SaskTel

2002 Annual Report

Letter of transmittal

Regina, Saskatchewan
March 31, 2003

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, 2002, including the financial statements, duly certified by auditors for the Corporation, and in the form approved by the Treasury Board, all in accordance with The Saskatchewan Communications Holding Corporation Act.

Respectfully submitted,

Honourable Maynard Sonntag
Minister Responsible for Crown Investments Corporation (CIC)

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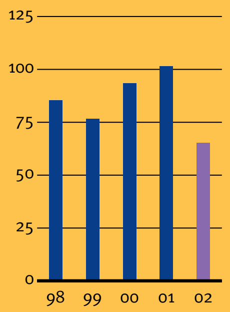
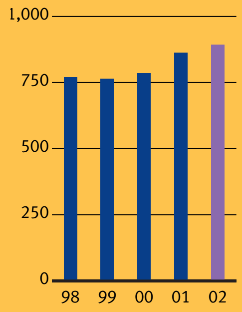
financial highlights

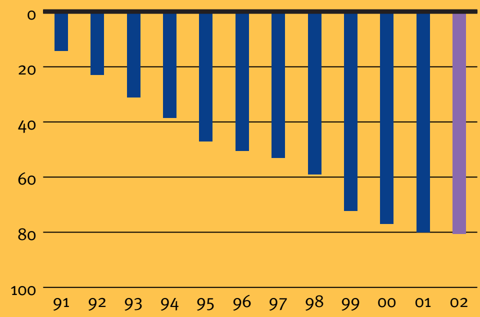
NET INCOME
($ millions)



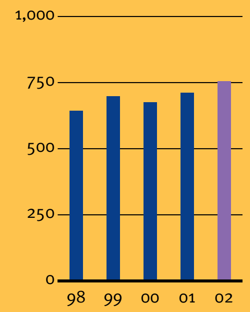
OPERATING REVENUES
($ millions)



CUMULATIVE % SASKTEL HAS LOWERED AVERAGE PER MINUTE LONG DISTANCE CHARGES SINCE 1990
(percentage)



OPERATING EXPENSES
($ millions)



- **Net Income** for the year was $65.1 million and cash from operating activities was $251.1 million. During the year, SaskTel recorded a writedown of its investments in Austar United Communications Limited ($40.4 million) and Soft Tracks Enterprises Ltd. ($0.9 million). Operating results remain strong and net income before the writedown of investments was $106.5 million or $5.0 million higher than 2001.

- **Operating Revenues** increased in 2002 due to increased revenues from diversified operations and increased cellular and internet revenues. These increases were partially offset by reductions in long distance and contribution revenues.

- **Operating Expenses** were higher than the previous year. Increased spending on growth and diversification initiatives was partially offset by reductions in traditional business lines due to cost savings of $22 million which were generated by the Operational Efficiency Program and reduced contribution payments.

- **Capital Expenditures** increased to $165.0 million in 2002. The increase in spending reflects a greater focus on diversification and growth initiatives, such as *Max*™ Interactive Services, high speed internet, CommunityNet and digital cellular expansion.

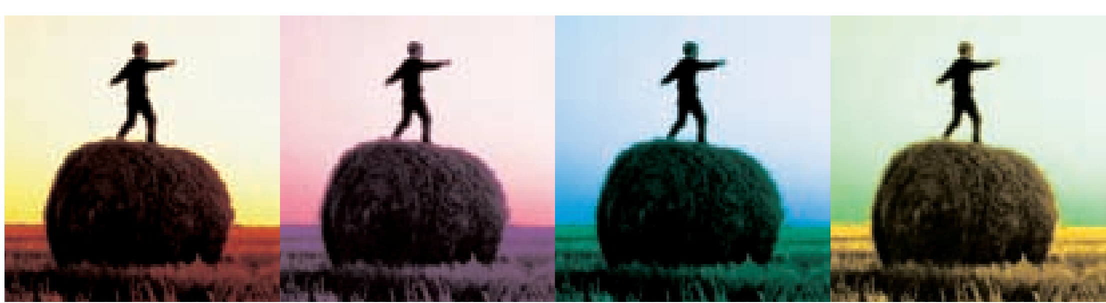
- SaskTel **Declared Dividends** of $58.6 million in 2002.

president's message

Most SaskTel customers by now have come to see that their communications provider is, well, different. If you travel at all or talk to people who live beyond our serving area, you'll know what I mean. The telecom industry has gone through great upheaval in recent years. During the past decade, long distance revenues hit the floor. Other revenue streams filled the gap but some of the strategies and technologies that our competitors pursued have led them into difficulty in the last couple of years. Share prices of corporations once thought rock solid have plummeted; mass layoffs and drastic cost-cutting measures have become the order of the day for many. And while technologies like the internet have been touted as new universal services that should be made available to every home and business, in many jurisdictions it hasn't worked out that way.

Now, it would be dishonest to suggest that SaskTel has not been affected by all of this, because we have. The decline of long distance revenue, the challenge of serving high cost areas, and fierce competition from national and multi-national companies has brought about profound change at SaskTel. Where we have shown ourselves to be different, however, is in our results and our renewed commitment to serving customers well across the province. While others have struggled, our overall revenues have held and even risen. While others have slashed staff, we have kept our commitment to employees and been recognized as one of the best companies to work for in the nation. While others have expanded their high speed internet and digital cellular services only as far as their profit imperatives would allow, we have brought these technologies to people across Saskatchewan, thanks to our strong financial position.

The story of how we have stayed strong financially and even grown our revenue base demonstrates this company's courage is different. We knew we had to reduce operating costs, but instead of going the traditional route of staff layoffs we found ways of increasing efficiency and cutting costs that will save SaskTel $60 million annually. But cost savings are only half of the picture. A consistent theme in our corporate strategies and annual reports has been the need to diversify our business. Diversify is just a word for trying something different. It means you've diverged from a previous path, taken that other road, the one that has made all the difference. A decade ago SaskTel came to a clear fork in the road. One option was to stay the course and continue with our main lines of business—long distance, a source of profit that we knew would soon decline sharply, and local service, which had never been profitable. The other option was to develop new profitable revenue streams that built on our natural strengths and networks as a communications company. Was there any uncertainty at the time, any second guessing? Some, perhaps, but it was clear to those who led this corporation and had to make that choice, that SaskTel would have to change and grow, become different, if it were to continue meeting the needs of Saskatchewan people.



Back then at that fork in the road, SaskTel made more than double the long distance revenue it makes today. If we had stayed with what we thought of then as our core business and not expanded into new lines, we would be in a much weaker position financially. Instead of an equity value of an estimated $1.75 billion, our equity would likely be in the $150 to $300 million range. Instead of the $893 million (annual revenue) company we are now, we would likely be a $400 or $500 million company. Instead of reporting roughly 60% equity as we are this year, we'd probably be carrying 60% debt. Instead of the over 3,800 employees we are privileged to engage, we'd likely be down to 2,800.

But that is only half the story, and in some ways not the half that matters most to our customers. If we hadn't taken the steps to make SaskTel different, to launch SaskTel International, SaskTel Mobility, DirectWest, we wouldn't have the financial resources to bring new technologies to market quickly and affordably. And the people in places with small populations simply would not have high speed internet and digital wireless services. Of that you can be certain.

