2005 Annual Report

Expanding Our Horizons

***You can** stay connected*

SaskTel

Letter of Transmittal

Regina, Saskatchewan
March 31, 2006

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

Dear Lieutenant Governor:

I have the honour to submit herewith the annual report of SaskTel for the year ending December 31, 2005, 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,

Deb Higgins

Deb Higgins
Minister Responsible for SaskTel

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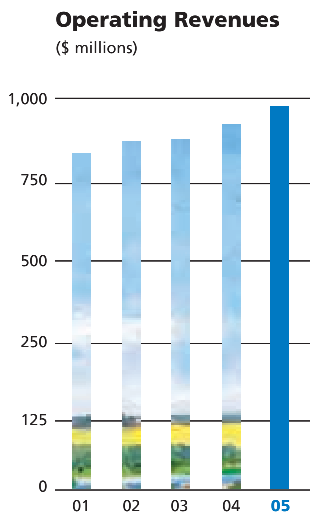
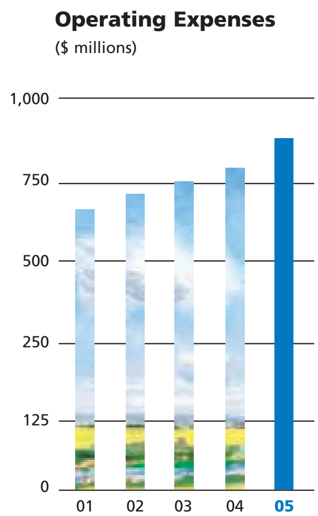
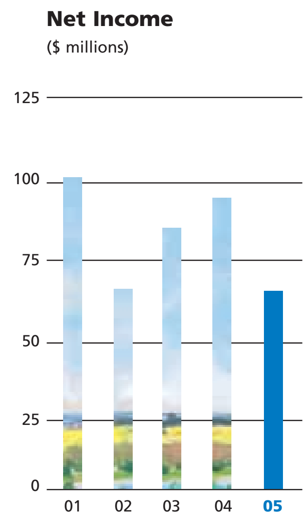
Financial Highlights







Operating Revenues were $49.8 million higher than 2004 due primarily to strong customer growth in cellular services and *Max*™ Entertainment Services, as well as a favourable CRTC ruling that contributed to increased data revenues.

Operating Expenses increased $74.5 million from 2004. The increase was driven by expenses to support cellular and *Max* Entertainment Services revenue growth, as well as by one-time costs associated with an asset write-down in Navigata and the wind-up of the defined benefit retiring allowance.

Net Income, impacted significantly by one-time events, was $64.4 million. Income from operations was $88.6 million, and cash provided by operating activities was $194.9 million.

Capital Expenditures were $18.0 million higher than 2004 as the Corporation continued to focus on infrastructure enhancements to enable the delivery of new and improved Internet Protocol (IP) services to both urban and rural Saskatchewan. Significant expenditures were also directed to other growth initiatives, including *Max* Entertainment Services and cellular network expansion.

Dividends of $57.9 million were declared in 2005.

President's Message

The horizons that encompass SaskTel's business are forever broadening, as our employees adapt to changing technologies and market realities, and as we continue to enhance our state-of-the-art network to enable us to deliver the next generation of world-class products and services to our customers.

Expanding Our Horizons

For more than ten years now, the buzz in the communications marketplace has been about the convergence of voice, video, and data. And for at least that many years, SaskTel has known that this would mean new forms of competition, changes in revenue base, and constant re-investment in our network.

If there was a time when people doubted SaskTel's ability to adapt and renew itself in the midst of these great changes, it is long gone. This Corporation has proven it can face and overcome the many challenges placed before it—the loss of traditional sources of revenue, a big down-turn in the high-tech market, and regulatory decisions that favour new and well-financed market entrants. And with each shift toward convergence, each change in the conditions under which SaskTel operates, this organization has evolved. Today's SaskTel is not the same SaskTel that first faced long distance competition in the mid-90s, not the same SaskTel that committed to a path of growth and diversification in 1994, not the same SaskTel that came under federal regulation in 2000, not the same SaskTel that made its move into the broadcasting market three years ago.

Today, we are going head-to-head with large international competitors who offer Voice over Internet Protocol (VoIP) services. A recent decision on this matter by the Canadian Radio-television and Telecommunications Commission (CRTC) created an uneven playing field in the marketplace and is now in appeal before federal cabinet. We are confident that the appeal will help to level the playing field. Nonetheless, with our market position, our customer satisfaction levels, and our strong financial performance in 2005, we are more than ready to face any competition that comes our way.

SaskTel has been growing beyond its traditional sources of revenue and service boundaries since the 1980s, but these most recent regulatory and competitive pressures have given us new impetus to expand our horizons and take our expertise into new markets. This year, for example, to build upon the huge success of *Max*™ Entertainment Services we announced several new deals with major Hollywood studios to provide our customers with richer Video on Demand (VOD) options. DirectWest, meanwhile, made a move into markets in Alberta. As well this year, SaskTel

introduced the third generation of wireless technology, Evolution Data Optimized (EV-DO), which will bring wireless internet speeds up to par with landline high speed internet service.

These new services and opportunities to grow are the way we see SaskTel evolving itself year to year in response to a converging and competitive market.

But the energy that powers SaskTel's evolution comes from our people. Increasingly, I am seeing SaskTel employees carry their commitment to this corporation well beyond their regular work hours. They take their responsibilities seriously, particularly their obligations to serve the customer and to represent SaskTel, and this dedication fosters our good name within the neighbourhoods and communities of Saskatchewan.

As SaskTel has evolved, its key relationships have also changed and strengthened. Our most crucial links are between ourselves and our customers, suppliers, and dealers, between corporate leadership and staff, and between management and the Communications, Energy, and Paperworkers Union of Canada (CEP), the union that represents SaskTel workers. As we enter the era of VoIP and other competitive challenges, we have to ensure that these relationships remain mutually rewarding. One indication that we are on the right track came in November when J.D. Power and Associates' independent study of customer satisfaction rates in the Canadian wireless industry proved what we have known all along—that SaskTel is number one in Canada when it comes to customer service.

Our responsibility to the people and communities of Saskatchewan is the one constant that has not changed.

In fact, all indicators—surveys of employees, customers, dealers and suppliers, the collective bargaining process, and making Canada's Top 100 Employers list for the sixth year running—tell us that our primary relationships are up to the challenges ahead.

Embracing evolution means not being afraid to let go of what is no longer necessary or helpful. To take advantage of new technologies and new opportunities, we must remain open to change, yet rooted in our corporate vision, which is to deliver "sound financial returns and public policy benefits to the people of Saskatchewan." And so when we move into a new enterprise, any risk is always managed in ways that protect the financial viability of SaskTel as a whole. Our responsibility to the people and communities of Saskatchewan is the one constant that has not changed, that will not change, for it is the axis that holds still while all else turns.

In closing, on behalf of the SaskTel Board of Directors and Executive team, I extend our heartfelt thanks for all of the hard work, creativity, and adaptability shown by our staff in 2005. Leading this Corporation into the next year, we firmly believe that our evolution will continue to bring out the best in people, as our employees take on new roles and new ways of working in an industry that is always expanding its horizons.

Robert Watson

President and Chief Executive Officer

Change, grow, evolve

In times when it would have been easy to see problems standing in the way of growth, SaskTel has always looked beyond obstacles to the horizon of opportunity. Consider our primary market—fewer than one million people dispersed over 650,000 square kilometres of varied and often remote terrain. These are not the statistics that make it easy or profitable to build a world-class network, but we went ahead and built one anyway. Recognizing the strengths and opportunities hidden in the Saskatchewan reality—community spirit and a stubborn determination to beat the odds—SaskTel has constructed fiber optic networks, a digital wireless cellular system, and a wireless high speed internet service that are second to none.

Each of these projects has contributed to the growth and evolution of SaskTel, creating new opportunities for revenue and for our customers. But no network can stay with the status quo for long. In 2005, we invested $116 million in improving and maintaining our network. This constant upgrading of network facilities is a priority at SaskTel because it allows us to anticipate customer needs and find new sources of revenue. In fact, SaskTel has spent approximately $2.2 billion on its network in the last 16 years.

Industry analysts say that in the coming years our customers will increasingly look to Internet Protocol (IP) services for entertainment, business, and information. And that means they will require greater bandwidth connections wherever they live, work, play, and move. We want to be ready, so this year SaskTel launched Next Generation Access Infrastructure (NGAI), a five-year program that will enhance the access facilities in Saskatchewan's ten major centres.

This latest investment in our network will not only benefit our SaskTel High Speed and *Max*™ customers, but will allow us to deliver new IP services as they become available in the next decade.

At the same time, we expanded the reach of our digital cellular and Single Carrier Radio Transmission Technology (1xRTT) networks so that we now reach 95% of Saskatchewan's population. This year, SaskTel was one of the first Canadian companies to turn up EV-DO, a third generation technology that offers wireless internet services at speeds comparable to landline high speed internet. With increased speeds, EV-DO will allow for more robust wireless internet applications and faster upload and download rates.

Improving the existing broadband network is important, but what about customers in areas of lower population density where there has not been any access to IP services? No one in Canada has done more than SaskTel to bring the benefits of high speed internet to rural areas. When the second phase of our CommunityNet program is complete, using wireless internet technology, we will have invested nearly $173 million in expanding this service, and approximately 86% of the population of Saskatchewan will have access to a high quality, price-competitive high speed internet service.

The SaskTel service that keeps expanding and changing most may be *Max* Entertainment Services, our digital TV and high speed internet bundle. As of year end, *Max* had over 42,000 customers. Early in the year, we began making agreements with Warner Bros., Sony, and Paramount to enhance *Max Front Row*™ Video on Demand. These agreements represent a significant expansion in the variety and quality of content available to SaskTel's *Max Front Row* customers. At the same time, we are always adding new features and functions for our *Max* customers—things like *Max* Caller ID and *Max* Games.

No one in Canada has done more than SaskTel to bring the benefits of high speed internet to rural areas.

Connecting people
with a world-class network

Opportunities
in New Markets

If SaskTel had remained as it was 20 years ago, had never looked for opportunities beyond its horizons, we'd be a much different corporation. Assuming we were somehow able to survive the onslaught of competition, we'd be struggling along, stretching whatever small revenue we might make in long distance and local telephone services to cover escalating costs of maintaining a network. Our workforce, so much a part of the Saskatchewan economy and culture, would be reduced drastically. Meanwhile, those customers with alternative service providers would be getting their wireless, broadcasting, and internet services elsewhere, and large, out-of-province service providers would be extracting millions of dollars from Saskatchewan communities. But the truth is that many people in Saskatchewan would simply go unserved.

Since 1986, SI has assisted in generating $500 million in revenue with total profits of $122 million.

But that is only part of the picture. If SaskTel had remained stagnant, never ventured beyond its traditional revenue sources, there would be no SaskTel International (SI) and our skills in engineering, consulting, software solutions, and project management would never have made it onto the global stage. Because SaskTel had the courage to expand and grow, we have been able to help deliver better communication services to millions of people around the globe. Whether it is telecentres in the Philippines, fiber optic cable in the South China Sea, copper cable along the railway system in Tanzania, or the communications system in the English Chunnel between England and France, SI has been there, bringing SaskTel and Saskatchewan know-how to the world. The benefits for Saskatchewan have been great: since 1986, SI has assisted in generating $500 million in revenue with total profits of $122 million through its three lines of business—software solutions, project management and investments.

Growing
to serve you better

DirectWest, SaskTel's wholly-owned directories subsidiary, has grown and reached out to new markets as well. Today, phonebooks have become value-added directories that inform as much as sell. Our online SaskTel Phonebook at www.mysask.com has placed Saskatchewan businesses on the net, and our full-service Internet Business Solutions unit offers web site development and e-commerce solutions that help companies create and enhance their internet presence.

The directories industry has been growing rapidly in Canada in recent years, and so, this past spring, DirectWest made a move into the Alberta market. DirectWest purchased an 85% interest in the assets of Midwest Marketing Inc. and will continue to manage and expand the business in partnership with the owners of Midwest Marketing Inc. The business currently operates as "The Phone Book Company" in the Red Deer and Grande Prairie markets. In alignment with DirectWest's growth strategy, The Phone Book Company is expanding into Edmonton, Lethbridge and Medicine Hat.

Community
Investment

Investing in technology and new markets is important for SaskTel's growth, but only if it serves our first priority, Saskatchewan people and communities. This is the primary investment that drives our corporate strategy—the contribution SaskTel makes in expanding the horizons of our customers and our employees. If you add together the economic value our products and services bring to our customers, the sum shows nearly half a billion dollars flowing annually from SaskTel into the communities we serve. SaskTel has partnered with over 140 private Saskatchewan businesses in over 50 locations, paid over $26 million in commissions in 2005, and has spent more than $277 million on materials and services from over 4,000 Saskatchewan suppliers.

On the other hand, so much of what SaskTel and its employees contribute cannot be measured. How do you put a dollar figure on the laughter of a child at Lake Manitou's Camp Easter Seal when she enjoys a program at the wheelchair accessible amphitheatre being built by SaskTel Pioneer volunteers? Or the lives saved and enriched by the health organizations and community outreach groups that received funding from SaskTel Telcare, our employees' community benevolent fund? Or the excitement and camaraderie generated during the Canada Games this past summer in Regina, to which SaskTel contributed $750,000?

Through our Community Investment Program in 2005, SaskTel donated $3.6 million to 1,644 non-profit and charitable organizations.

Through our Community Investment Program in 2005, SaskTel donated $3,639,608 to 1,644 non-profit and charitable organizations. As well, this year, the SaskTel Pioneers, a service organization of active and retired SaskTel employees, contributed $383,553 and 85,805 hours of volunteer time to community projects. And once again, the SaskTel Pioneers received several national and international Pioneering awards for their tireless volunteering and community projects, including the prestigious President's Award for the third year in a row. Meanwhile, SaskTel Telcare donated $221,728, which is matched 50% by SaskTel, for a total of $332,591 to assist 150 Saskatchewan charities.

In addition to these forms of volunteer and financial support, there is another incalculable value—that is, the social and economic value of all the services SaskTel provides in sparsely populated areas where other service providers have not thought it profitable enough to expand. Last year, SaskTel improved and extended digital cellular service in several locations, including Climax, Orkney, Dorintosh, Avonlea, Glaslyn, Richmound, Blumenhof, Waldheim, Whitecap First Nation, Birch Hills, Lake Alma, Hillsdale, Marsden, Bowlby Lake, Charette Lake, Silver Lake, Onion Lake, Langham, Cumberland House, Osage, Leoville, Balgonie, Dubuc, Green Lake, Kennell and Strongfield.

And with our new wireless internet service launched in 2005 through CommunityNet II, deploying 21 out of 57 planned tower sites, we have begun to reach more and more of Saskatchewan's remote rural areas with our high speed service.

Another example of SaskTel's contribution to the well-being of the province is our participation in the Northern Broadband Network Initiative (NBN) to build the Northern Broadband project, an $11.6 million endeavour co-funded by Industry Canada's Broadband for Rural and Northern Development program, the Canada-Saskatchewan Northern Development Agreement, the Canada-Saskatchewan Western Economic Partnership Agreement and SaskTel. As the service provider for this new network, SaskTel will contribute $6.1 million in capital and operating costs to connect more than 36 northern and First Nation communities to the economic resources and information/entertainment opportunities that Saskatchewan people have come to expect.

Then there is the benefit to local communities that our employees bring after hours—not merely their income, but their positive energies as skilled and engaged citizens. The SaskTel Pioneers alone represent more than 4,300 past and present SaskTel employees. It would be safe to say that our employees in general keep SaskTel woven into the fabric of Saskatchewan's cultural and social life, whether it is in coaching the local soccer team or lending a hand at a music festival.

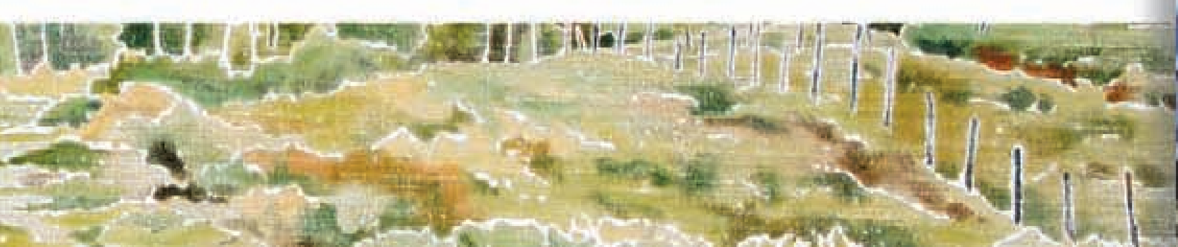
SaskTel also takes care to minimize its environmental footprint, while encouraging Saskatchewan people to recycle and re-use. Plus, this year we have strengthened our environment team and developed a new Ecological Strategy to ensure development as a leader in environmental sustainability. Our Environmental Department received the Corporate Leadership Award at the Saskatchewan Waste Minimization Awards for the work we do with the SaskTel Pioneers on our Paint Recycle Program.

That connection between our employees and the people we serve is part of the reason SaskTel has, for the sixth year in a row, been named one of Canada's Top 100 Employers by Mediacorp Canada Inc. This honour recognizes outstanding Canadian employers that lead the way in attracting and retaining quality employees. The top 100 list is published in a book that grades the organizations in seven areas, including the physical workplace, work and social atmosphere, as well as health, financial and family benefits.

SaskTel realizes that our employees are the Corporation's most valuable resource. Our significant investment in training and development will enable all of our employees to move the company into the future. Additionally, SaskTel has implemented a Representative Workforce Strategy so that our employee base is representative of the diversity of Saskatchewan people. While building a representative workforce is the right thing to do, it is also good business. Diversity in our workforce makes for a diversity of opinion and helps us to better service our diverse customer base.

Our regular customer satisfaction surveys have shown us that SaskTel rates high, but this year our excellence in customer service was confirmed by a study conducted by J.D. Power and Associates, a global market research firm. In their Canadian Wireless Customer Satisfaction Study, the results rank SaskTel highest in customer satisfaction for contracted wireless service. Our employees and SaskTel authorized dealers can take a bow for keeping our contracted wireless customers the happiest in Canada.

Supporting Saskatchewan
people and places



Management's
Discussion and Analysis

Introduction

The following discussion focuses on the strategies, consolidated financial position and results of operations of Saskatchewan Telecommunications Holding Corporation (SaskTel or the Corporation), including its major strategic business units, its subsidiaries, and its investments in significantly influenced companies. This discussion and analysis should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes on pages 44 to 66 of this report.

Forward-Looking Information

Many sections of this discussion include forward-looking statements about SaskTel, its objectives, strategies and financial condition. A statement is forward-looking when it uses information known today to make an assertion about the future. Forward-looking statements may include words such as *anticipate, believe, could, expect, intend, may, should, will* and similar expressions. Since these forward-looking statements reflect expectations and intentions at the time of writing, actual results could differ materially from those anticipated if known or unknown risks and uncertainties impact the business, or if estimates or assumptions turn out to be inaccurate. As a result, SaskTel cannot guarantee that any of the predictions forecasted by forward-looking statements will occur. As well, forward-looking statements do not take into consideration the effect of transactions or non-recurring items announced or occurring subsequently. Therefore, SaskTel disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a more detailed assessment of the risks and uncertainties that could impact future results, please refer to the Risk Assessment section of this report on page 38.

