Gain on sale of investments

	2004	2003
	(Thousands of dollars)	
Austar United Communications Limited (Note 12)	\$4,354	\$131
Navigata Holding Inc. (Note 4)	3,669	–
	<b>\$8,023</b>	\$131

### Note 9 – Discontinued operations

On May 6, 2004, Nokomis Holding (U.S.), Inc. (Nokomis), formerly Retx, Inc., sold their operating assets, including computer equipment, furnishings, customer contracts and trademarks to an unrelated party for cash consideration of \$0.2 million. Nokomis continues to own patents granted in both the United States and Australia. The purchaser was granted an intellectual property license agreement under which Nokomis may receive royalty payments based on future revenues generated from the property. The purchaser will assume responsibility for delivery of services to fulfill all customer contracts. For reporting purposes, the results of operations have been presented as discontinued operations as the Corporation has no significant continuing involvement in the ongoing operations. Accordingly, prior period financial statements have been reclassified to reflect this change.

During 2004, the Corporation provided \$0.9 million to Nokomis to fund operations prior to the sale and the wind-down of operations. At December 31, 2004 the Corporation owned 92.1% of Nokomis.



## Notes to the Consolidated Financial Statements

December 31, 2004

### Note 9 – Discontinued operations, continued

The summarized statement of operations for discontinued operations is as follows:

	2004	2003
	(Thousands of dollars)	
Operating revenues	\$209	\$1,475
Operating expenses	(872)	(3,458)
Depreciation and amortization	(7)	(524)
Other items	243	(349)
Interest and related costs	(2)	(9)
Gain on disposal	80	–
Write-down of goodwill	–	(9,435)
Net loss from discontinued operations	\$(349)	\$(12,300)

### Note 10 – Cash and short-term investments

The balance consists of funds invested with the Province of Saskatchewan at an average interest rate of 2.26% (2003 – 2.93%)

### Note 11 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2004	2003
				Restated (Note 3)
(Thousands of dollars)				
Buildings	\$246,334	\$124,024	\$122,310	\$121,081
Plant and equipment	2,073,507	1,482,948	590,559	617,820
Office furniture, equipment and leaseholds	133,887	68,263	65,624	68,094
Plant under construction	95,259	–	95,259	86,107
Materials and supplies	9,376	–	9,376	9,816
Land	9,648	–	9,648	9,684
	\$2,568,011	\$1,675,235	\$892,776	\$912,602

Depreciation and amortization for the year totalled \$140,380,970 (2003 – \$150,124,229)

Property, plant and equipment includes assets under capital leases of \$9,473,353 (2003 – \$10,431,092) and accumulated depreciation and amortization of \$2,876,639 (2003 – \$2,700,360).



## Notes to the Consolidated Financial Statements

December 31, 2004

### Note 12 – Investments

	2004	2003
	(Thousands of dollars)	
<b>Significantly influenced companies: equity method</b>		
Streamlogics Inc.	\$332	\$702
675161 British Columbia Ltd.	15	100
Lootah SaskTel LLC	43	–
<b>Other long-term investments: cost method</b>		
Persona Inc.	–	8,320
Austar United Communications Limited	–	2,513
	<b>\$390</b>	<b>\$11,635</b>

Included in the above balances is equity method goodwill of \$266,728 (2003 – \$263,648), which represents the excess of cost of the investments over the Corporation's share of net book value of the investment.

During the year, the Corporation disposed of 9,550,574 shares in Austar United Communications Limited for net proceeds of \$6.9 million resulting in a gain on sale of \$4.4 million.

During the year, the Corporation disposed of 1,223,491 shares in Persona Inc. for cash proceeds of \$8.3 million which was equivalent to the carrying value of the investment.

### Note 13 – Goodwill

The changes in the carrying amount of goodwill are as follows:

	2004	2003
	(Thousands of dollars)	
Balance as at January 1,	\$19,386	\$28,440
Acquired during the year (Note 4)	25	381
Write-down of goodwill (Note 9)	–	(9,435)
Balance as at December 31,	<b>\$19,411</b>	<b>\$19,386</b>

### Note 14 – Customer accounts

Amortization of these definite life intangible assets during the year totalled \$4,556,284 (2003 – \$4,336,185).

	Cost	Accumulated amortization	Net book value	
			2004	2003
			(Thousands of dollars)	
Customer accounts	\$44,323	\$14,825	\$29,498	\$30,601



## Notes to the Consolidated Financial Statements

December 31, 2004

### Note 15 – Other assets

	2004	2003
	(Thousands of dollars)	
Deferred pension costs (Note 21)	\$55,318	\$51,573
Competition implementation costs	1,921	3,015
Unamortized discount on long-term debt	2,341	2,361
Sales-type leases	769	639
Deferred expenses	4,756	–
Other	8,804	3,967
	<b>\$73,909</b>	<b>\$61,555</b>

Depreciation and amortization for the year totalled \$633,122 (2003 – \$626,701).

### Note 16 – Long-term debt

	Years to Maturity	Weighted Average Interest Rate (%)	2004 (Thousands of dollars)	2003 (Thousands of dollars)
<b>Province of Saskatchewan</b>				
Canadian dollar issues (a)	1 to 5	9.87	\$66,974	\$95,930
Canadian dollar issues	6 to 10	6.15	90,000	90,000
Canadian dollar issue (b)	16	10.08	126,600	—
Canadian dollar issues (c)	25	5.51	110,000	110,000
U.S. dollar issue		9.38	—	129,650
			393,574	425,580
Capital lease obligation (d)			5,492	8,365
Other (e)			8,175	8,669
			407,241	442,614
Less sinking fund (f)			38,243	34,389
Total long-term debt			368,998	408,225
Less current portion of long-term debt			6,698	35,678
			\$362,300	\$372,547

a) Long-term debt totaling \$66,974,000 is subject to redemption at the option of the issuer on 30 days notice, as outlined in the terms and conditions.

b) During the year the Corporation converted \$100,000,000 U.S. dollar debt to \$126,600,000 Canadian dollar debt. No gain or loss was recorded on the transaction.