I sometimes like to point out that terms like "core business" and "basic service" are moving targets. Yesterday's diversification or growth initiatives are today's core service. Some of us remember when the telephone directory was a poster on the wall published by the local paper. Today our subscribers take it for granted that they will receive a directory from SaskTel. No one would question that publishing directories is central to SaskTel's business, but at some point it was a diversification. Likewise, when cellular service and the internet first emerged, we did not hesitate to diversify strongly in those directions. And now, a few years later, people are already beginning to talk about digital wireless service and high speed internet as though they are basic services to which everyone may soon have access. As of the end of the year, we had brought high speed internet to every Saskatchewan community of 1,000 or more people. And in 2003 we will complete our digital cellular expansion program, which will see over 90% of the Saskatchewan population covered by our digital network.

This past year we took another step in diversification by launching *Max*™ Interactive Services to the province's largest cities. A natural extension of the company's existing network, *Max* Interactive Services deliver high speed internet and broadcast services to customers all in one package. If this service is as successful as we expect, it too will one day be considered part of SaskTel's core business.

The ones who help us make a difference at SaskTel—our employees, management and board of directors—have been indispensable as we continue making our way down that road we took ten years back. As ever, I am grateful for their commitment, creativity and hard work during what was another successful SaskTel year.

Donald R. Ching
President and CEO

envision

EXPANDING LIFE'S POSSIBILITIES

In the communications business, envisioning the customer's needs today and tomorrow is our stock in trade. Technologies we envisioned a year or two ago are commonplace today. The systems that bring a conference in Helsinki live to your laptop and a birthday e-mail to your cell phone expands life's possibilities. It is our job to see that our customers can take advantage of those possibilities as they come to market, which means getting the most out of our evolving network, and continuing to invest in the knowledge base of our employees.

STARTING AT HOME

We are in a strong position to envision our path forward as a full service communications company, because we have laid the groundwork here at home. In the past decade we have spent over $1 billion updating and improving our Saskatchewan network, increasing its security, carrying capacity and speed. Now when we look ahead to the future of e-business, we see internet protocol (IP) technologies, wireless systems and converging media available in homes across the province. We have made a firm commitment to continue aggressively deploying high speed internet to more and more of our serving area, on a schedule unmatched in the industry. Applying a combination of emergent wireless and wireline technologies, SaskTel's goal is to deliver high speed internet to 95% of the Saskatchewan population within three to five years.

FASTER AND BETTER TECHNOLOGY

This year we tested a new wireless system called 1xRTT that is revolutionizing wireless access to the internet. The fastest wide area mobile data network available in Canada, this new generation of wireless technology will allow SaskTel Mobility to continue improving our mobile information, commerce and entertainment services. Once this 1xRTT technology is made available, our customers will have access to a greater quantity of information much easier and quicker than ever before. Business customers will have better, faster, "always-on" access to e-mail, the internet, and their own corporate data, allowing them to operate their businesses and serve their clients more effectively.

“You’ll never guess where I found my new hair colour...”

The joy of high speed. With SaskTel’s High Speed Internet service you can access all the things you love, including a new hair colour. SaskTel leads the way in the industry in deploying high speed internet to rural communities. By the end of 2003, more than 74% of the population of Saskatchewan and a total of 237 communities will have SaskTel High Speed Internet service available to them.

HOSPITALITY NETWORK AND SECURTEK

Our network investment has been paralleled by our investment in new diversified lines of business. Envisioning a new SaskTel with a broader revenue base, in the early 1990s we launched a strategic initiative founded on prudent and careful diversification. That initiative has transformed our corporation and led to many successes, but we are particularly proud of two that have created revenue, economic activity and jobs in Saskatchewan and across Canada—Hospitality Network Canada Inc. and SecurTek Monitoring Solutions Inc. A broadband interactive television and telephone service provider, Hospitality Network delivers patient television and telephone rental access in the Canadian healthcare industry. Hospitality Network has created 28 jobs in the province as it finds more ways to serve the patient-communication needs of hospitals and long-term care homes throughout Canada.

SecurTek, with its head office in Yorkton, Saskatchewan, delivers security monitoring and event related information services to businesses and consumers in select Canadian markets. The company employs 76 people at its head office and supports the Saskatchewan economy, creating jobs and retaining monitoring business within the province.

EMPLOYEE DEVELOPMENT

The investment that really makes the difference as we envision our future in this industry is the time and money we apply to the development of our employees. SaskTel has management development programs, internal training, education leave and out-of-hours education programs that ensure our employees have the training they need to develop their careers and serve SaskTel's business needs. This year SaskTel received another boost to its international reputation as a corporation that employs highly trained technicians and professionals. The Conference Board of Canada and The Office of Learning Technologies, Human Resources Development Canada, selected SaskTel as a winner for the "2002 National Awards for Learning Technologies in the Workplace." We were granted the award on the strength of our on-line learning system, along with our home computer purchase and internet concession programs for employees.

This year we were also fortunate enough to be chosen for one of the Saskatchewan Labour Force Development Board's "Training for Excellence Awards." It was in the Career Enhancement – Human Resource Planning category and commended SaskTel for investing in the career development of our workers. As well, for the third year running, SaskTel was chosen to appear in Canada's Top 100 Employers. The book is compiled by Mediacorp Canada Inc. after examining the recruitment histories of over 47,000 employers across Canada and then taking a closer look at 6,000 companies invited to apply. This kind of recognition, in conjunction with the award for learning technologies, confirms what we have always known at SaskTel: the most successful organization is one with motivated and skilled employees who have access to tools and information that enable them to perform their jobs effectively. ■

enable

ARE YOU ABLE?

SaskTel is in the business of making sure you are able. Let's say your company is expanding its on-line presence and you need someone to host your on-line shopping system. You'd be wise to check out SaskTel's Hosting Services. We can customize web hosting to meet your needs, providing security and reliability you can afford, in ways that are easily scaled to accommodate growth.

At SaskTel Mobility, enabling means it has to fit in the palm of your hand and keep you in touch no matter where you go. With our new digital wireless systems, staying in touch now means you can check hockey scores, have your e-mail forwarded, or send a note to a friend on MSN® Mobile – all from your digital cell phone.

DIGITAL EXPANSIONS

We pride ourselves on bringing wireless services to regions that our competitors have chosen not to serve. This year SaskTel Mobility expanded its digital cellular service to cover the previously unserved areas of Lestock, Punnichy, Bengough, Cochin, Coronach, Rockglen, Debden, Beechy, Canwood, Montmartre, Central Butte, Blaine Lake and Elbow. By next year our digital cellular service will completely overlay today's analog cellular network and more than 90% of Saskatchewan's population will have access to digital cellular service.

As well, this year we continued to expand our high speed internet service on an aggressive schedule. Residents and business owners in communities from Norquay to Creighton to Smeaton to Pangman now have access to this valuable educational, communications and entertainment service. Since 1996, SaskTel has invested more than $60 million to offer a high quality, price-competitive high speed internet service. Our latest expansion was targeted at bringing high speed to 191 new communities. By the end of 2003 when this expansion is complete, about 74% of Saskatchewan's population will enjoy access to SaskTel High Speed Internet service. SaskTel is currently researching a combination wireless/wireline service option that will be required to achieve our ultimate goal of reaching 95% of Saskatchewan's population.

U R way 2 funny ;)

The latest in text messaging capabilities. Communicate with your friends, all in the palm of your hand. *Notifi!*™ text messaging allows you to send or receive text messages, access everything from the joke of the day, to stock quotes, weather updates and e-mail, all from the screen of your digital cell phone.