2005 MD&A

2005 Overview and Strategic Focus

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

Saskatchewan Telecommunications (Telco) is the leading full-service communications provider in Saskatchewan, providing competitive voice, data, dial-up and high speed internet, entertainment and multimedia services, web hosting, text and messaging services, and cellular and wireless data services over its digital networks. The Corporation also provides security monitoring services through SecurTek, directory services through DirectWest, in-room communications services to the healthcare sector through Hospitality Network, telecommunications consulting services through SaskTel International and national telecommunications services through Navigata Communications.

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

In 2005, SaskTel revised its current vision for 2006 and beyond to emphasize the contribution of employees and business partners. *SaskTel is an innovative, quality-driven communications solutions provider for our Customers worldwide. Together, our team of dedicated employees, our business partners, and our technology leadership will deliver sound financial returns and public policy benefits to the people of Saskatchewan*. In striving to achieve this vision, SaskTel has revised its previous six strategic imperatives and has identified five long-term core strategies for 2006 and beyond (see the Performance Management section of this report, pages 23 to 25).

In 2005, several initiatives were implemented which support SaskTel's strategic direction and the overarching strategies of Focus on the Customer, Operational Efficiency and Growth. Dedication to these strategies resulted in SaskTel achieving many of its performance targets in 2005.

Focus on the Customer

SaskTel currently enjoys very strong public perception and customer service indicators. Over the last 12 years, SaskTel has been successful in evolving from its former status as a monopoly supplier to a highly competitive and customer-focused company. SaskTel's future success will depend on its capacity to continue building and improving customer relationships and loyalty so that service remains a differentiator for SaskTel. SaskTel needs to ensure that it delivers true service excellence with each and every customer interaction. The relationship between SaskTel and its customers remains crucial to SaskTel's future success.

Operational Efficiency

Since the early 1990s, SaskTel has been managing the introduction of competition and regulation within the constraints of a large organization with a significant cost base. Operational efficiency and cost reduction programs have been ongoing. SaskTel has aggressively reduced its debt to capitalization ratio and interest costs. Other cost containment measures have included process improvements, personnel reductions within the Telco business and product exits. Today, this pressure comes from Internet Protocol (IP) based competitors who offer lower cost services with advanced features. Expanding into new products and services, while maintaining legacy services and support, exerts upward pressure on operating costs. The cumulative target for 2004–2005 was $43.7 million and SaskTel was slightly below this target at $43.5 million. Initiatives such as the Early Retirement Program (ERP) contributed to the savings realized in 2005. Cost efficiencies are an important component of SaskTel's strategy; however, cost curtailment alone will not lead to SaskTel's future success. Cost reduction programs are pursued within the framework of maintaining customer loyalty and high-quality service, while minimizing negative impacts on employee morale. A continued focus on growth is also important if SaskTel is to meet its targets and continue to deliver to customer, shareholder and employee expectations.

Growth

In the early 1990s, SaskTel recognized that revenue and margins from traditional sources would diminish over time due to competition, price reductions and regulation. In preparation, management developed a growth strategy to increase revenues and profitability from new sources and to add value for customers and the shareholder, without significantly increasing the overall risk profile of SaskTel and without changing or jeopardizing SaskTel's primary purpose of serving Saskatchewan first.

A key component of SaskTel's growth strategy is risk mitigation and management. Not all new services and ventures can reasonably be expected to be successful; however, a number of appropriate parameters and governance structures are in place to mitigate risk. For a more detailed discussion of how SaskTel manages its investment risk, see the Risk Assessment section of this report on page 38.

SaskTel's external investment program is increasing in value, fulfilling its goal for the future. Based on the most recent business plans for these investments, the estimated value of SaskTel's current external investment portfolio is $242 million to $298 million compared to the $116 million net amount invested.

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

1. Evolving existing markets; and

2. Expanding our markets

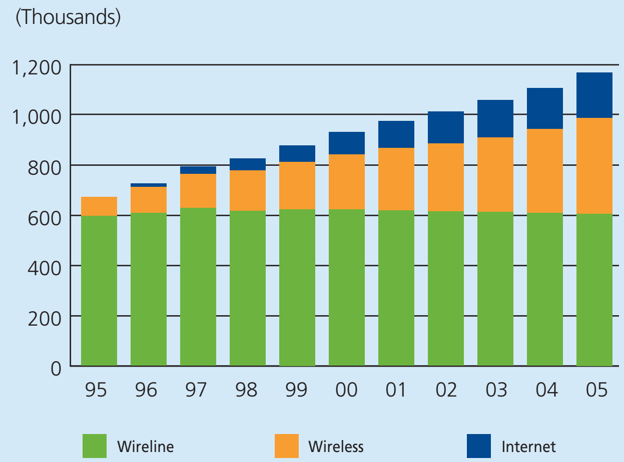
1. Evolving Existing Markets

Saskatchewan Telecommunications (Telco)

SaskTel's key growth areas are within its largest subsidiary, Saskatchewan Telecommunications, its 100% wholly owned operating company. While it provides traditional services such as local access and long distance, the Telco also offers services that have contributed to SaskTel's growth over the past several years such as digital cellular voice and data, text messaging, *Max*™ Entertainment Services, data, high speed internet, data storage, enhanced services, and WiFi internet access. The Telco employs 3,500 people in Saskatchewan and its head office is located in Regina.

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

Access Growth by Type



DirectWest Publishing Partnership (DirectWest)

DirectWest, a wholly owned subsidiary of SaskTel, has been publishing telephone directories in Saskatchewan for over 46 years. The business has evolved to include new media opportunities and expanded into the internet market, the specialty publishing market, and the independent phone directory market outside Saskatchewan. DirectWest publishes and distributes ten telephone directories in the cities and districts across Saskatchewan, and provides these directories online at Saskatchewan's leading internet portal: www.mysask.com. Besides consistently generating value through its directories (print and online), the company continues to add new services and solutions for its customers such as web site development, online advertising, e-mail marketing, e-commerce and specialty publications. DirectWest owns 85% of The Phone Book Company Partnership, which publishes and distributes three telephone directories in Alberta with plans to distribute directories in Lethbridge and Medicine Hat. DirectWest's head office is in Regina, with a second office in Saskatoon. The company employs over 100 people.

Hospitality Network Canada Partnership (Hospitality Network)

Hospitality Network was a venture founded with private Saskatchewan business interests to provide entertainment services to the hospitality industry in 1994, and has evolved to become Canada's leading provider of television and telephone services in hospitals and seniors housing. Hospitality Network is now a wholly owned subsidiary of SaskTel after the remaining minority shares were obtained in 2005. Its head office is in Regina with 335 employees nationwide including 39 in Saskatchewan. This venture has been profitable since 2000 and continues to evolve its products, pursue growth opportunities and build value for its shareholders.

SecurTek Monitoring Solutions Inc. (SecurTek)

SecurTek, a wholly owned subsidiary of SaskTel, provides commercial and residential security monitoring services to customers in Saskatchewan, Alberta, Manitoba, British Columbia, and selectively in Ontario, from its Yorkton, Saskatchewan and Winnipeg, Manitoba monitoring centres. Operating a security monitoring centre leverages SaskTel's call centre, network management and process expertise. Through its established dealer program, SecurTek partners with 107 independently owned firms including retail dealers, wholesale dealers, and servicing dealers that provide security sales and service to end customers. Fourteen of its dealers are Saskatchewan-based firms. SecurTek has 109 employees, including 90 full-time and three part-time employees who work at SecurTek's head office in Yorkton. SecurTek has been profitable since 2002.

Streamlogics Inc. (Streamlogics)

Streamlogics is a leading provider of webcasting applications and services to more than 500 businesses, associations, and government organizations worldwide. Streamlogics' head office is located in Toronto, Ontario and its research and development and support facility is in Regina, Saskatchewan. SaskTel invested in Streamlogics to combine SaskTel's existing data hosting and video streaming competencies with a marketing and sales reach outside of Saskatchewan. Streamlogics' service offerings include webcasting, web conferencing and media hosting. SaskTel has a 42.4% equity interest in Streamlogics. Streamlogics achieved growth and profitability in 2005.

Business Watch International Inc. (BWI)

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

During 2005, SaskTel invested an additional $0.1 million in BWI, increasing its ownership percentage to 95.5%. The company is continuing to gain market traction and acceptance in Canada and the United States. During 2005, BWI signed a five year agreement with the City of Edmonton and developed, on time and under budget, a system for the 18 member counties of the Washington DC Council of Governments.

In early 2006, SaskTel fully divested its interest in BWI.

Saskatoon 2 Properties Limited Partnership (Saskatoon Square)

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

2. Expanding Our Markets

Saskatchewan Telecommunications International Inc. (SaskTel International)

SaskTel International, a wholly owned subsidiary of SaskTel, helps its clients in countries around the world to develop, improve and expand their telecommunications systems by providing infrastructure project management services.

Over its 19 years of existence, SaskTel International has helped bring total revenues of $500 million and total profits of $122 million to SaskTel, and has earned a profit every year since 1992. All SaskTel International's revenues and profits are repatriated to SaskTel, where they are used to sustain and improve SaskTel's network and services in Saskatchewan and enhance returns to the Province in the form of dividends. SaskTel International provides employment for 98 people.

Navigata Communications Partnership (Navigata)

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

Investment Portfolio Summary

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

Investments as of December 31, 2005

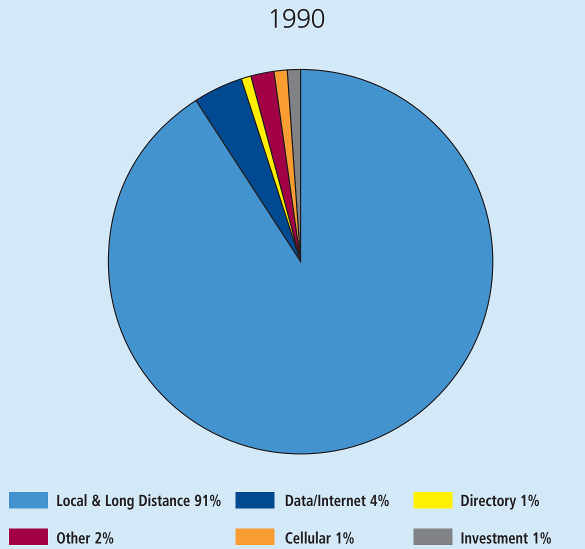
($ millions)	Book Value	Valuation Range Low	Valuation Range High
DirectWest	$ 14.6	$ 154.0	$ 188.0
Hospitality Network	32.3	33.0	37.0
SaskTel International	2.9	10.0	20.0
SecurTek	31.7	36.0	44.0
Non-wholly owned subsidiaries	4.9	9.0	9.0
Total	$ 86.4	$ 242.0	$ 298.0

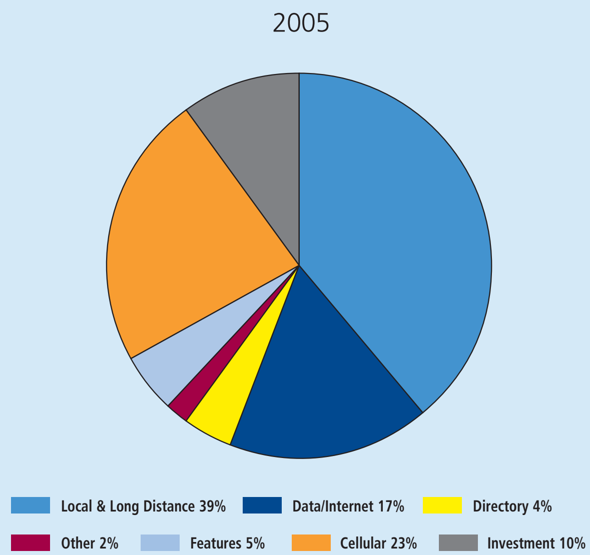
Non-wholly owned subsidiaries as of December 31, 2005

($ millions)	Book Value
BWI	$ 0.5
Navigata	3.3
Saskatoon Square	0.4
Streamlogics	0.7
Total	$ 4.9

Results of Growth

SaskTel's growth strategy has been relatively successful. SaskTel has grown from $574.5 million in revenues in 1990 to $982 million in 2005, despite a reduction in long distance revenues of approximately $260 million per year, a decline of greater than 65%. Comparing the revenue from the existing products in 1990 to the products available in 2005, approximately 59% of SaskTel's revenue directly resulted from its growth strategy, as compared to approximately 7% in the early 1990s:





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

- SaskTel now has seven business units contributing net income (Telco, DirectWest, SaskTel International, Hospitality Network, SecurTek, Saskatoon Square, and Streamlogics). Navigata, while not yet profitable, is projected to achieve long-term value for SaskTel.

- SaskTel has a strong competitive culture, allowing SaskTel to shift from a monopoly telephone company into a flexible competitor. This shift has contributed to the success of new products launched by SaskTel.

- SaskTel partners with local businesses throughout Saskatchewan by establishing dealer networks to market products and services. At the end of 2005, SaskTel's Saskatchewan dealer network included 107 SaskTel Mobility dealer stores, 70 SaskTel High Speed Internet dealer stores, 32 SaskTel *Max*™ dealer stores and 14 SecurTek retail dealers. In 2005, SaskTel paid over $26 million in commissions to its wireless, high speed internet, *Max* and SecurTek dealers in Saskatchewan.

- SaskTel has significantly reduced its debt load. Its debt ratio has fallen from 72.2% as of December 31, 1990 to 28.3% as of December 31, 2005.

- SaskTel has paid significant dividends to Crown Investments Corporation—a total of $972 million in the last 16 years.

- SaskTel has invested in excess of $2.2 billion in infrastructure in Saskatchewan in the last 16 years. The additional revenue earned by SaskTel's growth strategy has helped SaskTel build one of the best wireline networks in the world and a cellular network that covers over 95% of the Saskatchewan population. High speed internet access is now available to over 80% of the Saskatchewan population.

- SaskTel offers and maintains some of the most innovative and best-valued communications services in Canada. Even though Saskatchewan has a high proportion of high cost serving areas as defined by the Canadian Radio-television and Telecommunications Commission (CRTC), Saskatchewan people and businesses receive the benefit of some of the lowest rates in Canada.

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

2005 Performance Management

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

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

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

In 2005, SaskTel's vision was: *SaskTel is a highly innovative and competitive communications solutions provider for our Customers worldwide, delivering sound financial returns and public policy benefits to the people of Saskatchewan. Our focus is our Customer. Our strength is our People*. SaskTel had six strategic imperatives in 2005 that flow from this vision to form the Balanced Scorecard: financial management, customer, technology, growth, people, and public policy. These strategic imperatives are aligned with CIC's overall strategic objectives. Each strategic imperative is defined by a statement of direction. From this statement, SaskTel sets objectives, measures and targets. The scorecard is not static; it may change from year to year when SaskTel's business changes.

The following are the key components of SaskTel's 2005 Balanced Scorecard, including a discussion of performance.

Financial Management

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

		Results	
Objective	**Measure**	**2005 Target**	**2005 Actual**
Provide a positive return to shareholder	Consolidated Net Income Net income is the amount remaining when all expenses incurred and accrued during an accounting period are deducted from all revenues received and accrued during that same period. Consolidated net income is the accumulated net income of SaskTel and its subsidiaries after adjusting for inter-company transactions.	$94.2M	$64.4M
	Return on Equity Net income expressed as a percentage of average total equity.	14.2%	9.7%
	Dividends Declared The share of profits that will be paid to Crown Investments Corporation.	$84.8M	$58.0M
Revenue growth	Gross Revenue	$946M	$982M
Self-sustaining growth	Debt Ratio Long-term debt less cash as a percentage of long-term debt less cash and equity.	40.7%	28.3%
Operational efficiency	Cumulative Expense Reductions in the Year The cumulative total of annualized savings achieved over the year under SaskTel's Operational Efficiency Program. Target is set to remove costs from traditional operations.	$43.7M	$43.5M

Financial Management Results - Please refer to the Results of Operations on page 26.

Customer

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

Objective	Measure	Results	
		2005 Target	2005 Actual
Understanding and delivering what customers value	Customer Survey Results Every month, SaskTel completes a random survey of its residential and business customers to assess their perceptions of SaskTel on dimensions important to them when making their telecommunications buying decisions. The Corporation also benchmarks these perceptions against its competitors and other companies. For these measurements, the Corporation uses a standard methodology of rating customers' agreement with a particular statement. The customer must rate SaskTel an eight or better on a 10-point scale for their answer to be considered agreement.		
	Outstanding Customer Service - "SaskTel employees provide outstanding customer service."	71	73
	Easy to do Business With - "SaskTel is a company that is easy to do business with."	76	76
	SaskTel Provides Best Value - "When thinking of everything SaskTel provides, they provide the best value for my communication needs."	60	60
Establishing and maintaining long-term customer relationships	Market Share SaskTel measures market share for each service based on the proportion of service units attributable to SaskTel in Saskatchewan.		
	Long Distance	85%	88%
	Local Access	95.6%	99.5%
	Internet - Provincial Dial-up and High Speed	72%	74%
	Mobility	82%	79%
	Directory	90%	97.9%
	SecurTek	36%	35%

2005 Customer Results

Customer feedback indicates that SaskTel is meeting its targets for providing outstanding customer service, being easy to do business with, and offering best value. SaskTel will continuously work to understand what customers need and value. SaskTel's market shares also indicate that the respective subsidiaries are doing well at establishing and maintaining long-term customer relationships. SaskTel is proud to be a Saskatchewan company and is thankful for the loyalty its customers have shown.

Growth

Objective	Measure	Results	
		2005 Target	2005 Actual
Grow SaskTel's business	% of Revenues from Growth Initiatives	29.6%	29.0%

2005 Growth Results

The percentage of revenue from growth initiatives of 29.0% is slightly below the target of 29.6%. On a dollar basis, revenues from growth initiatives and investments are tracking slightly above budget for the year. However, the percentage of revenues from growth initiatives and investments are lower than budgeted due to higher than anticipated overall revenues, driven to a large extent by higher than budgeted legacy services.

Technology

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

Objective	Measure	Results	
		2005 Target	**2005 Actual**
Increase Internet Protocol (IP) network reliability	Managed Service Provider These key indicators measure availability/reliability of the Internet Protocol (IP) core network. Indicators are based on server and network availability within and to/from the data centre, using unplanned outages as a percentage of total time available. The measure of success is availability of CommunityNet and/or the standalone data centre for SaskTel's major customers. *LANspan IP*™ service supports the CommunityNet Program by connecting educational institutions, healthcare facilities, government offices and private sector businesses.		
	LANspan IP availability	99.90%	99.96%
	10/100 Mbps Data Centre(s) availability	99.995%	99.987%
Competitive high speed internet service provider	% of Saskatchewan Population with Access to SaskTel's High Speed Internet Service	80.5%	80.2%

2005 Technology Results

The availability and reliability of SaskTel's core IP network in 2005 was excellent. SaskTel will aim for continuous yearly improvement as part of delivering best of class IP services to its customers. In addition, part of SaskTel's mandate is to expand its high speed internet into rural Saskatchewan. To date, over 80% of the Saskatchewan population is served, and SaskTel will continue to explore ways of economically serving as much of the population as possible.

People

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

Objective	Measure	Results	
		2005 Target	**2005 Actual**
Engaged Employees	Employee Satisfaction	75% above norm	71%
Representative Workforce	Female Representation in Management, Professional or Technical Positions	25 hires/ promotions	38
	Aboriginal People		
	Permanent Representation	4.8%	5.8%
	Permanent Hires	19	20
	Overall Representation	6.7%	7.0%
	Visible Minorities		
	Permanent Hires	4	4
	People with Disabilities		
	Permanent Hires	5	9
	% Equity Hiring	60%	54.6%

2005 People Results

SaskTel demonstrates its motto of "Our Focus is our Customer. Our Strength is our People" in a number of ways. SaskTel undertakes an employee survey annually, conducted by a professional human resources firm, to show corporate strengths as well as opportunities for improvement. The 2005 employee survey showed that 79% of SaskTel employees rate their respective subsidiary as an above average place to work, which is well above the norm.

