




Tomorrow
THEN + NOW = TOMORROW

THE LEADING FULL SERVICE COMMUNICATIONS COMPANY IN

SASKATCHEWAN, providing voice, data, Internet, text and messaging services over a fiber optic-based 100 per cent digital network, as well as cellular, paging, and FleetNet 800 service through its SaskTel Mobility division.  A holding company that manages increasingly **DIVERSIFIED ASSETS OF APPROXIMATELY \$1.2 BILLION.**

The holding company allows us to subdivide our business into distinct subsidiaries and investments. This structure keeps the core telecommunications company we refer to as 'SaskTel' separate from our diversified portfolio, including SaskTel Mobility, and SaskTel International, a wholly-owned subsidiary which pursues diversification initiatives around the world.  **A PROVINCIAL CROWN CORPORATION** that has been delivering first-rate telecommunications to the people of Saskatchewan for 90 years. We enjoy the challenge of serving the diversity of needs, aspirations, and cultural backgrounds presented to us by our more than 450,000 business and residential customers.

 **A WORKFORCE OF 3,993 EMPLOYEES** who live and work in communities throughout Saskatchewan so that we can deliver the best communications products and services to every corner of the province.  A province-wide, all-digital network that links Saskatchewan's 12 cities with more than 670 smaller communities and their surrounding rural areas, including more than 70,000 farms. Our network — one of the first on the continent to go all-digital — **SERVES OVER 625,000 NETWORK ACCESS LINES** throughout the province's 652,000 square kilometres, bringing the world to our customers.

Letter OF TRANSMITTAL

Regina, Saskatchewan

March 31, 1998

To His Honour

The Honourable J.E.N. Wiebe

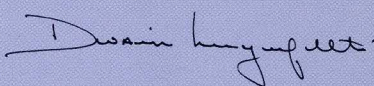
Lieutenant Governor

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, 1997, including the financial statements, duly certified by auditors for the corporation, and in the form approved by the Treasury Board, all in accordance with The Saskatchewan Telecommunications Holding Corporation Act.

Respectfully submitted,



Hon. Dwain Lingenfelter

Deputy Premier and Minister Responsible
for Crown Investments Corporation (CIC)

Table OF CONTENTS

1	Financial Highlights
2	1997 in Review - President's Letter
6	Network + Information = Communication
10	Global + Local = Diversity
14	People + Care = Community
18	Then + Now = Tomorrow
22	Management Discussion and Analysis
43	Corporate Directory
44	Board of Directors & Glossary of Terms

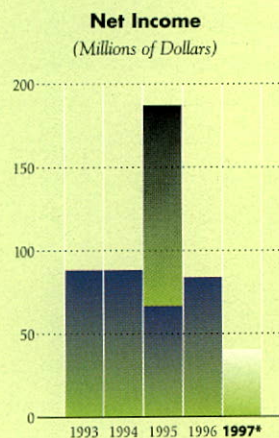
THE COVER

Logan Cronin, the boy featured on the cover of this year's report, is the son of one of SaskTel's employees, Lisette Fudge. Lisette, an executive administrator in SaskTel's head office, is a Métis member of the SaskTel Aboriginal Employees Network.

The Métis sash used on the cover is original artwork commissioned and owned by SaskEnergy Incorporated. Reproduced with permission.

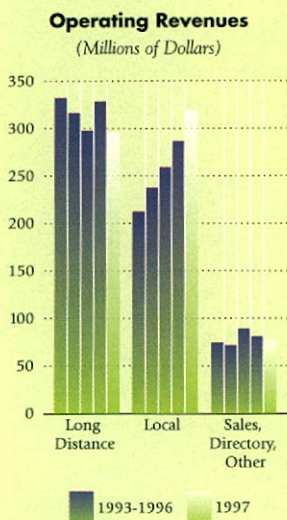
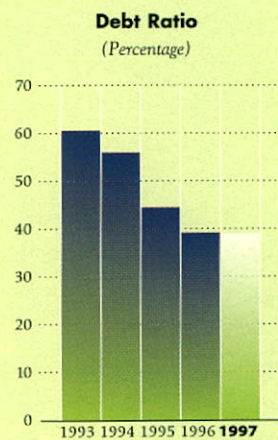
Highlights

FINANCIAL HIGHLIGHTS

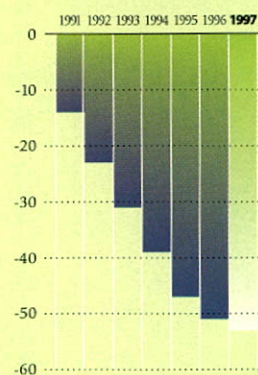


*1997 net income includes provision for local service assets

Gain on sale* of ISM shares and LCL



The Cumulative Percentage SaskTel has Lowered Average Per Minute Long Distance Charges Since 1990



1997 in Review

PRESIDENT'S LETTER

There is a planetary conversation underway—a parley of many voices crossing many borders over a variety of media. Every day more and more Saskatchewan people are joining the conversation using SaskTel products and services. In making it our business to bring the benefits of the Information Age down every Saskatchewan street and country road, we do our best to remember that the words, images, and ideas in any information exchange come from real, living localities: from Weyburn or Wellington, from Manila or Meadow Lake, from Humboldt or Hong Kong, from London or Lloydminster.

As a leader in the industry that everyday carries a world of information into the households of this province, SaskTel shoulders its share of the responsibility to sustain the integrity and well-being of the community it serves. With each advance in technology—from fiber optics and the touch-tone telephone to today's wireless transmission and the Internet—we always consider how the medium affects the message and the lives of those who are sending and receiving. A communications company that abandons this regard for its community has forfeited any claim upon the allegiance of its customers.

In 1997, living up to this responsibility is in large part what motivated us to make investments outside the corporation as well as to undertake and expand programs and services such as the First Nations Service Improvement Program, the Core Network Evolution Program, and Sympatico™ High Speed. Although these elements of SaskTel's business may seem to be no more than superficially related, they represent the four

layers of what we must do to remain Saskatchewan's communications company. At the base is our network maintenance and improvement—the foundation on which all else rests. Above that is our financial health through prudent management and diversification. A strong network and balance sheet allow us to operate on the next level, bringing our customers the latest and best in advanced and affordable media-rich communication technologies. Success on these first three levels ensures that on the final level we are able to fulfill the loftiest aspirations of our corporate vision, in particular “our commitment to social responsibility and good citizenship.”

This year's annual report is arranged to reflect these four levels, by outlining the measures we took in 1997 **to build the network, diversify our operations, introduce new and innovative products and services, and support the communities we serve.**

Unfortunately, it is easy to forget that SaskTel's capacity to continue serving Saskatchewan with first-rate communication technologies and a strong social commitment depends upon our financial viability. Moreover, our financial health is in turn affected by regulatory and competitive realities. 1997 marked SaskTel's first full year of long distance competition. The year began with aggressive moves by other corporations to attract long distance dollars, and it ended with the Saskatchewan Government announcing that the local access market will be opened to competition in 1998. In between, we worked hard to offer competitive prices and products, to create a culture of service excellence, and

to engender customer loyalty. Our people in the Customer Care Centres, in Marketing and in Customer Services performed particularly well and deserve a lot of the credit for the 92% market share figure that ended our first year of long distance competition.

Looking ahead, it is clear that our success in the face of this decade's market pressures will determine our ability to continue introducing new info-tech services and preparing our network for the bandwidth-intensive services of tomorrow. For this reason alone, it would be a mistake to stand at the sidelines watching others race to become the most wired nation, province, corporation, or community.

We have learned a great deal about being competitive in recent years, first in the cellular and terminal equipment markets, and most recently in long distance. Among other things, we have learned that facing competitors is not bad for business. There was a time when SaskTel viewed competition from the scarcity mindset that said more for our competitors means less for us. We have discovered that this is not always true. For example, when we reduced long distance rates in advance of long distance competition, we expected our revenues to decline significantly. What actually happened was that the lower rates stimulated customers to make more and longer phone calls, raising total long distance minutes, which helped compensate in part for the drop in revenue per minute. There is a lesson here and so our model of competitiveness is changing.

The tremendous possibilities and responsibilities that come with our role in securing Saskatchewan's place in the Information Age have convinced us that it is better to practice belief in abundance

rather than fear of scarcity. The abundance mindset says "more for others means more for us." There is no better example of this than the Internet. The more people and corporations use and develop the content, usability, and capacity of the World Wide Web, the more we all benefit. In other words, improvements in the Internet will increase overall demand for Internet services in both the business and home user markets, which will in turn create opportunities for SaskTel and for Saskatchewan people. Our people in Advanced Interactive Solutions (AIS) are succeeding because they understand how this works. They know that SaskTel's revenues from Web-based services will grow in proportion to the work they do to increase and enhance market activity between information providers and information consumers on the 'Net. Looking back on 1997, we can be proud of many achievements in this direction, including significant developments in the electronic transactions market targeted by our QuantumLynx suite of solutions, as well as the expansion of Sympatico™ High Speed into business markets and new cities.

Of course, getting rid of the scarcity mindset does not require us to lay down and let other service providers take our customers. Obviously, we need to be "competitive" in all markets in the sense of doing our best, whether it is in providing service or value. But competitive does not mean obsessing about market share and wringing our hands over every loss of a customer; it means focusing on that service and value we provide and doing the important work of keeping our customers happy. If we can manage that, and take care of our own resources—our network and our people—market share will look after itself.



Donald R. Ching
President and
Chief Executive Officer

Having said that, we still believe that the telecommunications marketplace in Saskatchewan is unique and therefore deserves specific care and consideration when it comes to matters of regulation and competitive fairness. An abundance point of view is not an argument for allowing any corporation, large or small, to enter the long distance or local access marketplace and skim off the cream of profitability without making a significant contribution and commitment to the province as a whole. We maintain that all competitors in this market should answer to and invest in the communities they serve.

There is no doubt in our minds that the moratorium from CRTC regulation has allowed SaskTel to protect jobs in Saskatchewan, to provide services to rural

Meeting our customers face to face, we have found that many of them agree with us on these points. Saskatchewan people want competition but on terms that will bring local benefits throughout the province. They want SaskTel to remain a leader in the telecommunications industry, and to bring them new products and services at competitive prices. In addition, they want SaskTel to continue to pay solid financial dividends to Saskatchewan taxpayers.

We take these public imperatives seriously. For us to continue acting upon them, we may have to take measures, some of which may not always be popular. To remain competitive in the long distance marketplace, we had no choice but to apply for a residential local rate increase late in the year—the first increase

We have not forgotten that the words, images,

areas that would otherwise be uneconomic, to respond with more flexibility to customer needs, and to invest in technology and infrastructure more quickly than it could under federal regulation. We stand by our position that any regulation or forbearance exerted provincially or federally should uphold this tradition of local accountability and respect for the good will and energies of Saskatchewan people, and the long-term investment they have made in building the communications resources and opportunities of the province. To move the marketplace in any other direction would be to leave Saskatchewan vulnerable to a kind of telecommunications strip-mining that in the long run would only benefit the shareholders of a few large multi-nationals.

since 1993. This important step will allow SaskTel to begin reducing the \$72 million annual subsidy to local telephone service. Regardless of local rate action, however, we remain committed to the principle of affordable and universally accessible telephone service in Saskatchewan. Even after the rate changes, SaskTel's basic local telephone rates will remain among the lowest in Canada.

Although our financial results for the year were once again strong, there are few guarantees in this fast-moving industry. Particularly with local access competition beginning in 1998, our financial forecasts must be conservative. In fact, this next phase of competition is already affecting our bottom

line. With other local access service providers in our market, the value of our capital assets will begin to decline. To account for this, we have opted to accelerate the depreciation of our local service assets, which means that we will be showing a one-time non-cash charge of \$55.7 million in asset write-down for this year.

Another significant financial story for 1997: to ensure continued financial stability down the road, this year we took further steps to diversify our operations. Since 1986, SaskTel's diversification strategy has earned over \$309 million in revenues from outside Saskatchewan. In 1997, through SaskTel International, SaskTel invested a 35% equity interest in Saturn Communications Ltd., a promising cable and telecommunications company in Wellington, New Zealand. We

drive the same highways, walk the same streets, shop the same stores, and fish the same lakes as our employees. The 1997 annual report is a tribute to this common ground between our employees and our customers—shareholders all.

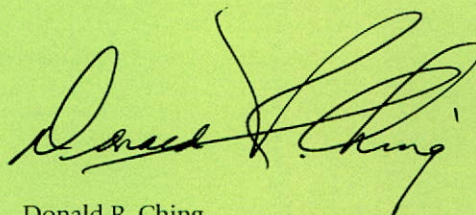
It is customary at the end of these letters to applaud our people and have them take a bow. This year more than ever, the ovation is well-deserved. First, we thank the SaskTel Board of Directors, and the SaskTel executive and management team for giving their leadership, guidance, and best energies during another successful and demanding year at SaskTel. As well, we acknowledge the hard work of our employees and the support of our loyal customers and business partners who have together helped us to thrive in times of

and ideas come from real, living localities.

have every reason to believe that the Saturn investment will pay off in the long term, both financially and in terms of building our expertise in the convergence of telephone and video services.