ENABLING PERSONAL SAFETY

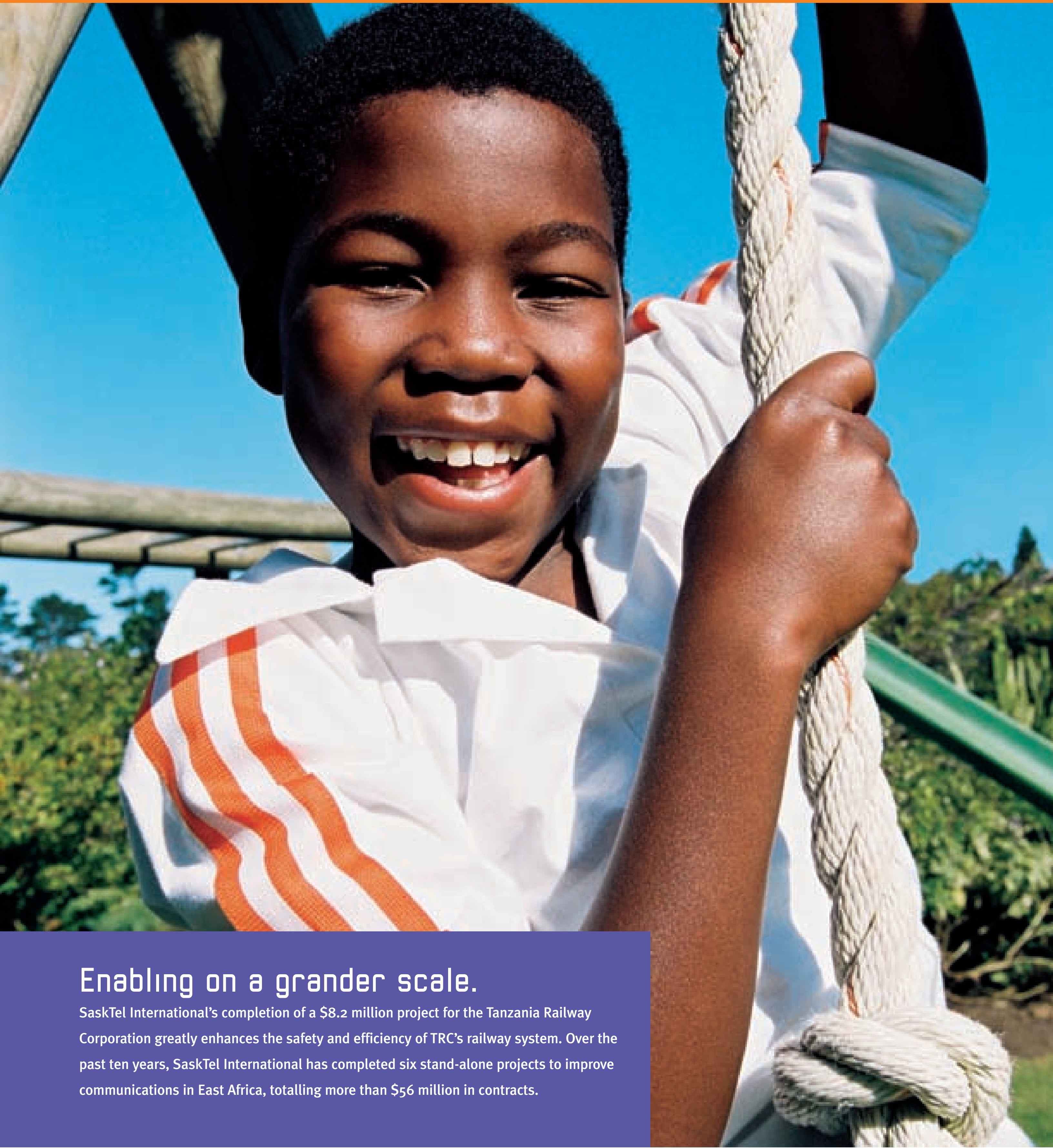
Enabling customers to increase their sense of personal safety has been part of SaskTel's business since the days of the "general ring" on the party line. Thanks to recent expansions of Sask911, Provincial Enhanced 911 service is now available in about 95% of Saskatchewan's populated area. As well, in 2002 SaskTel SecurTek introduced SafetyNet, a new personal security service for seniors living as tenants in multi-unit complexes. SafetyNet provides a direct and instantaneous alarm contact between the tenant living in the suite and SecurTek's 24 hour monitoring station.

SASKTEL INTERNATIONAL

We do a lot of enabling on a grander scale as well. Saskatchewan Communications International Inc. (SaskTel International) last year completed a $8.2 million project for the Tanzania Railway Corporation (TRC). Over the past ten years, SaskTel International has completed six stand-alone projects in East Africa totalling more than $56 million. By installing 300 km of fiber optic cable and transmission equipment along the rail line between the major cities of Morogoro and Dodoma, this most recent undertaking enabled the TRC to improve and upgrade its communications systems along this critical route. And we did it under budget and ahead of schedule.

Late in the year, SaskTel International landed a major contract for its *MARTENS*® Service Provisioning and MAGIC (Modular Applications Gateway Interface Connector) software products and services. Under this contract, TDS Telecom, an incumbent local exchange company (ILEC) based in Madison, Wisconsin will be implementing SaskTel International's products within its local operations across the United States. TDS Telecom's local operations consist of over 650,000 access lines distributed across 115 telephone companies in 28 states. ■

"People from Saskatchewan helped make our train safer."



Enabling on a grander scale.

SaskTel International's completion of a $8.2 million project for the Tanzania Railway Corporation greatly enhances the safety and efficiency of TRC's railway system. Over the past ten years, SaskTel International has completed six stand-alone projects to improve communications in East Africa, totalling more than $56 million in contracts.

enjoy

MAXIMUM ENJOYMENT

Here's what we mean by maximum enjoyment: a full line of digital TV channels, digital music and radio, and "always on" high speed internet including four e-mail accounts— all coming your way on one easy-to-use system, and paid for on one affordable bill. We've "gone to the max" with our new interactive home entertainment and information service, which allows customers the choice of accessing everything through one television, to split between two TVs, or between TVs and a PC. Since introducing the service to the province's largest centres in the fall of the year, we have seen a steady increase in customers signing up for *Max*™ Interactive Services. A recent survey conducted among current *Max* customers has provided us with some very positive feedback. People are finding that they like having one box do the work of two or three.

SaskTel's own web portal site, mysask.com, is all about enjoyment for customers. This past year we added more Saskatchewan content for nine major regions across the province (Regina, Saskatoon, North Battleford, Prince Albert, Yorkton, Weyburn, Estevan, Moose Jaw and Swift Current). In addition to providing access to national and worldwide news, weather and sports, mysask.com offers complete on-line directory and access to local movie theatre information. More and more Saskatchewan people are signing up for free membership and setting mysask.com as their web browser home page.

SASKTEL SERVICE

We know we are doing things right when we see our customers enjoying our products and services – the best wireline, wireless, internet and e-business solutions available today. But it is important to us as well to know that the people we serve also enjoy the way those services are delivered.

With that in mind, we are always looking for ways to simplify our service delivery, sales and billing systems. Our eStore customer base, as of the end of 2002, had grown to 7,228 registered users. The eStore web site averaged more than one million visitors each month and processed orders for more than 5,300 products. By the end of the

"TV, music and internet, all in one – that's what I call thinking outside the box."

We've gone to the Max. SaskTel *Max* Interactive Services is an innovative new service that will allow customers to have unlimited high speed internet on their TV and computer and a full lineup of digital quality television channels, including local radio and television programming.

year, 17,000 of our customers were using eBill, our new on-line billing system. eBill allows you to securely view and pay your SaskTel and SaskTel Mobility bills on-line free of charge. You can say goodbye to paper bills, and access your account information 24/7 – wherever and whenever you need it.