SaskTel's commitment to its employees has also been validated externally, as for the sixth consecutive year SaskTel was recognized as one of "Canada's Top 100 Employers". SaskTel is the first and only firm to be given this award for six consecutive years.

In 2005, SaskTel either met or exceeded its Representative Workforce targets. This helps SaskTel in achieving its Representative Workforce strategy to reflect the equity demographics of the Province by 2009.

Public Policy

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

		Results	
Objective	**Measure**	**2005 Target**	**2005 Actual**
Satisfaction Among SaskTel Suppliers	Supplier Satisfaction Measured every two years	78%	78.5%
Contribution to the Lowest Cost Utility Bundle	SaskTel Residential Basic Service Rate Increases	0%	0%

2005 Public Policy Results

SaskTel will continue to provide affordable, accessible basic telephone service at rates comparable to those set by the CRTC in other jurisdictions. SaskTel will continue to fulfill its public policy statement by further expanding high speed internet service; donating to non-profit and charitable organizations around the province; supplying volunteer hours to community projects through the SaskTel Pioneers; and spending money on materials and services from Saskatchewan suppliers. SaskTel will also maintain its position as a company committed to Saskatchewan communities and continue to focus on being an environmentally friendly organization.

2006 Overview and Strategic Focus

The Communications Industry

The communications industry continues to be extremely challenging and competitive. While the majority of players are returning to a point of financial stability, changes in technology, regulation and customer expectations will impact the health of the industry in the coming years. Consolidation has rationalized the industry and left only the strong players. However, the advent of Internet Protocol (IP) technologies and the convergence to realize a digital lifestyle brings new players that do not carry legacy baggage and/or have globally recognized brands that provide a competitive advantage. It is anticipated that pure-play Voice over Internet Protocol (VoIP) providers are not sustainable; however, of more concern are the non-traditional competitors that will continue to vertically integrate or diversify their products to offer different bundles to consumers.

New technologies which will increase the appeal and functionality of network devices will be positive for consumers but may result in stranded investment and more players vying for a smaller revenue base. For instance, the trend of having only a wireless phone rather than both a wireline and wireless access is becoming more prevalent. However, the increased revenue from the customer on the wireless access does not equal the loss of revenue for the wireline service. While it may be some time before such trends have a noticeable impact, SaskTel is cognizant of the changes and is positioned to exploit rather than react to the inevitable.

Service bundles continue to gain popularity throughout North America. The services in the bundle and the technology which is used to deliver the service has been and will continue to evolve. Service providers are evolving to offer components of the bundle which they may not have traditionally. For example, cable companies are providing voice services via VoIP, providers that have not offered cellular services in the past are establishing resell agreements, and telcos are offering broadcast services through either satellite, satellite resell or IP television via digital subscriber line (DSL) technology. While bundles may vary from each provider, the majority of the bundles must offer a voice service, whether it is wireline, wireless or VoIP, a high speed internet service and a broadcast component.

The Royal Bank of Canada anticipates the compounded annual growth rate (CAGR) for Canadian communications revenues for 2004 to 2010 to be 2.1% over the six years. This is a blended rate comprised of the continued decline in long distance, local access and some data products and the growth of wireless, broadband, and broadcast products.

Estimates for the impact of VoIP have been tempered after several months of the product being available in the market. Slower than expected mass adoption has been attributed to disciplined pricing by most competitors and the inability of many of the pure-play VoIP providers to offer a bundle to customers. Industry analysts agree that incumbent telephone companies (ILECs) will experience greater revenue and subscriber loss to cable telephony rather than pure-play VoIP providers.

Internet Protocol is a disruptive technology that is and will be used for much more than internet transport. The growing proliferation of IP based applications including VoIP and broadcast over IP will continue to reduce barriers of competitive entry and drive the cannibalization of traditional revenue streams for both telecommunications and broadcast suppliers. Physical geographic presence is no longer a requirement. This provides both challenges and opportunities for incumbents and market entrants who choose to expand their reach.

Financial and Growth Outlook

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

In 2006, SaskTel forecasts net income growth and ongoing dividends over the planning horizon. At the same time, SaskTel will undertake an unprecedented capital construction program upgrading SaskTel's infrastructure to provide leading edge products and services to the people of Saskatchewan. In addition, for the first time in its 99 year history, SaskTel forecasts in excess of $1 billion gross revenues.

Core Strategies

To succeed in this challenging environment, SaskTel has developed five core strategies which are intended to focus the organization on the areas deemed to be critical to SaskTel's long-term sustainability. Each of the strategies has a set of objectives and measures through which it will measure success which are detailed in the Balanced Scorecard (BSC).

Financial

To continue to create value for SaskTel's shareholders through revenue growth and operational efficiencies across all subsidiaries.

Customer

To ensure customer loyalty by delivering what customers value, while continuing to expand our customer base.

Innovation and Growth

To grow the business by pursuing profitable investment opportunities that leverage our core business;

To deploy leading-edge services and technologies.

People

To be a team of highly motivated individuals diverse in skills and backgrounds.

Public Policy

To contribute to the economic and social well being of the people of Saskatchewan.

Saskatchewan Telecommunications

(www.sasktel.com) will focus in 2006 on an unprecedented capital construction program to upgrade the Telco's infrastructure to provide leading edge products and services to the people of Saskatchewan.

The Next Generation Access Infrastructure (NGAI) program along with the evolution of CommunityNet and the continuing evolution of the Telco wireless network will result in Saskatchewan residents having one of the most sophisticated networks in the world. While NGAI is primarily focused on increasing bandwidth to large urban centres, work will continue, in parallel, to expand services to rural areas. These service improvements include the redeployment of some existing technologies to provide access to increased bandwidth to rural areas wherever reasonable, continuing work with the Government of Saskatchewan on the expansion of CommunityNet, the expansion of high speed internet access, expanding the footprint of digital cellular service and cellular data services through the deployment of Evolution Data Optimized (EV-DO). The Telco is also considering alternative broadband technologies such as WiMAX for increasing access to broadband services.

Enabled by these network deployments, the Telco will be able to offer:

- high speed internet at greater speeds, high definition television (HDTV), three set-top boxes and personal video recorders (PVR) for *Max*™ Entertainment Services
- higher bandwidth EV-DO available for new wireless data and video applications

The end result will be an increased number of subscribers and greater access to these services in the Province.

DirectWest

(www.directwest.com) holds a directory advertising market share exceeding 97% in Saskatchewan and expects continued success in this business line in 2006. DirectWest's internet business solutions continue to lead and innovate, and further growth is expected in this area. DirectWest's specialty publications products are also expected to show year over year growth, although this growth may be limited by the current challenges in the agricultural sector. The company's independent phone book business in Alberta is expected to grow significantly as additional markets are served and the local economy continues to grow. Overall, DirectWest expects growth to accelerate in 2006.

Hospitality Network

(www.hospitalitynetwork.ca) will continue to grow and pursue opportunities to provide entertainment and communications services to the healthcare market. Hospitality Network will continue to develop new products for its existing customers while looking to acquire new customers in its existing markets. Their dominant position in acute care hospitals and their strategic positioning to capture a dominant position in the seniors housing segment are also expected to continue in 2006.

Navigata

(www.navigata.ca) continues its reorganization that will pursue both streamlining of the operations and synergies with SaskTel throughout 2006 in order to attain profitability. Despite the financial challenges currently facing Navigata, SaskTel believes that Navigata will be successful as a vehicle for delivering next generation IP-based services to customers throughout Canada. Navigata is transforming its business to move away from product reselling so that it need not rely on competitors to deliver its services. Its new business plan is to develop products and services with SaskTel, so as to take advantage of SaskTel's network and systems. VoIP services, fixed wireless access through Wi-Fi and similar technologies, and continued outstanding customer service are keys to Navigata's success. Operating Navigata allows SaskTel to serve its Saskatchewan-based customers with operations elsewhere in Canada and North America. Prior to this acquisition these customers may have been lost to national service providers.

SaskTel International

(www.sasktel-international.com) will continue to pursue consulting and large telecommunications projects worldwide that leverage SaskTel's core strengths of designing, building and operating advanced networks in 2006. These projects may lead to additional business in Africa, the Middle East, the Americas, Asia and other areas of the world. SaskTel International will continue to develop its software suite of products to meet changing business objectives and increase market share.

SecurTek

(www.securtek.com) will continue its focus in 2006 to develop its presence outside of Saskatchewan where SecurTek will look to add new dealers and increase the strength of its existing dealers. Within Saskatchewan, SecurTek will introduce new products and services that broaden its revenue base and reduce the impact of substitute products and services, competition and industry consolidation.

2006 Performance Management

During the 2005 Strategic Planning Process, the existing Balanced Scorecard (BSC) was analyzed and revised to show clear alignment and consistency with the new Core Strategies. The refined BSC is intended to focus the Corporation on the areas it and its shareholder believes are key to the future success of SaskTel. This focus is required given that, to address current challenges SaskTel must increase revenues, decrease costs and manage its changing workforce concurrently.

Financial Management

To continue to create value for SaskTel's shareholders through revenue growth and operational efficiencies across all subsidiaries.

Objective	Measure	2006 Target
Revenue growth	Gross Revenue Encompasses all SaskTel Holding Corporation revenues.	$1,015.6M
	Capital Represents the capital spending incurred for the year including both capital and external investments.	$416.6M
Provide a positive return to shareholder	Consolidated Net Income Net income is the amount remaining when all expenses incurred and accrued during an accounting period are deducted from all revenues received and accrued during that same period. Consolidated net income is the accumulated net income of SaskTel and its subsidiaries after adjusting for inter-company transactions.	$70.5M
	Return on Equity Net income expressed as a percentage of average total equity (before restructuring).	15.5%
	Debt Ratio Long-term debt less cash as a percentage of long-term debt less cash and equity.	42.2%
	Dividends Declared The share of profits that will be paid to Crown Investments Corporation.	TBD
	Operational Efficiency The total annual targeted expense reductions to be achieved over the year under SaskTel's Operational Efficiency Program.	$17.4M

SaskTel will continue to face challenges in 2006 in terms of declining revenues from traditional sources, competitive pricing pressures, and potentially negative regulatory decisions. As such, SaskTel will have to sustain profitability and long-term value through growth, operational efficiency and capital investment initiatives. It is during 2006 that SaskTel forecasts to surpass the $1 billion gross revenue mark; a first in its 99 year history.

Customer

To ensure customer loyalty by delivering what customers value, while continuing to expand our customer base.

Objective	Measure	2006 Target
Sustain our customer base in Saskatchewan while growing our customer base out of province	Customer Perception Every month, SaskTel completes a random survey of its residential and business customers to assess their perception of SaskTel on dimensions important to them when making their telecommunications buying decisions including: Outstanding Customer Service - "SaskTel employees provide outstanding customer service." Easy to do Business With - "SaskTel is a company that is easy to do business with." SaskTel Provides Best Value - "When thinking of everything SaskTel provides, they provide the best value for my communications needs." This measure will reflect the average of the above three questions and the Corporation will use a standard methodology of rating customers' agreement with the particular statement. The customer must rate SaskTel an eight or better on a 10-point scale for their answer to be considered agreement.	70%
	# of Customers In/Out of Province SaskTel will measure distinctly both the number of customers in and out-of-province (thousands).	in - 842 out - 62
	Dealer Satisfaction Annually, a survey is conducted by Mobility External Channel Management to measure the level of satisfaction of all dealer channels in place at SaskTel. Individual survey results are weighted to determine an overall dealer satisfaction score.	63%

SaskTel must continue to retain and attract customers. SaskTel places a high priority on establishing and maintaining mutually beneficial, long-term customer, dealer and supplier relationships.

With the convergence of telecommunications products (VoIP and wireless), defining markets has become challenging. As such, SaskTel will now track the number of customers as opposed to market share, as it is believed that this is a more accurate measure for tracking customers in the market.

Innovation and Growth

To grow the business by pursuing profitable investment opportunities that leverage our core business; To deploy leading-edge services and technologies.

Objective	Measure	2006 Target
Simplify and improve processes through IP transition	Targeted Cost Reductions through IP Transition	TBD
Increase revenues and decrease expenses to sustain net income	Revenue from growth initiatives Earnings from external investments	$380M $15.5M

The telecommunications industry will continue to be highly competitive. Therefore, to sustain profitability SaskTel will need to pursue opportunities which enhance revenue growth and undertake initiatives to achieve operational efficiencies.

People

To be a team of highly motivated individuals diverse in skills and backgrounds.

Objective	Measure	2006 Target
Representative Workforce To create an environment that values and more closely reflects the diversity of the community we serve	Female Representation in Management, Professional, or Technical Positions Aboriginal People (Permanent Hires) People with Disabilities (Permanent Hires)	25.5% 30 5
Employer of Choice Create and enhance employee engagement (satisfaction)	Employee Satisfaction (% of factors above the Hay Norm)	75%
Investment in Employees Create a highly productive workforce with the skills and knowledge required to achieve current and future business plans	Percentage of Employees Receiving Training (5% above National Average from prior year)	75%

To ensure the future sustainability of SaskTel's workforce and operating environment, strategies to address the challenges of changing demographics, evolving skill sets and labour shortages are being devised. SaskTel will continue to focus on its Representative Workforce strategy.

Public Policy

To contribute to the economic and social well being of the people of Saskatchewan.

Objective	Measure	2006 Target
To be positioned as a company committed to the province of Saskatchewan	$ Spent Contributing to the Saskatchewan Economy % of Population with Access to SaskTel High Speed Internet	$489M 83.5%
Contribute to the lowest cost utility bundle	SaskTel Basic Service Rate Increases	0%
To be an environmentally sustainable organization	Develop and Implement an Environmental Sustainability Strategy	Strategy Implemented

As a Crown Corporation, SaskTel has a social responsibility to the people and businesses within the Province of Saskatchewan. SaskTel ensures that it is contributing to the well being of the Province through technical innovation and leadership, skilled workforce, economic growth, community support and environmental stewardship.

Results of Operations

Net Income

Consolidated Net Income

($ millions)	2005	2004	Change	%
Operating Revenues	**$ 982.2**	$ 932.4	$ 49.8	5.3
Operating Expenses	**893.6**	819.1	74.5	9.1
Income from operations	**88.6**	113.3	(24.7)	(21.8)
Other items	**1.3**	0.5	0.8	160.0
Interest and related costs	**(25.5)**	(27.0)	1.5	(5.5)
Income before the following	**64.4**	86.8	(22.4)	(25.9)
Gain on sale of investments	**-**	8.0	(8.0)	(100.0)
Income from continuing operations	**64.4**	94.8	(30.4)	(32.1)
Loss from discontinued operations	**-**	(0.3)	0.3	(100.0)
Net income	**$ 64.4**	$ 94.5	$ (30.1)	(31.9)

The Corporation's operating revenues increased by $49.8 million (5.3%) in 2005, primarily due to strong customer growth in cellular and *Max*™ Entertainment Services. A favourable CRTC decision also contributed to the increase in revenues.

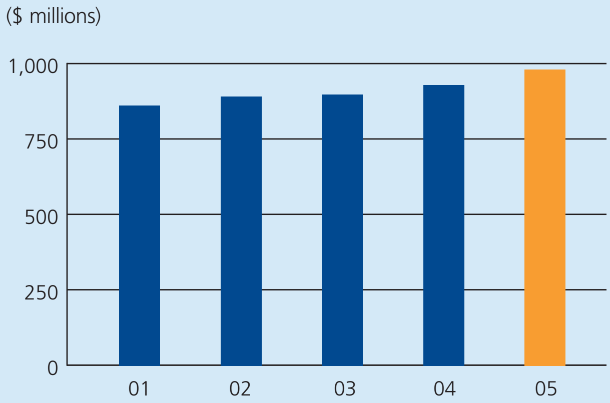
The Corporation's 2005 income from operations, at $88.6 million, was down $24.7 million from 2004. The operating revenue increases were more than offset by a one-time write-down of property, plant and equipment in Navigata, a one-time expense to recognize the wind-up of the defined benefit retiring allowance, which resulted from the settlement of the collective agreement with the Communications, Energy & Paperworkers Union (CEP), and by an increase in direct expenses to support revenue growth.

The Corporation's consolidated income from continuing operations decreased by 32.1% in 2005. This was driven by the decrease in income from operations, as well as a return to normalized income levels following a one-time gain on sale of investments recognized in 2004.

Operating Revenues

Operating revenues for 2005 increased to $982.2 million, up $49.8 million (5.3%) from $932.4 million in 2004. SaskTel Wireless (Mobility) revenues accounted for a significant portion of this increase as strong customer growth generated additional network access and air time revenues; 41,893 (13.1%) new cellular accesses were added during the year. SaskTel Wireline revenues also increased, driven significantly by a favourable CRTC decision that impacted data revenues and by strong subscriber growth in *Max* Entertainment Services. SaskTel International also contributed to the increase in the Corporation's revenues. Offsetting these increases was a decline in long distance revenues as the Corporation responded to competitive pricing pressures.

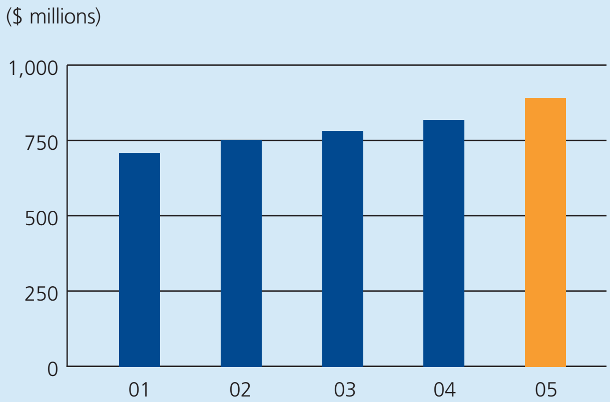
Operating Revenues



Operating Expenses

Operating expenses for 2005 increased to $893.6 million, up $74.5 million (9.1%), from $819.1 million in 2004. This was driven mainly by expense increases in SaskTel Wireless to acquire and support revenue growth. Two one-time items also contributed to the expense increase: a write-down of long-lived assets by Navigata, and the wind-up and replacement of the employee retiring allowance as part of the settlement of the collective agreement with the CEP.