## Notes to the Consolidated Financial Statements

December 31, 2004

### Note 16 – Long-term debt, continued

- 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) Certain property, plant and equipment have been acquired under lease transactions which are accounted for as purchases. The capital lease obligations recorded in these consolidated financial statements reflect the present value of future minimum payments under these leases, discounted at the interest rates implicit in the leases. The interest rates implicit in these leases primarily range between 5.7% and 8.7% (2003 – 5.7% and 8.7%), with a weighted average of 7.6% (2003 – 7.6%). The lease agreements expire between 2005 and 2006. During the year, the Corporation did not acquire property, plant and equipment under capital leases.

#### Capital lease obligations

	2004	2003
	(Thousands of dollars)	
2004	\$ –	\$3,715
2005	3,762	3,761
2006	2,563	2,563
2007	–	–
2008	–	–
Aggregate future minimum lease payments	6,325	10,039
Portion representing implied interest	833	1,674
Capital lease obligations	5,492	8,365
Less current portion	3,160	2,873
Long-term portion	\$2,332	\$5,492

Interest expense on capital lease obligations during the year totalled \$583,553 (2003 – \$1,049,909).

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

	(Thousands of dollars)
2005	\$216
2006	230
2007	244
2008	260
2009	274

- f) 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.



## Notes to the Consolidated Financial Statements

December 31, 2004

### Note 16 – Long-term debt, continued

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

	(Thousands of dollars)
2005	\$3,614
2006	35,514
2007	16,513
2008	23,395
2009	2,916

### Note 17 – Equity advance

As a Saskatchewan Provincial Crown Corporation, the Corporation's equity financing is in the form of equity advances of \$250,000,000 (2003 – \$250,000,000) from CIC.

### Note 18 – Items not affecting cash

	2004	2003 Restated (Note 3)
(Thousands of dollars)		
Depreciation and amortization	\$145,563	\$154,562
Pension expense of defined benefit plans	5,742	574
Special termination benefit costs	28,412	–
Net share of loss from significantly influenced companies	98	1,527
Foreign currency translation gains	(1,746)	(22,944)
Sinking fund earnings	(2,230)	(2,682)
Gain on sale of investments	(8,023)	(131)
Write-down of investments	–	10,112
Other	(1,632)	(1,847)
	<b>\$166,184</b>	<b>\$139,171</b>

### Note 19 – Other operating items

	2004	2003 Restated (Note 3)
(Thousands of dollars)		
Changes in non-cash working capital:		
Accounts receivable	\$33,110	\$5,493
Inventories	(3,037)	(999)
Prepaid expenses	1,378	2,631
Accounts payable and accrued liabilities	18,697	22,868
Service billed in advance	2,715	1,443
Deferred revenues	6,346	–
Other assets	(4,756)	–
Contributions to defined benefit pension plans	(38,281)	(8,287)
	<b>\$16,172</b>	<b>\$23,149</b>



## **Note 20 – Financial instruments**

### **Credit risk**

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

### **Currency exposure**

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

At December 31, 2004, the Corporation had purchased a contract to sell U.S. \$3.0 million in February, 2005 at an exchange rate of 1.2082.

### **Fair value**

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

At year end, the carrying value of all financial instruments approximates fair value with the following exceptions stated in thousands of dollars:

	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Equity in sinking funds	\$38,243	\$38,842	\$34,389	\$35,851
Long-term debt, Province of Saskatchewan	\$393,574	\$491,739	\$425,580	\$509,486
Mortgage	\$7,464	\$8,115	\$7,667	\$7,667

## **Note 21 – Employee future benefits**

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

### **a) Defined benefit pension plans**

The larger of the two defined benefit pension plan is governed by Saskatchewan Telecommunications (SaskTel) which has been closed to new membership since 1977. The SaskTel defined benefit pension plan is registered under *The Pension and Benefit Act, 1992, Saskatchewan, the Income Tax Act, Canada* and regulated by the Saskatchewan Financial Services Commission – Pension Division. The Corporation is responsible for adequately funding the defined benefit pension plan. Contributions are determined by actuarial valuations. The contributions reflect actuarial assumptions about future investment returns, salary projections and future service benefits. A valuation is performed at least every three years to determine the actuarial present value of the accrued pension benefit. The latest valuation is dated December 31, 2003 and was performed as of August 31, 2004.



## Notes to the Consolidated Financial Statements

December 31, 2004

### Note 21 – Employee future benefits, continued

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

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

The introduction of the ERP for SaskTel resulted in a curtailment to the defined benefit pension plan. The impact of the curtailment was to reduce the accrued benefit obligation by \$3,080,952.

The second plan is governed by Navigata Communications Partnership (Partnership). Effective August 23, 2004, this plan was curtailed and benefits are no longer accruing to the employees. The Partnership has made application to The Office of the Superintendent of Financial Institutions and it is anticipated that the plan will be wound up in 2005. The cost, which is estimated to be \$2.0 million, will be recognized when the settlement occurs. As of December 31, 2004, benefits resulting from the windup have not been disbursed.

The curtailment of the Partnership plan had no effect on the benefit expense for the period because the decrease in the accrued benefit obligation of \$1,035,000 resulting from the curtailment was offset against the unamortized net actuarial loss.

Key assumptions used as inputs to the actuarial calculations are:

	2004	2003
Discount rate	5.90%	6.20%
Expected return on plan assets	7.00%	7.25%
Inflation rate	1.90%	2.20%
Expected salary increase	1.90%	2.20%
Post-retirement index (not to exceed 2%)	100% of CPI	100% of CPI

### Pension plan assets

The table below shows the allocation of pension plan assets at December 31, 2004 and 2003.

Percentage of plan assets at December 31,

Asset category	2004	2003
Equity securities	54.9%	55.1%
Bonds	30.9%	29.9%
Short-term investments (treasury bills, notes and commercial paper)	8.6%	9.1%
Real estate	5.6%	5.8%
Debt securities	– %	0.1%
	100%	100%

The weighted average expected long-term rate of return for all asset categories is 7%.



## Notes to the Consolidated Financial Statements

December 31, 2004

### Note 21 – Employee future benefits, continued

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

	2004	2003
	(Thousands of dollars)	
Current service cost – defined benefit plan	<b>\$(10,282)</b>	\$(8,175)
Interest cost	<b>(51,452)</b>	(50,014)
Expected return on pension plan assets	<b>55,451</b>	54,504
Special termination benefits cost	<b>(28,412)</b>	–
Amortization of net transitional asset	<b>11,675</b>	11,654
Amortization of past service costs	<b>(4,303)</b>	(4,105)
Amortization of actuarial loss	<b>(8,383)</b>	(4,467)
Impact of settlement	<b>–</b>	29
<b>Net pension cost</b>	<b>\$(35,706)</b>	\$(574)

The accrued benefit obligation, plan assets and deferred pension cost tables below show the change in the defined benefit pension plan and the change in the fair value of the plan's assets during the year and the status of the plan as at December 31, 2004 and 2003.