From our perspective, these investments and SaskTel International's ongoing sales and consulting activities go hand in hand with our efforts to wire Saskatchewan residents to systems of global information and trade. Both strategies are realistic responses to an increasingly global information economy from which we can all benefit if we make the right choices. Thinking globally while building locally, we continue to improve and maintain our communication systems and services with Saskatchewan people in mind—people who

powerful external market forces. To you and your families we owe our prosperity, today and tomorrow, and every success we enjoy in bringing your eyes, your ears, your words, and your ideas to the planetary conversation.



Donald R. Ching
President and Chief Executive Officer

Communication

NETWORK + INFORMATION = COMMUNICATION

The *work* in network never ends. By the time we decommissioned our last **analogue** switch in late 1995, thereby completing our transition to an all-**digital core network**, the next phase of our network evolution was already underway. We call it the Core Network Evolution Plan (CNEP), a \$194 million undertaking spread over six years to develop our transmission and switching systems to a state of readiness for tomorrow's high-**bandwidth** telecommunications. If our customers are going to send and receive advanced audio and video technologies, high-speed Internet, **intranet** and **extranet** services from their homes and businesses, they will need to be linked to a network that can carry these services effectively.

According to the person in charge of SaskTel's network, Chief Technology Officer Kelvin Shepherd, CNEP is an important step toward such a network: "Over the six years of the plan we are investing \$100 million in upgrading fiber optic networks linking Saskatchewan communities.... Saskatchewan's 13 largest communities are already connected with high-speed fiber optic rings carrying voice and data traffic including our provincial Internet backbone. By evolving our copper **access network** and deploying fiber optics closer to the customer we are building digital **broadband** networks for delivering both today's telephone service and the multimedia services of tomorrow."

To bring this down to a local level, just consider the \$870,000 SaskTel spent in the Swift Current area in 1997. This expenditure included new fiber optics that provide high-quality delivery of a full range of modern telecommunication services to the people of Cabri, Leader, Prelate, Sceptre, Port Reeve, and Abbey.

Over the year, we spent more than \$22 million of the CNEP budget to meet customer requests for additional telephone and data lines and to carry increased volumes of long distance messages. Over the past three years we have spent approximately \$100 million per year on network improvements.



EXPANDING SYMPATICO™ HIGH SPEED

Sympatico™ High Speed is SaskTel's ADSL (Asymmetric Digital Subscriber Line) Internet service, which we deployed in November 1996 as one of North America's first high speed commercial Internet services. Its popularity urged us to expand the ADSL network in 1997 to business customers in Regina and Saskatoon and to two new centres in early 1998: Prince Albert and Moose Jaw.

WIRELESS NETWORK

Then there is the network that doesn't use any wires. SaskTel Mobility has the most extensive wireless network in Saskatchewan, providing cellular, paging, and FleetNet 800 trunked radio services over more of the province than any of its competitors. We take pride in the quality and coverage of our network, which is constantly being expanded and improved (see p.9 sidebar) to satisfy rapid growth in the cellular, FleetNet, and paging markets. In 1997, growth rates for cellular, FleetNet 800, and paging were, respectively, 29%, 34%, and 9%. For cellular, this growth rate has produced a market penetration level greater than any other individual cellular provider in Canada in 1997. One of the factors contributing to the high cellular growth rate was

Note: Words that appear first in boldface are explained in a glossary on the inside back cover.

What is a network? "An exquisitely intricate spider web of computers, fibre-optical cables, electric impulses streaking through the air, wires, senders, receivers, and transmitters, all working at close to the speed of light, all its swift operations camouflaged so as to make your message seem as easy and straightforward as a hello out the kitchen window to a neighbour."

[John Bentley Mays, Globe & Mail editorial, Dec 3, 1997.]



KELVIN SHEPHERD
SaskTel Chief Technology Officer

A professional engineer, Kelvin has worked at SaskTel for 16 years in a range of technical and managerial positions. As head of technology at SaskTel, he is responsible for the planning, research, engineering, and operation of the corporation's advanced telecommunications network and its information technology systems.

In 1997, he was named chair of TRLabs, the largest not-for-profit research consortium in Canada.

When he isn't working, Kelvin enjoys curling and watercolour painting.

Mobility's new line up of rate plans. Among these new plans striving for value and simplicity in our customer solutions is the "2nd Cell" rate plan, which makes owning a second cell phone more affordable than ever. FleetNet experienced its greatest growth during the year (66.18%) in the General Business Market, particularly in transportation and construction segments.

OTHER NETWORK HIGHLIGHTS FOR 1997

1997 was the first year of the First Nations Service Improvement Program, bringing improved service to 58 First Nations and to over 1000 new customers. In 1996, SaskTel's Aboriginal Customer Services team traveled through the province's First Nations communities to determine their communications needs. The overriding concern of First Nations' leaders was lack of telephone service and the arising health and safety issues. To SaskTel, this was an opportunity to extend its network into the fastest-growing segment of its market. The team was given a mandate to meet with First Nations leaders and secure agreements with individual First Nations. From June to October of 1997, crews of Aboriginal workers, employed by Aboriginal-owned sub-contractors, laid cable through bush, prairie, and muskeg, across roads, farms, and villages, leaving the landscape dotted with new pedestals and buried cable signs ... and the people outfitted with access to world-class telecommunications. When the program is complete, Saskatchewan will have one of the most highly-served First Nations populations in Canada. Over the next three to five years, this new \$25 million initiative is expected to double the penetration of telephone service in Saskatchewan First Nations communities from 36% to 72%.

Late in the year we commissioned a new state-of-the-art Nortel DMS100 local digital telephone switch in Regina, providing capacity for future growth and location diversity for the two existing switches serving Regina and the surrounding portion of southern Saskatchewan. As well, we installed new high speed, multimedia-capable, Newbridge Networks Asynchronous Transfer Mode (ATM) switches in six communities throughout Saskatchewan.

Because our network runs so well, it remains invisible to most of our customers most of the time—as it should. Yet, in another light, it is one of the clearest manifestations of our commitment to the community we serve. By investing in our network—the cornerstone of SaskTel's quality and innovation as a communications provider—we are investing in Saskatchewan. Each improvement in transmission and switching offers our customers more advanced communication technologies, which can in turn bring social, business, cultural, and learning opportunities into the livingrooms, classrooms, and offices of the province.



MOBILITY NETWORK EXPANDS IN 1997

In 1997, SaskTel Mobility expanded its cellular network to five major areas and their surrounding communities: Gravelbourg, Carrot River, Kelvington, Leader, and the southwest corner of the province, including the eastern section of Cypress Hills Interprovincial Park. This cellular expansion provides cellular coverage to approximately 10,000 additional Saskatchewan residents. Now SaskTel Mobility's network provides coverage for an estimated 90% of Saskatchewan's population.

Diversity

GLOBAL + LOCAL = DIVERSITY

Why do we diversify outside of Saskatchewan, outside of Canada? The answer is not complicated. Ask any small business owner or grain farmer why it is important to diversify. If you trade in only one commodity or service, you will be vulnerable to every shift of the market. A large corporation such as SaskTel is no different—keeping your eggs all in one basket is unwise whether you are selling farm implements or telecommunications. Some prospects will lose and others will gain, but over the long haul diversification pays off.

SaskTel has become a corporation well-suited to diversification. In 1993 we restructured to separate some of the corporation into subsidiaries and divisions, such as SaskTel International (SI) and SaskTel Mobility, which operate outside the traditional telephone business of long distance and local telephone access. These diversified areas have been increasingly profitable, and have helped to offset the decline in long distance revenues during the nineties. As well, the Strategic Imperatives of the five year Strategic Plan we adopted in 1994 committed SaskTel to a course of prudent diversification.

Financial strength through diversification will allow us to continue building locally, improving our network, investing in research and development, and delivering state-of-the-art service in Saskatchewan. It is expensive to upgrade our network and to introduce new and better Information Age technologies in a thinly populated province such as Saskatchewan. We cannot rely entirely on revenues from our core services to pay for these capital investments. The money we earn from all of

our diversification activities makes its way back into the same pot that funds our corporate sponsorships, our community initiatives, our network improvements, our competitive local and long distance rates, and our dividends to the Province of Saskatchewan.

The core of our diversification initiative has always been the improved and expanded services for Saskatchewan people, such as wireless, interactive, and enhanced local services discussed at length elsewhere in this Annual Report. SaskTel, however, has been successful at diversifying beyond our borders as well.



EXPORTING OUR EXPERTISE

SaskTel and SaskTel International (SI) are creating employment for Saskatchewan people. Over the past decade, SI has been incredibly successful—building telecommunications networks overseas, providing computer software, hardware and consulting services to businesses throughout the world. Many SaskTel employees are on international assignments, and SaskTel will soon have up to 30 positions available for Saskatchewan people to backfill for employees working overseas.

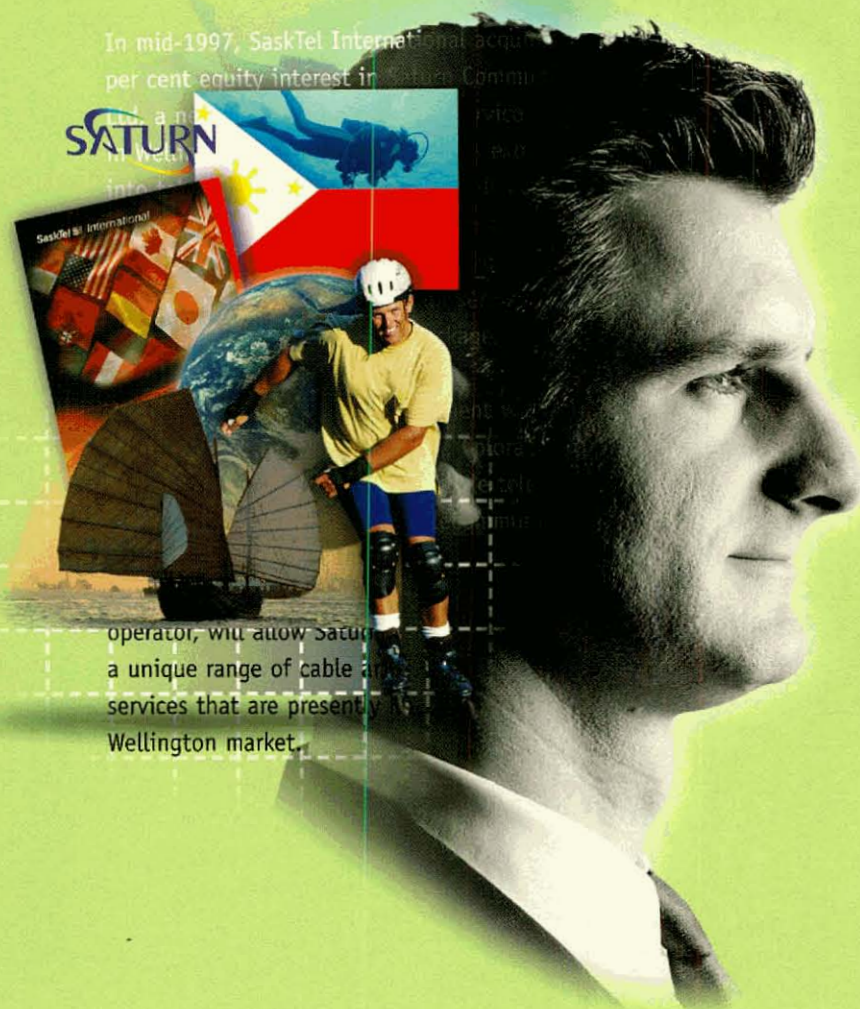
SASKTEL INTERNATIONAL

Since 1986, SaskTel International (SI) has been providing solutions to countries and companies around the world. We have delivered telecommunications services to 28 provinces in the Philippines; we have designed, installed and commissioned the telecommunications and control systems used in the Chunnel; we have handled project management in the construction of telecommunications infrastructure in Dar es Salaam, Tanzania; and we have developed



“In a competitive marketplace, diversification at home and beyond our borders is critical if SaskTel is going to continue providing the people of Saskatchewan with world class and innovative telecommunications solutions.”

[Don Ching, SaskTel President and Chief Executive Officer]



In mid-1997, SaskTel International acquired a 49 per cent equity interest in Saturn Commu-

operator, will allow Saturn to offer a unique range of cable and services that are presently not available in the Wellington market.