Operating Expenses

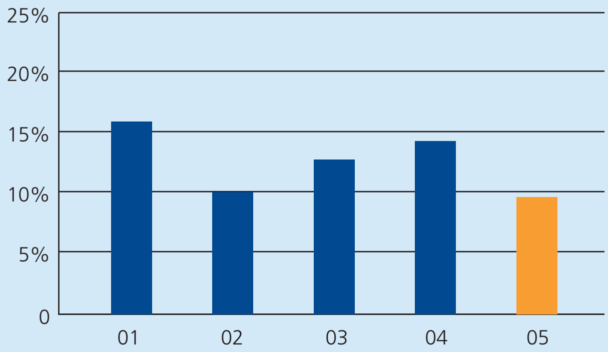


Management's
Discussion and Analysis Results of Operations

Return On Equity

	2005	2004	Change	%
Return on equity	**9.7%**	14.4%	(4.7)	(32.6)

(percentage)

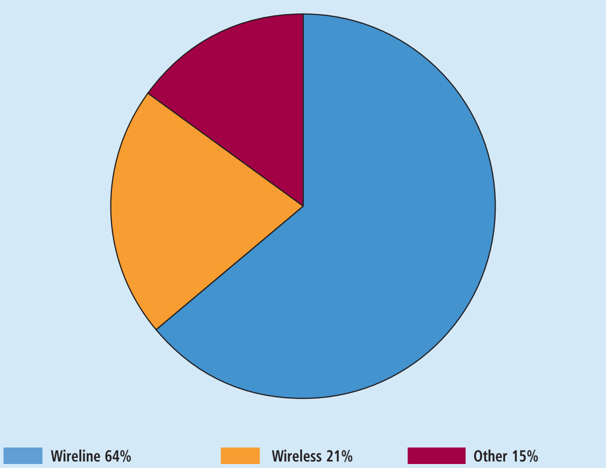


Review By Major Operating Unit

The foundation of the Corporation's operations is Saskatchewan Telecommunications (Telco) with total operating revenues of $852.5 million and total assets of $966.1 million. The Telco consists of two major operating units, SaskTel Wireline and SaskTel Wireless (Mobility).

The following diagram summarizes the Corporation's revenues by significant operating unit:

Operating Unit Revenues



Major Operating Units - 2005

($ thousands)	SaskTel Wireline	SaskTel WIreless	Investments & Other[1]	Total
Total revenue	$ 677,070	$ 227,035	$ 162,935	$ 1,067,040
Depreciation and amortization	114,059	21,902	13,744	149,705
Income from operations	50,002	37,777	2,635	90,414
Other significant non-cash items: Net share of loss of significantly influenced companies	-	-	11	11
Total assets	830,908	151,099	504,478	1,486,485
Equity method investments	-	-	748	748
Goodwill	-	-	18,953	18,953
Net property, plant and equipment expenditures	109,979	23,457	7,693	141,129

Major Operating Units - 2004

($ thousands)	SaskTel Wireline	SaskTel WIreless	Investments & Other	Total
Total revenue	$ 656,381	$ 193,784	$ 176,543	$ 1,026,708
Depreciation and amortization	113,007	18,638	13,918	145,563
Income from operations	65,314	39,691	11,927	116,932
Other significant non-cash items:				
Gain on investments	-	-	(8,024)	(8,024)
Net share of loss of significantly influenced companies	-	-	375	375
Total assets	846,291	143,222	507,960	1,497,473
Equity method investments	-	-	390	390
Goodwill	-	-	19,411	19,411
Net property, plant and equipment expenditures	86,718	28,780	7,611	123,109

[1] A complete list of subsidiaries and investments is provided in Note 2 of the financial statements.

Reconciliation of major operating units:

($ thousands)	2005	2004
Total revenues for major operating units	**$1,067,040**	$1,026,708
Elimination of inter-unit revenues	**84,842**	94,350
Consolidated operating revenues	**$982,198**	$932,358
Total income from operations for major operating units	**$90,414**	$116,932
Elimination of inter-unit income	**1,796**	3,645
Consolidated income from operations	**$88,618**	$113,287
Total assets for major operating units	**$1,486,485**	$1,497,473
Elimination of inter-unit assets	**272,820**	266,743
Consolidated total assets	**$1,213,665**	$1,230,730

SaskTel Wireline

(www.sasktel.com)

In 2005, SaskTel Wireline generated 64% of the Corporation's total operating revenues.

Operating Revenues

($ millions)	2005	2004	Change	%
Local Service	**$321.3**	$321.9	$(0.6)	(0.2)
Long Distance Service	**116.1**	126.1	(10.0)	(7.9)
Data, Internet and *Max*™ Services	**186.8**	159.2	27.6	17.3
Other	**52.9**	49.2	3.7	7.5
Total	**$677.1**	$656.4	$20.7	3.1

Local Service

Local service revenues declined slightly to $321.3 million in 2005 from $321.9 million in 2004, a reduction of $0.6 million (0.2%). The stability of these revenues reflects a portfolio of local service offerings that was consistent with prior years, as well as a competitive landscape that remained unchanged as competitors have, for the most part, declined to enter the Saskatchewan market.

Long Distance

Long distance revenue decreased to $116.1 million in 2005 from $126.1 million in 2004, a reduction of $10.0 million (7.9%). This was primarily the result of the introduction of the Anytime North America Unlimited long distance plan that provides unlimited calling in North America for a flat monthly fee. As more customers took advantage of this, and other flat rate plans, a partially offsetting increase was realized in revenues from system administration fees.

Data, Internet and Entertainment Services

Revenues from data, internet and entertainment services increased to $186.8 million in 2005 from $159.2 million in 2004, an increase of $27.6 million (17.3%).

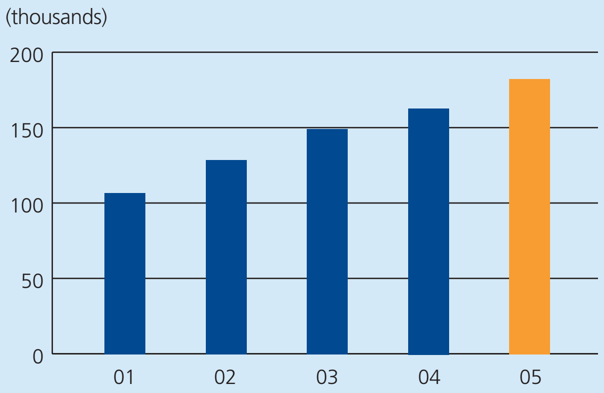
Data revenues increased by $16.1 million from 2004, driven primarily by a favourable Canadian Radio-television and Telecommunications Commission (CRTC) ruling on Competitor Digital Network (CDN) Services. This ruling determined that the Corporation's interim CDN access rates were to be replaced retroactively to June 1, 2002 by rates equal to the Corporation's retail digital network access rates. As a result of this decision, revenues of $12.1 million were recognized in 2005 that reflect retroactive application of final rates.

Max™ Entertainment Services revenues increased by $10.7 million from 2004, driven primarily by continued strong customer growth. At year end, there were 42,089 *Max* customers compared to 25,800 at the end of 2004, an increase of 16,289 (63.1%). *Max* services deliver digital video signals, including network and specialty television channels, Video on Demand in partnership with Hollywood studios and "always on" high speed internet. This interactive home entertainment and information service allows customers the choice of accessing their services through televisions and personal computers.

Increased revenues were also generated in stand-alone high speed internet services, primarily the result of the Corporation expanding the service to more Saskatchewan communities. This was offset by revenue decreases in SaskTel Dial-up Internet service as customers continue to migrate to *Max* Entertainment Services and SaskTel High Speed Internet service.

Management's
Discussion and Analysis Results of Operations

Internet Accesses



Operating Expenses

($ millions)	2005	2004	Change	%
Operations	**$472.8**	$440.3	$32.5	7.4
Depreciation & amortization	**114.1**	113.0	1.1	0.9
Restructuring charges	**40.2**	37.8	2.4	6.3
Total	**$627.1**	$591.1	$36.0	6.1

Total operating expenses increased to $627.1 million in 2005 from $591.1 million in 2004, an increase of $36.0 million (6.1%).

Operations
Operations increases of $32.5 million were driven primarily by operations and maintenance, and salaries and benefits.

Operations and maintenance expenses increased by $20.4 million. Primary drivers include: software licensing and support costs, including increased programming and content costs for *Max*™ Entertainment Services; cost of sales to support increased sales of cellular and customer premise equipment; and a return to normalized levels of Corporation Capital Tax subsequent to a significant refund received in 2004.

Salaries and benefits increased $12.1 million from 2004, driven significantly by one-time costs recognized upon wind-up of the service recognition defined benefit plan and by costs of the new service recognition defined contribution plan (Centennial Plan). The changes to these plans were associated with the negotiation of the collective agreement with the Communications, Energy and Paperworkers Union of Canada (CEP). Also contributing to the increase in salaries and benefits was an increase in defined benefit pension expense arising primarily from a reduction in the discount rate.

Depreciation and Amortization
Depreciation and amortization expense increased marginally to $114.1 million in 2005 from $113.0 million in 2004, an increase of $1.1 million (0.9%). This was driven by implementation of revised depreciation rates.

Restructuring Charges
Restructuring charges increased to $40.2 million in 2005 from $37.8 million in 2004, an increase of $2.4 million (6.3%). This was driven primarily by an increase in special termination benefit costs associated with the Corporation's Early Retirement Program (ERP). The Corporation announced the ERP in 2004 with the goal of reducing operating costs in traditional lines of business while at the same time creating opportunities for growth in non-traditional areas. The ERP is a major cost reduction measure taken by the Corporation to ensure strong financial health in the future.

SaskTel Wireless (SaskTel Mobility)
(www.sasktelmobility.com) SaskTel Mobility's core business is centred around the cellular voice network, with an increasing emphasis on wireless data applications. At year end, SaskTel Mobility's digital and analog cellular networks spanned approximately 95% of the Saskatchewan population. Through its partnership with a local independent retail distribution network, SaskTel Mobility offers sales and service for its products and services in 107 dealer locations in Saskatchewan.

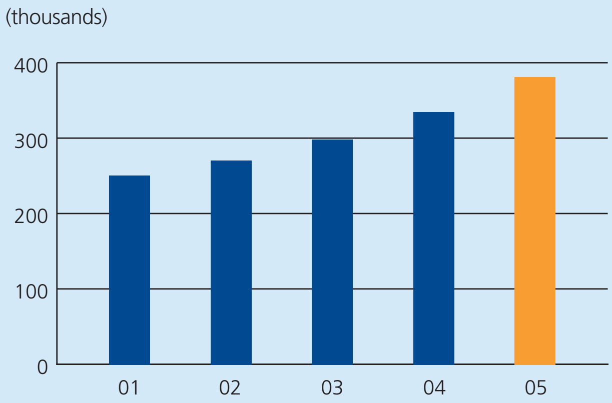
Operating Revenues

($ millions)	2005	2004	Change	%
Total	**$227.0**	$193.8	$33.2	17.1

SaskTel Mobility's 17.1% revenue growth is mainly attributable to increased cellular and wireless data revenues.

Cellular revenue growth is mainly due to an increase in the number of wireless subscribers from 320,840 in 2004 to 362,733 in 2005 which resulted in increased network access and roaming revenues. Wireless data revenue growth is attributed mainly to growth in 1xRTT data accesses (Blackberry and data content revenues).

Cellular Accesses



Operating Expenses

($ millions)	2005	2004	Change	%
Operations	**$167.4**	$135.5	$(31.9)	(23.5)
Depreciation & amortization	**21.9**	18.6	(3.3)	(17.7)
Total	**$189.3**	$154.1	$(35.2)	(22.8)

Operating expenses were $35.2 million higher than 2004, mainly due to increased expenses to acquire and support a growing customer base. In addition to the expense increases directly related to the increased number of customers, competitive pressures drove increases in handset subsidies for existing customers. Depreciation expense was marginally higher than 2004 due to increased property, plant and equipment driven by cellular and Evolution Data Optimized (EV-DO) network expansion programs.

Other Operating Units

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

Navigata's financial results for 2005 did not meet expectations, primarily due to a one-time write-down of property, plant and equipment. The write-down, in the amount of $15.3 million, was due to a review of Navigata's business plan that determined forecasted cash flows were insufficient to support the book value of these assets. Accordingly, a net loss of $21.6 million was recorded as compared to an annualized net loss of $16.4 million in 2004. Improvements were recognized in ongoing operations, however, as operating expenses decreased by $5.5 million compared to annualized 2004 operations.

As a result of the corporate reorganization in 2004, Navigata's audited financial statements reflect the nine month period ending December 31, 2004. The results for the entire calendar year of 2004, to allow for comparison with the results from the 2005 financial year, are:

Navigata Statement of Operations

For the year ended December 31 ($ thousands)	2005	2004
Operating revenues	**$59,752**	$64,658
Inter-carrier and other costs of sales	**41,334**	45,739
Gross margin	**18,418**	18,919
Operating expenses		
Operating expenses	**20,957**	26,443
Write-down of long-lived assets	**15,282**	-
Depreciation and amortization	**3,314**	5,860
	39,553	32,303
Loss from operations	**(21,135)**	(13,384)
Interest and other expenses	**511**	3,004
Loss before income taxes	**(21,646)**	(16,388)
Provision for income taxes	**-**	15
Net income (loss)	**$(21,646)**	$(16,403)

Liquidity and Capital Resources

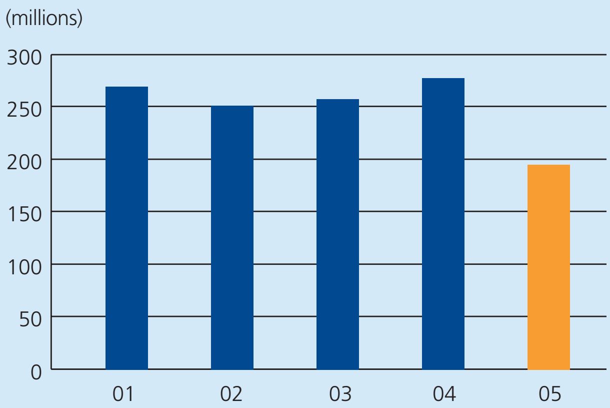
The Corporation was able to fund all its capital expenditures, acquisitions, debt obligations and dividend requirements with cash generated from operations.

Cash provided by operating activities

($ millions)	**2005**	2004	Change	%
Years ended December 31	**$194.9**	$277.2	$(82.3)	(29.7)

Cash provided by operating activities was down $82.3 million. Cash generated by operations increased $12.2 million; however, working capital changes resulted in a reduction in cash of $94.5 million. The working capital reduction was primarily related to an increase in accounts receivable and a reduction in accounts payable and accrued liabilities. Accounts receivable increased primarily due to the Crown Investment Corporation of Saskatchewan Lowest Cost Utility Program rebate, of $50.9 million, applied to customer accounts during December of 2004. Accounts payable increased due to higher accrued liabilities related to the ERP. For details on items not affecting cash from operations, see Note 16 to the consolidated financial statements.

Operating Activities



Cash used by financing activities

($ millions)	**2005**	2004	Change	%
Years ended December 31	**$(94.7)**	$(115.0)	$20.3	(17.7)

Cash used in financing activities was $20.3 million lower than in 2004. This decreased use of cash was primarily driven by lower long-term debt repayment of $29.0 million offset by increased dividend payments of $8.3 million to Crown Investment Corporation of Saskatchewan. During the last five years, the Corporation paid a total of $402.0 million in dividends while maintaining a debt ratio below 40%.

Debt ratio

($ millions)	**2005**	2004	Change	%
Long-term debt	**$359.1**	$369.0	$(9.9)	(2.7)
Less:				
cash and short-term investments	**97.1**	141.5	(44.4)	(31.4)
Net Debt	**262.0**	227.5	34.5	15.2
Equity	**665.1**	658.6	6.5	1.0
Capitalization	**$927.1**	$886.1	$41.0	4.6
Debt Ratio	**28.3%**	25.7%	(2.6)	(10.1)

The debt ratio increased in 2005 while the Corporation continued to self-finance its capital and dividend requirements. The overall level of debt increased by $34.5 million, primarily due to utilization of cash and short term investments to partially fund operating and investing activities. Retained earnings increased $6.5 million after recording net income of $64.4 million and dividends declared of $57.9 million.

Cash used by investing activities

($ millions)	**2005**	2004	Change	%
Years ended December 31	**$(144.6)**	$(110.2)	$(34.4)	31.2

In 2005, cash used in investing activities was $34.4 million higher than in 2004. The Corporation spent more on capital purchases, business acquisitions, and investments. In addition, there were no investment disposals in 2005, as opposed to proceeds of $15.2 million on the sale of investments during 2004.

Investing Activities

Capital Spending

The Corporation's net capital spending in 2005 was $141.1 million, compared to $123.1 million in 2004. Significant investment was made to support the telecommunications networks and meet customer demand. Additionally, SaskTel continued to invest capital to focus on growth initiatives, including established initiatives such as *Max*™ Entertainment Services, cellular expansion and multimedia development, as well as on new initiatives such as Voice over Internet Protocol (VoIP) and Unified Messaging, a program to implement a next-generation messaging platform.

SaskTel Wireline

SaskTel Wireline invested approximately $80.7 million in growth initiatives in 2005 compared to $63.8 million in 2004. Expenditures to sustain capital assets increased to $30.3 million in 2005 from $23.7 million in 2004.

Growth initiatives in 2005 included:

- $23.5 million invested in the network infrastructure which ensures the network is accommodating the needs of our customers.
- $14.1 million on the Multimedia Expansion Program (MMEP) which provides the infrastructure necessary in the major communities in Saskatchewan to provide both new and improved IP services.
- $12.4 million to deliver wireless broadband internet primarily to rural communities, farms, and remote areas utilizing Multipoint Communications System (MCS) technology.
- $10.6 million to provide next generation access infrastructure for the future delivery of Internet Protocol (IP) services and network access.
- $8.4 million to further develop *Max* Entertainment Services. This development allowed SaskTel Wireline to provide new services to *Max* Service, improve *Max Front Row* Video on Demand, and grow its customer base.
- $5.0 million on expansion of high speed internet service.
- $2.7 million to provide customers with utility based business solutions, such as hosting services, security, eMessaging, and eSolutions.

Significant investments to sustain capital assets in 2005 included:

- $14.6 million for systems infrastructure and desktop computer provisioning initiatives that provide for the replacement and establishment of new data and communications infrastructure required for future growth, as well as sustaining the current information technology infrastructure.
- $12.0 million for network infrastructure to ensure the Corporation continues to meet customer demand without compromising quality of service.

SaskTel Wireless (SaskTel Mobility)

Capital expenditures totaled $23.4 million in 2005, a decrease of $5.4 million from 2004 capital spending. The majority of this investment was used for EV-DO network implementation for Regina and Saskatoon, and digital network expansion and coverage improvements in the active oil and gas field regions of the province.

SaskTel Mobility added 25 new cellular sites and three repeaters to its digital cellular network in 2005, 14 of them providing cellular coverage to areas with no previous cellular coverage. As well as improving coverage, SaskTel Mobility launched Evolution Data Optimized (EV-DO) networks in Regina and Saskatoon, including White City and Warman. With these additional sites, SaskTel Mobility has been able to build the infrastructure needed for increased call capacity and digital service coverage. More than 95% of Saskatchewan's population has access to digital cellular service as of the end of the year.

Targets for 2006

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

Debt Instruments

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

The average interest rate on SaskTel's fixed rate debt was approximately 7.9% in both 2005 and 2004.

The interest rate on the Corporation's debt depends on the credit rating of the Province of Saskatchewan which issues debt on the Corporation's behalf. The following table lists the credit ratings of the Province at December 31, 2005.

	S&P	DBRS	Moody's
Long-Term Debt	AA-	A+	Aa2
Short-Term Liabilities	Not Rated	R-1 (low)	Not Rated

Access to Capital

The primary uses of cash in 2006 will be capital expenditures, growth initiatives, and dividend payments.

The 2006 plan assumes that funding of capital expenditures, growth initiatives and dividend payments will be from operations and cash balances on hand at the end of 2005. Any additional funding required will be accessed through short-term notes and, potentially, long-term debt issued through the Province of Saskatchewan.

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

Besides this credit facility, the Corporation has authority to issue up to $1.3 billion in combined short-term and long-term debt. At December 31, 2005, total outstanding debt was $403.8 million compared to $407.2 million in 2004.