Accrued benefit obligation	2004	2003
	(Thousands of dollars)	
Accrued benefit obligation, beginning of year	<b>\$835,024</b>	\$817,202
Current service cost	<b>13,227</b>	11,333
Curtailment gain	<b>(4,116)</b>	–
Interest cost	<b>51,453</b>	50,014
Benefits paid	<b>(44,684)</b>	(43,369)
Impact due to change in actuary study	<b>3,683</b>	568
Actuarial gain	<b>–</b>	(107)
Impact due to change in discount rate	<b>17,522</b>	–
Special termination benefit	<b>28,412</b>	–
Experience and other gains	<b>–</b>	(617)
<b>Accrued benefit obligation, end of year</b>	<b>\$900,521</b>	\$835,024

Plan assets	2004	2003
	(Thousands of dollars)	
Fair value of plan assets, beginning of year	<b>\$734,719</b>	\$695,604
Actual return on plan assets	<b>82,649</b>	71,099
Employer contributions	<b>39,434</b>	8,287
Employee contributions	<b>2,945</b>	3,156
Benefits paid	<b>(44,684)</b>	(43,369)
Refund of assets on termination of supplemental plan	<b>–</b>	(58)
<b>Fair value of plan assets, end of year</b>	<b>\$815,063</b>	\$734,719



## Notes to the Consolidated Financial Statements

December 31, 2004

### Note 21 – Employee future benefits, continued

<b>Deferred pension costs</b>	<b>2004</b>	<b>2003</b>
	(Thousands of dollars)	
Funded status – surplus (deficit)	<b>\$(85,458)</b>	\$(100,305)
Unamortized transitional asset	<b>(50,794)</b>	(62,469)
Unamortized past service costs	<b>17,581</b>	21,884
Unamortized net actuarial losses	<b>173,956</b>	192,438
<b>Deferred pension costs</b>	<b>\$55,285</b>	\$51,548
Comprised of:		
Deferred pension costs	<b>\$55,318</b>	\$51,573
Deferred pension liability	<b>(33)</b>	(25)
	<b>\$55,285</b>	\$51,548

#### b) Defined contribution pension plan

The defined contribution pension plan requires the Corporation to contribute 6% of employees' pensionable earnings and employees to contribute a minimum of 4% of pensionable earnings. The total cost for the defined contribution plan is equal to the Corporation's required contribution. The Corporation's 2004 pension cost and employer contributions for the Public Employees Pension Plan are \$11,343,989 (2003 – \$11,126,115).

#### c) Service recognition defined benefit program

The service recognition defined benefit program provides a retiring allowance of two days salary per year of service which is payable on retirement. Key assumptions used as inputs to the actuarial calculations are:

	<b>2004</b>	<b>2003</b>
Discount rate	<b>6.80%</b>	6.80%
Expected salary increase	<b>2.80%</b>	2.80%
Estimated average remaining employee service life	<b>15.7 years</b>	15.7 years
<b>Current year benefit cost</b>	<b>2004</b>	<b>2003</b>
	(Thousands of dollars)	
Defined benefit service cost	<b>\$2,949</b>	\$2,868
<b>Accrued benefit obligation</b>	<b>2004</b>	<b>2003</b>
	(Thousands of dollars)	
Accrued benefit liability	<b>\$13,969</b>	\$12,126



## Notes to the Consolidated Financial Statements

December 31, 2004

### Note 22 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown Corporations, departments, agencies, boards and commissions related to CIC 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:

	2004	2003
	(Thousands of dollars)	
Operating revenues	\$63,292	\$58,199
Other income	90	–
Operating expenses	36,451	37,144
Accounts receivable	2,541	3,711
Accounts payable	2,143	2,859
Property, plant and equipment – net (proceeds) expenditures	656	384

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

In November 2004, the Corporation entered into an agreement with CIC to provide administrative services related to application of the Lowest Cost Utility Program rebate to certain of the Corporation's customers on behalf of CIC. The Corporation received a cash payment of \$50,942,902 which was applied to customer accounts during December in accordance with the agreement.

A director of SaskTel also serves as a director of a corporation from which SaskTel purchased \$1,496,698 (2003 – \$2,000) of property, plant and equipment and items recorded in operating expense of \$330,969 (2003 – \$0).

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 23 – Commitments and contingencies

#### Commitments

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

	(Thousands of dollars)
2005	\$53,182
2006	46,420
2007	18,455
2008	15,902
2009	13,515

The above payments include \$18,960,000 for leases with related parties.



## Notes to the Consolidated Financial Statements

December 31, 2004

### Note 23 – Commitments and contingencies, continued

#### Contingencies

On August 9, 2004, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including the Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, and breach of statutory obligations concerning system administration fees. The plaintiffs seek unquantified damages from the defendant wireless communications service providers. The Corporation believes that it has strong defenses to the allegations. It is not currently known whether the proceeding will be certified as a class action and the outcome of this matter is not determinable at this time.

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2004 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's consolidated financial position or results of operations.

The Corporation has provided letters of credit related to both performance and bid bonds to various parties. The total amount at December 31, 2004 is \$2,350,952 with the majority expiring during 2005 and one in 2007.

### Note 24 – Income taxes

The following subsidiaries are subject to income taxes: Business Watch International Inc. and STI Communications Pty Limited.

As at December 31, 2004, the Corporation has available non-capital losses for income tax purposes of approximately \$2.4 million, which are available to be carried forward to reduce taxable income in future years, and expire as follows:

	(Thousands of dollars)
2005	\$179
2006	155
2007	86
2008	458
2009	704
2010	723
2011	140
	<hr/>
	\$2,445

### Note 25 – Subsequent event

On February 3, 2005, the CRTC released Telecom Decision CRTC 2005-6, *Competitor Digital Network Services*, which finalized the terms and conditions under which the Corporation is to provide digital network services to other telecommunications carriers. The CRTC determined that the Corporation's interim Competitor Digital Network Access rates are to be replaced, retroactively to June 1, 2002, by rates equal to the Corporation's retail digital network access rates.