ERIC DAKU

*SaskTel International Assistant Vice-President
Marketing & Sales, South-East Asia*

Soon to leave on a three-year assignment in the Philippines, Eric is looking forward to the experience of working and living in a different culture. He is part-way through his MBA and is learning Spanish and Tagalog (Filipino) to prepare for his time in the Philippines. Eric has been with SaskTel for ten years.

and delivered service delivery and assurance software used by telecommunications companies throughout North America and the United Kingdom. Each of these is a story in itself. For more information on SI and its activities, see the new SaskTel International website, at www.SaskTel-International.com.

A major part of SI's portfolio over the past decade has been its export of "advanced network management services." Several telecom corporations in Canada, the United States, and the United Kingdom now use integrated network management software solutions developed at SaskTel, namely MARTENS® and SwitchGate® (see sidebar). "Network integration services" is another important SI export. These services include consulting and engineering, construction and project management, network management and operations, and on-site training—everything the client needs to get a new telecommunications system up and running. In 1997, SI continued working on an extensive long-term project to expand the rural telecom network into the more remote regions of the Philippines. Projects of this kind allow us to export Saskatchewan expertise abroad while returning revenues and enhanced skills back to the province.

From time to time SI's mission to export network management and integration services exposes us to investment opportunities overseas, such as LCL Communications Ltd. in the United Kingdom, which we sold in 1995, and our recent 35% equity investment in Saturn Communications Ltd. of Wellington, New Zealand. Saturn is a new and growing cable TV service provider, which will expand in 1998 into telecommunications. Saturn will have an important competitive advantage in the Wellington market by being the first company to provide pay TV, telecommunications and data services for consumers in one integrated package. SaskTel International's investment includes funds for the construction of a local telephone network to complement Saturn's cable TV operations in the Wellington market. Construction will take place from 1997 through 1999.

Our partner in Saturn is United International Holdings (UIH) of Denver, Colorado. UIH is a successful operator of cable television systems in 23 countries. SaskTel International's telecommunications experience, combined with UIH's worldwide reputation as a cable operator, will allow Saturn to expand and provide a range of cable and telecommunications services that currently is not available in Wellington.

DIVERSIFICATION CLOSER TO HOME

While our international ventures often take the limelight, diversification has also given us new ties to the province and Western Canada. In 1997, for example, we increased our investment in DirectWest Publishers from 50% to 100%. DirectWest is the publisher of SaskTel's telephone directories. As well, our 29.9% investment in Regional Cable TV (Western) Inc. continues to perform above industry averages in its delivery of cable TV services to small towns and villages throughout Western Canada, including 133 communities in Saskatchewan.

Each time we introduce a new product or service, attract a new call centre to the province, expand SaskTel Mobility's network, or develop a new consulting or export opportunity for SaskTel International, we are building upon the corporation's revenue base and ensuring its financial security.



MARTENS IN ALASKA

In December of 1997, SI signed a contract to provide network management computer software, hardware and consulting to Anchorage Telephone Utility (ATU) of Alaska. The contract is valued at about \$1,000,000. Under terms of the contract, ATU will purchase a new client/server version of SaskTel International's MARTENS Local Loop Facilities Management software, computer hardware provisioning and the associated consulting.

Community

PEOPLE + CARE = COMMUNITY

Through our event sponsorships, corporate contributions, partnerships, employee programs like SaskTel TelCare and the Pioneers—and simply through the fact that our 3900 plus employees all live, work, and shop in Saskatchewan—SaskTel is an important part of the cultural and economic fabric of the province we serve.

A few figures from 1997 will illustrate the point: last year our purchasing policy—which looks locally first in purchasing the goods and services we need to do business—contributed \$270 million to the Saskatchewan economy. This is thanks in large part to our Supplier Development Group, a unit dedicated to developing Saskatchewan companies in their attempts to diversify and become preferred, competitive suppliers to SaskTel.

The number of partnerships we have formed with small business in the province grew as well in 1997. We now have 65 dealers offering SaskTel Mobility services and over 90 that distribute our Sympatico™ Internet access service. To say that these companies benefit from their role as sales and distribution agents for our products and services would be an understatement.

SASKTEL PIONEERS

SaskTel and Saskatchewan both benefit from more than 3,600 active and retired SaskTel employees



who give generously of their time and talents to support various community projects, with a focus on education. They are a part of the Telephone Pioneers of America, the largest industrial volunteer organization in the world, with over 850,000 members. In 1997, SaskTel Pioneer volunteers donated 54,000 hours and raised over \$380,000 through events such as bingos, salvaged equipment sales, Christmas gift wrapping and kiosk operations.

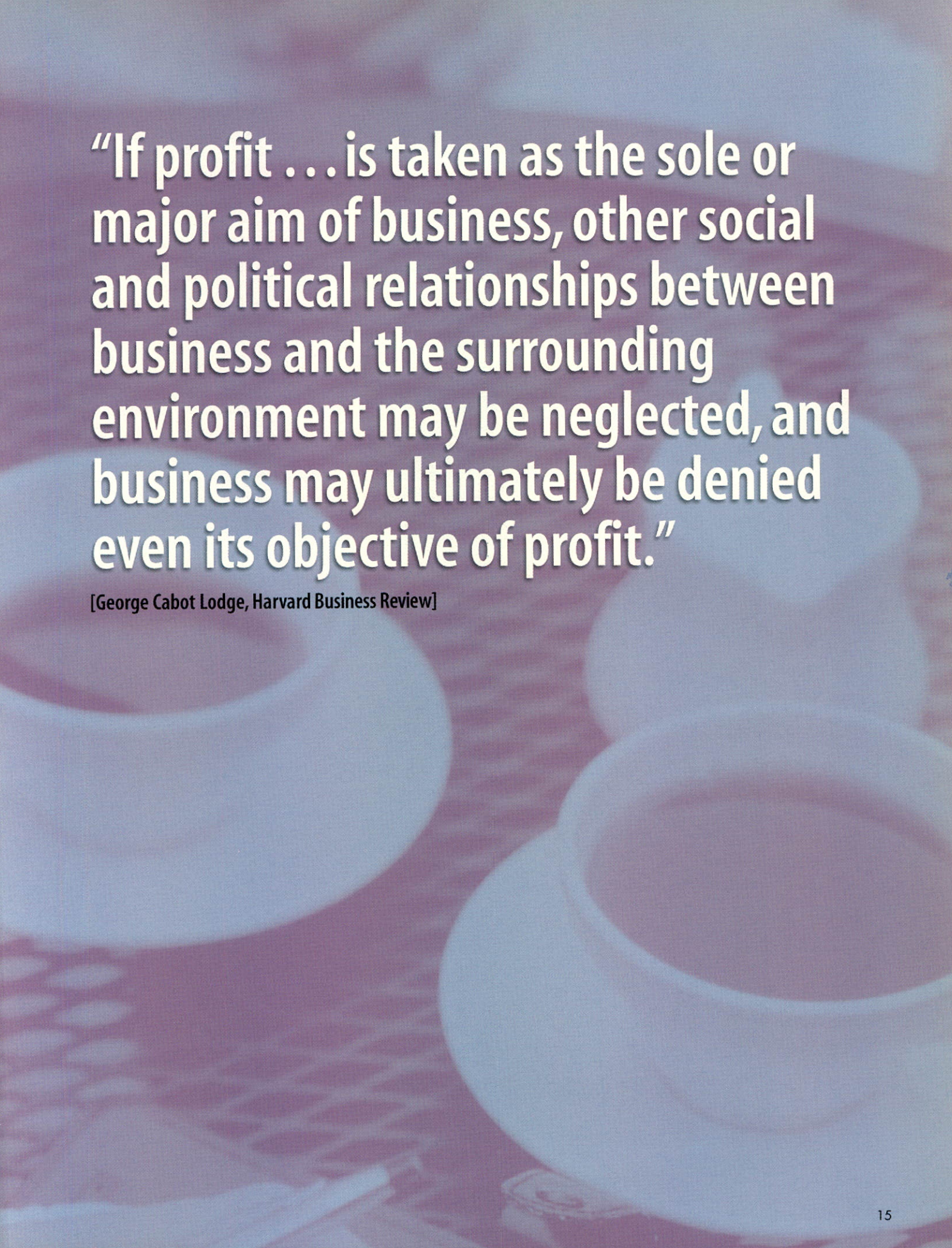
In October, the SaskTel Pioneers celebrated 50 years of fellowship and community service in Saskatchewan. This long-standing tradition has made the SaskTel Pioneers ideal ambassadors for SaskTel. Throughout the province they are well known for their tireless work and countless volunteer hours spent on worthwhile causes that enrich the lives of children, families, seniors, and communities.

SUPPORTING CULTURE AND COMMUNITY

The SaskTel Saskatchewan Jazz Festival, the Saskatchewan Western and Junior Hockey Leagues, Canadian Western Agribition, and the Saskatchewan Roughriders are just a few examples of events and organizations we sponsor that enlighten and entertain Saskatchewan people. As well, through our participation in the Stentor Alliance of

BILL MANAGEMENT OPTIONS

By introducing new bill management options, SaskTel has in effect opened up basic telephone service to residential customers who had previously been unable to obtain service—people who often were already isolated by poverty and joblessness. The new options allow residential customers—regardless of their income or credit history at SaskTel—to obtain basic telephone service without having to make a security deposit. As well, customers who have been disconnected because of outstanding debt can now be reconnected if they agree to the conditions of bill management and a debt repayment schedule. Over 10,000 new customers obtained SaskTel service through this program in 1997.

The background of the slide is a soft-focus photograph. In the foreground, there are two white ceramic coffee cups on matching saucers, filled with a dark liquid. Behind them, the top of a laptop keyboard is visible, with its keys slightly out of focus. The overall color palette is muted, with a mix of greys, whites, and dark tones, creating a professional and calm atmosphere.

"If profit ... is taken as the sole or major aim of business, other social and political relationships between business and the surrounding environment may be neglected, and business may ultimately be denied even its objective of profit."

[George Cabot Lodge, Harvard Business Review]



MARILYN LORENCE

SaskTel Marketing Assistant and Chapter President Elect – SaskTel Pioneers

A committed and active SaskTel Pioneer, Marilyn devotes much of her time supporting community projects that enhance the lives of Saskatchewan seniors, children, families and communities. Next year Marilyn will begin her retirement from SaskTel after 30 years. However, her work with the Pioneers will not stop—she will become the Chapter President of the SaskTel Pioneers. In addition to her volunteer activities, Marilyn also enjoys cross-stitching and travelling—particularly to Mexico in the winter.

Canadian telecommunications companies, we are major sponsors of the Canadian Olympic Team. We support education in the province in many ways, including ten scholarships we award annually to students enrolled in diploma, degree, or certificate programs in one of Saskatchewan's post-secondary institutions. More than 1500 community associations benefit annually from the SaskTel corporate sponsorships program, the SaskTel Pioneer fund-raising efforts, and SaskTel TelCare, the employees' benevolent fund. When you total these contributions for the year, SaskTel and SaskTel employees gave more than \$1.7 million to community and non-profit organizations across the province during 1997.

ENVIRONMENTAL COMMITMENT

SaskTel is partnering on the environmental front too, by working with the SaskTel Pioneers and local environmental groups to recycle paint in eight Saskatchewan communities. In 1997 the Paint-It Recycling program recycled 6,263 gallons of paint in an environmentally responsible manner.

We also work with DirectWest, the Pioneers, local environment committees and school boards throughout the province, to encourage the recycling of phone books. In 1997, between 160,000 and 200,000 outdated phone books were recycled.

In 1997 SaskTel spent \$60,000, on its own initiative, to clean up diesel spills at Maudsley Lake and Geike River, and to conduct biological and chemical testing at three other sites: Carswell River, Hatchet Lake and Hawkrock River. All of these are remote radio tower sites that rely on flown-in diesel fuel to power SaskTel transmitters. This clean-up work goes beyond compliance with existing environmental laws and regulations, and demonstrates SaskTel's commitment to social responsibility and good environmental stewardship.

1997 was also the fiftieth anniversary of SaskTel as a Crown Corporation. Our role as Saskatchewan's Communications Company would not be the same without this half-century as a Crown Corporation. Next year, 1998, we will proudly celebrate 90 years of serving Saskatchewan people (for SaskTel's first 39 years it was managed by a department within the provincial government). Facing a future of total competition—international competitors moving into all of our markets, local and long distance—SaskTel's long-standing contribution to the social and economic well-being of Saskatchewan will be part of what distinguishes us from the crowd of new telecommunications providers faced by our customers. In an industry that sees new entrants come and go like showers in springtime, ninety years of commitment to community is an accomplishment of which we can all be proud.