Use of Financial Instruments

SaskTel uses derivative instruments to manage exposure to interest rate risk and foreign exchange risk. Derivative instruments are not used to speculate. Because derivative instruments are related to specific financial exposures, there is no significant liquidity risk. At December 31, 2005, there were no significant derivative financial instruments outstanding.

Significant Accounting Policies

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

Key Accounting Estimates and Assumptions

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

Employee Defined Benefit Plans

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

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

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

Discount rate

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

The Corporation determines the appropriate discount rate at the end of every year. The Corporation's discount rate was 5.25% at December 31, 2005, down 0.65% from 5.90% used in 2004. Changes in the discount rate could have an effect on the Corporation's earnings through an effect on the projected benefit obligation. A lower discount rate results in a higher obligation, which could at some point require additional contributions to the plan. The impact of the change in the discount rate was to increase the accrued benefit obligation by $104.3 million.

Expected long-term rate of return

In 2005, SaskTel assumed an expected long-term rate of return on plan assets of 7.0% and this rate is not currently anticipated to change in 2006.

Allowances for Doubtful Accounts

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

Depreciation and Amortization

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

Long-lived Assets

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

Goodwill

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

Intangible Assets

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

Contingencies

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

New Accounting Changes

In 2005, the Canadian Institute of Chartered Accountants (CICA), issued several new accounting standards; however, none were materially relevant to the Corporation.

Future Accounting Changes

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

Financial Instruments

The CICA has issued Section 3855 Financial Instruments – Recognition and Measurement, the new standard on the recognition and measurement of financial instruments. Financial assets or financial liabilities are only recognized when contractual provision would allow. Financial assets and liabilities are initially measured at fair value. After initial recognition, the measurement varies depending upon the category: financial assets held for trading, held to maturity, loans and receivables and available for sale. The standards will be effective for years beginning on or after October 1, 2006. In addition, the CICA is proposing new standards on the disclosure of Financial Instruments similar to international standards published in 2005. Adoption of these standards would be in conjunction with Section 3855 Financial Instruments – Recognition and Measurement. The Corporation is assessing the impact on its consolidated financial statements.

Comprehensive Income

CICA Handbook Section 1530 sets the standard for the reporting and display of comprehensive income. Comprehensive income is defined as "the change in equity (net assets) of an enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners" (CICA 1530 .03 (a)). A statement of comprehensive income is included in a full set of financial statements for both interim and annual statements. The new statement presents net income and each component that is recognized in comprehensive income. Components included in comprehensive income would include, for example, unrealized exchange gains and losses from self-sustained foreign operations, unrealized gains or losses on hedges for foreign currency, unrealized gains or losses on financial assets held for sale and gains or losses on derivatives designated as cash flow hedges. In addition, CICA Handbook Section 3251, Equity replaces Section 3250, Surpluses. Section 3251 requires that comprehensive income will be included as part of the equity section of the balance sheet. The standards will be effective for years beginning on or after October 1, 2006. The Corporation is assessing the impact on its consolidated financial statements.

Non-Monetary Transactions

CICA Handbook Section 3831 has been issued which amends the current standard on non-monetary transactions. Once implemented, all non-monetary transactions will be measured at fair value unless:

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

The new standards on non-monetary transactions will be effective for years beginning on or after January 1, 2006. The Corporation is assessing the impact on its consolidated financial statements.

Business Combinations

An Exposure Draft has been issued that would replace the existing standards related to business combinations with a new Section 1582, Business Combinations. The major changes are:

- all business acquisitions would be measured at fair value,
- the existing definition of a business would be expanded,
- pre-acquisition contingencies would be measured at fair value,
- most acquisition-related costs would be recognized as expenses as incurred (they would no longer be part of the purchase consideration),
- obligations for contingent consideration would be measured and recognized at fair value at the acquisition date (would no longer need to wait until the contingency is settled),
- liabilities associated with restructuring or exit activities would be recognized only if they meet the existing recognition criteria for accounting for costs associated with exit or disposal activities as of the acquisition date,
- non-controlling interests would be measured at fair value at the date of acquisition (i.e., 100 per cent of the assets and liabilities would be measured at fair value even when an acquisition is less than 100 per cent),
- goodwill, if any, arising on a business combination reflects the excess of the fair value of the acquiree, as a whole, over the net amount of the recognized identifiable assets acquired and liabilities assumed. Goodwill would be allocated to the acquirer and the non-controlling interest, and
- in accounting for business combinations achieved in stages, commonly called step acquisitions, the acquirer is to remeasure its non-controlling equity investment in the acquiree at fair value as of the acquisition date and recognize any unrealized gain or loss in income.

The new standards on business combinations will be effective for years beginning on or after January 1, 2007. The Corporation is assessing the impact on its consolidated financial statements.

Internally Developed Intangible Assets

An Exposure Draft has been issued that would amend sections of the CICA Handbook related to the development of internally developed intangible assets not addressed by other Handbook sections. The main features of the Exposure Draft are as follows:

- proposed removal from Section 1000 of material interpreted by some as permitting the recognition of assets that would not otherwise meet the definition and recognition criteria in Section 1000, thus clarifying the definition of an asset and the recognition criteria; and
- proposed addition to Section 3062 of criteria consistent with the asset recognition criteria in Section 1000, to be applied when an enterprise develops intangible assets internally.

The standards will be effective for years beginning on or after October 1, 2006. The Corporation is assessing the impact on its consolidated financial statements.

Risk Assessment

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

Market and Social Risks

Competition

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

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

Economic Environment

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

SaskTel's first priority is to be the communications service provider of choice in Saskatchewan, but will look for external opportunities to bring profitable revenue streams back to the province. SaskTel expects future profits from these ventures to allow SaskTel to maintain its unprecedented service for products like digital cellular, wireless data and high speed internet, and to continue its efforts towards providing these services to as much of the province as possible.

Technology

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

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

Human Resources

SaskTel's strength is in its people. Its employees are a team of highly motivated individuals, diverse in skills, experiences and backgrounds. However, a labour shortage is projected for Saskatchewan over the long-term and SaskTel will be challenged to attract, retain and develop human resources, particularly with key technical and business skills.

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

Regulatory

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

The CRTC price cap decision, released in 2002, set the overall framework of telecommunications regulation of the incumbent telephone companies until 2006. During the period of the current price cap framework, SaskTel has limited flexibility for pricing of local residential and business services, and the opportunities for bundling services are constrained. The price cap plan also results in annual reductions to the amount of funding available to support high cost areas and to the prices paid by competitors for services obtained from SaskTel. In addition, this plan includes penalties for any Incumbent Local Exchange Carrier (ILEC) failing to meet CRTC-mandated quality of service standards established for consumers and competitors. In 2005, the CRTC decided to extend the current Price Cap regime for one year, to May 31, 2007.

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

In May, 2005, the CRTC issued a decision regarding the regulatory framework for Voice over Internet Protocol (VoIP) whereby VoIP services would be regulated as local exchange services, meaning that rate regulation would apply to services provided by the incumbent carriers in their traditional operating territories but would not apply to new entrants in the market. This decision places constraints upon SaskTel's ability to market its services within Saskatchewan and will affect the company's revenues. SaskTel and the Government of Saskatchewan, along with several other incumbent carriers across Canada, have appealed this decision to federal Cabinet, seeking to have the decision reversed.

There has been increasing concern regarding the role which the CRTC is exercising within the current regulatory framework and whether that is consistent with Canadian telecommunications policy objectives. Many parties, including SaskTel, have identified the urgent need to redefine Canada's regulatory priorities and focus for the telecommunications sector. During 2005, the federal government initiated an independent expert panel to review Canadian Telecommunications Policy and the regulatory framework under which the CRTC operates. SaskTel is participating in the policy review through the Government of Saskatchewan, advancing its positions on the requirements for regulatory reform. This panel expects to release a report to Cabinet in early 2006. It is unclear what, if any, changes will be implemented in the short term or how any such changes could affect the level of regulatory risk under which SaskTel operates.

Financial Risks

Investments

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

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

Pension Plan

The combined effect of the decline in capital markets, historically low interest rates, and the early retirement program, has significantly reduced the pension income to SaskTel and resulted in the SaskTel Pension Plan (defined benefit) being in a deficit position. SaskTel mitigated overall pension plan risk by closing the Plan to new membership in 1977, resulting in the majority of current employees being enrolled in a defined contribution plan. SaskTel continues to effectively manage its commitments to the defined benefit plan by contributing to the maximum level permitted and by managing the asset mix to the optimal proportion of equities to bonds. To further minimize long-term impact, SaskTel management completed an actuarial study in 2004, one year earlier than required by legislation. This has allowed SaskTel to significantly increase its funding to the plan.

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

Cost Reduction

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

SaskTel will continue to face the challenges of meeting these targets while providing exceptional customer service and meeting the communications needs of the people of Saskatchewan. Achieving the targeted backfill rates associated with the early retirement program, along with improving internal processes, are integral components of the operational efficiency program.

Operational Risks

Security

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

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

System Failures

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

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

Physical Damage

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

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

Legal Liability Risks

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

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

Five Year Record of Service

	2005	2004	2003	2002	2001
Finance					
(Thousands of dollars)					
Operating revenues	**$982,198**	$932,358	$897,150	$893,485	$863,426
Operating expenses	**893,580**	819,071	783,850	753,999	710,579
Other	**1,218**	8,135	(21,009)	(40,625)	(9,360)
Interest and related costs	**25,482**	26,952	9,265	33,715	41,990
Net income	**64,354**	94,470	83,026	65,146	101,497
Dividends	**57,919**	88,009	76,564	58,631	91,347
Gross construction expenditures	**141,901**	126,141	137,208	166,979	128,271
Property, plant & equipment*	**2,640,616**	2,568,011	2,510,119	2,512,258	2,411,795
Long-term debt (gross)*	**403,796**	407,241	442,614	473,907	478,934
Financial ratios					
Return on equity	**9.7%**	14.4%	13.0%	10.1%	16.0%
Debt ratio	**28.3%**	25.7%	32.7%	38.5%	38.9%
Employees and payroll					
Number of permanent employees (excluding part-time)					
Diversified operations**	**487**	499	491	541	501
Saskatchewan Telecommunications	**3,508**	3,604	3,662	3,631	3,600
Total	**3,995**	4,103	4,153	4,172	4,101
Salaries earned (Thousands of dollars)	**$266,969**	$268,082	$270,332	$255,166	$225,767
Operational highlights					
Network access services*	**604,279**	606,925	610,720	613,695	616,292
Internet access services*	**179,979**	162,646	148,853	128,501	106,204
Cellular access services*	**379,862**	334,543	297,513	269,481	249,792
Originated long distance minutes (in thousands)	**1,390,614**	1,426,493	1,433,936	1,437,747	1,442,165

*At December 31

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

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements included in the annual report of Saskatchewan Telecommunications Holding Corporation for the year ended December 31, 2005, are the responsibility of management and have been approved by the Board of Directors. Management has prepared the consolidated financial statements in accordance with generally accepted accounting principles in Canada. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

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

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

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

Robert Watson

Robert Watson
President and Chief Executive Officer

R Stephanson

Randy Stephanson
Chief Financial Officer
February 21, 2006

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, 2005 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada
February 21, 2006

Consolidated Statement of Operations

For the year ended December 31, (Thousands of dollars)	2005	2004
Operating revenues	**$982,198**	$932,358
Operating expenses		
Operations	**687,630**	633,011
Depreciation and amortization	**149,705**	145,563
Restructuring charges (Note 4)	**40,963**	40,497
Write-down of long-lived assets (Note 5)	**15,282**	-
	893,580	819,071
Income from operations	**88,618**	113,287
Other items (Note 6)	**1,218**	461
Interest and related costs (Note 7)	**(25,482)**	(26,952)
Income before the following	**64,354**	86,796
Gain on sale of investments	**-**	8,023
Income from continuing operations	**64,354**	94,819
Loss from discontinued operations	**-**	(349)
Net income	**$64,354**	$94,470

See Accompanying Notes

Consolidated Statement of Retained Earnings

For the year ended December 31, (Thousands of dollars)	2005	2004
Retained earnings, beginning of year	**$408,632**	$402,171
Net income	**64,354**	94,470
	472,986	496,641
Dividends	**57,919**	88,009
Retained earnings, end of year	**$415,067**	$408,632

See Accompanying Notes

Consolidated Statement of Financial Position

As at December 31, (Thousands of dollars)	**2005**	2004
Assets		
Current assets		
Cash and short-term investments (Note 8)	**$97,079**	$141,486
Accounts receivable	**100,380**	57,223
Inventories	**6,832**	7,089
Prepaid expenses	**14,651**	10,301
Current assets of discontinued operations	**-**	27
	218,942	216,126
Property, plant and equipment (Note 9)	**874,469**	892,776
Investments (Note 10)	**748**	390
Goodwill (Note 11)	**18,953**	19,411
Intangible assets (Note 12)	**29,661**	29,498
Other assets (Note 13)	**70,892**	72,529
	$1,213,665	$1,230,730
Liabilities and Province's equity		
Current liabilities		
Accounts payable and accrued liabilities	**$136,845**	$129,777
Dividend payable	**815**	31,215
Services billed in advance	**42,009**	36,012
Current portion of long-term debt (Note 14)	**38,320**	6,698
Current liabilities of discontinued operations	**-**	154
	217,989	203,856
Deferred revenue	**9,539**	4,503
Long-term debt (Note 14)	**320,742**	362,300
	548,270	570,659
Non-controlling interest	**328**	1,439
Province of Saskatchewan's equity		
Equity advance (Note 15)	**250,000**	250,000
Retained earnings	**415,067**	408,632
	665,067	658,632
	$1,213,665	$1,230,730

See Accompanying Notes

On behalf of the Board: Reg Bird Alison Renny

Consolidated Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2005	2004
Cash provided by (used in):		
Operating activities		
Income from continuing operations	**$64,354**	$94,819
Items not affecting cash (Note 16)	**208,861**	166,184
Other operating items (Note 17)	**(78,299)**	16,172
	194,916	277,175
Financing activities		
Repayment of long-term debt	**(3,388)**	(32,367)
Capital lease obligations	**(2,974)**	(2,519)
Dividends paid	**(88,319)**	(79,991)
	(94,681)	(114,877)
Investing activities		
Property, plant and equipment expenditures	**(141,129)**	(123,109)
Proceeds on sale of investments	**-**	15,216
Investments acquired	**(3,036)**	-
Customer accounts	**(2,405)**	(3,440)
Other assets	**1,922**	1,094
	(144,648)	(110,239)
Increase (decrease) in cash from continuing operations	**(44,413)**	52,059
Increase (decrease) in cash from discontinued operations	**-**	(1,146)
Cash and cash equivalents, beginning of year	**141,492**	90,579
Cash and cash equivalents, end of year	**$97,079**	$141,492
Comprised of:		
Cash of continuing operations	**$2,094**	$64
Short-term investments of continuing operations	**94,985**	141,422
Cash and cash equivalents of continuing operations	**97,079**	141,486
Cash of discontinued operations	**-**	6
	$97,079	$141,492
Interest Paid	**$30,972**	$33,918

See Accompanying Notes

Notes to
the Consolidated Financial Statements
December 31, 2005

Note 1 – The Corporation

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

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

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

Note 2 – Summary of significant accounting policies

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

Subsidiaries and investments

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

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

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

Operating entities	Percentage ownership	Basis for inclusion
Saskatchewan Telecommunications	100.0%	Consolidation
Saskatchewan Telecommunications International, Inc.	100.0%	Consolidation
DirectWest Corporation	100.0%	Consolidation
SecurTek Monitoring Solutions Inc.	100.0%	Consolidation
Navigata Holding CCIV, Inc.	100.0%	Consolidation
Navigata Communications Ltd.	100.0%	Consolidation
Hospitality Network Canada Inc.	100.0%	Consolidation
Hospitality Network Canada Partnership	100.0%	Consolidation
Navigata Communications Partnership	97.0%	Consolidation
Business Watch International Inc.	95.5%	Consolidation
Business Watch International (U.S.) Inc.	95.5%	Consolidation
The Phone Book Company Partnership	85.0%	Consolidation
Saskatoon 2 Management Ltd.	70.0%	Proportionate consolidation
Saskatoon 2 Properties Limited Partnership	70.0%	Proportionate consolidation
Lootah SaskTel LLC (United Arab Emirates Corporation)	49.0%	Equity
Streamlogics Inc.	42.4%	Equity
Manalta Investment Company Ltd.	1.0%	Cost
NSI Global Inc.	0.1%	Cost

Note 2 – Summary of significant accounting policies, continued

The following is a summary of the non-operating entities of the Corporation: 3364381 Canada Ltd., 675161 British Columbia Ltd., Avonlea Holding, Inc., Battleford International, Inc., Esterhazy Holding, Inc., Hollywood At Home Inc., Hygate Resources Ltd., Nokomis Holding, Inc., Nokomis Holding (U.S.), Inc., Qu'Appelle Holding, Inc., Saskatchewan Telecommunications International (Tanzania) Limited, SaskTel Holding (Australia), Inc., SaskTel Holding (New Zealand) Inc., SaskTel Holding (U.K.) Inc., SaskTel International Consulting, Inc., SaskTel Investments Inc., Shellbrook Holding, Inc., Vanguard Holding, Inc., Wadena Holding, Inc., Xavier Holding, Inc. and Yellowgrass Holding, Inc.

Cash and short-term investments

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

Inventories

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

Property, plant and equipment

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

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

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

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

Impairment of long-lived assets

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

Asset retirement obligations

Legal obligations associated with the retirement of property, plant and equipment are initially measured at fair value and are adjusted for any changes resulting from the passage of time and any changes to the timing or amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized as part of the related asset and is amortized into earnings over the asset's useful life. There were no significant asset retirement obligations as at December 31, 2005.

Note 2 – Summary of significant accounting policies, continued

Goodwill

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

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

Intangible assets

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

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

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

Amortization is calculated over the estimated useful lives of the assets as follows:

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

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

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

Note 2 – Summary of significant accounting policies, continued

Revenue recognition

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

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

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

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

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

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

Employee future benefits

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

Note 2 – Summary of significant accounting policies, continued

a) Defined benefit pension plans

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

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

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

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

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

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market related value of the plan assets is amortized over the average remaining service life of active employees of the plan. The remaining service life of active employees was calculated as a weighted average of 5.0 years.

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

b) Defined contribution pension plan

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

c) Service recognition defined benefit plan

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

d) Service recognition defined contribution plan (Centennial Plan)

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

Foreign currency translation

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

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

Derivative financial instruments

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

Note 2 – Summary of significant accounting policies, continued

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

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

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

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

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

Use of estimates

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

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Note 3 – Acquisitions and disposals

Investments and disposals: consolidation method

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

On April 1, 2005 the Corporation purchased, through DirectWest Corporation, an 85% interest in the assets of an unrelated company. The assets have been transferred into a partnership which is registered under *The Partnership Act*, Alberta. The Partnership, operating as The Phone Book Company Partnership, publishes directories in the Red Deer, Grande Prairie and Edmonton, Alberta markets. Total consideration for the assets was $1.6 million. The Corporation also injected $1.7 million cash into the Partnership to support working capital requirements for future expansion of the business.

During 2005, the Corporation made an additional investment of $0.1 million in Business Watch International Inc. (BWI), increasing its ownership from 95.2% to 95.5%.

During 2005, the Corporation made an additional investment of $11.5 million in Navigata Communications Partnership, increasing its ownership from 96.3% to 97.0%.

On September 30, 2005 the Corporation purchased the 6.1% interest held by the minority shareholders of Hospitality Network Canada Inc. for cash consideration of $1.4 million. The Corporation now owns 100% of Hospitality Network Canada Partnership through its ownership of Hospitality Network Canada Inc. and Esterhazy Holding Inc.