As our services and systems multiply and evolve, we know how important it is to keep things as easy as possible for customers. Which is why we long ago expanded our hours of operation for sales and service so that we are available to customers 8 a.m. to 8 p.m. Monday to Friday (excluding statutory holidays) and 9 a.m. to 5 p.m. Saturday. And, no matter what product or service you need, we also offer one-number telephone shopping for both residential and business service (1-800-SASKTEL). One-number trouble reporting (611) simplifies notification and ensures access to highly skilled technicians. And when it's time to pay, you receive a single monthly bill for everything – local access services, long distance, internet and digital television. ■

“More time for me.”

Freedom to do the things you want.

Aiming to simplify our customers’ lives. SaskTel’s eStore web site has averaged more than one million visitors each month and processed orders for more than 5,300 products. eStore allows our customers the flexibility to conduct personal business whenever it’s convenient…day or night.

enrich

SASKTEL IN THE COMMUNITY

Enriching Saskatchewan communities and culture has long been a priority at SaskTel. More than ever, though, our decision making is guided by a sense of corporate social responsibility that brings the ethical values of Saskatchewan people into our daily business operations.

SaskTel has implemented a community investment program that focuses on four major categories. First, as a communications company, we have a natural obligation to share our expertise and resources in fostering the responsible use of technology here in the province. A second priority is rural life, and SaskTel is privileged to support many non-profit organizations that add to the richness of life in small rural communities around the province. Third, we focus on programs and activities that celebrate and foster diversity in our communities by supporting visible minorities, women in non-traditional roles, people with disabilities and Aboriginal people.

The fourth priority is youth. What better way to enrich the communities we serve than by creating healthy, safe environments for our young people? In addition to our sponsorships of non-profits working with youth, our event marketing similarly allows us to focus on the youth of the province. The SaskTel Aboriginal Youth Awards of Excellence is a way for us to help celebrate, in a gala ceremony, the contributions young Aboriginal people have made to their communities.

Our focus on youth is perhaps most clearly seen in what we think of as our corporation's primary social cause. Since 1999 we have been working with several community partners to enrich the lives of parents and children, focusing on healthy parenting practices and family development during the early childhood years. We now fund a whole network of abuse counselling, positive parenting services and support – the SaskTel Dream Network, we call it – aimed at reducing child abuse by helping parents to create a safe and loving environment for children. The programs and partnerships in the SaskTel Dream Network are giving parents the knowledge and skills necessary to care for their children during the critical growing years from birth to age five.

"Look at me, Mom."

Enriching lives across our province.

Taking an active role in our communities. The SaskTel Dream Network, just one component of our community investment program, supports partners in the community who manage educational and health programs that prevent child abuse, and ultimately make a positive difference to Saskatchewan children at risk of abuse.

Our work in developing the SaskTel Dream Network contributed to an honourable mention we received this year from the Conference Board of Canada. Under an award known as "Global Best for Corporate Leadership," the Conference Board recognizes an organization's achievement in employee and community investment programs that address the needs of children and foster readiness to learn.

Each year we produce a detailed Corporate Social Responsibility report that illustrates the ways in which SaskTel's business and programs relate to five key stakeholder groups. The full report appears on our corporate web site, at www.sasktel.com/about_sasktel/financial_reports/2002_annualreport/social/. Here are some highlights from the results detailed in the 2002 SaskTel Corporate Social Responsibility report, following the five key stakeholder categories:

1. Customers – Once again this year we surveyed customers to find out how Saskatchewan people regard SaskTel. In a question that revealed customers' personal perceptions of corporations, SaskTel scored an average of 7.4 out of 10 (with 10 being the most positive), ranking number one among nine private and public companies. In a question focusing on customer attitudes toward corporate community support, the results showed that 85% of respondents prefer to do business with companies that actively participate in supporting the community.

2. Community – In 2002, SaskTel donated $1.8 million to over 1,600 non-profit and charitable organizations in Saskatchewan. This year as well, SaskTel Pioneers, a service organization of active and retired SaskTel employees, contributed $359,032 and 53,167 hours of volunteer time to worthwhile community projects. Our community benevolent fund, SaskTel TelCare, donated $217,484, which is matched 50% by SaskTel for a total of $326,226 to assist over 60 Saskatchewan charities.

Imagine A Caring Company

3. Employees – Supporting Saskatchewan's youth and reflecting the province's cultural diversity in our employment practices are two high priorities. In 2002, 92% of the full-time positions we hired were students from Saskatchewan post-secondary institutes. We met our employment equity goal to hire 30% from the following groups: Aboriginal people, people with disabilities, visible minorities and women in non-traditional roles. As well, according to our 2002 employee survey, 88% of SaskTel employees rate SaskTel as an above average place to work – a figure that is 33% higher than the rating employees of 500 other North American companies give for their employers.
4. Environment – In 2002, SaskTel and the SaskTel Pioneers recycled more than 214,115 telephone directories in the province, representing approximately 25% of phone books and matching levels of 2001. The Paint-It Recycling program collected a total of 14,670 gallons of paint.
5. Suppliers – SaskTel's policy has always been to purchase its goods and services from Saskatchewan businesses whenever possible. In 2002, we spent $236 million on materials and services from Saskatchewan suppliers. Results from a 2001 survey of our suppliers showed that 84% of respondents were satisfied with their relationship with SaskTel.

SaskTel's global subsidiary, SaskTel International, has been enriching the lives of people around the world since 1986. Using expertise developed at home in Saskatchewan, SaskTel International has installed communications systems beneath the English Channel, on remote islands in the Philippines and across rural areas in the heart of Tanzania. Late in the year, SaskTel International, in partnership with IBM Business Consulting Services – Canada, signed a contract worth $6.9 million for a project that aims to improve living conditions for people in rural India. SaskTel International will design and implement a sustainable model for the delivery of information and communications technologies to a group of small villages in the state of Madhya Pradesh. Whether it is fiber optics or microwave radio, wireless or traditional access networks, operational support software or advanced internet services, SaskTel International has a strong track record in delivering communications solutions wherever people need them. And, as long as we are on the subject of enrichment, SaskTel International has shown a profit in each of the last 11 years running. ■

Introduction

The following discussion focuses on the strategies, consolidated results of operations and financial position of Saskatchewan Telecommunications Holding Corporation (the Corporation), including its major strategic business units or operating segments, its subsidiaries, and its investments in significantly influenced companies. The discussion and analysis should be read in conjunction with the Corporation's audited, consolidated financial statements on pages 43 to 61 of this report. Some sections of this discussion contain forward-looking information about the Corporation. This information reflects expectations and intentions at the time of writing. As such, risks and uncertainties could cause actual future results to differ materially from those anticipated.

Overview: the Corporation and its Growth and Diversification Strategy

The Corporation is the leading full-service communications provider in Saskatchewan and has delivered high quality communications to the people of Saskatchewan for more than 90 years.

The Corporation began operations in 1908, serving about 3,000 customers. This customer base has grown to more than 425,000 customers, covering virtually 100% of Saskatchewan homes and businesses. The Corporation has built and maintained a solid state-of-the-art network linking 13 cities with 535 smaller communities and their surrounding rural areas, including 49,000 farms. Approximately 4,000 employees live and work in more than 50 communities throughout Saskatchewan, delivering the best communications products and services to every corner of the province.

Until the early 1990s, the Corporation focused almost exclusively on providing local and long distance voice services throughout Saskatchewan. In 1990, total operating revenues from these sources were more than $570 million, and net earnings for the year and dividends declared to the Province of Saskatchewan were $46.9 million.