JOBS FOR STUDENTS

In the summer of 1997, SaskTel employed 240 students across the province, helping our young people gain experience and income in jobs as varied as cable location and marketing research. During each year, we also employ a total of 30 students working on co-op programs from Saskatchewan post-secondary institutions.

Tomorrow

THEN + NOW = TOMORROW

There is a certain amount of tomorrow in the eyes of a child, a hopefulness and faith in the future. If any aspect of SaskTel reflects this sense of promise and possibility, it is our enthusiasm for introducing new products and services. Even so, the future, particularly for young people, is not far off. We are fast becoming a wired people. According to Statistics Canada 1997 data, 98% of Saskatchewan households have a telephone, 21% have a cell phone, 61% have cable TV, 33% have a computer, and 9% also have Internet access. From 1996 to 1997, Saskatchewan had a 94% increase in households using the Internet, the second highest increase of any Canadian province.*

In a sense, then, SaskTel's role is perhaps not so much one of preparing our customers for the Information Age as it is one of ensuring that the Information Age is prepared for our customers. This is why we have our own Research and Development (R&D) area, and do everything we can to foster R&D and new applications of information technologies and New Media in Saskatchewan, instead of relying entirely on communication solutions developed elsewhere.

NEW PRODUCTS AND SERVICES

A lot of our research aims to find ways to deliver more and better services to customers, by merging some of the elements of communication currently in households—TV, computer, and telephone.



SUPPORTING THE SIAST MULTIMEDIA SCHOOL

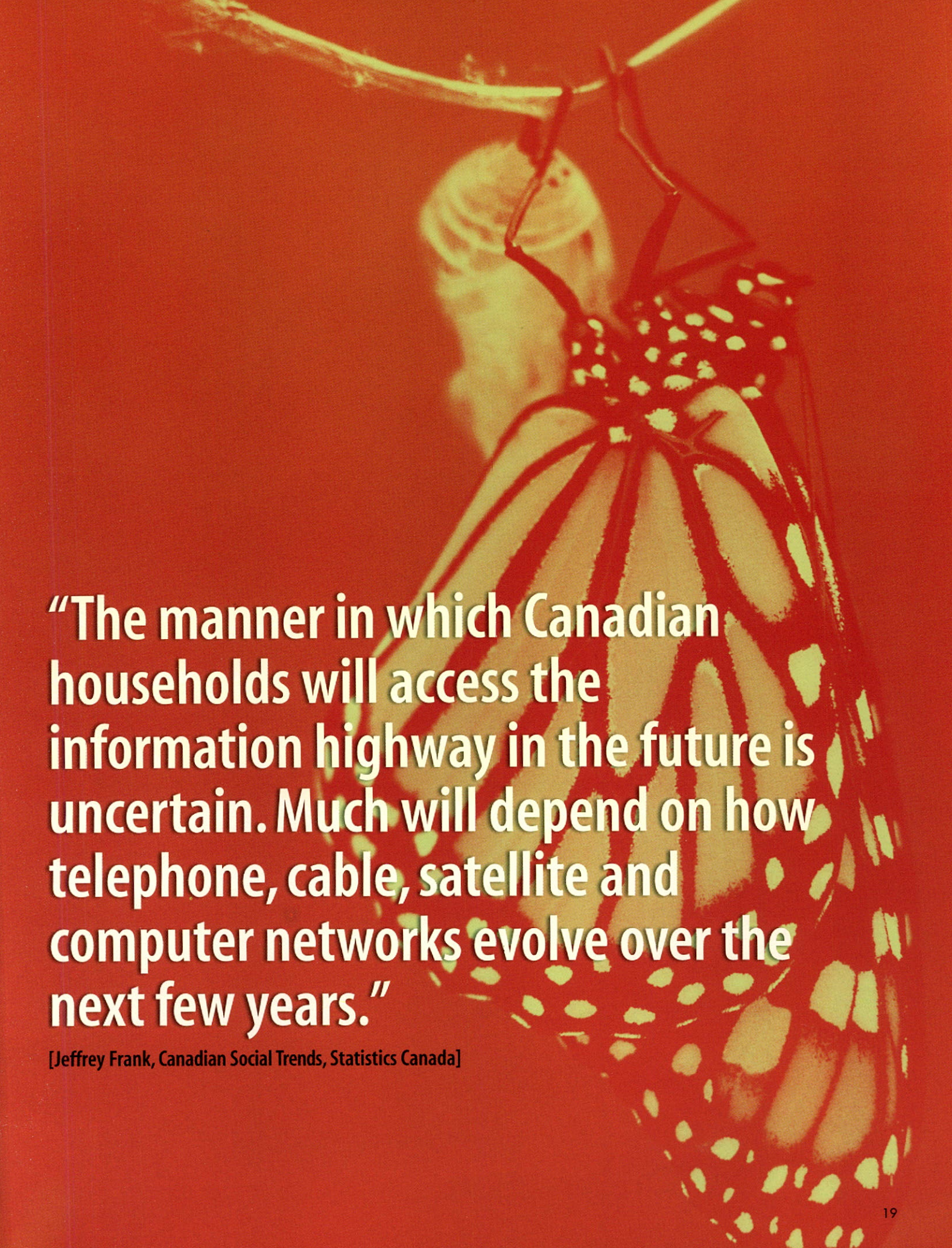
Where there is an opportunity to foster the development of New Media in Saskatchewan, SaskTel will be there. In 1997, we provided over \$250,000 in start-up funding and advisory support to the new Multimedia School at the Saskatchewan Institute of Applied Science and Technology (SIAST), and made a commitment to continue operational funding through the year 2001. The funding is being used for the new 3D animation lab, equipment for the multimedia lab, an annual honorarium to continue developing SaskTel's Sympatico™ High Speed website, as well as Sympatico™ High Speed connections, and a scholarship fund.

The Vista 350 we introduced in 1997 is a telephone that has some of the information display and interactive qualities of a computer. It has a screen that communicates information to the user with Call Display™, and visual Call Waiting™, and an entirely new feature, the CallMall™. The CallMall is an interactive service that provides visual access to television and movie listings, sports updates, horoscopes, and weather. It also allows customers to pay bills, shop, and bank online.

In 1997 we also began marketing a product that provides an interface between the computer and the telephone. It is called the Mitel® Personal Assistant and it is a powerful communications tool, particularly for the single-line business. Using a computer-attached telephone, a modem and some simple software, the Personal Assistant will screen your calls, take and leave messages, and record and retrieve valuable information about your customers and contacts.

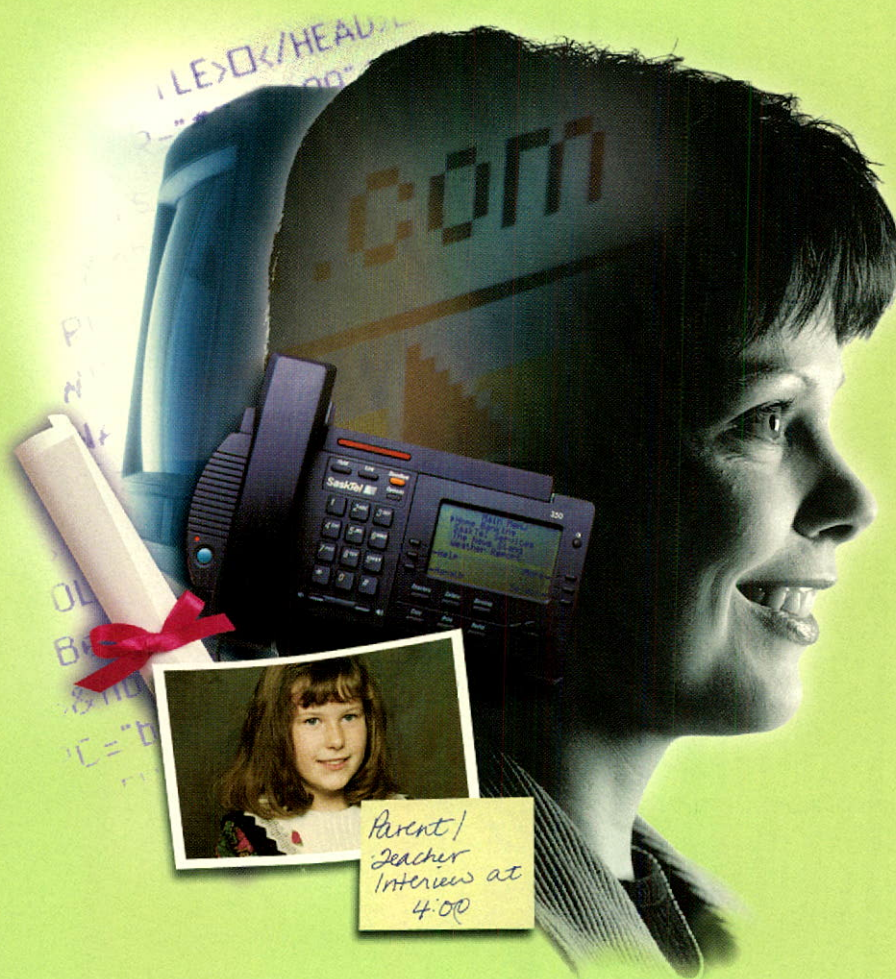
SaskTel is a major supporter of the Saskatchewan Research Network Consortium (SRNet), a cooperative research venture in which we are providing a high speed, digital network link connecting the University of Saskatchewan, University of Regina, TRILabs, and SaskTel R&D. While the link is already in operation for SRNet members to share research information, SaskTel's renewed contribution announced in

*Source: *Sask Trends Monitor*, from Statistics Canada 1997 data.

A monarch butterfly is shown hanging from a thin branch, its wings spread. The butterfly has orange and black markings. In the background, a person's face is visible but heavily blurred, creating a sense of depth and focus on the butterfly. The overall color palette is warm, dominated by oranges and reds.

“The manner in which Canadian households will access the information highway in the future is uncertain. Much will depend on how telephone, cable, satellite and computer networks evolve over the next few years.”

[Jeffrey Frank, Canadian Social Trends, Statistics Canada]



NATALIE GRAY
MultiMedia Student – SIAST

A student in the new Multimedia program at SIAST, Natalie plans to work in multimedia design and development after she graduates. As part of her course, Natalie is helping design an interactive touch screen for the Saskatchewan Science Centre. Natalie and her nine year old daughter live in Regina and are SaskTel customers.

1997 will allow both universities to develop their distance education and course sharing opportunities. In fact, there is already a course being shared between the two universities' respective engineering departments, using a two-way video and audio link. Our role in SRNet demonstrates our commitment to developing a world class education and research infrastructure in this province, while allowing us to benefit from new research and business opportunities on a local, national, and international basis through connections to CANet II in Canada and Internet II in the United States.

INTERNET SOLUTIONS

The group at SaskTel that most often gets to introduce customers to new info-tech solutions is our Internet applications unit, Advanced Interactive Solutions (AIS). 1997 included several important advances in the way SaskTel's business customers use the Internet. We made our mark in 1996 as the first telephone company in North America to introduce high speed Internet to the consumer market. Rather than rest on our laurels in 1997, we offered Sympatico™ Highspeed to the business markets in Saskatoon and Regina. This service will be expanded to include other Saskatchewan cities in 1998.

A second highlight in the Internet market for 1997 was the growth of QuantumLynx, AIS's suite of Internet solutions customized for businesses in Saskatchewan. QuantumLynx offers a number of services to businesses: dedicated access to the Internet for high-speed, high-volume data transfer, a security firewall service to secure confidential files and information on an intranet or the Internet, corporate web hosting to promote a business globally over the 'Net, a secure, online environment that allows a business to communicate with employees, customers, and suppliers 24 hours a day, as well as customized solutions consulting for intranets, secure e-mail, and other kinds of electronic business.

Perhaps our proudest Internet accomplishment of the year was our launch of a virtual mall and secure transactions pilot. In July, SaskTel, Credit Union Electronic Transaction Services (CUETS) and MasterCard International began a trial that featured Canada's first Internet purchases using the Secure Electronic Transaction (SET) protocol. This six-month pilot represents a tremendous improvement in security for Canadians who want to shop on the Internet. SET is a technical standard for safeguarding payment card purchases made over open networks such as the Internet. SaskTel played a major role in the SET pilot, developing the virtual mall to house a variety of merchants, allowing shoppers to browse through the mall as they would through a physical mall. Several SaskTel employees joined CUETS employees in participating in the pilot.

No matter how advanced our network and technology become, our success will always depend on how well we deliver to market. At SaskTel, we call this "Service Excellence." Our two new advanced Customer Care Centres, one in Saskatoon and the other in Regina, as well as our new customer-focused store in North Battleford, were important steps taken in 1997 to improve the way we serve our customers. Now, more than ever, we are able to keep in touch with customers' changing needs and respond with flexible, simple, and affordable solutions.