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

(Thousands of dollars)	The Phone Book Company Partnership	Navigata Partnership	BWI	Hospitality Network	Total
Total consideration	$1,615	$11,500	$99	$1,400	$14,614
Total tangible assets	406	11,388	94	1,207	13,095
Total intangible assets	1,284	-	-	1,775	3,059
Total liabilities	(346)	(142)	-	(848)	(1,336)
Goodwill reclassified to intangible assets	-	-	-	(734)	(734)
Net assets acquired	$1,344	$11,246	$94	$1,400	$14,084
Goodwill acquired	$271	$254	$5	$-	$530

Investments in significantly influenced companies: equity method

During the year, the Corporation purchased additional shares of Streamlogics Inc. for $0.4 million.

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Note 4 – Restructuring charges

During 2005, $40,963,243 (2004 – $40,496,864) was recorded to restructuring charges. The charges relate to phases one and two of a proposed three-phase, voluntary early retirement program (ERP) for Saskatchewan Telecommunications. The ERP has been undertaken to reduce operating costs and manage the employee demographic profile in the context of a changing labour market. The first phase began in the fall of 2004 and was completed during 2005. The employee decision date for the first step of the second phase of the ERP was advanced into 2005 and will be completed in 2007. During 2005, 173 employees (2004 – 185) elected to receive a package that included a cash allowance and immediate pension benefits.

An additional charge of approximately $38 million is expected to be incurred in 2006. These costs are not eligible for recognition at December 31, 2005 and will be expensed as incurred.

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

	2005	2004
		(Thousands of dollars)
Balance in accounts payable and accrued liabilities, beginning of year	**$9,518**	$-
Restructuring charges	**40,963**	40,497
Less:		
Cash payments	**11,753**	2,567
Special termination benefit costs (Note 19)	**29,666**	28,412
Balance in accounts payable and accrued liabilities, end of year	**$9,062**	$9,518

Note 5 – Write-down of long-lived assets

During the year, Navigata Communications Partnership, a subsidiary of the Corporation, conducted asset impairment tests due to continued operating losses and a restructuring of operations. This resulted in a write-down of property, plant and equipment of $15,282,268. The fair value for calculating impairment was determined by reference to available market prices and internal engineering estimates.

The calculation of fair value is particularly sensitive to the key assumptions noted above. Given the inherent imprecision and corresponding importance of the key assumptions used in the impairment tests, it is possible that changes in future conditions may lead management to use different key assumptions which could require a material change in net carrying amount of these assets.

Note 6 – Other items

	2005	2004
		(Thousands of dollars)
Net share of loss from significantly influenced companies	**$(11)**	$(375)
Interest	**651**	1,095
Non-controlling interest	**582**	461
Other	**(4)**	(720)
	$1,218	$461

Note 7 – Interest and related costs

	2005	2004
		(Thousands of dollars)
Interest expense	**$31,968**	$33,692
Foreign currency translation	**179**	(1,670)
	32,147	32,022
Less:		
Sinking fund earnings	**3,575**	2,230
Interest on short-term investments	**3,090**	2,840
	$25,482	$26,952

Note 8 – Cash and short-term investments

The balance consists of funds invested with the Province of Saskatchewan at an average interest rate of 3.24% (2004 – 2.26%).

Note 9 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2005	2004
				(Thousands of dollars)
Buildings	**$253,255**	**$132,486**	**$120,769**	$122,310
Plant and equipment	**2,107,131**	**1,558,225**	**548,906**	590,559
Office furniture, equipment and leaseholds	**149,521**	**75,436**	**74,085**	65,624
Plant under construction	**108,957**	**-**	**108,957**	95,259
Materials and supplies	**12,211**	**-**	**12,211**	9,376
Land	**9,541**	**-**	**9,541**	9,648
	$2,640,616	**$1,766,147**	**$874,469**	$892,776

Depreciation and amortization for the year totalled $144,042,827 (2004 – $140,380,970).

Property, plant and equipment includes assets under capital leases of $4,406,594 (2004 – $9,473,353) and accumulated depreciation and amortization of $3,159,369 (2004 – $2,876,639).

During the year, the Corporation recorded a long-lived asset impairment of $15,282,268, which has been included in accumulated depreciation and amortization.

Note 10 – Investments

	2005	2004
		(Thousands of dollars)
Significantly influenced companies: equity method		
Streamlogics Inc.	**$721**	$332
675161 British Columbia Ltd.	**15**	15
Lootah SaskTel LLC	**12**	43
	$748	$390

Included in the above balances is equity method goodwill of $470,395 (2004 – $266,728), which represents the excess of cost of the investments over the Corporation's share of net book value of the investment.

Note 11 – Goodwill

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

	2005	2004
		(Thousands of dollars)
Goodwill, beginning of year	**$19,411**	$19,386
Acquired during the year (Note 3)	**530**	25
Goodwill write-down	**(254)**	-
Goodwill reclassified to intangible assets (Note 3)	**(734)**	-
Goodwill, end of year	**$18,953**	$19,411

Note 12 – Intangible assets

	Cost	Accumulated amortization	Net book value	
			2005	2004
				(Thousands of dollars)
Customer accounts	**$44,883**	**$17,324**	**$27,559**	$29,498
Customer contracts	**1,028**	**33**	**995**	-
Non-competition agreement	**476**	**116**	**360**	-
Customer list and relationships	**688**	**52**	**636**	-
Other	**120**	**9**	**111**	-
	$47,195	**$17,534**	**$29,661**	$29,498

Amortization during the year totalled $4,345,570 (2004 – $4,556,284).

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Note 13 – Other assets

	2005	2004
		(Thousands of dollars)
Deferred pension costs (Note 19)	**$53,743**	$55,318
Unamortized discount on long-term debt	**2,322**	2,341
Deferred expenses	**6,975**	3,376
Other	**7,852**	11,494
	$70,892	$72,529

Amortization for the year totalled $1,316,685 (2004 – $633,122).

Note 14 – Long-term debt

	Years to Maturity	Weighted Average Interest Rate (%)	2005	2004
				(Thousands of dollars)
Province of Saskatchewan				
Canadian dollar issues (a)	1 to 5	7.74	**$156,974**	$66,974
Canadian dollar issues	6 to 10		**-**	90,000
Canadian dollar issue	15	10.08	**126,600**	126,600
Canadian dollar issues	24	5.51	**110,000**	110,000
			393,574	393,574
Capital lease obligation (b)			**2,518**	5,492
Other (c)			**7,704**	8,175
			403,796	407,241
Less sinking funds (d)			**44,734**	38,243
Total long-term debt			**359,062**	368,998
Less current portion of long-term debt			**38,320**	6,698
			$320,742	$362,300

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

b) Certain property, plant and equipment have been acquired under lease transactions which are accounted for as purchases. The capital lease obligations recorded in these consolidated financial statements reflect the present value of future minimum payments under these leases, discounted at the interest rates implicit in the leases. The interest rates implicit in these leases primarily range between 6.9% and 13.1% (2004 – 5.7% and 13.1%), with a weighted average of 7.5% (2004 – 7.6%).

Note 14 – Long-term debt, continued

Capital lease obligations

	2005	2004
		(Thousands of dollars)
2005	**$ -**	$3,762
2006	**2,784**	2,563
2007	**68**	-
2008	**20**	-
2009	**23**	-
Aggregate future minimum lease payments	**2,895**	6,325
Portion representing implied interest	**377**	833
Capital lease obligations	**2,518**	5,492
Less current portion	**2,430**	3,160
Long-term portion	**$88**	$2,332

Interest expense on capital lease obligations during the year totalled $539,648 (2004 – $583,553).

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

	(Thousands of dollars)
2006	$230
2007	244
2008	260
2009	274
2010	294

d) Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds administered by the Province of Saskatchewan, 1% of the debt outstanding.

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

	(Thousands of dollars)
2006	$35,514
2007	16,863
2008	24,045
2009	3,266
2010	83,404

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Note 15 – Equity advance

As a Saskatchewan Provincial Crown corporation, the Corporation's equity financing is in the form of equity advances of $250,000,000 (2004 – $250,000,000) from CIC.

Note 16 – Items not affecting cash

	2005	2004
		(Thousands of dollars)
Depreciation and amortization	**$149,705**	$145,563
Pension expense of defined benefit plans (Note 19)	**9,231**	5,742
Special termination benefit costs (Note 19)	**29,666**	28,412
Net share of loss from significantly influenced companies	**11**	98
Foreign currency translation	**202**	(1,746)
Sinking fund earnings	**(3,575)**	(2,230)
Gain on sale of investments	**-**	(8,023)
Service recognition defined benefit program curtailment (Note 19)	**7,452**	-
Write-down of long-lived assets (Note 5)	**15,282**	-
Other	**887**	(1,632)
	$208,861	$166,184

Note 17 – Other operating items

	2005	2004
		(Thousands of dollars)
Changes in non-cash working capital:		
Accounts receivable	**$(42,939)**	$33,110
Inventories	**257**	(3,037)
Prepaid expenses	**(4,157)**	(2)
Accounts payable and accrued liabilities	**(1,137)**	18,697
Services billed in advance	**5,591**	4,558
Deferred revenues	**4,632**	4,503
Deferred expenses	**(3,598)**	(3,376)
Contributions to defined benefit pension plans	**(36,948)**	(38,281)
	$(78,299)	$16,172

Note 18 – Financial instruments

Credit risk

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

Currency exposure

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

Fair value

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

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

	2005		2004	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Equity in sinking funds	**$44,734**	**$46,189**	$38,243	$38,842
Long-term debt, Province of Saskatchewan	**$393,574**	**$504,897**	$393,574	$491,739

Note 19 – Employee future benefits

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

a) Defined benefit pension plans

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

Note 19 – Employee future benefits, continued

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

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

The introduction of the ERP for SaskTel resulted in a curtailment to the defined benefit pension plan. The impact of the curtailment was to reduce the accrued benefit obligation by $19,108,433 (2004 – $3,080,952).

The second plan is governed by Navigata Communications Partnership (Partnership). Effective August 23, 2004, the Basic Plan was curtailed and benefits are no longer accruing to the employees. The Partnership has made application to the Office of the Superintendent of Financial Institutions and it is anticipated that the plan will be settled in 2006. The cost, which is estimated to be $2.4 million, will be recognized when the settlement occurs, in accordance with generally accepted accounting principles.

Key assumptions used as inputs to the actuarial calculations are:

	2005	2004
Discount rate	**5.25%**	5.90%
Expected return on plan assets	**7.00%**	7.00%
Inflation rate	**2.50%**	1.90%
Expected salary increase	**3.00%**	1.90%
Post-retirement index (not to exceed 2%)	**100% of CPI**	100% of CPI

Pension plan assets

The table below shows the allocation of pension plan assets at December 31, 2005 and 2004.

Percentage of plan assets at December 31,

Asset category	**2005**	2004
Equity securities	**53.1%**	54.9%
Bonds	**30.4%**	30.9%
Short-term investments (treasury bills, notes and commercial paper)	**9.8%**	8.6%
Real estate	**6.7%**	5.6%
	100%	100%

Note 19 – Employee future benefits, continued

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

	2005	2004 (Thousands of dollars)
Current service cost – defined benefit plan	**$(7,839)**	$(10,282)
Interest cost	**(51,879)**	(51,452)
Expected return on pension plan assets	**57,429**	55,451
Special termination benefits cost	**(29,666)**	(28,412)
Amortization of net transitional asset	**11,677**	11,675
Amortization of past service costs	**(4,957)**	(4,303)
Amortization of actuarial loss	**(13,708)**	(8,383)
Net pension cost	**$(38,943)**	$(35,706)

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

Accrued benefit obligation	**2005**	2004 (Thousands of dollars)
Accrued benefit obligation, beginning of year	**$900,521**	$835,024
Current service cost	**9,951**	13,227
Curtailment gain	**(19,108)**	(4,116)
Interest cost	**51,879**	51,453
Benefits paid	**(48,186)**	(44,684)
Impact due to change in actuary study	**511**	3,683
Impact due to change in discount rate	**104,268**	17,522
Special termination benefit	**29,666**	28,412
Accrued benefit obligation, end of year	**$1,029,502**	$900,521

Plan assets	**2005**	2004 (Thousands of dollars)
Fair value of plan assets, beginning of year	**$815,063**	$734,719
Actual return on plan assets	**111,620**	82,649
Employer contributions	**37,123**	39,434
Employee contributions	**2,113**	2,945
Benefits paid	**(48,186)**	(44,684)
Fair value of plan assets, end of year	**$917,733**	$815,063

Note 19 – Employee future benefits, continued

Deferred pension costs	**2005**	2004 (Thousands of dollars)
Funded status – surplus (deficit)	**$(111,769)**	$(85,458)
Unamortized transitional asset	**(39,118)**	(50,794)
Unamortized past service costs	**12,624**	17,581
Unamortized net actuarial losses	**191,728**	173,956
Deferred pension costs	**$53,465**	$55,285
Comprised of:		
Deferred pension costs	**$53,743**	$55,318
Deferred pension liability	**(278)**	(33)
	$53,465	$55,285

b) Defined contribution pension plan

The defined contribution pension plan requires the Corporation to contribute 6% of employees' pensionable earnings and employees to contribute a minimum of 4% of pensionable earnings. The total cost for the defined contribution plan is equal to the Corporation's required contribution. The Corporation's 2005 pension cost and employer contributions for the Public Employees Pension Plan are $11,898,825 (2004 – $11,343,989).

c) Service recognition defined benefit plan

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

	2005	2004
Discount rate	**5.20%**	6.80%
Expected salary increase	**3.00%**	2.80%
Estimated average remaining employee service life	**14.1 years**	15.7 years

Note 19 – Employee future benefits, continued

Current year benefit cost	**2005**	2004
		(Thousands of dollars)
Defined benefit service cost	**$2,663**	$2,949
Impact of curtailment	**7,452**	-
	$10,115	$2,949

Accrued benefit obligation	**2005**	2004
		(Thousands of dollars)
Accrued benefit liability	**$21,019**	$13,969

d) Service recognition defined contribution plan (Centennial Plan)

The Centennial Plan was implemented on March 20, 2005. The plan requires the Corporation to contribute six days pay, based on permanent employees' current regular rate of pay, to a defined contribution plan or through a cash payment to employees. Total cost of the plan for 2005 was $5,063,626.

Note 20 – Related party transactions

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

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

	2005	2004
		(Thousands of dollars)
Operating revenues	**$61,126**	$63,292
Other income	**-**	90
Operating expenses	**44,670**	36,451
Accounts receivable	**5,124**	2,541
Accounts payable and accrued liabilities	**3,284**	2,143
Property, plant and equipment	**4,601**	656

Note 20 – Related party transactions, continued

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

A director of the Corporation also served, for a portion of the year, as a director of a corporation from which the Corporation purchased $1,766,211 (2004 – $1,496,698) of property, plant and equipment and items recorded in operating expense of $487,750 (2004 – $330,969).

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 21 – Commitments and contingencies

Commitments

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

	(Thousands of dollars)
2006	$45,830
2007	26,980
2008	26,443
2009	16,521
2010	15,081

The above payments include $18,850,000 for leases with related parties.

Contingencies

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

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2005 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's consolidated financial position or results of operations.

The Corporation has provided letters of credit related to both performance and bid bonds to various parties. The total amount at December 31, 2005 is $941,943.

Deferral Account

The deferral account mechanism is a component of the CRTC price cap framework. It is used to mitigate potential adverse effects on competition in the local market which could be caused by mandated rate reductions. The funds recorded in this deferral account are first used to offset revenue reductions caused by policy changes affecting the rates for competitor services. Any remaining amounts could be used to fund initiatives such as service improvements or customer rebates.

Note 21 – Commitments and contingencies, continued

The CRTC issued Telecom Decision CRTC 2006-9 on February 16, 2006 that provided additional clarity as to the disposition of amounts accrued in deferral accounts. Accumulated balances are to be used to fund: broadband expansion; programs to improve accessibility to telecommunications services for the disabled; and customer rebates. The Corporation and other Incumbent Local Exchange Carriers are directed to submit proposals to meet these requirements by June 30, 2006. In addition, the CRTC has ordered the Corporation to implement rate reductions by June 1, 2006 that will eliminate future accumulations in the account.

The Corporation estimates the accumulated commitment to the deferral account to be $1.0 million as of December 31, 2005. A liability, should one arise, will be charged to income from operations or property, plant and equipment, as appropriate.

Note 22 – Rate regulation

The Corporation's telecommunications and broadcast services are regulated by the CRTC; however, the CRTC regulates the rates for only those telecommunications services where the CRTC has not found that the service is subject to sufficient competition to rely on market forces to protect the interests of customers. Rates that the Corporation may charge for rate regulated services must receive CRTC approval prior to being implemented and may not be set below the cost of the service, calculated according to CRTC costing rules. In addition, the CRTC has implemented a price cap framework which limits the Corporation's flexibility in the pricing of some rate regulated services and, each year, may force a rate reduction for these services.

The CRTC also regulates the rates for all services that are designed for use by competitors. The CRTC requires rates for these services to be based on service costs plus approved mark-ups. These rates are subject to potential annual changes based on the price cap framework.

Approximately one-third of the Corporation's operating revenues are currently subject to CRTC rate regulation.

Rate regulation does not result in the Corporation selecting accounting policies that would differ from generally accepted accounting principles; however, the CRTC's authority to establish interim rates and set final rates retroactively has resulted in the Corporation recording the following items in the financial statements:

Direct Connect and Access Tandem Services

Direct Connect and Access Tandem are inter-connection services sold to long distance competitors. CRTC approved interim rates were established for these services in 2003 (Direct Connect) and 2002 (Access Tandem); however, the final rate determinations may be retroactive to June 1, 2002. The Corporation's accounts payable includes $5.1 million that represents the expected outcome of these decisions, $0.4 million of which was recorded in 2005. These liabilities will be settled upon receipt of final rate determinations. The current CRTC work-plan indicates that this will occur during the first quarter of 2006.

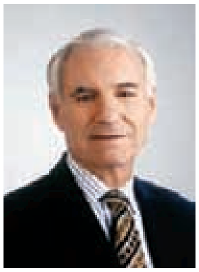
Competitor Digital Network (CDN) Services

On February 3, 2005, the CRTC released *Telecom Decision CRTC 2005-6, Competitor Digital Network Services*, which finalized the terms and conditions under which the Corporation is to provide digital network services to other telecommunications carriers. The CRTC determined that the Corporation's interim competitor digital network access rates are to be replaced retroactively to June 1, 2002, by rates equal to the Corporation's retail digital network access rates, which are significantly higher than the interim rates. As a result of this decision, revenues of $12.1 million have been recognized in 2005 that reflect retroactive application of final rates.

Note 23 – Comparative figures

Certain of the 2004 figures have been reclassified to conform to the current year's presentation.

Board
of Directors



Reg Bird, Chair

• Former Chair of Board of Directors of TRLabs.
• Former President of Nortel Networks – Asia South Pacific from 1998 to 2001.
• Former CEO of Edmonton Telephones from 1985 to 1986.
• Former President and CEO of Manitoba Telephones from 1987 to 1990.
• Has served on the boards of Telesat Canada, Telecom Canada, EPCOR, and the Banff School of Advanced Management.
• Member of British Columbia's Premier's Technology Council; past board member of VCOM, and current board member of Greater Victoria United Way.
• B. Elec. Eng., Royal Military College (Kingston); Advanced Management Course, Harvard; Banff School of Advanced Management.