In the early 1990s, management foresaw that changes to communications regulatory policy in Canada and the introduction of competition in major lines of business, in particular long distance, would significantly shift the economic model for communications companies in Canada. The Corporation's management recognized that revenue and margins from traditional sources would diminish over time due to market share loss and market-driven price reductions. For example, since 1990 the Corporation's annual long distance revenues have declined by more than $200 million – over 50%. In 1992, in response to a changing regulatory and business environment, the Corporation was restructured to create a holding corporation (Saskatchewan Telecommunications Holding Corporation) and a 100% owned operating company (Saskatchewan Telecommunications). Saskatchewan Telecommunications now includes two operating segments: SaskTel Wireline and SaskTel Wireless.

It was also recognized that digitalization of networks, evolving switch technologies, wireless development and evolving computing and software functionality would present both opportunities for new product and service introductions and additional threats to traditional service revenues. For the Corporation to remain profitable, and to continue its long-term tradition of providing customers in all parts of the province with affordable, quality communications service, it would have to leverage its evolving network capabilities and expertise, aggressively adopt new technologies and develop new competencies to launch and enhance new services and businesses. Anticipating the impact of this changing environment, management developed a *growth and diversification strategy* to increase revenues and profitability from diversified sources and add value for customers and the shareholder *without significantly increasing the overall risk profile of the business*. All units of the Corporation were challenged to grow revenues and create additional value. The Corporation would create and capture opportunities to extend its existing businesses and actively pursue new ventures. The Corporation's objectives were to grow revenues and long-term shareholder value from non-traditional products and markets to offset anticipated reductions in revenues and margins from traditional lines of business and to build value in the business.

In 2002, approximately 45% of the Corporation's revenue directly resulted from its growth and diversification strategy, as compared to less than 5% in the early 1990s.

RISK MANAGEMENT

A key component of the Corporation's growth and diversification strategy has been risk mitigation and management. It is recognized that not all new services and ventures can reasonably be expected to be successful; however, a number of appropriate parameters and governance structures have been put in place to mitigate risk. Appropriate measures include parameters to reflect country risk, currency risk, investment size, investment focus, rate of return expectations and overall business risk. Nevertheless, there will always be a chance that some investments will fail and/or not generate the value originally anticipated. In fact, some of the Corporation's ventures have failed.

However, the Corporation's overall track record with its investments is excellent. In comparison with its communications industry counterparts, the Corporation's external investment program has been modest. Its external investment strategy addresses and limits risk through a portfolio approach that spreads investment and business risk.

Much of the Corporation's current investment portfolio is in the start-up or developing stage. This means that the initial investment necessary to start and grow a business is currently underway, including operating expenses necessary to generate initial sales and product development efforts. The businesses' financial plans call for profitable operations within three to five years from the beginning of operations, which is a typical business start-up period. In some industries and according to some management philosophies a start-up period of up to 10 years may be required. Historically, the three to five years to profitability rule-of-thumb has held true for the Corporation's investments.

Investment	Years-to-profitability (loss years)
Saskatchewan Telecommunications International, Inc.	3
ISM Information Systems Management Corporation	4
LCL Cable Communications Limited	4
Regional Cable TV (Western) Inc.	1
DirectWest Publishing Partnership	0
NST Network Services Inc.	*
Hospitality Network Canada Partnership	6
Alouette Telecommunications Inc.	1
SecurTek Monitoring Solutions Inc.	3
3231518 Canada Ltd. (clickabid™)	*
IQ & A Partnership	*
Retx, Inc. (formerly Retx.com, Inc.)	**
Soft Tracks Enterprises Ltd.	**
Craig Wireless International Inc.	**
Tappedinto.com, Inc.	**
The Ag Dealer Ltd.	**
Business Watch International Inc.	**
Navigata Communications Inc. (formerly RSL COM Canada Inc.)	**

* Investment did not progress as planned; therefore, SaskTel exited after two years

** Current start-up venture

The Corporation's external investment program goal is to build value for the future, and our portfolio *is* building value for the future. Based on the most recent business plans for these investments, the estimated value of the Corporation's current external investment portfolio is $230 million to $345 million compared to the $165 million invested.

Every year, to comply with Canadian generally accepted accounting principles, the Corporation must review its investments to determine if there has been a decline in value that is other than temporary. If there is a decline that is other than temporary, the investment must be written down. In 2002, the Corporation wrote down its investments in Austar United Communications Ltd. (Austar United) and Soft Tracks Enterprises Ltd. (Soft Tracks). Both these companies continue to operate. However, given the current outlook of the businesses, these investments were written down to reflect a reduction in their carrying value.

In conclusion, management believes that the Corporation's growth and diversification strategy creates and increases value, and does not unduly increase the overall risk profile of the Corporation.

GROWTH AND DIVERSIFICATION STRATEGY

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

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

1. New Products in Existing and New Markets

The Corporation has aggressively introduced new services in existing markets as a significant component of its growth strategy. Over the last ten years, key engines of growth for the Corporation have been within Saskatchewan Telecommunications (SaskTel Wireline and SaskTel Wireless).

SaskTel Wireline

SaskTel Wireline, the Corporation's longstanding core business, provides traditional voice services, but has expanded to include evolving data, dial-up and high speed internet, data storage and web-hosting, text and messaging services and enhanced services such as calling features like Call Display and Name Display and *MessageManager*™ service. The company leveraged its leading-edge, digital network to offer these additional services to its customers. During 2002, the Corporation also launched *Max* Interactive Services (formerly Digital Interactive Video or DIV). This service, a natural extension of the company's existing broadband network, delivers high speed internet and broadcast services to customers all in one package.

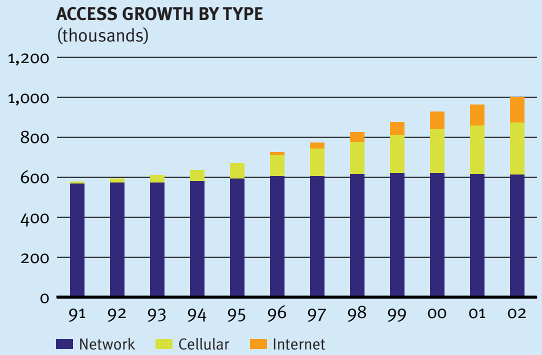
By adopting growth and operational efficiency strategies in SaskTel Wireline, the Corporation has not only sustained but added value. Declining revenues from traditional Wireline services have strategically and successfully been replaced with revenues from other sources. In 1990, SaskTel Wireline's gross revenues were approximately $556 million compared to $663 million in 2002, recognizing in that interval a reduction of more than $200 million of long distance revenues.

SaskTel Wireless

SaskTel Wireless (SaskTel Mobility) is Saskatchewan's largest wireless service provider, offering a comprehensive suite of wireless products aimed at satisfying customers' wireless voice, messaging and data needs. This business unit continues to diversify into newer services, products and markets. Since its inception in 1989, operating revenues have grown to $159.5 million and wireless subscribers have grown to 270,000. In the early to mid-1990s, SaskTel Wireless was considered a growth and diversified business. Today it is part of the Corporation's core operations.

Saskatchewan Telecommunications Access Growth

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



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

DirectWest Publishing Partnership (DirectWest)

Publishing telephone directories has been a long-term service of the Corporation in Saskatchewan. From 1990 to 1997, the Corporation increased its ownership in DirectWest from 10% to 100% to reflect the importance of directories to the Corporation in a competitive marketplace, to strengthen DirectWest in the face of directory competition, and to enable DirectWest to pursue new media growth opportunities. Subsequently, DirectWest acquired two publishing businesses directly involved in the agricultural industry, The Ag Dealer Ltd. (Ag Dealer) and Warren's Farm and Ranch Directory. These acquisitions gave DirectWest a base of quality publications with existing customers to enable DirectWest to rapidly move into the agricultural advertising and publishing market.