SASKATOON'S AIRPORT BUSINESS CENTRE

The SaskTel Airport Business Centre opened in August of 1997 at Saskatoon's John G. Diefenbaker Airport. By partnering with Danka Business Systems and Advantage Cellular Systems, we built this convenient, self-service centre to give business travelers easy and comfortable access to many of today's essential business tools including cellular phones, fax service and the Internet.

Discussion & Analysis

MANAGEMENT DISCUSSION & ANALYSIS

Overview of operations

Saskatchewan Telecommunications Holding Corporation (the Corporation) is the leading full service communications company in Saskatchewan, providing voice, data, directory, Internet, text and messaging services over a fully digital network, as well as cellular, paging and Fleetnet 800 service through its SaskTel Mobility division. The Corporation's major asset is a wholly-owned subsidiary, Saskatchewan Telecommunications (SaskTel), which has been the principal supplier of telecommunications in Saskatchewan for 90 years. The Corporation also maintains investments in companies that provide international project management, design, and consulting services, in addition to telephone directory and multimedia services. The Corporation employs approximately 3,900 employees who live and work in communities across Saskatchewan. Through an interconnection agreement with the Stentor alliance of telephone companies, SaskTel is part of the national and global communications network. This discussion and analysis should be read in conjunction with the Corporation's audited, consolidated financial statements which are on pages 33 to 42 of this report.

Results of operations

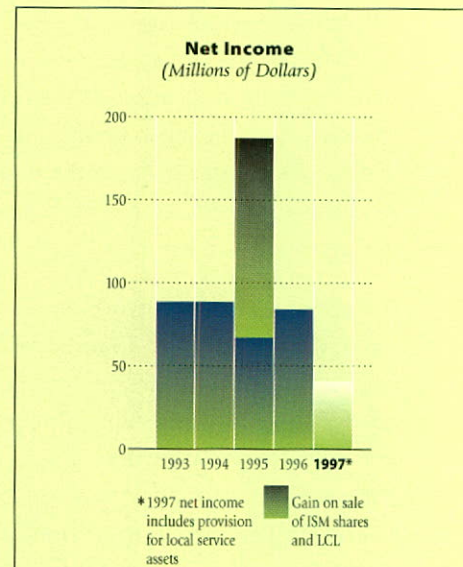
Net Income

The Corporation's 1997 consolidated net income decreased to \$40.6 million, as compared to \$84.0 million in 1996, due primarily to a \$55.7 million provision made for assets involved in providing local access service throughout the province of Saskatchewan. Total revenues for 1997 were \$693.7 million, down from \$696.9 in 1996. Offsetting this slight decline in revenues was a \$9.8 million reduction in operating expenses as compared to the prior year. Accordingly, net operating revenues, as measured before interest expense and other items, increased by \$6.5 million compared to 1996. Combined with a net reduction in interest and other items of \$5.8 million, total earnings before the provision for local service assets increased by \$12.3 million.

The telecommunications industry in which the Corporation operates is characterized by rapid technological developments, new service offerings, aggressive pricing practices and competition for market share, regulatory and legislative changes and increasing customer demands. This combination of factors and the introduction of local access competition in 1998 has reduced SaskTel's ability to continue to cross-subsidize the local access business with profits from long distance revenues. In such a fully competitive market, SaskTel can no longer be assured that prices will be maintained at levels that will fully recover the net carrying value of its existing local service plant and equipment. Accordingly, the Corporation recorded a \$55.7 million non-cash adjustment to the net carrying value of the local service assets held within its principal subsidiary, SaskTel. In 1997, the net carrying value of these assets prior to the provision was \$605.0 million. Most companies within the Stentor alliance recorded similar adjustments to their assets in 1997. Nationally, these adjustments amounted to approximately \$5.0 billion before tax impacts compared to total assets with carrying values of approximately \$25 billion prior to the adjustments. By accelerating the depreciation of assets with this charge, the Corporation's earnings should be enhanced in future years ensuring its continued strong financial performance in a fully competitive marketplace.

Overall, 1997 was a successful year for the Corporation. Here are the highlights:

- In the first full year of long distance competition, more than 90 % of Saskatchewan customers, both residential and business, showed their loyalty to SaskTel, by maintaining SaskTel as their long distance carrier.



- Long distance revenues were \$295.7 million, down from \$328.6 million in 1996. Despite retaining strong market share, long distance revenues were impacted by further reductions in long distance prices and a new inter-provincial revenue settlement agreement among the Stentor Alliance of Canadian telephone companies.
- Diversification achievements in several market sectors including wireless, directory operations, interactive services (Internet), international, and SmartTouch™ features.
- Excluding depreciation, operating expenses were reduced by 4% and interest expense was reduced by 17% from 1996 levels.

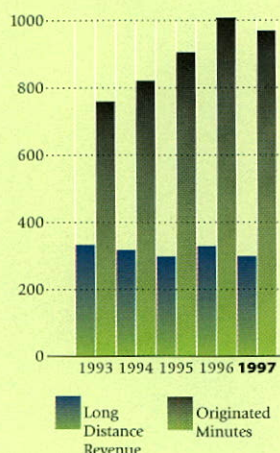
Operating Revenues

(In millions of Dollars)

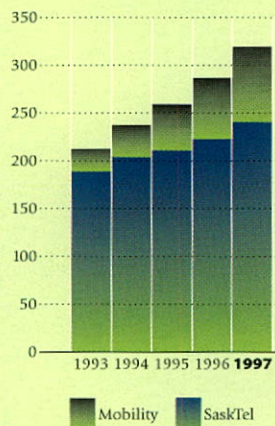
1997 Operating Revenues



Long Distance Revenue/Minutes
(Millions)



Local Service Revenue
(Millions of Dollars)



	1997	1996	1995	1994	1993
Long Distance	\$ 295.7	\$ 328.6	\$ 297.9	\$ 316.8	\$ 332.4
Local Service	\$ 319.6	\$ 286.9	\$ 259.3	\$ 237.7	\$ 212.6
Sales, Directory, Other	\$ 78.4	\$ 81.4	\$ 89.6	\$ 72.0	\$ 74.8

Long Distance

Long distance revenues were \$295.7 million, down 10% from \$328.6 million in 1996. Although 1997 marks the first full year of long-distance competition in the province, SaskTel has been preparing for competition by lowering its long distance rates. Taken as a cumulative percentage since 1990, SaskTel's average per minute long distance charges have dropped by 53%. Competitive pricing combined with a strong customer service focus, has resulted in the Corporation retaining more than 90% of the market. The major negative impact on the year's long distance revenues stems from a new revenue sharing arrangement agreed to by the Stentor members. This new revenue settlement plan resulted in a reduction in long distance revenues of \$42.4 million compared to 1996. The decline in long distance revenues was partially offset by increases in data network revenues, stimulation of conversation minutes and strong growth in Mobility's long distance revenues, which increased 30% over 1996.

Building upon its early introduction of savings plans such as Real Plus™ in 1994 and Real Plus™ Extra in 1996, the Corporation remains committed to bringing lower long distance costs to its customers. Beginning December 1, 1997, all customers on the Real Plus Extra savings plan received a 20% minimum discount on all eligible long distance calls. By eliminating minimum spending requirements, an additional 170,000 SaskTel long distance customers are eligible for these minimum savings.

Local Service

Local service revenue of \$319.6 million experienced growth of 11% from the 1996 level of \$286.9 million. This growth can be attributed to improved revenues in the Corporation's non-traditional services, such as Mobility wireless accesses, Internet, SmartTouch™ services and other enhanced local services. Mobility, Wide Area Network (WAN) services and Internet sectors have experienced tremendous growth since 1996 with cellular accesses alone having increased 29% since 1996. The local access market in Saskatchewan remains constant with Network Access Service (NAS) lines increasing only 9% over the last five years. This moderate NAS increase has been, in part, caused by the Corporation's success in attracting call centres to Saskatchewan, as well as increased business activity in the province.

Traditionally, phone companies across North America have subsidized local service with long distance revenues. As a corporation that serves one of the most thinly-populated provinces in Canada while maintaining a commitment to provide a high level of service at fair and competitive prices, SaskTel experiences a significant cross subsidization challenge. Despite this challenge, SaskTel customers enjoy among the lowest local telephone rates in Canada. In 1996, there was a \$72 million shortfall in local access revenue compared to the cost of providing this service to all Saskatchewan residents. Presently, local telephone service is neither profitable nor self-sustaining for SaskTel. The average subsidy for residential service is roughly \$18.15 per line, per month. This subsidy from long distance revenues limits the extent to which SaskTel can continue to lower its long distance rates.

With long distance rates declining, the ability of long distance revenues to subsidize the local access shortfall is declining. One way to address this shortfall is to raise local access rates so that they come nearer to the point of cost-recovery. With this in mind, the Corporation proposed its first residential local telephone rate increase since 1993 and conducted a 45-day public notification process, after which the provincial government approved the rate increase.

Other revenue

Other revenue declined to \$78.4 million in 1997 from the 1996 level of \$81.4 million. A portion of the Corporation's revenue is derived from non-traditional products and services as part of a long-term diversification strategy. Non-traditional revenue streams amount to 28% (1996 - 26%) of the total Corporation's revenue. The corporate diversification strategy established in 1994 set a target of 40% of revenues from diversified sources. The diversified operations of the Corporation include:

- Directory operations
- Mobility wireless services
- Multimedia services
- Internet services
- SmartTouch features
- International consulting, project management, software sales and investments through SaskTel International (SI)
- Research and development initiatives that develop products and services to meet the changing information needs of our customers.

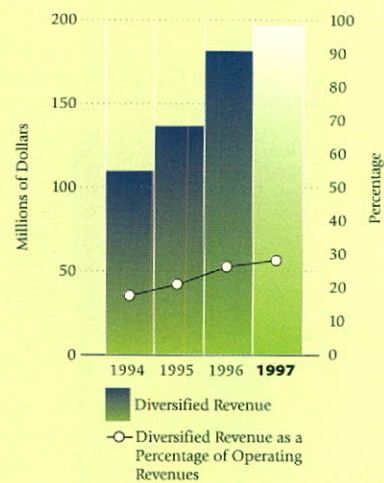
Saskatchewan Telecommunications International, Inc. (SI) has been very successful in pursuing global revenue opportunities. By applying its management experience, SI is able to generate new revenues and develop new markets for many of the Corporation's products and services. SI's mainstay has been a successful combination of consulting and engineering services, project management, systems integration, planning and design, and advanced network management software tools. In mid-1997, SI acquired a 35% equity interest in Saturn Communications Ltd. (Saturn), a new and growing cable TV service provider, based in Wellington, New Zealand, which is expanding into telecommunications. Refer to "Liquidity and Capital Resources—Investing Activities—Long Term Investments" for further details.

**Local Service Challenge —
Accesses Per Kilometre of Network**



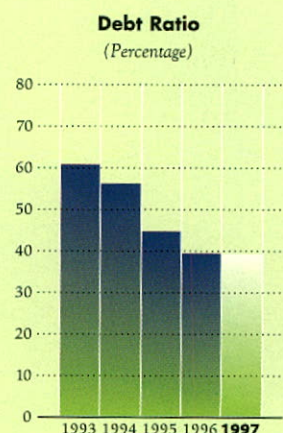
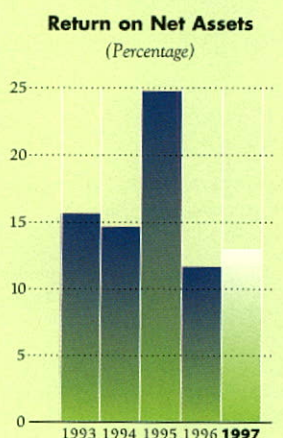
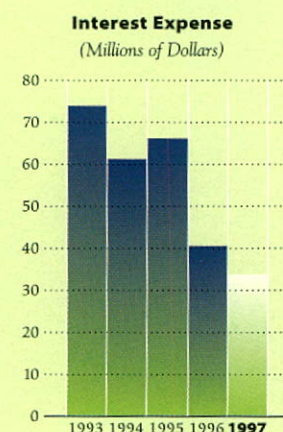
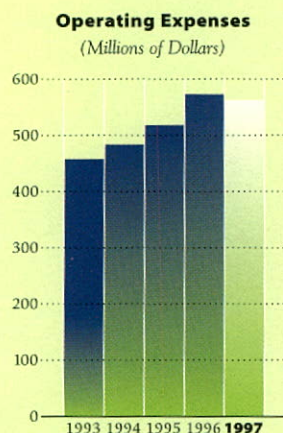
Source: Statistics Canada – Telephone Statistics 1995

Diversified Revenue



Map of SI operations around the world





Operating Expenses

1997 total operating expenses, including depreciation, of \$562.5 million decreased 2% from \$572.3 million in 1996. This reduction reflects the Corporation's commitment to cost containment and the non-recurring Early Retirement Program (ERP) charge of \$20.6 million recorded in 1996. Advertising, sales activity and salaries increased in 1997 over 1996, whereas there was a decrease in other operating expenses such as Stentor shared expenses and computer costs. The increased wireless, Internet and directory activities resulted in a corresponding increase in related expenses necessary to accommodate revenue and customer growth.