As a result of the decision, the Corporation will record total revenues of \$11.3 million in 2005 related to services previously provided from June 1, 2002 through December 31, 2004. This includes \$7.9 million that was recorded in accounts payable at December 31, 2004 related to the interim rates set by the CRTC in 2002.

### Note 26 – Comparative figures

Certain of the 2003 figures have been reclassified to conform to the current year's presentation.



## SaskTel Executive Officers

### SaskTel Executive Officers

#### **Robert Watson – President and Chief Executive Officer**

- Before coming to SaskTel in November, 2004, held several senior executive positions in the Canadian Telecom industry, including Vice-President of Business Development at GT Group Telecom/360 Networks, Executive Vice-President – Carrier Services / Engineering / Operations / Customer Service and Chief Quality Officer at Group Telecom, President of Shaw FiberLink Ltd., President of Shaw Mobilecomm, and President of WIC Connexus.
- Serves on the boards of Navigata Communications Partnership, Saskatchewan Telecommunications International, Inc., and Streamlogics Inc.
- Has held numerous director and affiliation appointments within the telecommunications industry, as well as in the education and community sectors. Currently sits on the Board of Directors for the Canadian Prostate Cancer Network (CPCN).
- Graduate in Electrical Technologies from Ryerson University.
- Has attended the International Executive Development Program at the INSEAD Centre in Fountainebleau, France, as well as the Executive Management Program at Ashridge College in the United Kingdom.

#### **Mike Anderson – Vice President, Marketing**

- 24 years with SaskTel, in a variety of positions in Marketing, Operations, Customer Services, and Corporate Development.
- Serves on the boards of DirectWest Publishing Partnership and Navigata Communications Partnership.
- B.Admin, University of Regina, Certified Management Accountant (CMA); member of the Society of Management Accountants.

#### **Dan Baldwin – Senior Vice President, Business Development**

- Ten years with SaskTel, including Senior Vice President of MIS, Marketing, and Strategic Business Development.
- Serves on the boards of Business Watch International Inc., DirectWest Publishing Partnership, Hospitality Network Canada Inc., Navigata Communications Partnership, SecurTek Monitoring Solutions Inc., Streamlogics Inc., and Saskatoon Square Management Ltd.
- Prior to SaskTel worked 10 years in the Treasury and Debt Management Division of Saskatchewan Finance.
- Three years with Crown Investments Corporation of Saskatchewan.
- Five years as a practicing lawyer.
- LL.B. and B.A., University of Saskatchewan.

#### **Doug Burnett – Vice President, Human Resources & Industrial Relations**

- 14 years with SaskTel, initially as Corporate Counsel, advising on Human Resources and Industrial Relations matters.
- Serves on the boards of Wicahitowin Foundation, SecurTek Monitoring Solutions Inc., and INROADS, Inc.
- Member of the Conference Board of Canada's Human Resource Executives Council (West) and the National Industrial Relations Executive Council.
- Prior to SaskTel, practiced law in Regina.
- B.A., University of Regina; LL.B., University of Saskatchewan; and a Certified Human Resources Professional (CHRP) designation. Member of both the Canadian Bar Association and the Law Society of Saskatchewan.

#### **Ken Keesey – Vice President, Customer Services – Sales**

- 23 years with SaskTel, in a variety of positions within Sales and Customer Services.
- Serves on the boards of SecurTek Monitoring Solutions Inc., HOOP, Saskatchewan Crime Stoppers, Nokia Brier, and the Saskatoon City Hospital Foundation.
- Governor for Junior Achievement of Northern Saskatchewan.
- B. Admin., University of Regina.

#### **John Meldrum – Vice President, Corporate Counsel and Regulatory Affairs, Chief Privacy Officer**

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

#### **Diana Milenkovic – Senior Vice President, Customer Service Operations and Mobility**

- 13 years with SaskTel in VP roles of Corporate Affairs, Mobility, Customer Services Sales & Operations.
- Serves on the boards of Soft Tracks Enterprises Ltd., SecurTek Monitoring Solutions Inc., and Canadian Wireless Telecommunications Association; Chair of Saskatchewan Communications Network; and serves on community Boards of 2005 Canada Games and The Regina Symphony.
- Prior to SaskTel, worked as Policy Advisor Executive Council and Leader of the Opposition Office, Government of Saskatchewan; Marketing for Western Canada Summer Games; 12 years with Boards of Education in Regina, Saskatoon, Swift Current.
- B. Music, BA, University of Saskatchewan; Executive Business Programs in Leadership, Finance and Process Mastery.

#### **Garry Simons – President, SaskTel International**

- 29 years with SaskTel, formerly in VP roles in Operations, Customer Services, and Human Resources and Supplies and Services.
- Has served on the boards of the Saskatchewan Power Corporation, Saskatchewan Telecommunications International, Inc., LCL Cable Communications Limited and DirectWest Publishing Partnership, the Wicahitowin Foundation, Saskatchewan Communications Network (SCN) and the Ranch Ehrlo Society.
- Currently serves on the board of Lootah/SaskTel LLC.
- Previous positions include Executive Director of Personnel and Industrial Relations, Potash Corporation of Saskatchewan; Deputy Minister of Labour, Province of Saskatchewan; and Assistant Deputy Minister of Labour in the Province of Manitoba.
- Former Executive Vice President Western Region for the Communication Workers of Canada (now the CEP).

#### **Randy Stephanson – Chief Financial Officer**

- 29 years with SaskTel, including two years in the Philippines with SaskTel International, in various financial positions, and as General Manager – Customer Services, Districts.
- Serves on the boards of Saskatchewan Telecommunications International, Inc., SaskTel International, and DirectWest Publishing Partnership, and Nokomis Holding (U.S.), Inc.
- Certified Management Accountant, Diploma of Accountancy, SIAT.
- Member and past director of Management Accountants of Saskatchewan.

#### **Kym Wittal – Chief Technology Officer**

- 22 years with SaskTel, including positions in Engineering, IT Business Solutions, Customer Services and Human Resources.
- Serves on the Boards of TRLabs, Navigata Communications Partnership, and Business Watch International Inc.
- BScEE, P.Eng., University of Saskatchewan; member of Association of Professional Engineers and Geoscientists of Saskatchewan (APEGS).