Alison Renny, Vice Chair

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

Blair Davidson

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

Joan Greyeyes

• Former President of the Saskatchewan Indian Institute of Technologies from 1995 to 2005.
• Formerly served on the Board of SIAST.
• Recipient of many awards recognizing her contributions in First Nations education including: the Paul Harris Award from the Rotary Club of Saskatoon, the YWCA Women of Distinction Award in the category of Business Management and the Professions, and the Muskeg Lake First Nation Community Recognition of Achievements and Contributions Award.
• B. Ed., Post Graduate Diploma in Educational Administration and Master of Education, University of Saskatchewan.

Tom Hope

• Partner and Executive Vice President of Toll Cross Investment Inc., a mining, technology and telecommunications advisory and investment business.
• Formerly held various positions with Bell Canada including Chief Technology Officer.
• Other positions previously held include Senior Vice President of Bell Nexxia, President & Chief Technology Officer of Stentor Canadian Network Management and President of SaskTel International Inc.
• Serves on several boards and committees, including Toll Cross Investment Board, Sesame Networks Board and Canada's Communication Research Council Advisory Board.
• Has served on BCE Capital Board, Vistar Communications Board and as Executive Chair, LCL Cable Communications (UK).
• Honours Degree in Mechanical Engineering, London University (UK).
• Diploma in Management Studies (with Distinction), Portsmouth University.
• Member of the Association of Professional Engineers of Ontario.

Georgina Jolibois

• Mayor of the Village of La Loche, and Adult Basic Instructor at the Dumont Technical Institute in La Loche.
• Fluent in the Dene language.
• Formerly worked as Community Developer with the Saskatoon District Health and as Aboriginal Resource Officer with the Saskatoon Police Service.
• Has served on several boards and committees, including the Provincial Midwifery Advisory Committee, Northwest Health Facilities Committee, Health Reform Advisory Committee, Quint Economic Development Board, and National Aboriginal Day Committee.
• Currently serves as a member of the Prairie Region Health Promotion Research Centre Advisory Committee, and of the RCMP Commanding Aboriginal Advisory Committee.
• B.A. (Political Studies and Native Studies), University of Saskatchewan.

Board
of Directors

Bill Lawson

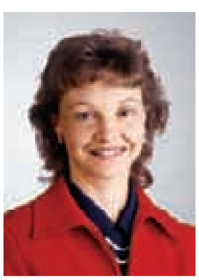
• 25 years with SaskTel, as an Engineering Assistant and as a Trunking & Switching Technician.
• Board representative for the Communication Energy and Paperworkers Union of Canada (CEP).
• Member of the Royal Canadian Legion in Caron, coach in the Moose Jaw Little League; served as a leader with Scouts Canada for many years.
• Certificate from the Saskatchewan Technology Institute (STI) Electrical Engineering program.

Karen Leir

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

Douglas B. Richardson, Q.C.

• Partner and past Chair of McKercher, McKercher & Whitmore, Saskatchewan law firm.
• Previously worked in the investment banking industry, as well as in government in Ottawa.
• Formerly a principal of a family-owned real estate business with assets in Saskatchewan, Alberta, and U.S.A.
• Trustee of two international education trusts, Canadiana Fund, Historica Board and past trustee of National Chamber of Commerce Board.
• LL.B. and B.A., University of Saskatchewan.



Pam Skotnitsky

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

Benjamin Voss

• CEO of Entrepreneurial Foundation of Saskatchewan.
• Former President & CEO (Director) of Clear-Green Environmental Inc.
• Founder and senior partner in BDI Inc., an engineering consulting and product development company.
• Serves on several boards and committees, including the Consulting Practice Committee for the Association of Professional Engineers and Geoscientists of Saskatchewan (APEGS), the University of Saskatchewan Alumni, and Saskatoon Big Brothers.
• P.Eng., B.Sc. (Agricultural and Bioresource Engineering), University of Saskatchewan.

William J. (Bill) Wardell, Q.C.

• A Saskatoon lawyer and senior partner in a general practice law firm which does agricultural, real estate, civil and commercial law as well as aboriginal law, criminal law and family law.
• Lives on and operates a cattle and grain farm near Floral, Saskatchewan.
• Serves as a trustee for the R.J. Camponi Memorial Trust; active in Clavet United Church and Riverbend Presbytery.
• LL.B., B.A. University of Saskatchewan.

Wendy Dean, Secretary to the Board of Directors

Audit Committee

Alison Renny, Chair
Blair Davidson, Member
Tom Hope, Member
Bill Lawson, Member
Ben Voss, Member

Corporate Growth & Technology Committee

Ben Voss, Chair
Blair Davidson, Member
Tom Hope, Member
Karen Leir, Member
Alison Renny, Member

Environment & Human Resources Committee

Bill Wardell, Chair
Joan Greyeyes, Member
Georgina Joilibois, Member
Karen Leir, Member
Pam Skotnitsky, Member

Governance Committee

Doug Richardson, Chair
Joan Greyeyes, Member
Bill Lawson, Member
Pam Skotnitsky, Member
Bill Wardell, Member

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

Mike Anderson – Vice President, Digital Interactive Video & Customer Services Operations
- 26 years with SaskTel in a variety of positions in Marketing, Operations, Customer Services, Digital Interactive Video and Corporate Development.
- Previously served on the boards of DirectWest Publishing Partnership and Navigata Communications Partnership.
- B.Admin, University of Regina, Certified Management Accountant (CMA); member of the Society of Management Accountants.

Doug Burnett – Vice President, Human Resources & Corporate Affairs
- 15 years with SaskTel, initially as Corporate Counsel, advising on Human Resources and Industrial Relations matters.
- Serves on the boards of Wicihitowin Foundation, SecurTek Monitoring Solutions Inc., Saskatchewan Telecommunications International Inc., Navigata Communications Partnership., DirectWest Publishing Partnership, Hospitality Network Canada Inc. and INROADS, Inc.
- Member of the Conference Board of Canada's Human Resource Executives Council (West) and the National Industrial Relations Executive Council.
- Prior to SaskTel, practiced law in Regina.
- B.A, University of Regina; LL.B., University of Saskatchewan; and a Certified Human Resources Professional (CHRP) designation.
- Member of both the Canadian Bar Association and the Law Society of Saskatchewan.

Ken Keesey – Vice President, Sales
- 25 years with SaskTel in a variety of positions within Customer Services and Sales.
- Serves on the boards of Saskatchewan Crime Stoppers, Saskatoon City Hospital Foundation, iTracks Advisory Board and the Saskatoon Centennial Advisory Committee.
- Governor for Junior Achievement of Northern Saskatchewan.
- B. Admin., University of Regina.

John Meldrum – Vice President, Corporate Counsel and Regulatory Affairs, Chief Privacy Officer
- 29 years with SaskTel, first as a solicitor, and later as General Counsel and Corporate Secretary.
- Serves on the boards of DirectWest Publishing Partnership, Saskatoon Square Management Ltd., and SecurTek Monitoring Solutions Inc.
- Member of The Canadian Bar Association and The Law Society of Saskatchewan.
- LL.B., University of Saskatchewan.
- Received Q.C. (Queen's Counsel) designation in 2000.

Diana Milenkovic – Senior Vice President, Marketing & Mobility
- 14 years with SaskTel in VP roles of Corporate Affairs, Mobility, Customer Services, Sales & Operation, and Marketing.
- Chair of Saskatchewan Communications Network; and serves on community boards of 2005 Canada Games and the Regina Symphony.
- Prior to SaskTel, worked as Policy Advisor Executive Council and Leader of the Opposition Office, Government of Saskatchewan; Marketing for Western Canada Summer Games; 12 years with Boards of Education in Regina, Saskatoon, Swift Current.
- B. Music, BA, University of Saskatchewan; Executive Business Programs in Leadership, Finance and Process Mastery.

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

Randy Stephanson – Chief Financial Officer
- 30 years with SaskTel in Finance, Corporate Services, Customer Services and SaskTel International.
- Serves on the boards of Saskatchewan Telecommunications International Inc., DirectWest Publishing Partnership, Phone Book Company, Saskatoon Square, Streamlogics, Securtek, Navigata and Hospitality Network.
- Certified Management Accountant, Diploma of Accountancy, SIAST.
- Member and past director of Management Accountants of Saskatchewan.

Kym Wittal – Chief Technology Officer
- 23 years with SaskTel including positions as General Manager – Technology Performance & Operations; Manager of IT Business Solutions; Manager of Application Development – Engineering & Operations; Customer Services and Human Resources.
- Serves as Chairman of the TRLabs Board of Directors.
- BScEE, P.Eng., University of Saskatchewan; member of Association of Professional Engineers and GeoScientists of Saskatchewan (APEGS).

Corporate
Directory

SaskTel
Subsidiaries Executive Officers

Gord Farmer	President, DirectWest
Daryl Silzer	President, SecurTek
Jim Pitt	President and CEO, Navigata Communications
Doug Jesse	President and CEO, Hospitality Network

SaskTel
Senior Operating Managers

(As of December 31, 2005)

Dale Baron	Controller
Bill Beckman	General Manager, Regulatory Affairs
Dave Birnie	General Manager, Technology Performance & Operations & Emergency Planning Officer
Phil Bohay	General Manager, Business Sales & Solutions
Lana Doke	General Manager, Consumer & Enterprise Solutions
Tom Laird	General Manager, Digital Interactive Video
Gail Lefebvre	General Manager Customer Services Development & Support
Dave Lozinski	General Manager, Corporate Services
Darcee MacFarlane	General Manager, Corporate Affairs
Candice Molnar	General Manager, Customer Service Districts
Al Rogers	General Manager, Information Technology Management
Stacey Sandison	General Manager, Marketing – Consumer Solutions
Curt Smith	General Manager, Service Development
Pat Tulloch	General Manager, Marketing – Business Solutions
Al Yam	General Manager, Technology Development & Engineering
Barry Ziegler	Executive Vice President, Investments

SaskTel International
Senior Operating Managers

Garry Simons	President, SaskTel International
Barry Ziegler	Executive Vice President, Investments
Scott Fedec	Vice President, Finance & Human Resources
Don Prokopetz	Vice President, Software Solutions
Steve Sousa	Vice President, Marketing and Operations

Corporate
Governance

Authority

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

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

Board Appointments

The Lieutenant Governor in Council appoints members of the Board, and designates the Chair and Vice Chair. Directors are appointed for a fixed term and their appointments can be renewed at expiry. There are twelve (12) members on the Board.

Key Accountabilities

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

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

Corporate Governance Practices

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

On June 30, 2005, the Canadian Securities Administrators (CSA) National Policy 58-201 on Corporate Governance Guidelines and National Instrument 58-101 on Governance Disclosure Rules came into effect. The CSA standards supercede the Toronto Stock Exchange Corporate Governance Guidelines, which the Board has used previously to assess its practices.

Current governance practices of the Board meet the majority of the requirements in the CSA standards as they apply to a Crown corporation. The Governance Committee is reviewing the Guidelines with a view to adapting the Board's governance practices to the guidelines, where effective and beneficial. Although SaskTel is not required to comply with the CSA governance guidelines, the Corporation has used them to benchmark its corporate governance practices in the following section.

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
Composition of the Board **NP 58-201, section 3.1** 3.1 The board should have a majority of independent directors.	The majority of directors on the SaskTel Board (9 out of 12) are independent.	Yes
NI 58-101F1, sections 1(a) and (d) 1(a) Disclose the identity of directors who are independent; (b) Disclose the identity of directors who are not independent and the basis for that determination; (c) Disclose whether the majority of directors are independent; and (d) Disclose whether a director is a director of any other issuer that is a reporting issuer.	**Reg Bird**, Chair: INDEPENDENT - External industry expert **Alison Renny**, Vice Chair: INDEPENDENT - Assistant Dean, College of Commerce, University of Saskatchewan **Blair Davidson**: INDEPENDENT - Chartered Accountant & Partner, Hergott Duval Stack & Partners LLP **Joan Greyeyes**: INDEPENDENT - Post Secondary & Skills Training Consultant **Tom Hope**: INDEPENDENT - Partner & Executive Vice President, Toll Cross Investments Inc. **Georgina Jolibois**: INDEPENDENT - Mayor of La Loche; Instructor, Dumont Technical Institute **Bill Lawson**: NOT INDEPENDENT - Engineering Assistant, Trunking & Switching Technician, SaskTel, and CEP Representative **Karen Leir**: NOT INDEPENDENT - Business Analyst, SaskTel, and CEP Representative **Douglas Richardson**, Q.C.: INDEPENDENT - Lawyer, Partner and Past Chair, McKercher, McKercher & Whitmore LLP **Pam Skotnitsky**: INDEPENDENT - Director, Government & Public Affairs, Credit Union Central of Saskatchewan **Benjamin Voss**: NOT INDEPENDENT - Chief Executive Officer, Saskatchewan Entrepreneurial Foundation **William Wardell**, Q.C.: INDEPENDENT - Lawyer and Partner, Wardell, Gillis, Tangjerd, Rodgers & Cotton The determination of independence is made by the Governance Committee and is based on an assessment of the requirements in Multilateral Instrument 52-110, Audit Committees. Karen Leir and Bill Lawson, as employees of SaskTel, are not independent. SaskCentral is the incorporating agent for the Entrepreneurial Foundation. The Foundation receives an operating grant from SaskTel's holding company, Crown Investments Corporation of Saskatchewan (CIC). CIC has one class "A" interest in the Foundation and CIC has appointed one director to the Foundation's board. Ben Voss, as an officer of an affiliated entity, is not independent.	Yes

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	**SaskTel's Governance Practices**	**Does SaskTel Align?**
	Section 1(d) does not apply to SaskTel as SaskTel does not have share capital, and is not an issuer.	
NP 58-201, section 3.2 3.2 The chair of the board should be an independent director who is the effective leader of the board and who ensures that the board's agenda will enable it to successfully carry out its duties.	The Chair of the Board is an independent director who provides leadership in Board organization, processes, effectiveness and renewal, serves as liaison between the Board and the shareholder and ensures Board agendas reflect an effective balance between the role of the Board and that of management.	Yes
NI 58-101F1, sections 1(f) 1(f) Disclose whether the chair of the board is an independent director; disclose the identity of the chair and describe the role of the chair.	Reg Bird is the Chair of the Board and he is an independent director. The Chair reports to the Board and ultimately to the shareholder and is responsible for presiding over meetings of the Board and ensuring that the Board discharges its fiduciary and legal responsibilities. The Chair's primary duties include: • chairing meetings of the Board and ensuring meetings are properly convened and business is conducted legally • working with the CEO and the Corporate Secretary to set Board meeting schedules and establish agendas • monitoring meeting attendance and encouraging full participation by directors at meetings • communicating with directors between meetings • taking a lead role in assessing and addressing any concerns related to Board, committee or director performance • assisting directors to achieve full utilization of individual abilities • promoting an open and constructive working relationship between senior management and the Board • working with committee chairs to maintain effective communications and division of responsibilities • providing advice and counsel to the CEO and senior management • representing the shareholder's interests and perspective to management, and representing management's views to the shareholder • in conjunction with the CEO, developing productive relationships and representing the Corporation with the shareholder and key stakeholders	Yes
<u>Meetings of Independent Directors</u> **NP 58-201, section 3.3** 3.3 The independent directors should hold regularly scheduled meetings at which non-independent directors and members of management are not present.	As a Standing Agenda item, the Board holds an in camera session without management present at each regular meeting of the Board. All directors participate in the sessions, except where a director has a conflict with an item under discussion. The non-independent directors are not officers of the Corporation. The Board has reviewed this guideline and believes that participation by the non-independent directors does not give officers of the Corporation the opportunity to bias or influence Board decisions.	Substantial Compliance

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
NI 58-101F1, sections 1(e) 1(e) Disclose whether the independent directors hold regularly scheduled meetings at which members of management are not present; disclose the number of such meetings held in the previous 12 months; if such meetings are not held, disclose what the board does to facilitate open and candid discussion among independent directors.	There were six (6) regular Board meetings held in 2005, and during each regular meeting in camera sessions without management present but including all directors were held. Board practices that facilitate open and candid discussion among and independent judgement by directors include: • holding in camera sessions of no fixed duration where directors are encouraged to raise any issues of concern • having an independent director as Chair of the Board • clearly delineating the division of responsibilities between Board and management • providing for the Board/directors to access external advice The Board is satisfied that its governance practices foster full and open discussion and debate and that it retains the independence of mind to make decisions in the best interests of the Corporation and the shareholder.	Yes
NI 58-101F1, sections 1(g) 1(g) Disclose the attendance record of each director for board meetings held in the most recently completed financial year.	The Board held nine (9) meetings in 2005. The number of Board meetings attended by each director in 2005 is set out below. **Director** — **Meetings Attended*** Reg Bird, Chair — 9(9)** Alison Renny, Vice Chair — 9(9) Blair Davidson — 9(9) Joan Greyeyes — 8(9) Tom Hope — 6(6) Georgina Jolibois — 2(2) Bill Lawson — 7(7) Karen Leir — 8(9) Douglas Richardson — 8(9) Pam Skotnitsky — 9(9) Benjamin Voss — 9(9) William Wardell — 9(9) * For the purposes of this report, members who attended meetings in part were considered to be present. ** Figures in brackets represent the maximum number of meetings for the period in which the individual was a board member.	Yes
Board Mandate **NP 58-201, section 3.4** 3.4 The board should adopt a written mandate which explicitly acknowledges responsibility for the stewardship of the corporation and responsibility for: (a) to the extent possible, satisfying itself as to the integrity of the CEO and executive and that they have created a culture of integrity throughout the organization;	The Board has written Terms of Reference that contain the majority of the elements required by the Policy. The Terms of Reference outline the Board's principal duties and responsibilities, including responsibility to function as stewards of the Corporation and to: • provide leadership in setting the Corporation's long-range strategic direction and annually approve the Corporation's overall strategic plan	Substantial Compliance

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
(b) adopting a strategic planning process and approving at least annually a strategic plan which takes into account, among other things, the opportunities and risks of the business; (c) identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks; (d) succession planning, including appointing, training and monitoring senior management; (e) adopting a communications policy for the corporation; (f) the integrity of the corporation's internal control and management information systems; and (g) developing the corporation's approach to corporate governance, including a set of principles and guidelines specific to the corporation. The written mandate should also address measures for receiving feedback from stakeholders (for example, a process for stakeholders to contact independent directors); and the expectations and responsibilities of directors, including basic duties to attend meetings and review materials in advance.	• participate in identifying the principal risks of the business in which the Corporation is engaged and oversee the implementation of appropriate systems to manage the risks • appoint the CEO, evaluate the performance of senior management and ensure effective succession planning processes • adopt policies and processes to enable effective communication with the shareholder, stakeholders and the public • monitor the integrity of the Corporation's internal control and management information systems The Board has approved Terms of Reference for Directors where the expectations and responsibilities of individual directors are delineated. SaskTel regularly surveys internal and external stakeholders to obtain feedback about Corporate activities. The Chair of the Board participates in a forum established by CIC, which is comprised of the chairs of all subsidiary Crown boards and senior CIC officials, where issues of mutual interest and concern are shared. Elements of the Policy not specifically identified in the Terms of Reference for the Board include (a) and (g). Respecting (a), the Board has established practices which promote a culture of ethical business conduct (see discussion under section 3.8 of NP 58-201). With respect to (g) the Board has delegated responsibility to the Governance Committee to oversee the Corporation's approach to corporate governance. In 2006, the Governance Committee will review the Board's Terms of Reference and recommend any changes necessary to comply fully with the Policy.	
NI 58-101F1, section 2 2. Disclose the text of the board's written mandate.	The Board's principal responsibilities are described above. The text of the Board's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.	Yes
<u>Position Descriptions</u> **NP 58-201, section 3.5** 3.5 The board should: develop clear position descriptions for the chair of the board and the chair of each board committee; together with the CEO, develop a position description for the CEO delineating management's responsibilities; develop or approve corporate goals and objectives that the CEO is responsible to meet.	The Board has approved Terms of Reference for the Board, the Chair of the Board, each Committee and individual directors and has adopted a Position Description for the CEO. The Board does not have a position description for the Chair of each Committee. The CEO's Position Description sets out the CEO's primary accountabilities and responsibilities. The Board Terms of Reference address management duties, and a Final Authorization Policy, applicable to monetary and non-monetary matters, sets out those matters that require Board approval and delegates other matters to management.	Substantial Compliance