The decrease in overall operating expenses was offset by depreciation and amortization expense increasing 5% in 1997 to \$154.1 million. This resulted from two primary causes: the Corporation increasing and evaluating its asset base through the ongoing expansion and modernization of its network; and the Corporation updating its depreciation policy so as to reflect the rapid advances of technology in the telecommunications industry.

Interest Expense

Reducing debt remains an important area of focus for the Corporation, which led to a 17% decrease in interest expense between 1996 and 1997. In 1997, interest costs were \$33.6 million, and in 1996, this expense amounted to \$40.4 million. The Corporation's total long term debt of \$442.0 million has been reduced by \$44.0 million from \$486.0 million in 1996. Offsetting this, short term borrowings have increased during the year to \$35.8 million from \$10.3 million in 1996. Lower interest rates during the year together with a reduction in the overall level of debt have more than offset the impact of a weak Canadian dollar.

Return on Net Assets (RONA)

The 1997 return on net assets has improved to 12.9% from the 1996 level of 11.6%. RONA measures the Corporation's profitability before interest, taxes and any one-time items such as the provision for local service assets described earlier. The Corporation's strong market retention, reduced costs and asset base combined with strong growth in the diversified and non-traditional revenue streams have allowed RONA to improve.

Capital Structure

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

The debt ratio continues to improve and is currently at 39.0% compared to 39.2% in 1996. Although gross long-term debt was reduced by \$44.0 million during the year, retained earnings within the Corporation remained relatively constant after taking into account the 1997 net income of \$40.6 million and dividend of \$36.6 million.

Liquidity and Capital Resources

Self-funded

Internally generated funds were 95.8% in 1997 compared to 114.4% in 1996. This measurement reflects the Corporation's ability to fund its capital, investments and dividend from cash generated by operations. The Corporation's strategy of self-financing has a positive impact on the debt ratio and allows the Corporation to manage its debt obligations and pursue investment opportunities. In 1997, cash generated from operating activities was \$234.9 million (1996 - \$253.7 million). Cash used in financing activities required \$77.4 million (1996 - \$136.3 million), while investing activities required cash disbursements of \$199.0 million (1996 - \$175.5 million). After funding the capital program, dividend payment, and debt repayment, the Corporation realized a decrease in cash of \$41.5 million during the year, as compared to a decrease in cash of \$58.2 million in 1996. The major difference between the two years was more debt repayment in 1996 and increased investment in diversification opportunities in 1997. There was significant investment in capital expenditures over both years as the Corporation continued with the Core Network Evolution Plan and further investment in wireless, Internet and computing technologies.

Financing

During 1997, repayment of long-term debt required net cash outlays of \$31.2 million compared to \$62.8 million in 1996. In 1997 dividends declared to Crown Investments Corporation of Saskatchewan amounted to \$36.6 million (1996 - \$46.2 million). In the last 5 years, the Corporation has paid a total of \$263.4 million in dividends while still managing to reduce its long-term debt from a high of \$887.1 million in 1991 to \$442.0 million by the end of 1997.

Investing Activities

Capital spending

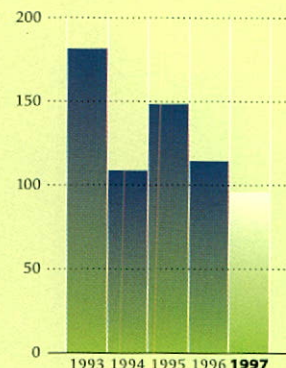
Net capital spending in 1997 amounted to \$169.6 million (1996 - \$175.5 million). The 1997 expenditures included capital spent on the continuing work of the SaskTel Core Network Evolution program, which provides for modernization, upgrading and replacement of key elements of the SaskTel switching and transmission network. The Corporation made further investments in information technologies in 1997, which allowed for the expansion of services such as Sympatico High Speed™, SaskTel's ADSL-based Internet service, into new Saskatchewan districts.

Mobility

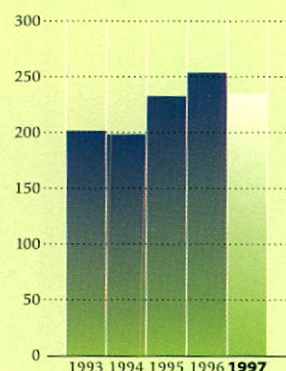
SaskTel Mobility continues to be a growing part of the Corporation's diversification strategy—growing its wireless customer base and expanding its coverage area throughout Saskatchewan. Included in capital investment in 1997 was \$26.4 million for Mobility, an increase of \$5.3 million from 1996 levels. Mobility activities in 1997 included capital spent on additional infrastructure for cellular and FleetNet 800 service and further investment in information technologies.

Part of this investment was used to extend cellular coverage to the communities and surrounding areas of Gravelbourg, Carrot River, Cypress Hills, Kelvington and Leader, bringing to these Saskatchewan communities the benefits of cellular service. Currently, 90% of the Saskatchewan population resides within SaskTel Mobility's cellular coverage area.

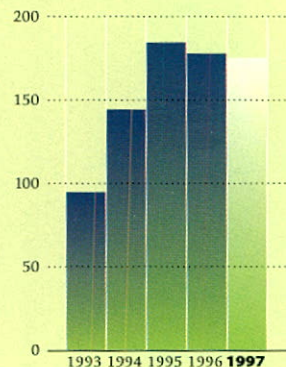
Internally Generated Funds
(Percentage)



Cash Provided by Operating Activities
(Millions of Dollars)



Gross Construction Spending
(Millions of Dollars)



FleetNet 800 remains the best choice for delivering critical province-wide dispatch and inter-agency communications required by the major Crown corporations as well as the RCMP, and other protective and emergency service providers in Saskatchewan. Currently, 97% of the Saskatchewan population resides within FleetNet 800 coverage.

Long term investments

The Corporation invested \$32.3 million during 1997 (1996 - \$ nil) as part of its on-going diversification efforts. These investments included acquiring the remaining 50% of DirectWest Publishers Ltd. for \$5.3 million. The Corporation also made a major investment in 1997 of approximately \$27 million to acquire a 35% equity interest in Saturn Communications Ltd. (Saturn), a growing cable TV service provider in Wellington, New Zealand that is now expanding into telecommunications. The Corporation also approved spending up to \$7 million as its share of ongoing network construction for the remainder of 1997 and early 1998, for a total investment of \$34 million. Depending on the extent of external financing obtained by Saturn, the total potential investment by the Corporation may reach \$62 million by 1999. SaskTel's business partner, United International Holdings Inc. (UIH), is a successful operator of cable television systems in 25 countries. UIH has previously partnered with other telecommunications firms to expand cable investments into joint cable and telecommunications operations.

The investment in Saturn is consistent with the Corporation's diversification strategy and complies with the new Crown Investment Corporation criteria for investments. It also has the potential to be the initial stage for a continuing partnership with UIH worldwide.

As well during 1997, the Corporation received \$2.9 million from its investment in Regional Cable TV (Western) Inc.

Outlook

Here are some of the factors affecting the Corporation's near term financial outlook:

- the arrival of competition in local access markets, expected in 1998, which will make the Saskatchewan telecommunications environment totally competitive.
- the question of whether the Saskatchewan market will be federally regulated after the CRTC moratorium's scheduled expiry in October, 1998.
- long distance rates declining further with the introduction of new savings plans and special savings events.
- continued market share erosion as a result of long distance competition.
- undetermined impacts of expanding local calling areas.
- the continued local access shortfall and cross-subsidization from long distance revenues, even after scheduled local rate increases.
- increased revenues from projected growth in diversified operations and services including: SaskTel Mobility, SaskTel International, SmartTouch™ features, DirectWest, and Advanced Interactive Solutions.
- expected expense increases include staff costs associated with growth of subsidiaries and diversified operations.
- planned measures to reduce operating expenses, including productivity gains via the Customer Care Centres, streamlined customer service systems, and savings from newly-implemented information technologies.

Revenue Growth

Diversification

Since 1993, diversification has been a major element of the Corporation's revenue growth strategy. Although the cornerstones of this strategy have been the enterprises of SaskTel International, SaskTel Mobility, DirectWest, and Advanced Interactive Solutions, diversification also includes smaller, though equally important, contributions from diversified services such as the SmartTouch™ calling features (e.g. Three-way Calling, Call Forward, Call Waiting, Name Display), Message Manager™, and data services such as Megalink and Microlink.

In addition to its current operations in the Philippines and New Zealand, SaskTel International is considering the possibility of investments in Europe, Australia, and the Caribbean, and by the end of the decade it is possible that the Corporation will have as much as \$150 million in foreign equity investments. Meanwhile, SI's facilities management software, including Martens® and SwitchGate®, is expected to continue selling well in North America and abroad.

The financial outlook for the interactive market served by the Advanced Interactive Solutions (AIS) division of the Corporation continues to be bright. Internet access, including Sympatico™, Sympatico Highspeed, and QuantumLynx dedicated Internet service, will continue to be the main sources of revenue, while other portfolios, including Media and Transactions, QuantumLynx business solutions, and some new AIS services are expected to grow in profitability. Meanwhile, deregulation of the communications marketplace may present other income opportunities that AIS may pursue. For example, the ADSL technologies and interactive services currently delivered by AIS could be expanded into other markets for broadband multimedia services.

During 1997, the Corporation increased its share in DirectWest Publishers (DirectWest) from 50 to 100%. This transaction presents opportunities to leverage the expertise of both entities over the next few years. DirectWest has maintained the second highest growth rate among Yellow Pages™ publishers in Canada and the future looks promising with new products and services such as Internet directory services and Talking Yellow Pages™.

Year 2000

In 1995, the Corporation assessed its Year 2000 risks and developed plans to deal with all issues concerning all network and computing facilities. The majority of the work will be completed in 1998, with the remaining to be completed in 1999.

Market and regulatory issues

Competitive environment

In 1996, the Saskatchewan government opened the provincial marketplace to long distance competition. In May, 1997 the CRTC announced a decision on local competition that also introduced convergence within the telecommunications and cable television environments. New wireless technologies that compete with existing telephone services are emerging: for example, Personal Communications Services (PCS), Local Multipoint Communications Services (LMCS) and other satellite services.

Regulation

Although Saskatchewan is currently exempt from CRTC (Canadian Radio-Television and Telecommunications Commission) regulation, it is meeting a commitment to the federal government to harmonize its telecommunications policies with other jurisdictions as much as possible, while still meeting the needs of Saskatchewan residents. However, Saskatchewan could be brought under CRTC regulation any time after October 26, 1998. SaskTel's position on this matter has been that, while fair competition and consumer choice are critical, any form of regulation must ensure that the public capital built up in Saskatchewan's telecommunication system is used efficiently, and that Saskatchewan consumers continue to benefit from affordable access to that telecommunications network.

In fact, consumers have benefited in many ways from the unique regulatory environment in the province. Specifically, SaskTel provides among the lowest local telephone rates in Canada, while offering competitive long distance rates. SaskTel has had the fortune to be able to focus on its customers and the marketplace, rather than incur the costs and regulatory focus inherent with CRTC regulation. This has permitted SaskTel to respond to customer requests for new products and services—and introduce new savings plans—with greater speed and flexibility. One example of this was the introduction of the Real Plus™ savings plan in 1994, prior to its introduction in the rest of Canada.

For its part, SaskTel is committed to its goal of providing universal and affordable service to all Saskatchewan residents, while operating in one of the most sparsely populated, higher cost serving areas in the country. To disregard these achievements, and impose increased regulation in Saskatchewan, while the world and the rest of Canada is de-regulating, would be a backward step for this province.

Local access competition

In November 1997, the Saskatchewan Government announced that local access competition will be introduced in 1998. SaskTel is a corporation committed to providing the highest service quality at the most reasonable prices to our customers and as such, believes that given a choice, its customers will choose SaskTel as their telecommunications provider.

Local rate increase

In preparation for the advent of local competition and to ensure continued competitiveness in the long distance market, a number of measures were taken which affect the Corporation's outlook. First, a local rate increase was approved commencing in 1998 which allows SaskTel to offer competitive rates while still providing excellence in service and commitment to our customers. All Stentor member companies have raised local rates in recent years, to make up for the declining subsidy between long distance revenues and the costs of local access. SaskTel was the last to raise local access rates. Local telephone rates in Saskatchewan will increase by \$4 per month for all residential customers on February 1, 1998, and will increase an additional \$2 per month for rural customers and \$1 per month for customers in cities outside Regina and Saskatoon on January 1, 1999.