## Board of Directors



### Darcy Bear

- Chief of the Whitecap Dakota First Nation.
- Serves on several boards and commissions, including: the Federation of Saskatchewan Indian Nations Economic Development Commission, Saskatchewan Indian Institute of Technologies, the Saskatoon Tribal Council Board of Directors, Dakota Lightning Electrical Service Ltd., Dakota Cree Sports Inc., and Dakota Dunes Golf Links Board of Directors.
- Accounting diploma from the University of Saskatchewan.



### Reg Bird, Chair

- Former Chair of Board of Directors of TRLabs.
- Former President of Nortel Networks – Asia South Pacific from 1998 to 2001.
- President and CEO of Manitoba Telephones from 1987 to 1990.
- Has served on the Boards of Telesat Canada, Telecom Canada, EPCOR, and the Banff School of Advanced Management.
- Member of British Columbia's Premier's Technology Council; board member of VCOM and of Greater Victoria United Way.
- B. Elec. Eng., Royal Military College (Kingston); Advanced Management Course, Harvard; Banff School of Advanced Management.



### Lloyd Cherniawsky

- 29 years with SaskTel, Engineering Assistant.
- Board representative for the Communications, Energy and Paperworkers Union of Canada (CEP).
- Formerly served on the United Way Fund Allocations Panel.



### Blair Davidson

- Chartered Accountant and a partner in the accounting firm of Hergott, Duval, Stack & Partners LLP since 1989.
- Active on several committees with the Institute of Chartered Accountants of Saskatchewan, former chair of the Professional Conduct committee, representative for Saskatchewan on the Public Liability Committee of the Canadian Institute of Chartered Accountants and current member of the provincial institute's discipline committee.
- Has served on several Saskatoon area boards, including: Saskatoon Golf & Country Club; the Board of Directors of Saskatoon City Hospital, Saskatoon City Hospital Foundation and the Board of Directors of the Saskatoon Airport Authority.
- B. Comm., University of Manitoba.



### Joan Greeyes

- President of the Saskatchewan Indian Institute of Technologies.
- Formerly served on the Board of SIAST.
- Recipient of many awards recognizing her contributions in First Nations education: including the Paul Harris Award from the Rotary Club of Saskatoon, the YWCA Women of Distinction Award in the category of Business Management and the Professions, and the Muskeg Lake First Nation Community Recognition of Achievements and Contributions Award.
- B. Ed., and Post Graduate Diploma in Educational Administration, University of Saskatchewan.



### Karen Leir

- 24 years with SaskTel; currently a Business Analyst.
- Board representative for the Communications, Energy and Paperworkers Union of Canada (CEP).



### Don Lowry

- President and Chief Executive Officer of EPCOR Utilities Inc.
- Director, Hydrogenics Corporation
- Former President and Chief Operating Officer of Telus Communications Inc.
- In past, has served on the board of Telecom Canada, and numerous other telecommunications boards.
- B. Comm., M.B.A., University of Manitoba.



### Alison Renny

- Assistant Dean and Professor of Accounting, College of Commerce, University of Saskatchewan.
- Previously worked as a banker at the Bank of Montreal, an auditor for the Saskatchewan Provincial Auditor, acting controller for the Kelsey Institute of Applied Arts and Sciences, and Manager of System and Consulting, Hospital Systems Study Group.
- Previously served on the board of the Saskatchewan Abilities Council.
- B.A., B.Comm. (Accounting), and M.B.A. Holds a Professional A Teaching Certificate and is a Certified Management Accountant (CMA).



## Board of Directors



### Douglas B. Richardson

- Partner and past Chair of McKercher, McKercher & Whitmore, Saskatchewan law firm.
- Previously worked in the investment banking industry, as well as in government in Ottawa.
- Formerly a principal of a family-owned real estate business with assets in Saskatchewan, Alberta, and Colorado.
- Director of six privately-held companies, two publicly-traded companies, and a trustee of two international education trusts, Canadiana Fund, Historica Board and National Chamber of Commerce Board.
- LL.B. and B.A., University of Saskatchewan.
- Q.C. (Queen's Counsel).



### Pam Skotnitsky

- Director of Government and Public Affairs at Credit Union Central of Saskatchewan, where she has been employed since 1987.
- Volunteer with the YMCA and serves on the national Legislative Advisory Committee focusing on legislation that impacts credit unions.
- B. Admin., University of Regina.



### Benjamin Voss

- President & CEO (Director) of Clear-Green Environmental Inc., a company that produces renewable energy and fertilizer products from agricultural waste.
- Founder and Senior partner in BDI Inc., an engineering consulting and product development company.
- Serves on several boards and committees, including the Consulting Practice Committee for the Association of Professional Engineers and Geoscientists of Saskatchewan (APEGS), the University of Saskatchewan Alumni, and Saskatoon Big Brothers.
- P.Eng., B.Sc. (Agricultural and Bioresource Engineering), University of Saskatchewan.



### William Wardell

- A Saskatoon lawyer and senior partner in a general practice law firm which does agricultural, real estate, civil and commercial law as well as aboriginal law, criminal law and family law.
- Lives on and operates a cattle and grain farm near Clavet, Saskatchewan.
- Serves as a trustee for the R.J. Camponi Memorial Trust, Metis Housing Trust; active in local United Church and Riverbend Presbytery.
- LL.B., B.A. University of Saskatchewan.
- Q.C. (Queen's Counsel).

### Audit Committee

Alison Renny, Chair  
Darcy Bear, Member  
Blair Davidson, Member  
Karen Leir, Member  
Benjamin Voss, Member

### Corporate Growth

Benjamin Voss, Chair  
Blair Davidson, Member  
Joan Greyeyes, Member  
Don Lowry, Member  
Alison Renny, Member

### Environment, Human Resources & Technology Committee

William Wardell, Chair  
Lloyd Cherniawsky, Member  
Joan Greyeyes, Member  
Karen Leir, Member  
Pam Skotnitsky, Member

### Governance Committee

Douglas Richardson, Chair  
Darcy Bear, Member  
Lloyd Cherniawsky, Member  
Pam Skotnitsky, Member  
William Wardell, Member



### **SASKTEL**

#### **SUBSIDIARIES EXECUTIVE OFFICERS**

Gord Farmer	President, DirectWest
Doug Irwin	President, SecurTek
Daryl Silzer	President and CEO, Navigata Communications