Today, DirectWest's business consistently generates value through its directories (print and on-line) and continues to add new services and solutions for its customers such as web site development, on-line advertising, e-mail marketing, e-commerce and agricultural advertising. DirectWest publishes and distributes 10 telephone directories in the cities and districts across Saskatchewan, and provides all its directories on-line at Saskatchewan's leading internet portal: www.mysask.com. DirectWest's head office is in Regina, with a second office in Saskatoon. The company employs over 100 people in Saskatchewan.

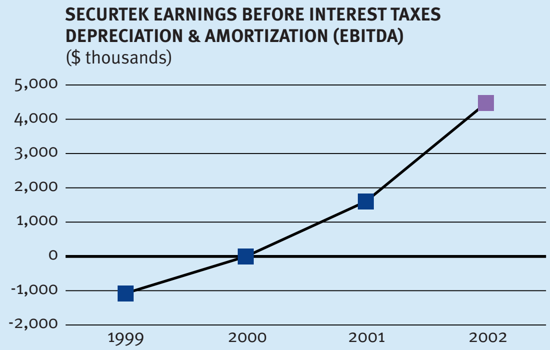
The Corporation has also entered into a number of ventures to bring new products to both its existing markets in Saskatchewan and to new markets outside Saskatchewan.

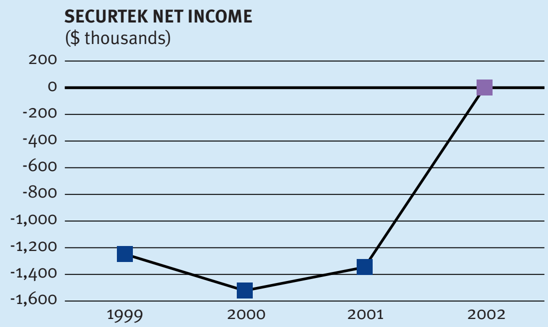
Hospitality Network Canada Partnership (Hospitality Network)

Hospitality Network, a venture founded with private Saskatchewan business interests to provide entertainment services to the hospitality industry in Saskatchewan, began operations in 1994 and has evolved from its modest beginnings to become Canada's leading provider of television and telephone services in hospitals and long-term care homes throughout Canada. Its head office is in Regina, Saskatchewan, with 309 employees nationwide; 28 of these in Saskatchewan. The Corporation currently owns 95.2% of Hospitality Network. This venture has been profitable since 2000 and has increased cash flow and net earnings in each of the last three years. Hospitality Network continues to evolve its products, pursue growth opportunities and build value for its shareholders.

SecurTek Monitoring Solutions Inc. (SecurTek)

The Corporation launched SecurTek as a wholly owned venture in 1999 to provide commercial and residential security monitoring services to customers in Saskatchewan, Alberta, Manitoba, British Columbia and selectively in Ontario, from its Yorkton, Saskatchewan monitoring centre. Operation of a security monitoring centre leverages the Corporation's call centre, network management and process expertise. Through its established dealer program, SecurTek partners with small businesses that provide security sales and service to end customers. At year end, SecurTek had 65 dealers, 13 of these in Saskatchewan. SecurTek has grown rapidly from start-up company to over 100 employees, 76 of these work at SecurTek's head office in Yorkton. Over 70% of SecurTek's monitoring customers and revenues are from outside Saskatchewan. SecurTek was a start-up venture in 1999 that became profitable in 2002. Since its founding, SecurTek has had sustained business and financial growth.





It is anticipated that SecurTek's business and financial performance will continue to develop and improve in 2003.

Navigata Communications Inc. (Navigata)

A strategic but unique investment for the Corporation was the acquisition in late 2001 of 100% of the entity now called Navigata Communications Inc. (Navigata). Navigata is an established entity that has operated a communications business in Canada for more than 40 years. It provides a range of communications products and services including local, long distance, internet, telephone cards (pre-paid and post-paid), high speed data, hosting, web services and wholesale carrier services to customers across Canada and internationally. Navigata presents a marketing and sales vehicle for the Corporation to expand its services to markets outside Saskatchewan. It helps the Corporation serve its current customers with operations elsewhere in Canada and North America. Navigata also has centres of excellence such as wholesale carrier and card services businesses that the Corporation can leverage.

Significant operational synergies exist between Navigata and the Corporation. In 2002, the Corporation began to capture these synergies, implement a new business plan and change the corporate structure. Navigata is expected to be cash flow positive in mid 2004.

TappedInto.com, Inc. (TappedInto)

As broadband, high speed internet access becomes more widely available in North America, it is envisioned that web sites will become content enriched through streamed video applications. In 2001, the Corporation invested in TappedInto, and owned 53.6% of the company at December 31, 2002. TappedInto is an internet broadband streaming company that offers internet streaming services to companies in Saskatchewan, North America and Europe. Video streaming applications include product demonstrations, corporate training presentations, investor presentations, and live events such as press conferences, concerts and sports events. TappedInto combines the Corporation's data hosting and video streaming competencies with marketing and sales reach outside Saskatchewan. While the head office of TappedInto is in Nashville, Tennessee, the company's technical operations centre with eight employees is established in Regina. TappedInto is expected to be cash flow positive in early 2004.

Soft Tracks Enterprises Ltd. (Soft Tracks)

Soft Tracks is a software solutions provider to the wireless communication and electronic payment industries. The company's commercially deployed software solutions enable payment for remote purchases to be made with greater security, reliability and cost effectiveness than is otherwise possible. The Corporation made its initial investment in Soft Tracks in 2000 after SaskTel Wireless entered into arrangements to provision and use Soft Tracks' services for its customers in Saskatchewan. The Corporation owned 19.5% of the company as at December 31, 2002. In 2002, the Corporation wrote down its investment in Soft Tracks by $0.9 million due to slower than expected growth by Soft Tracks. The market for Soft Tracks' solutions has not materialized as quickly as expected due to slow commercialization and market acceptance of wireless payment services. For this investment to succeed, further strategic alliances are required and increased sales must materialize.

Business Watch International Inc. (BWI)

BWI's technology leverages the internet to enable pawnshops and other second-hand goods shops to register their transactions into a database. This database and its search functions greatly enhance law enforcement agencies' abilities to monitor the movement of property originating from unregulated sources. Prior to the Corporation taking an equity stake in the company in 2001, BWI, a Regina-based company, and the Corporation jointly developed this internet-based crime prevention technology and service. The joint venture combined private sector ideas and concepts with the Corporation's hosting, internet and e-business expertise and credibility. Trials and implementation of the service began in Regina and have expanded to other centres.

In 2001, the Corporation provided equity funding to enable BWI to continue developing and marketing its products across Canada. At the end of 2002, the Corporation owned 93.1% of BWI. In 2002, the company continued to gain market traction and acceptance in Canada. As well, in 2002, BWI launched the first trial of its product in the United States in Eugene, Oregon. To facilitate this trial and others under discussion, and to limit business risk, BWI incorporated a United States subsidiary, Business Watch International [USA] Inc. BWI is expected to be cash flow positive in early 2005. Execution of the business plan depends in part on the speed of adoption of a legislated environment for the pawn and second-hand industry. BWI's head office is in Regina, Saskatchewan and the company employs nine people, with eight employed in Regina.