These rate increases, combined with cost containment efforts, will begin to address but not eliminate the total local access shortfall. The revenue that the Corporation earns from the rate increases, however, will be more than offset by the effects of further reductions in overall long distance charges and larger local calling areas in rural Saskatchewan. Even with the increase, SaskTel will still be subsidizing local telephone rates by an estimated \$50 million in 1998, and will still charge among the lowest local telephone rates in Canada—lower than in Alberta, for example. But, because of competition with other carrier companies in the long distance market, SaskTel is under tremendous pressure to reduce its long distance rates in order to provide competitive prices to its customers.

Exchange area boundaries

The issues of local access and rate increases in Saskatchewan are inseparable from the question of exchange area boundaries. On November 7, 1997, SaskTel announced an ongoing program to improve local service in Saskatchewan's 342 telephone exchanges. Phase One of the program will create an enlarged toll-free calling area for 82 telephone exchanges. This will provide expanded local calling options for more than 50,000 rural families and businesses in Saskatchewan.

All calls placed within the same exchange area are considered local calls with no applicable long distance charges. By increasing the geographical size of many telephone exchanges, through the reduction of boundaries, many long distance calls to previously adjacent exchanges will be eliminated.

SaskTel has established an executive committee that is studying which exchange areas will be included in Phase Two of the program. Once the committee's recommendations have been received and approved, an announcement of exchanges affected under Phase Two will be made, currently expected to be in the spring of 1998.

SaskTel's ongoing program to expand local exchange areas means that thousands of rural customers will have toll-free access to larger calling areas. The exact effect this will have on the Corporation's near-term and long-term revenues remains to be seen.

Income outlook

The Corporation is expecting no significant change in income levels between 1997 and 1998, excluding the 1997 provision for local service assets. Increased revenues from diversified operations and new local access rates in early 1998 will be offset by reductions in long distance prices and market share, local access market share losses, expansion of local calling areas, and growth in expenses of diversified operations. Given the long term nature of the diversification investments, the Corporation forecasts a reduction in diversified earnings over the next three to five years until full operations and profits are realized. Some borrowing will be necessary in 1998 to fund expanding lines of business, new diversification activity, dividend payments, and capital investment. Accordingly, interest expense is forecast to increase in 1998.

SEGMENTED HISTORY

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

1997 1996 1995 1994 1993

(in thousands of dollars)

Statement of operations data

Operating revenues	\$ 573,418	\$ 569,764	\$ 538,799	\$ 554,126	\$ 575,606
Operating expenses	476,830	471,611	434,209	431,929	432,016
Net operating revenue	96,588	98,153	104,590	122,197	143,590
Other income	29	1,333	1,307	1,356	6,295
Interest and related costs	29,428	33,432	51,342	45,390	61,161
Provision for local service assets	55,665	—	—	—	—
Net income	\$ 11,524	\$ 66,054	\$ 54,555	\$ 78,163	\$ 88,724

Statement of financial position data

Telecommunications property	\$ 798,411	\$ 846,753	\$ 826,439	\$ 810,312	\$ 833,319
Other assets	55,118	48,032	43,659	54,768	29,330
Investments	6,820	8,392	8,392	8,392	8,392
Current assets	96,428	84,742	81,881	117,073	165,347
Total assets	\$ 956,777	\$ 987,919	\$ 960,371	\$ 990,545	\$ 1,036,388

Long-term debt	\$ 339,849	\$ 343,937	\$ 336,992	\$ 432,206	\$ 398,761
Province of Saskatchewan's equity	493,070	487,884	458,160	433,610	398,437
Current liabilities	123,858	156,098	165,219	124,729	239,190
Total liabilities & Province of Saskatchewan's equity	\$ 956,777	\$ 987,919	\$ 960,371	\$ 990,545	\$ 1,036,388

FIVE-YEAR RECORD OF SERVICE

	1997	1996	1995	1994	1993
Finance					
<i>(in thousands of dollars)</i>					
Operating revenues	\$ 693,686	\$ 696,897	\$ 646,871	\$ 626,443	\$ 619,727
Operating expenses	562,538	572,288	517,070	482,896	466,683
Other items	(1,237)	(248)	127,694	6,029	9,337
Interest and related costs	33,612	40,361	65,965	61,062	73,834
Net income before the following	96,299	84,000	191,800	88,514	88,547
Provision for local service assets	55,665	-	-	-	-
Net income	40,634	84,000	191,800	88,514	88,547
Dividend	36,571	46,200	73,500	48,700	58,400
Gross construction expenditures	175,015	177,877	184,539	144,257	94,762
Property, plant & equipment*	2,120,589	2,025,022	1,922,763	1,876,318	1,795,708
Long-term debt (gross)*	441,999	485,981	551,631	649,588	718,289

Financial ratios

Return on net assets	12.9%	11.6%	24.7%	14.6%	15.6%
Debt ratio	39.0%	39.2%	44.5%	56.0%	60.6%
Internally generated funds	95.8%	114.4%	148.4%	114.4%	181.5%

Employees and payroll

Number of employees (excluding part-time)

Diversified Operations**	405	254	250	234	191
Saskatchewan Telecommunications	3,680	3,642	3,595	3,629	3,508
Total	4,085	3,896	3,845	3,863	3,699

Salaries earned

(thousands of dollars)	\$ 189,245	\$ 170,358	\$ 165,503	\$ 163,772	\$158,875
------------------------	-------------------	------------	------------	------------	-----------

Operational Highlights

Network Access Services*	626,924	607,092	595,101	581,816	574,962
Originated Long Distance Messages (in thousands)	243,696	260,997	239,802	216,589	191,057
Internet Access Services*	30,844	12,796	n/a	n/a	n/a
Cellular Access Services*	135,623	104,994	76,225	54,303	36,316

* At December 31

** Includes SaskTel International, Mobility, Directory, Other

AUDITORS' REPORT

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

We have audited the consolidated statement of financial position of Saskatchewan Telecommunications Holding Corporation as at December 31, 1997, and the consolidated statements of operations, retained earnings and changes in cash position for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1997, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Chartered Accountants
Regina, Saskatchewan
February 25, 1998

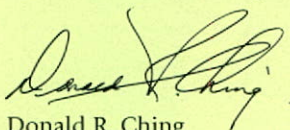
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements included in the annual report of Saskatchewan Telecommunications Holding Corporation for the year ended December 31, 1997, are the responsibility of management of the corporation and have been approved by the Board of Directors. Management has prepared the consolidated financial statements in accordance with generally accepted accounting principles in Canada. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.


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

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

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



Donald R. Ching
President &
Chief Executive Officer
Regina, Saskatchewan
February 25, 1998



Randy Stephanson
Chief Financial Officer

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended December 31

	1997	1996
	(Thousands of dollars)	
Operating revenues		
Long distance service	\$ 295,681	\$ 328,612
Local service	319,561	286,867
Sales, directory, other	78,444	81,418
	693,686	696,897
Operating expenses		
Operating expenses	408,416	424,988
Depreciation and amortization	154,122	147,300
	562,538	572,288
Net operating revenues	131,148	124,609
Other items (Note 4)	(1,237)	(248)
Interest and related costs (Note 5)	33,612	40,361
Net income before the following	96,299	84,000
Provision for local service assets (Note 6)	55,665	-
Net income	\$ 40,634	\$ 84,000

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31

	1997	1996
	(Thousands of dollars)	
Retained earnings, beginning of year	\$ 344,174	\$ 306,374
Net income	40,634	84,000
	384,808	390,374
Dividend	36,571	46,200
Retained earnings, end of year	\$ 348,237	\$ 344,174

See Accompanying Notes

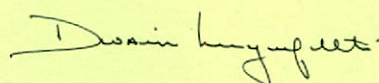
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31

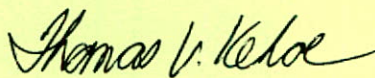
	1997	1996
	(Thousands of dollars)	
Assets		
Property, plant and equipment (Note 7)	\$ 933,050	\$ 970,270
Other assets (Note 8)	73,271	57,659
Investments (Note 9)	21,523	10,827
	1,027,844	1,038,756
Current assets		
Cash and short-term investments	–	6,861
Accounts receivable	111,534	102,092
Inventories	7,285	5,781
Prepayments	8,184	12,248
	127,003	126,982
	\$ 1,154,847	\$ 1,165,738
Liabilities and Province's Equity		
Long-term debt		
Province of Saskatchewan (Note 10)	\$ 308,881	\$ 325,361
Other long-term debt (Note 11)	40,414	43,431
	349,295	368,792
Minority interest and deferred taxes	–	4,015
	349,295	372,807
Province of Saskatchewan's equity		
Equity advance (Note 13)	250,000	250,000
Retained earnings	348,237	344,174
	598,237	594,174
Current liabilities		
Short-term borrowings (Note 14)	34,625	–
Accounts payable and accrued liabilities	106,784	116,370
Dividend payable	36,571	46,200
Service billed in advance	23,852	21,969
Current portion of long-term debt (Note 12)	5,483	14,218
	207,315	198,757
	\$ 1,154,847	\$ 1,165,738

See Accompanying Notes

On behalf of the Board:



Honourable Dwain Lingenfelter



Thomas V. Kehoe

CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION

For the year ended December 31

	1997	1996
	(Thousands of dollars)	
Operating activities		
Net income	\$ 40,634	\$ 84,000
Items not affecting cash from operations (Note 15)	211,851	148,041
Net change in non-cash working capital items	(17,565)	21,664
Cash provided by operating activities	234,920	253,705
Financing activities		
Repayment of long-term debt	(31,856)	(65,518)
Proceeds from long-term debt	617	2,677
Dividend payment	(46,200)	(73,500)
Cash used in financing activities	(77,439)	(136,341)
Investing activities		
Capital expenditures	(169,553)	(175,518)
Acquisitions (Note 3)	(32,284)	-
Proceeds from long-term investments	2,870	-
Cash used in investing activities	(198,967)	(175,518)
Decrease in cash	(41,486)	(58,154)
Cash, beginning of year	6,861	65,015
(Short-term borrowings) cash, end of year	\$ (34,625)	\$ 6,861
Comprised of:		
Short-term investments	\$ 1,210	\$ 17,115
Short-term borrowings	(35,835)	(10,254)
	\$ (34,625)	\$ 6,861

See Accompanying Notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — The Corporation

Saskatchewan Telecommunications Holding Corporation (the Corporation) markets and supplies a range of voice, data, Internet, wireless, text and image products, systems and services. Its membership in the Stentor group of companies enables it to extend services throughout Canada and to connect its customers to the rest of the world.

The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of The Saskatchewan Telecommunications Holding Corporation Act. As the Corporation is a Provincial Crown corporation, it and its wholly-owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

The Corporation's wholly owned subsidiary, Saskatchewan Telecommunications, is currently exempted from federal regulation by the Canadian Radio-television and Telecommunications Commission (CRTC) as a result of a regulatory moratorium granted in 1993 to last until October, 1998. The discontinuance of the moratorium is subject to an Order-in-Council being approved by the Federal Government. This decision may have a significant impact on the Corporation's future pricing, products, service development and financial performance.

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

Note 2 — Summary of significant accounting policies

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

Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries: Saskatchewan Telecommunications and Saskatchewan Telecommunications International, Inc.. All significant intercompany transactions and balances have been eliminated.

Investments

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

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

Property, plant and equipment

Property, plant and equipment is recorded at original cost including materials, services, and direct labour. The cost also includes the cost of funds used to finance construction, based on the size and duration of the projects.

Depreciation

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

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

Goodwill

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

Revenue

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Leases**

Where the Corporation is the lessor, rental revenues from operating leases are recognized as service is rendered to customers. Revenues from sales-type lease transactions are recognized at the inception of the lease.

The investment in sales-type leases represents the present value of future lease payments receivable. Finance income is recognized in a manner which produces a constant rate of return over the term of the lease contract.

Inventories

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

Pension costs

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

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

Foreign currency translation

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

Financial instruments

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

Note 3 — Acquisitions

On July 23, 1997, the Corporation acquired a 35% interest in a cable telephony company operating in Wellington, New Zealand under the name of Saturn Communications Inc. (Saturn). The investment in Saturn is accounted for using the equity method of accounting with the goodwill being amortized over a fifteen year period.

On August 14, 1997, the Corporation increased its ownership in DirectWest Publishers Ltd. from 50% to 100%. Operations will continue under the name of DirectWest Publishing Partnership (DirectWest) with responsibility for the publishing and distribution of the telephone directories. As a result of the acquisition, 100% of the revenues, expenses and net assets of DirectWest and related goodwill have been included in the Corporation's consolidated statements.