### **SASKTEL**

#### **SENIOR OPERATING MANAGERS**

(As of December 31, 2004)

Dale Baron	Controller
Dave Birnie	General Manager, Customer Services Operations
Phil Bohay	General Manager, Customer Services – Business Sales & Solutions
Lana Doke	General Manager, Customer Services – Consumer and Enterprise Solutions
Tom Laird	General Manager, Digital Interactive Video
Gail Lefebvre	General Manager Customer Services Development & Support
Dave Lozinski	General Manager, Corporate Services
Darcee MacFarlane	General Manager, Corporate Affairs
Candice Molnar	General Manager, Regulatory Affairs
Garry Reichert	General Manager, Technology, Performance & Operations
Al Rogers	General Manager, Information Technology Management
Stacey Sandison	General Manager, Mobility
Curt Smith	General Manager, Managed Information Services
Dennis Terry	General Manager, Mobility
Pat Tulloch	General Manager, Marketing
Al Yam	General Manager, Technology Development & Engineering
Barry Ziegler	Executive Vice President, Investments, SaskTel International

### **SASKTEL INTERNATIONAL**

#### **SENIOR OPERATING MANAGERS**

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



### AUTHORITY

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

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

### ROLE OF THE BOARD

The Board of Directors is responsible for supervising the management and affairs of the Corporation. The scope of the Board's supervisory responsibility includes participating in the strategic planning process, approving budgets, operating goals and business plans, evaluating senior management, succession planning and assessing the effectiveness of SaskTel's management of risk, internal controls and communications strategies.

While focusing on the strategic leadership of the Corporation, the Board delegates day-to-day operations to management and holds them accountable for the Corporation's performance. The Board expects management to implement Board directives and policies and to keep the Board apprised of significant activities. A comprehensive Final Authorization Policy, applicable to monetary and non-monetary matters, sets out those matters that require Board approval and delegates other matters to management.

### BOARD COMPOSITION AND COMPENSATION

The Lieutenant Governor in Council appoints members of the Board, and designates the Chair and Vice Chair. Directors are appointed for a term of either two or three years and their appointments can be renewed at expiry.

There are twelve (12) members on the Board. Directors bring to the Corporation diverse skills and backgrounds, including industry knowledge, international and e-business experience, accounting, legal and marketing skills, human resource and labour relations capacity, community and business contacts and environmental expertise.

CIC policy entitles directors to an annual retainer, meeting and travel fees and expenses.

### KEY RESPONSIBILITIES OF COMMITTEES

The Board discharges its responsibilities directly, by delegation to management and through Committees of the Board.

#### AUDIT COMMITTEE

The Audit Committee monitors the financial performance of the Corporation and assists the Board to meet its responsibilities respecting financial reporting, risk management, internal controls and accountability. The Committee interacts directly with the internal and external auditors, and annually reviews the external auditors' independence, quality of service and performance. There are five (5) members of the Audit Committee, and it met five (5) times in 2004.

#### ENVIRONMENT, HUMAN RESOURCES & TECHNOLOGY COMMITTEE

The Environment, Human Resources & Technology Committee monitors corporate activities related to environmental, health and safety and human resource strategies and oversees the effectiveness of compliance programs in these areas. It establishes performance measures for and coordinates the annual evaluation of the CEO. The Committee reviews and makes recommendations concerning the evolution of technology in the Corporation, long-term technology strategies, technology investments, senior management succession plans, management compensation packages and performance compensation programs and annual targets. There are five (5) members of the Environment, Human Resources & Technology Committee, and it met eight (8) times in 2004.

#### GOVERNANCE COMMITTEE

The Governance Committee assists the Board to implement effective corporate governance practices. The Committee monitors compliance with donation and sponsorship policies, reviews directors' expenses and acts as an Ethics Advisor to directors pursuant to the Directors' Code of Conduct. The Committee coordinates regular performance evaluations of the Board, the Board Chair, each Committee and individual directors. There are five (5) members of the Governance Committee, and it met five (5) times in 2004.

#### CORPORATE GROWTH COMMITTEE

The Corporate Growth Committee works with management to develop a growth strategy and related policies that fit with the overall strategic direction of the Corporation, reviews and recommends investments and divestitures and monitors and reports to the Board respecting the performance of investments. There are five (5) members on the Corporate Growth Committee, and it met four (4) times in 2004.



### EXECUTIVE SEARCH COMMITTEE

In 2004, the SaskTel Board established an ad hoc Executive Search Committee, with representation from the Board and CIC, to identify candidates for the position of President & CEO of SaskTel. The Search Committee, which engaged an executive search firm to conduct the search, has completed its work and is no longer operational.

### BOARD ORIENTATION AND TRAINING

All members appointed to the Board receive a Directors' Reference Manual and new directors attend an orientation session delivered by management. The orientation session addresses key industry trends, critical business risks and challenges, the strategic plan,

organizational structure and responsibilities of senior staff. CIC sponsors an ongoing education program for directors of CIC subsidiary Crown boards, which focuses on the key roles and responsibilities of boards and current governance developments.

### CORPORATE GOVERNANCE PRACTICES

The SaskTel Board has implemented a comprehensive set of governance practices and procedures. The Board's corporate governance practices are consistent with the Toronto Stock Exchange (TSX) Corporate Governance Guidelines as they apply to a Crown Corporation. SaskTel's practices are benchmarked against the TSX Guidelines in the following Governance Statement.

TSX CORPORATE GOVERNANCE GUIDELINE (SUMMARY)	SASKTEL'S GOVERNANCE PRACTICES	DOES SASKTEL ALIGN?
1. The Board should explicitly assume responsibility for stewardship of the Corporation, and specifically for:	The Board has Terms of Reference that describe its principal duties and responsibilities.	✓
a) adoption of a strategic planning process	The Board takes an active role in SaskTel's comprehensive strategic planning process. At the annual strategic planning session, the Board reviews and provides direction to management concerning the strategic plan, business plans, budget and Corporate Indicators. Once these are approved, the Board is given regular updates respecting progress in achieving key indicators.	
b) identification of principal risks and implementation of appropriate risk management systems	Management is responsible for identifying key risks and implementing effective risk management programs. The Audit Committee monitors and reports to the Board respecting critical risks and associated risk management activities.	
c) succession planning, including appointing, training and monitoring senior management	The Board is responsible for appointing the CEO, in consultation with the shareholder, and for developing a CEO succession plan. The CEO is responsible for training, monitoring and developing succession plans for senior management. The Environment, Human Resources & Technology Committee monitors the senior management succession plan and makes recommendations to the Board respecting CEO succession.	