Persona Inc. (Persona)

In 1992, the Corporation invested $7.3 million in a Western Canada based cable television business called Regional Cable TV (Western) Inc. (Regional Cable). This investment in Regional Cable provided profits to the Corporation every year from 1993 to 2000. During 2000, the parent company of Regional Cable, Regional Cablesystems Inc. (Regional Cablesystems), approached the Corporation to exchange its 29.9% interest in Regional Cable for a 7.6% share of the larger, national entity, Regional Cablesystems. The Corporation exchanged its shares recording a non-cash gain of $7.7 million. In 2001, Regional Cablesystems changed its name to Persona Inc.

At the end of 2002, the Corporation owned 1,223,491 shares of Persona representing a 6.2% ownership. Persona has carried on Regional Cablesystems' tradition of providing profitable cable television service to rural customers throughout Canada. In addition, Persona has recently invested in Cable Bahamas to extend its geographic reach and realize economies of scale provided by increasing its customer base. While Persona's share price recently declined below the Corporation's book value of $12 per share, management believes that this decline is temporary and that Persona's profitable track record in successfully executing its business plans will result in value reflected in medium to long-term share price increases.

2. Existing Products in New Markets

Saskatchewan Telecommunications International, Inc. (SaskTel International)

Founded in 1986, SaskTel International was created to leverage the Corporation's expertise and services in new markets. SaskTel International has helped its clients in countries around the world develop, improve and expand their communications systems by providing infrastructure project management services. SaskTel International has worked on significant successful projects overseas including rural communications projects in Tanzania and the Philippines, and, most recently, supplying and installing fiber optic cable and transmission equipment along a critical railway route for the Tanzania Railway Corporation. Over the past 10 years, SaskTel International has completed six stand-alone projects in East Africa totalling approximately $56 million.

SaskTel International serves as the Corporation's "window on the world" and as such has often identified major investment opportunities, such as LCL Cable Communications Limited (Leicester) and Saturn Communications Inc. (Saturn). Over its 16 plus years of existence, SaskTel International has helped bring total revenues of $464 million and total profits of $115 million to the Corporation, and has earned a profit every year since 1992. All SaskTel International's revenues and profits are repatriated to the Corporation, where they are used to sustain and improve the Corporation's network and services in Saskatchewan and enhance returns to the Province in the form of dividends. As well, SaskTel International provides employment for 67 people.

3. New Products in New Markets

Craig Wireless International Inc. (CWI)

In 2000, the Corporation invested in CWI. CWI provides video broadcast and internet access services using wireless technologies and licensed spectrum in Manitoba and British Columbia. Like other similar wireless video and internet access businesses in Canada and the United States, CWI has not been able to achieve its business plan objectives and is seeking to reposition itself principally as a wireless high speed internet access provider. In some markets, it possesses the advantage of being able to be first-to-market with high speed internet services with its wireless solution. At the end of 2002, the Corporation owned 18.7% of CWI and the book value for this investment was nil. At this point in its development, CWI can operate as a going concern only with the continued financial support of Craig Broadcast Systems Inc. which owns 81.3% of CWI.

Retx, Inc. (Retx)

In 2000, the Corporation invested in Retx and owned 90% of the company at the end of 2002. Retx provides an internet-based load monitoring and curtailment service to the energy sector in North America. The Corporation considered that its experience with industry deregulation, data hosting and internet services would bring value to Retx. In the deregulated power industry, Retx has established a secure and efficient method to provide real-time monitoring of power distribution networks that allows customers, power suppliers and regulators to monitor power consumption and supply. Retx's technology enables efficient curtailment events during peak consumption periods, reducing the risk of brown-outs and price spikes. Retx has developed significant intellectual property and has had 41 United States patent claims approved for its processes that will be combined into one patent. Retx has secured major customers (including independent system operators and load serving entities) located in the Northeastern United States, an area that includes 20% of the overall commercial and industrial market in the United States. As well, the Federal Energy Regulatory Commission (FERC) has asked the company to participate in designing market rules for the industry. Retx is expected to become cash flow positive in mid 2004. Its success is dependent on the speed of regulatory change in the United States and securing increased sales.

Austar United Communications Limited (Austar United)

From 1997 to 1999, the Corporation invested $39.2 million in a start-up telephone and cable TV business in New Zealand called Saturn Communications Inc. (Saturn). During 1999, the Corporation's partner in Saturn (United International Holdings or "UIH") approached the Corporation with an opportunity to exchange its 35% interest in Saturn for a 2.9% interest in a larger public entity to include Saturn and UIH's Australia telecommunications holdings. The combined entity, Austar United, was taken public and commenced trading on the Australian Stock Exchange. The Corporation recorded a non-cash gain of $39.0 million on the exchange of its shares.

In 2000, the Corporation sold approximately one third of its holdings in Austar United for net proceeds of $32.5 million, reducing its shareholding to the 9,550,574 shares that it currently holds. Since that time, the Austar United share price has steadily declined, along with the communications industry.

The Corporation has recorded a non-cash writedown of $40.4 million in 2002 to reflect an other than temporary decline in the Austar United share price. With this writedown, the book value per share becomes $0.36; however, the Corporation has not actually realized this loss. Total cash receipts from this investment to date, including the $32.5 million cash sale of Austar United shares in 2000 and the $4.7 million cash gain realized on the foreign currency hedge related to the investment in 2002, have reduced the Corporation's exposure to a net $2 million cash invested in Austar United.

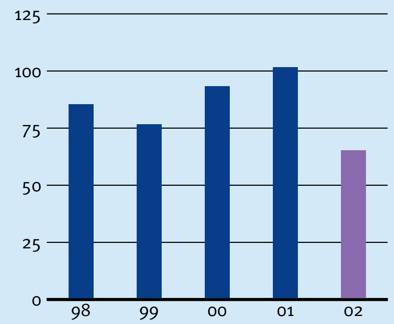
For the Corporation to recover its cash investment, it has to sell its remaining shares at $0.21 per share. The December 31, 2002 closing price of $0.15 per share for Austar United shares would have provided proceeds of $1.5 million. The Corporation's management believes that the share price reflects a significant liquidity discount and that the successful execution of Austar United's business recovery plan will result in medium-term share price increase.

Results of Diversification and Growth

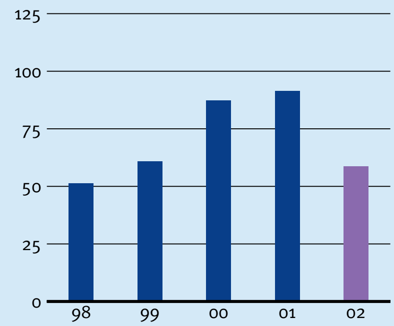
The following significant achievements are a direct result of the Corporation's *growth and diversification strategy*, including both internal and external components:

- SaskTel Wireline, SaskTel Wireless and DirectWest have not only maintained but increased their gross and net revenue contributions to the Corporation in the face of regulatory, competitive and technological change.
- SaskTel International has established credibility and a record of achievement in the global marketplace. SaskTel International has delivered 11 consecutive years of operational profitability and was instrumental in locating and managing significant investments such as Leicester and Saturn.
- Hospitality Network has grown from a start-up company in the 1990s to become a profitable, significant national service provider to its marketplace. Hospitality Network is forecasted to continue to grow its revenues and profits.
- SecurTek has achieved profitability, albeit small, in only its third full year of operation. The company first achieved operating cash flow positive results in its second year of operation. The company is forecasted to continue to grow its revenues and profits in the upcoming years.
- BWI, Retx, TappedInto, Soft Tracks and Navigata all made progress in executing their respective business plans.
- The Corporation has significantly reduced its debt load. Its debt ratio has fallen from 72.2% as of December 31, 1990 to 40.0% as at December 31, 2002.
- The Corporation has paid substantial dividends to the Province of Saskatchewan – a total of $745 million in the last 12 years.
- The Corporation has invested $1.8 billion in network infrastructure in Saskatchewan in the last 12 years. With this investment, Saskatchewan now has one of the best wireline networks in the world and a cellular network that covers 92% of the Saskatchewan population. High speed internet access is now offered to all communities in the Province with a population of 1,000 or more.
- The Corporation offers and maintains some of the most innovative and best-valued communications services in Canada. Even though Saskatchewan has a high proportion of Canadian Radio-television and Telecommunications Commission (CRTC) defined high cost serving areas, Saskatchewan people and businesses receive the benefit of some of the lowest rates in Canada.