Assets at assigned values

	Saturn	DirectWest
	<i>(Thousands of dollars)</i>	
Current assets	\$ 29,565	\$ 9,573
Fixed assets	21,339	1,796
	50,904	11,369
Liabilities	(3,625)	(3,584)
Net identifiable assets	\$ 47,279	\$ 7,785
Net assets attributable to the Corporation's investment	16,547	5,037
Purchase price	26,914	5,370
Goodwill	\$ 10,367	\$ 333

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 4 — Other items**

	1997	1996
	<i>(Thousands of dollars)</i>	
Interest income	\$ 1,613	\$ 674
Write-down of investment in Alouette Telecommunications Inc.	(1,572)	–
Share of earnings of equity investments	(1,410)	269
Other income	657	1,433
Minority interest and income taxes	(525)	(2,624)
	\$ (1,237)	\$ (248)

Note 5 — Interest and related costs

	1997	1996
	<i>(Thousands of dollars)</i>	
Interest expense	\$ 46,791	\$ 53,577
Amortization of unrealized net foreign exchange losses and debt discounts	1,725	1,017
	48,516	54,594
Less: Sinking fund earnings	12,501	10,810
Interest charged to construction	2,254	2,110
Interest on short-term investments	149	1,313
	\$ 33,612	\$ 40,361

Note 6 — Provision for local service assets

The telecommunications industry in Canada is characterized by rapid technological developments, new service offerings, aggressive pricing practices and competition for market share, regulatory and legislative changes and increasing customer demands. The combination of these factors has resulted in the Corporation facing increased market risk in a fully competitive market place for its services. Local service revenues will be impacted by the introduction of competition in 1998 and the reduced ability of the Corporation to continue to cross-subsidize this service with long distance revenues.

In such markets, the Corporation can no longer be assured that prices will be maintained at levels that will recover the net carrying value of its existing local service plant and equipment. Accordingly, the Corporation recorded a \$55.7 million non-cash adjustment to the net carrying value of the assets involved in providing local access service throughout the province. This reduction in the carrying value was determined by an analysis which identified asset values not fully recoverable from future cashflows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 7 — Property, plant and equipment**

	1997	1996
	<i>(Thousands of dollars)</i>	
Buildings, plant and equipment	\$ 2,039,986	\$ 1,956,786
Plant under construction	60,073	49,783
Materials and supplies	11,483	9,461
Land	9,047	8,992
	2,120,589	2,025,022
Less: Accumulated depreciation	1,187,539	1,054,752
	\$ 933,050	\$ 970,270

The composite depreciation rate on the average depreciable telecommunications property in service was 7.6% in 1997 (1996 - 7.7%).

As at December 31, 1997, the ratio of accumulated depreciation to depreciable telecommunications property was 58.1% (1996 - 53.9%).

Note 8 — Other assets

	1997	1996
	<i>(Thousands of dollars)</i>	
Unrealized net foreign currency losses	\$ 23,291	\$ 18,316
Deferred pension costs	21,258	18,395
Goodwill	13,849	3,633
Competition start-up costs	8,493	8,272
Sales-type leases	3,786	4,034
Unamortized discount on long-term debt	1,792	2,051
Other	802	2,958
	\$ 73,271	\$ 57,659

Note 9 — Investments

	1997	1996
	<i>(Thousands of dollars)</i>	
Equity method:		
Investment in Saturn Communications Inc.	\$ 15,174	\$ -
Investment in Regional Cable TV (Western) Inc.	31	2,674
Other	(502)	(239)
Portfolio investments:		
Alouette Telecommunications Inc.	6,820	8,392
	\$ 21,523	\$ 10,827

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 10 — Long-term debt, Province of Saskatchewan**

<u>Years to Maturity</u>	<u>Average Fixed Interest Rate</u> (%)	1997 <i>(Thousands of dollars)</i>	1996
Canadian Dollar Issues			
1 - 5 years	13.00	\$ 68,088	\$ 47,153
6 - 10 years	10.72	167,134	221,625
11 - 15 years	10.09	20,779	34,376
		256,001 (a)	303,154
U.S. Dollar Issue			
23 years	9.38	143,050 (b)	137,060
		399,051	440,214
Less: Sinking funds		87,221 (c)	102,971
Due within one year		2,949	11,882
		\$ 308,881	\$ 325,361

- (a) The fair value of this long-term debt is \$308,439,000 (1996 - \$361,639,000). Fair value reflects the estimated amount that the Corporation would pay, at current interest rates, to redeem the debt at December 31.
- (b) Represents long-term debt repayable in U.S. dollars having a U.S. dollar face value of \$100,000,000 converted to \$115,360,000 Canadian at the time of issue. The recorded amount is based on the foreign exchange rate at December 31, 1997 of 1.4305 (1996 - 1.3706). The fair value of the U.S. debt, expressed in Canadian dollars, is \$189,958,000 (1996 - \$168,378,000). Fair value reflects the estimated amount that the Corporation would pay, at current interest rates, to redeem the debt at December 31.
- (c) Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds administered by the Province of Saskatchewan one percent of the outstanding balance of long-term debt received. The sinking funds include investments having a U.S. dollar value of \$17,380,000 recorded at \$24,862,000 Canadian dollar equivalent. The fair value of the sinking funds is \$101,616,000 (1996 - \$119,476,000) determined as the market value of the investments held in the sinking fund as at December 31.

Note 11 — Other long-term debt

	<u>Fixed Interest Rate</u> (%)	<u>Maturity Date</u>	1997 <i>(Thousands of dollars)</i>	1996
TeleBonds -				
II Credit Bond	6.5	1999	\$ 33,712	34,109
Other		2002	9,236	11,658
			42,948	45,767
Less: Due within one year			2,534	2,336
			\$ 40,414	\$ 43,431

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 12 — Current portion of long-term debt**

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

	(Thousands of dollars)
1998	\$ 5,483
1999	\$ 38,537
2000	\$ 5,288
2001	\$ 43,673
2002	\$ 32,898

Note 13 — Equity advance

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

Note 14 — Short-term borrowings

Included in short-term borrowings are bank overdrafts and notes payable representing interim financing arrangements under established lines of credit with the Province of Saskatchewan. At December 31, 1997 there were \$26,938,000 (1996 - \$nil) of outstanding notes payable bearing interest at an average rate of 4.77%.

Note 15 — Items not affecting cash from operations

	1997	1996
	(Thousands of dollars)	
Depreciation and amortization	\$ 154,122	\$ 147,300
Provision for local service assets	55,665	-
Other	1,642	2,087
Interest charged to construction	(2,254)	(2,110)
Writedown of investment in Alouette Telecommunications Inc.	1,572	-
Premium and foreign exchange adjustments	1,104	764
	\$ 211,851	\$ 148,041

Note 16 — Pension plans

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

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

A defined benefit plan is maintained for those employees hired prior to October 1, 1977 and who did not elect to transfer to the defined contribution plan. The defined benefit plan provides for pensions at retirement which are based on eligible employees' years of service and their highest five years of earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 16 — Pension plans (continued)**

Details of the defined benefit plan are as follow:

	1997	1996
	<i>(Thousands of dollars)</i>	
Plan assets at market related value	\$ 674,773	\$ 605,578
Present value of accrued pension benefits	569,098	547,470
Surplus	\$ 105,675	\$ 58,108

	1997	1996
	<i>(Thousands of dollars)</i>	
Pension expense (income) for the year was as follows:		
Defined contribution plan	\$ 6,338	\$ 5,540
Defined benefit plan	(2,863)	(828)
	\$ 3,475	\$ 4,712

Note 17 — 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 and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (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:

	1997	1996
	<i>(Thousands of dollars)</i>	
Revenue	\$ 43,382	\$ 40,097
Expenses	21,133	22,036
Accounts receivable	5,041	3,305
Accounts payable	11	544

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

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

Note 18 — Commitments

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

	<i>(Thousands of dollars)</i>
1998	\$ 17,181
1999	\$ 15,311
2000	\$ 14,211
2001	\$ 12,557
2002	\$ 11,757

Note 19 — Comparatives

1996 figures have been reclassified to conform to current year's presentation.

Directory

CORPORATE DIRECTORY

EXECUTIVE OFFICERS

Donald R. Ching

President and Chief Executive Officer

Dale Bassen

President
SaskTel International

Dan Baldwin

Senior Vice President
Strategic Business Development
& Marketing

Garry Simons

Group Vice President, Operations
Acting Vice President of
Customer Services

John Meldrum

Vice President
Corporate Counsel and
Regulatory Affairs

Diana Milenkovic

Vice President
SaskTel Mobility

Byron Pointer

Vice President
Human Resources and
Industrial Relations

Kelvin Shepherd

Chief Technology Officer

Randy Stephanson

Chief Financial Officer

SENIOR OPERATING MANAGERS

Mike Anderson

General Manager
Marketing

Dave Birnie

General Manager
Corporate Services

Doug Burnett

General Manager
Human Resources and Industrial Relations

Sean Caragata

General Manager
Corporate Affairs

Don Cherewayko

General Manager
Customer Services - Saskatoon

Ron Gartner

General Manager
Network Performance and Operations

Ken Keesey

General Manager
Customer Services - Regina

Tom Laird

General Manager
Customer Services - Customer Care

Mike Le Cren

Vice President, Operations,
SaskTel International

Dave Lozinski

General Manager
Customer Services - Planning, Provisioning
and Implementation

Kelly Megson

Vice President - Marketing and Sales
Network, SaskTel International

Gavin Nisbet

Vice President - Business Operations,
SaskTel International

Garry Reichert

Acting General Manager
Customer Services - Districts

Al Rogers

General Manager
Mobility

Stacey Sandison

General Manager
Mobility

Daryl Silzer

General Manager
Strategic Business Development

Shelly Smith

General Manager
Advanced Interactive Solutions (AIS)

Dennis Terry

Controller

Barry Watson

Vice President - Informatics and Marketing,
SaskTel International

Al Yam

General Manager
Network Planning, Provisioning
and Access

Linda Yeo

General Manager
Information Technology Management

Barry Ziegler

Vice President, Investments,
SaskTel International

Directors

BOARD OF DIRECTORS



From left to right: Honourable Dwain Lingenfelter (5) Chair of the Board, Deputy Premier and Minister of Crown Investments Corporation (CIC)
Judy Harwood (1), (3), Jim Scharfstein (2), (4), (5), (6), Karen Leir (6), Geoff Wilkinson, Garf Stevenson (2), (3), (6), Tom Kehoe (1), (3)
Missing: Edward Henderson (4), Ron Michel, Sherry Leach

(1) Audit Committee • (2) Environment Committee • (3) Management Resource & Compensation Committee
(4) Corporate Contributions Committee • (5) CEO Evaluation • (6) Governance Committee

Glossary

GLOSSARY OF TERMS

The following defines technical terms that appear in boldface throughout this report:

Access network

The part of the network that connects customers' terminals (e.g. phone sets) to the local switch.

Analogue

In an analogue network, voice signals are represented by a continuously-varying voiceband voltage.

Bandwidth

The range within a band of electronic transmission wavelengths or frequencies.

Broadband

Any transmission rate above 64 kilobits per second.

Core network

The switching and transmission systems that carry telecommunications between switching centres. Includes local and long distance switches, and the fiber, copper wire, microwave, and satellite transmissions systems. In Saskatchewan all of this core network is digital.

Digital

A method of representing information as numbers with discrete (i.e. non-continuous) values, usually expressed as a sequence of binary digits, ones and zeros represented by the presence or absence of an electrical pulse.

Extranet

A private and secure Internet limited to a small community of users: business partners, suppliers, and customers.

Firewall

A system of software and hardware used to protect an organization's network from unauthorized external access.

Intranet

An organization's internal Internet for exchanging information between employees.

New Media

The video, audio, animation, special effects, and multimedia content coming down the information highway via the Internet, TV, CD-ROM, and other information technologies.

For additional copies contact:

SaskTel Corporate Affairs
2121 Saskatchewan Drive
Regina, Saskatchewan S4P 3Y2
(306) 777-2008
ISSN 0080-6633
<http://www.sasktel.com>

Vision

OUR VISION...

SaskTel will be a highly competitive business, committed to delivering outstanding customer service and value while maintaining our commitment to social responsibility and good citizenship. As a leader in technology, we will anticipate and fulfill our customers' needs for cost-effective communications solutions.

Collectively our people will be diverse, creative, flexible and highly skilled, accepting challenges and generating personal and corporate successes that will allow all of us to realize increased job satisfaction and security.

We will achieve ongoing market and financial successes by working as one team focused on excellence. SaskTel will grow profitably and diversify both in Saskatchewan and the world, delivering the benefits of advanced communications to our customers and their communities, our employees, owners and partners.

SaskTel 