TSX CORPORATE GOVERNANCE GUIDELINE (SUMMARY)	SASKTEL'S GOVERNANCE PRACTICES	DOES SASKTEL ALIGN?
d) communications policy	SaskTel has developed a comprehensive communications strategy designed to provide timely and accurate information about Corporate activities and present a positive Corporate image to internal and external stakeholders. The Governance Committee annually reviews and reports to the Board concerning the adequacy of the strategy.	
e) integrity of internal control and management information systems	The Audit Committee, in conjunction with the internal and external auditors, regularly reviews the Corporation's internal control and financial management information systems.	
2. Majority of directors should be "unrelated" (independent of management and free from business or any other interest or relationship that could, or could be perceived to, materially interfere with director's ability to act in the Corporation's best interest)	The majority of directors (10 out of 12) are external and unrelated. Two (2) related directors work for SaskTel and are members of the employee bargaining agent, the Communications, Energy and Paperworkers Union of Canada (CEP).	✓
3. Board should disclose annually whether it has a majority of unrelated directors, and how that conclusion was reached	<p>Ten (10) of the twelve (12) directors are unrelated. None of the unrelated directors or their associates have worked for or received remuneration from the Corporation in excess of fees and compensation associated with serving on the Board or a Committee, nor have they engaged in material contracts to perform other services for the Corporation.</p> <p>Reg Bird, Chair: UNRELATED</p> <ul style="list-style-type: none"> <li>• Independent industry expert</li> </ul> <p>Alison Renny, Vice Chair: UNRELATED</p> <ul style="list-style-type: none"> <li>• Assistant Dean, College of Commerce, University of Saskatchewan</li> </ul> <p>Chief Darcy Bear: UNRELATED</p> <ul style="list-style-type: none"> <li>• Chief of Whitecap Dakota First Nation</li> </ul> <p>Lloyd Cherniawsky: RELATED</p> <ul style="list-style-type: none"> <li>• Engineering Assistant, SaskTel, and CEP Representative</li> </ul> <p>Blair Davidson: UNRELATED</p> <ul style="list-style-type: none"> <li>• Chartered Accountant, Hergott Duval Stack &amp; Partners</li> </ul> <p>Joan Greyeyes: UNRELATED</p> <ul style="list-style-type: none"> <li>• President, Saskatchewan Indian Institute of Technologies</li> </ul> <p>Karen Leir: RELATED</p> <ul style="list-style-type: none"> <li>• Business Analyst, SaskTel, and CEP Representative</li> </ul>	✓



**TSX CORPORATE GOVERNANCE GUIDELINE  
(SUMMARY)**

**SASKTEL'S GOVERNANCE PRACTICES**

**DOES  
SASKTEL  
ALIGN?**

	<p>Don Lowry: UNRELATED</p> <ul style="list-style-type: none"> <li>• President &amp; CEO, EPCOR Utilities Inc.</li> </ul> <p>Douglas Richardson: UNRELATED</p> <ul style="list-style-type: none"> <li>• Lawyer and Partner and Past Chair, McKercher, McKercher &amp; Whitmore</li> </ul> <p>Pam Skotnitsky: UNRELATED</p> <ul style="list-style-type: none"> <li>• Director, Government &amp; Public Affairs, Credit Union Central of Saskatchewan</li> </ul> <p>Benjamin Voss: UNRELATED</p> <ul style="list-style-type: none"> <li>• President &amp; CEO, Clear-Green Environmental Inc.</li> </ul> <p>William Wardell: UNRELATED</p> <ul style="list-style-type: none"> <li>• Lawyer and Partner, Wardell, Driedger, Cotton &amp; Rogers</li> </ul>	
4. Committee should be appointed, comprised exclusively of outside, i.e. non-management, directors the majority of whom are unrelated, responsible for recommending appointments and assessing performance of directors	The Governance Committee is responsible for identifying the skills sets needed on the Board, seeking and recommending candidates for Board vacancies and overseeing regular evaluations of the Board, Board Chair, each Committee and individual directors. One (1) of five (5) members of the Governance Committee is a related employee director.	✓
5. Implement a process to assess the effectiveness of the board, its Committees and individual directors	Board, Board Chair, Committee and individual director evaluations are performed regularly. An external consultant works with the Governance Committee to prepare reports outlining the evaluation results, which are referred to the Board for review and approval. A summary of the Board evaluation results is submitted to CIC. The Committee recommends follow-up action required as a result of recommendations made in the evaluation reports.	✓
6. Provide orientation and education programs for new directors	Management delivers an orientation session for new directors appointed to the Board. CIC delivers a comprehensive training program for directors, focusing on the skills directors need to effectively discharge their responsibilities and best practices and new developments in corporate governance.	✓
7. Examine and consider reducing the size of the board to facilitate effective decision-making	By legislation, the Board is comprised of a maximum of twelve (12) directors. The Governance Committee assesses the size, composition and qualifications of the Board and its Committees, and makes recommendations to promote timely and effective decision-making.	✓



## Corporate Governance

TSX CORPORATE GOVERNANCE GUIDELINE (SUMMARY)	SASKTEL'S GOVERNANCE PRACTICES	DOES SASKTEL ALIGN?
8. Review director's compensation to ensure it reflects responsibilities and risks of directors	CIC has the legislative authority to set remuneration and expense rates for directors of its subsidiary Crown boards. The Governance Committee reviews and makes recommendations to CIC regarding the adequacy of Board compensation.	✓
9. Committees should be comprised of outside (i.e., non-management) directors and the majority should be unrelated	All committees are comprised of outside directors, and the majority of committee members are unrelated. Of the two (2) directors who are members of the employee bargaining unit, one (1) sits on the Audit Committee, one (1) sits on the Governance Committee and both serve on the Environment, Human Resources & Technology Committee.	✓
10. Assume responsibility for, or assign to a committee, the board's approach to corporate governance issues	The Governance Committee oversees and reports to the Board concerning corporate governance processes, monitors compliance with existing governance policies and adopts new standards where appropriate. The Governance Committee has reviewed and approved this statement.	✓
11. Develop position descriptions for the board and the CEO, which define limits to management's responsibilities, and approve/develop the CEO's corporate objectives	The Board Terms of Reference set out the major responsibilities of the Board and address management duties. A Final Authorization Policy approved by the Board further delineates decision-making authorities. A CEO Position Description sets out the CEO's primary accountabilities. The CEO is responsible to see that the Corporation meets the targets set out in the Corporate Indicators, and the CEO's performance is evaluated annually.	✓
12. Establish structures and procedures to enable the board to function independently of management	<p>The Board's Terms of Reference require it to develop practices to enable it to function independently of management. Such practices include:</p> <ul style="list-style-type: none"> <li>(a) designation of an unrelated, outside director as Chair of the Board</li> <li>(b) clearly delineating the division of responsibilities between board and management</li> <li>(c) establishing a process for the Board/directors to access external advice</li> <li>(d) holding in camera (without management present) sessions at Board meetings</li> </ul>	✓