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
	The Environment & Human Resources Committee annually recommends performance indicators for the Corporation and personal goals for the CEO that are approved by the Board. The Board annually approves a business plan that includes Corporate objectives, priorities and performance indicators. The CEO is responsible to see that the Corporation achieves the business plan and to meet any other targets assigned by the Board.	Yes
NI 58-101F1, sections 3(a) and (b) 3(a) Disclose whether the board has developed written position descriptions for the chair of the board and the chair of each board committee and, if not, describe how the board delineates the role and responsibilities of each such position. (b) Disclose whether the board and CEO have developed a written position description for the CEO.	The Board does not have a position description for the Chair of each Committee. The Chair of the Board communicates regularly with the Chairs of each Committee and meets periodically with all Committee Chairs to ensure effective information-sharing mechanisms and maintain clear delineation of responsibilities between the Committees. The Governance Committee is developing Terms of Reference for the Chairs of each Committee of the Board, which will be presented to the Board for approval in 2006.	Yes
Orientation & Continuing Education **NP 58-201, sections 3.6 and 3.7** 3.6 The board should ensure new directors receive comprehensive orientation and fully understand the role of the board and committees, the contribution individual directors are expected to make and the nature and operation of the business. 3.7 The board should provide continuing education opportunities for all directors to enhance their skills and abilities and ensure their knowledge of the corporation's business is current.	Management provides new directors with a comprehensive orientation to the business and the industry. CIC delivers a training program that focuses on the skills that directors need to do their jobs, effective board processes and best practices in corporate governance. Other development opportunities made available to directors are described below.	Yes
NI 58-101F1, sections 4(a) and (b) 4(a) Describe the measures taken to orient new directors to the role of the board, committees and directors and to the nature of the corporation's business. (b) Describe the measures taken to provide continuing education opportunities for all directors.	The Corporation provides all members appointed to the Board with a comprehensive Directors' Reference Manual, and new directors receive an orientation session delivered by management. The orientation session addresses key industry trends, critical business risks and challenges, the strategic plan, organizational structure and responsibilities of senior staff. New directors are able to meet informally with senior managers to learn about the business, and tours of Corporate operations are arranged periodically. Prior to each regular board meeting, outside experts in various aspects of the telecommunications industry are invited to speak to the Board and senior management. Management has also delivered educational sessions to directors to explain technical aspects of the business. Each year, CIC sponsors a comprehensive education program for directors of CIC subsidiary Crown boards. The program has focused on the key roles and responsibilities of boards, committees and directors, the skills directors need to effectively discharge their responsibilities and best practices and new developments in corporate governance. Directors can participate in external	

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
	development opportunities related to their duties as directors where authorized by the Corporation or the Board.	
<u>Code of Business Conduct and Ethics</u> **NP 58-201, section 3.8** 3.8 The board should adopt a written code of business conduct and ethics applicable to directors, officers and employees of the corporation designed to promote integrity and deter wrongdoing. The code should address: (a) conflicts of interest, including transactions and agreements where a director or officer has a material interest; (b) protection and proper use of corporate assets and opportunities; (c) confidentiality of corporate information; (d) fair dealing with the corporation's security holders, customers, suppliers, competitors and employees; (e) compliance with laws, rules and regulations; and (f) reporting of illegal or unethical behavior.	Board members must comply with the *Directors' Code of Conduct*, which was developed by CIC and applies to the directors of all its subsidiary Crown boards. Officers and employees of the Corporation and its subsidiaries must comply with SaskTel's Business Code of Conduct, which includes a whistle blowing policy. Both Codes are designed to promote integrity and deter wrongdoing, address the elements of the Policy as they apply to a Crown corporation and provide a mechanism to report illegal or unethical behavior.	Yes
NI 58-101F1, sections 5(a) 5(a) Disclose whether the board has adopted a written code of ethical business conduct for the directors, officers and employees of the corporation; how to obtain a copy of the code; how the board monitors compliance with the code; and reference any material change report in the most recent financial year relating to any conduct of a director or officer that constitutes a departure from the code.	A copy of the *Directors' Code of Conduct* can be obtained by contacting CIC. A copy of the Business Code of Conduct can be obtained by contacting SaskTel. Committees of the Board monitor compliance with the *Directors' Code* and the Business Code. The Governance Committee monitors compliance with Corporate donation and sponsorship policies and is responsible to administer, monitor and enforce the *Directors' Code*. The Chair of the Committee reports to the Board at each regular meeting any such issues addressed by the Committee, and submits an annual report to the Board regarding compliance with the *Directors' Code*. The Audit Committee monitors the financial performance of the Corporation and assists the Board to meet its responsibilities respecting accounting and financial reporting, privacy policy, risk management, internal controls and accountability. The Committee interacts directly with the internal and external auditors, who report to the Committee concerning, among other things, any instances of illegal or improper treatment of Corporate assets. The Audit Committee receives quarterly risk management reports, including reports related to legal risks. The Chair of the Committee reports to the Board at each regular meeting any such issues addressed by the Committee, and all directors receive summaries of risk management reports. The Environment & Human Resources Committee monitors compliance with environmental, health and safety and human resource programs, including compliance with the Business Code. The Committee receives reports from management that address,	Yes

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

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
	Governance Committee respecting significant issues that have arisen pursuant to the whistle blowing policy.	
<u>**Nomination of Directors**</u> **NP 58-201, section 3.10** 3.10 The board should appoint a nominating committee composed of entirely independent directors.	The Governance Committee functions as the nominating committee. Four (4) of five (5) members of the Governance Committee, including the Committee Chair, are independent directors. One (1) Committee member, an employee of SaskTel, is not independent. The employee director serving on the Committee is not an officer of the Corporation. The Committee has reviewed this guideline and believes that having an employee director as a member does not give officers of the Corporation the opportunity to bias or influence Committee decisions.	Substantial Compliance
NI 58-101F1, sections 6(a) and (b) 6(a) Describe the process by which the board identifies new candidates for board nomination. (b) Disclose whether the board has a nominating committee composed entirely of independent directors and, if not, describe the steps the board takes to encourage an objective nomination process.	The Board, through the Governance Committee, reviews the composition and skill sets of directors annually with a view to maintaining an appropriate mix of expertise, experience and diversity on the Board to support the strategic direction and operating needs of the Corporation. The Governance Committee is responsible for identifying the skill sets needed on the Board, developing and maintaining a Skills Profile that delineates the competencies of current directors and identifies any skill gaps and seeking and recommending to the Board nominees that have the required competencies and fill any identified gaps. In addition to competencies and skills, the appointment practices encourage diversity in the composition of the Board. In seeking candidates, the Committee receives recommendations from the directors, senior management and the shareholder. Potential candidates are interviewed to determine their overall fit with the needs of the Board, any conflicts that would preclude their effective participation and whether they have the time to devote to Board work. The Committee recommends a list of candidates for each vacant position to the Board which in turn recommends a list of recommended candidates to the shareholder. The shareholder has the legislative authority to make Board appointments. The Committee believes that following best practices related to Board appointments, maintaining a skills matrix and recruiting candidates who possess the required combination of skills, background and diversity to add value to Corporate decision-making supports an objective nomination process.	Yes
NP 58-201, section 3.11 3.11 The nominating committee should have a written charter establishing the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual directors or subcommittees) and manner of reporting to the board. In addition, the nominating	The Governance Committee has written Terms of Reference setting out its purpose and principal responsibilities, which address the Committee's responsibility to lead the process of recruiting and nominating candidates for appointment to the Board, as well as the other elements of the Policy except member qualifications and the ability to delegate tasks. The Committee has authority to engage outside advisors to assist it in performing its duties, subject to the approval of the Board. The shareholder has the right to nominate	Substantial Compliance

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
committee should be given authority to engage and compensate outside advisors necessary to permit it to carry out its work. Where a third party has a legal right to nominate directors, the selection and nomination of those directors need not involve the approval of an independent nominating committee.	candidates for appointment to the Board, and the candidates are assessed by the Governance Committee in the same way as other candidates. In 2006, the Governance Committee will review the Committee's Terms of Reference and recommend any changes necessary to comply fully with the Policy.	
NI 58-101F1, sections 6(c) 6(c) If the board has a nominating committee, describe the responsibilities, powers and operation of the committee.	The Governance Committee performs the functions of a nominating committee, and its Terms of Reference describe the responsibilities, powers and operation of the Committee. The Committee is appointed by the Board, serves in an advisory capacity and makes recommendations to the Board within its area of responsibility. A copy of the Committee's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.	Yes
NP 58-201, section 3.12 3.12 The board should adopt a nomination process which considers the competencies and skills of the board as a whole; assesses the competencies and skills possessed by each existing director; and considers the personality and other qualities of each director. The board should also consider the appropriate size of the board, with a view to effective decision-making, and should consider the advice and input of the nominating committee.	The Board's nomination process is described above, and it meets the guidelines of the Instrument. By legislation, the Board is comprised of a maximum of 12 directors. As the Committee responsible for the Board's approach to corporate governance, the Committee makes recommendations to promote timely and effective decision-making.	Yes
NP 58-201, section 3.13 3.13 The nominating committee should be responsible for identifying individuals qualified to become new board members and recommending to the board the new director nominees.	The Governance Committee, serving as the nominating committee, is responsible for leading the process to identify, recruit and recommend qualified candidates for appointment to the Board.	Yes
NP 58-201, section 3.14 3.14 In making its recommendations the nominating committee should consider: the competencies and skills that the board considers necessary for the board as a whole to possess; the competencies and skills of existing directors; the competencies and skills of each nominee; and whether each new nominee can devote sufficient time and resources to board work.	The process followed by the Governance Committee complies with that set out in the Policy and is described above.	Yes
<u>Compensation</u> **NP 58-201, section 3.15** 3.15 The board should appoint a compensation committee composed entirely of independent directors.	The Environment & Human Resources (EHR) Committee performs the functions of a compensation committee. Four (4) of five (5) members of the EHR Committee, including the Committee Chair, are independent directors. One (1) Committee member, as an employee of SaskTel, is not independent. The employee director serving on the Committee is not an officer of the Corporation, does not receive any material related to issues	Substantial Compliance

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
	where the director may have a direct conflict and does not participate in Board or Committee discussions on such topics. The Committee has reviewed this guideline and believes that having an employee director as a member does not give officers of the Corporation the opportunity to bias or influence Committee decisions respecting management compensation.	
NI 58-101F1, sections 7(a) and (b) 7(a) Describe the process by which the board determines compensation for the directors and officers of the Corporation. (b) Disclose whether the board has a compensation committee composed entirely of independent directors and, if not, describe the steps the board takes to ensure an objective process for determining such compensation.	The majority of members of the Environment & Human Resources Committee, which serves as the compensation committee, are independent directors. CIC has the legislative authority to fix remuneration levels and set expense guidelines for directors. The Governance Committee has authority to recommend to the Board (and the Board to CIC) adjustments to directors' compensation. The Committee receives quarterly reports respecting the remuneration received by members of the Board, and reports any anomalies to the Board. Each director receives an annual retainer for acting as a board member, directors who are not employees of the Corporation receive fees for attending meetings of the Board and Committees or for performing other functions as a member of the Board. The remuneration levels established by CIC for members of the Board are set out below. **Director Remuneration Schedule** Board Chair retainer — $9,500.00 Board member retainer — $6,500.00 Board Chair meeting fee — $750.00 Committee Chair meeting fee — $650.00 Board member meeting fee — $550.00 A copy of CIC's remuneration and expense guidelines for directors can be obtained by contacting CIC. CIC has established a framework for executive compensation, and the Board can approve compensation packages within that framework. The Board has delegated responsibility for addressing and making recommendations concerning management compensation issues to the Environment & Human Resources Committee. The Environment & Human Resources Committee reviews and recommends to the Board: changes to the design of the Corporation's overall compensation and benefits plans; management compensation packages that reflect industry standards; performance compensation programs; and annual Corporate indicators, including a sub-set used to determine performance compensation for management. In discharging this function, the Committee has the ability to retain external advisors, subject to approval by the Board.	Yes

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
NP 58-201, section 3.16 3.16 The compensation committee should have a written charter establishing the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure, operations (including any authority to delegate to individual directors or subcommittees) and manner of reporting to the board. In addition, the compensation committee should be given authority to engage and compensate outside advisors necessary to permit it to carry out its work.	The Board has approved Terms of Reference for the EHR Committee, which address the Committee's responsibilities with respect to compensation, as well as the other elements of the Policy except member qualifications and the ability to delegate tasks. The Committee has authority to engage outside advisors to assist it in performing its duties, subject to the approval of the Board. In 2006, the Environment & Human Resources Committee will review the Committee's Terms of Reference and recommend any changes necessary to comply fully with the Policy.	Substantial Compliance
NI 58-101F1, sections 7(c) (c) If the board has a compensation committee, describe the responsibilities, powers and operation of the committee.	The Environment & Human Resources Committee serves as the compensation committee, and its Terms of Reference describe the Committee's responsibilities respecting compensation issues, as well as the powers and operation of the Committee. The Committee is appointed by the Board, serves in an advisory capacity and makes recommendations to the Board within its area of responsibility. A copy of the Committee's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.	Yes
NP 58-201, section 3.17 3.17 The compensation committee should be responsible for: reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining the CEO's compensation level based on the evaluation; making recommendations to the board respecting non-CEO officer and director compensation, incentive-compensation plans and equity-based plans; and reviewing executive compensation prior to public disclosure.	The Environment & Human Resources Committee annually recommends to the Board the CEO's performance targets, and leads the annual performance evaluation process for the CEO. The CEO's performance is assessed against the established Corporate objectives and the CEO's individual targets. The results of the CEO's performance are approved by the full Board, and are used in determining compensation. Respecting non-CEO officer compensation, the Committee is responsible for recommending to the Board management compensation packages, performance compensation programs and annual performance targets. The Board reviews and approves the achievement of Corporate targets annually and the extent to which the targets are achieved determines management's eligibility for performance compensation. Executive compensation decisions are subject to any guidelines established by CIC. As a Crown corporation, SaskTel does not have equity-based plans. Director compensation is determined by CIC. Executive compensation information is available to the public through publication of Crown payee reports. The Committee does not review executive compensation reports prior to public disclosure.	Substantial Compliance

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
NI 58-101F1, sections 7(d) (d) If a compensation consultant has been retained, at any time during the Corporation's most recently completed fiscal year, to assist in determining compensation for any of the Corporation's directors and officers, disclose the identity of the consultant and briefly summarize their mandate. If retained to perform any other work, state that fact and briefly describe the nature of the work.	In 2005, the Corporation did not retain any compensation consultants to assist in determining compensation for the directors or officers.	Yes
<u>Other Board Committees</u> **NI 58-101F1, section 8** 8 If the board has standing committees of the board, other than audit, compensation and nominating committees, identify the committees and describe their function.	In addition to the Audit, Governance and Environment & Human Resources Committees, the Board has appointed a Corporate Growth & Technology (CGT) Committee. The CGT Committee: works with management to develop a growth strategy and related policies; reviews and recommends investments and divestitures; monitors and reports to the Board respecting the performance of investments; and reviews and makes recommendations concerning the evolution of technology in the Corporation, long-term technology strategies and technology investments. A copy of the Committee's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.	Yes
<u>Board Assessments</u> **NP 58-201, section 3.18** 3.18 The board, its committees and each individual director should be regularly assessed. An assessment should consider: with respect to the board or committees, its mandate or charter; with respect to an individual director, the applicable position description(s), as well as the competencies and skills each individual director brings to the board.	Board, Board Chair, Committee evaluations and director peer assessments are performed annually on a two year cycle, with comprehensive Board and Board Chair evaluations being conducted one year, and director peer and committee evaluations being conducted the following year. The evaluations take into consideration the elements of the Policy.	Yes

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
NI 58-101F1, section 9 9 Disclose whether the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution and, if yes, describe the process used.	The Governance Committee oversees the implementation of the above evaluation processes, and uses an external consultant in the case of director peer assessments. The evaluations are survey-based, using an instrument developed by CIC in consultation with the Governance Committees of the subsidiary Crown boards of directors. Board, Chair, Committee and director performance is measured against the duties and expectations set out in their respective Terms of Reference and the specific standards outlined in the evaluation instruments. The purpose of the evaluations is to identify areas where the Board, Committee, Chair or director is managing well and to highlight areas that may benefit by additional focus and attention. Directors complete surveys to provide feedback in writing on the effectiveness and contribution of the Board, Committees, Chairs and individual directors. The Board Chair or a third party follows up the written responses with interviews of directors to elicit additional concerns or suggestions for improvement. The Governance Committee prepares reports outlining the evaluation results, which are submitted to the Board for review and approval. The Committee recommends follow-up action required as a result of recommendations made in the evaluation reports, and tracks implementation of any action items.	Yes

Saskatchewan Landscape Art

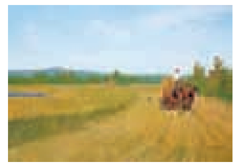
To evoke the theme for this year's annual report, "expanding our horizons," we decided to use some of the Saskatchewan landscape art in our corporate art collection. The horizon that so dominates prairie scenery and landscape art suggests possibility and opportunity even as it marks a boundary. While SaskTel is a corporation that thrives on looking beyond its current horizons, the integrity and responsibility motivating this outlook begins from a commitment to the people and communities contained within those horizons. And so, we offer these inspiring images of Saskatchewan horizons to celebrate this land, but also to honour the impulse to imagine possibilities beyond that line where earth meets sky.

The SaskTel Corporate Art Collection gained national attention this year as we helped Saskatchewan celebrate its centennial by, among other things, loaning a portion of our art collection to the Canadiana Fund. The Canadiana Fund was established to enhance the beauty of and interest in the state areas of Canada's Official Residences in the National Capital Region. Through this loan to the Canadiana Fund, 14 pieces of premiere Saskatchewan artwork have been made available to the residents of the official residences for their selection. In addition, the Lieutenant Governor of Saskatchewan, Her Honour Lynda M. Haverstock, has selected several pieces to be showcased at Government House Heritage Property in Regina, Saskatchewan.

Cover: Rape Field - Oil on Canvas
Greg Hardy

Kindersley - Watercolour
Dorothy Knowles

Alma Mater - Watercolour
Kelly Goertzen



Getting the Hay Crops In - Oil on Canvas
Michael Lonechild

Summer Storm - Watercolour
Russell Mang

Grass Road with Yellow and Green - Oil on Canvas
Lorna Russell

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Expanding Our Horizons

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For more information about SaskTel, our initiatives and operations, or to obtain additional copies of the 2005 SaskTel Annual Report, please contact SaskTel Corporate Affairs at 1-877-337-2445 or visit our web site at www.sasktel.com

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