TSX CORPORATE GOVERNANCE GUIDELINE (SUMMARY)	SASKTEL'S GOVERNANCE PRACTICES	DOES SASKTEL ALIGN?
<p>13. The audit committee should:</p> <ul style="list-style-type: none"> <li>• be comprised only of outside directors</li> <li>• have a specifically defined mandate</li> <li>• have direct communication channels with internal and external auditors</li> <li>• oversee management reporting on internal control</li> </ul>	<p>The majority of Audit Committee members are outside directors.</p> <p>Of five (5) Committee members, one (1) is a related employee director. The Committee has reviewed this guideline and believes that having an employee director as a member does not give management the opportunity to bias or influence Committee decisions.</p> <p>The Committee has a written mandate that is approved by the Board and specifically sets out the Committee's responsibilities in the following broad areas: financial performance and reporting; reviewing the independence and performance of the external auditor and annually recommending their appointment or discharge and their fees; monitoring and reporting to the Board on the internal audit function, including the annual internal audit plan and reports, staffing and costs; overseeing internal controls, risk management systems and the privacy management plan; and reviewing annual depreciation rates and significant accounting policies. The Committee's mandate requires the Board to consider a director's financial literacy in making appointments to the Committee.</p> <p>The Committee's mandate explicitly affirms that the external auditor is accountable to the Committee and the Board as representatives of the shareholder. The Committee has direct communication channels with the internal and external auditors, and holds regular in camera sessions with the auditors in the absence of each other and of management.</p> <p>In conjunction with the internal and external auditors, the Committee is responsible for monitoring and reporting to the Board on the adequacy of the Corporation's internal control systems.</p>	✓
<p>14. Implement a system to enable individual directors to engage outside advisers, at the Corporation's expense and subject to approval by an appropriate committee</p>	<p>The Board and each Committee can access external advisors where necessary to assist in the proper discharge of their functions, duties and responsibilities. In the case of a Committee, such access is subject to the approval of the Board.</p>	✓



## Contact Us

### Main Office

2121 Saskatchewan Drive  
Regina, SK S4P 3Y2  
1-800-727-5835  
[www.sasktel.com](http://www.sasktel.com)

### SaskTel International Offices

#### Head Office

3rd Floor, 2121 Saskatchewan Drive  
Regina, SK S4P 3Y2  
1-800-667-5801 / 306-777-4509 • Fax: 306-359-7475  
[www.sasktel-international.com](http://www.sasktel-international.com)

#### Tanzanian Office

Plot 235, Block 41  
Morocco  
P.O. Box 1424  
Dar es Salaam, Tanzania  
255-22-266-7698 • Fax: 255-22-266-7841  
e-mail: [dave.gower@cats-net.com](mailto:dave.gower@cats-net.com)

#### United Arab Emirates Office

Box 41033  
Dubai, UAE  
971-50-551-6153 • Fax: 971-4-297-7742  
e-mail: [scott.hubic@sasktel-international.com](mailto:scott.hubic@sasktel-international.com)

#### Latin American Office

69th Street San Francisco  
Torre Capri #7B  
Panama City, Panama  
507-226-1465 • Fax: 507-226-1465  
e-mail: [abdiel.basto@sasktel-international.com](mailto:abdiel.basto@sasktel-international.com)

### District Offices

#### Moose Jaw

83 Ominica Street West  
Moose Jaw, SK S6H 1W8  
306-693-8161

#### North Battleford

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

#### Prince Albert

47 – 12th Street East  
Prince Albert, SK S6V 1B3  
306-953-6758

#### Saskatoon

Suite 500 • 410 – 22nd Street East  
Saskatoon, SK S7K 1W8  
306-931-5930

#### Swift Current

1831 North Service Road West  
Swift Current, SK S9H 3T2  
306-778-9655

#### Weyburn

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

#### Yorkton

210 York Road West  
Yorkton, SK S3N 3N4  
306-786-3451

### SaskTel Mobility

2550 Sandra Schmirler Way  
Regina, SK S4P 3Y2  
1-800-667-6840  
[www.sasktelmobility.com](http://www.sasktelmobility.com)

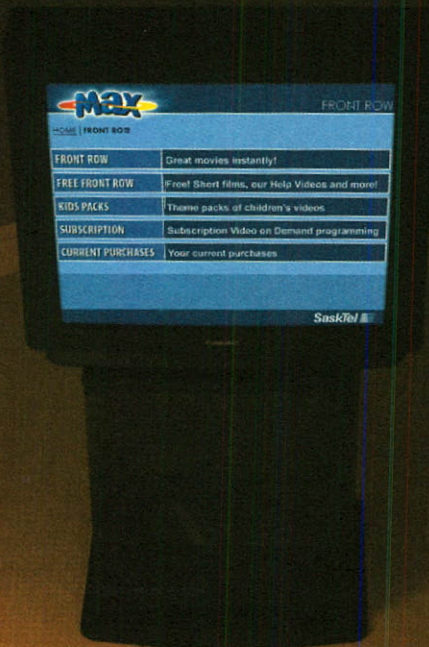
### SaskTel SecurTek

70 – 1st Avenue North  
Yorkton, SK S3N 1J6  
1-877-777-7590  
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Regina, SK S4P 4K8  
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For more information about SaskTel, our initiatives and operations, or to obtain additional copies of the 2004 SaskTel Annual Report, please contact SaskTel Corporate Affairs at 1-877-337-2445 or visit our web site at [www.sasktel.com](http://www.sasktel.com)