NET INCOME
($ millions)



DIVIDENDS DECLARED
($ millions)



With SecurTek recording its first corporate profit in 2002, the Corporation now has six business units (SaskTel Wireline, SaskTel Wireless, DirectWest, SaskTel International, Hospitality Network and SecurTek) contributing net income to the Corporation. It has six business units and ventures in various start-up and developmental stages which, while not yet profitable, are positioned to add and achieve long-term value creation for the Corporation.

The Corporation's management believes that a vibrant, disciplined focus on growth and diversification is required to maintain and enhance revenues and shareholder value. In the current communications environment, without continued growth and diversification, the Corporation's operating results, its value, its infrastructure and its products and services would diminish and erode. Recent history has shown that today's growth or diversification initiatives are tomorrow's core service.

Results of Operations

NET INCOME

Consolidated Net Income

($ millions)	2002	2001	Change	%
Operating Income:				
SaskTel Wireline	$ 108.0	$ 118.9	$ (10.9)	(9.2)
SaskTel Wireless	29.8	21.1	8.7	41.2
SaskTel International	0.6	0.6	0.0	0.0
DirectWest	1.6	0.9	0.7	77.8
Other	5.9	18.8	(12.9)	(68.6)
	145.9	160.3	(14.4)	(9.0)
Intercompany Eliminations	(6.4)	(7.5)	1.1	(14.7)
Income from operations	139.5	152.8	(13.3)	(8.7)
Other items	0.7	(9.3)	10.0	(107.5)
Interest and related costs	(33.7)	(42.0)	8.3	(19.8)
Net income before the following	106.5	101.5	5.0	4.9
Writedown of investments	(41.4)	0.0	(41.4)	(100.0)
Consolidated net income	$ 65.1	$ 101.5	$ (36.4)	(35.9)

Consolidated net income before the writedown of investments is $106.5 million, up 4.9% from 2001.

The Corporation's consolidated income from operations decreased by 8.7% in 2002. Increased revenues from diversified operations and increased cellular, data and internet revenues, Operational Efficiency Program cost savings, and the net benefit to the Corporation from the national contribution fund were more than offset by reduced long distance revenues and increased operating costs for diversification and growth initiatives.

In 1999, the Corporation introduced an Operational Efficiency Program with a goal of achieving $60 million in annualized savings by year end 2003. In 2002, the program contributed an additional $22 million of savings, bringing the total annualized savings to $49 million.

The Corporation participates in the national contribution regime which provides subsidies to ensure the continued delivery of affordable, high quality communications services to rural and remote areas in Saskatchewan and across Canada. Effective January 1, 2002, the CRTC modified the method of calculating payments and receipts from the national contribution fund. The modifications resulted in a net benefit to the Corporation of $12.1 million for 2002.

Much of the Corporation's current investment portfolio is in the start-up or development stage. This means that the *initial investment* required to start and grow the business is currently underway, including operating expenses *necessary* to generate initial sales and product development efforts. For this reason, net operating income from other sources is $12.9 million lower than the previous year.

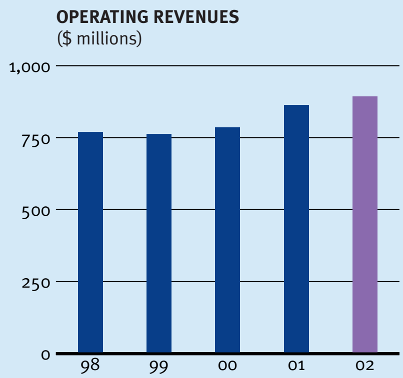
Other items increased $10.0 million in 2002 mainly due to income from the termination of currency swaps and reduced losses from significantly influenced investments.

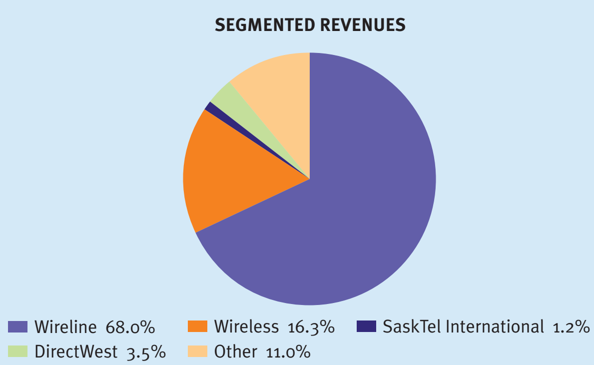
Interest and related costs are $8.3 million lower than the prior year. The Corporation recorded a foreign currency translation gain of $0.9 million in 2002 due to a stronger Canadian dollar. This gain, compared to $8.1 million of foreign currency losses reported in 2001, accounts for most of the variance in this category. Sinking fund earnings decreased by $0.6 million, primarily due to a downturn in the financial markets, and interest on long-term debt increased by $0.4 million.

In 2002, the Corporation wrote down the book value of its Austar United shares by $40.4 million and its investment in Soft Tracks by $0.9 million.

OPERATING REVENUES

Operating revenues for 2002 increased to $893.5 million, up $30.1 million (3.5%) from $863.4 million in 2001. Increases in cellular, internet, data, entertainment services, directory and diversified operations such as Navigata, SecurTek and Hospitality Network, were partially offset by reduced long distance, contribution and consulting revenues.

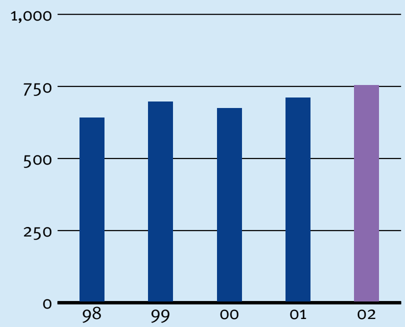




OPERATING EXPENSES

Operating expenses for 2002 increased to $754.0 million, up $43.4 million (6.1%), from $710.6 million in 2001. Increases in expenditures from diversified operations, salaries (as per collective agreement), pensions and benefits and corporate capital taxes were only partially offset by reduced contribution and carrier costs, lower depreciation and amortization and cost savings from the Operational Efficiency Program.

OPERATING EXPENSES
($ millions)

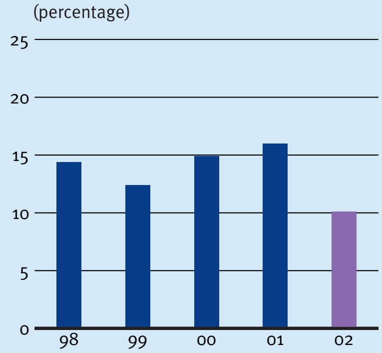


RETURN ON EQUITY

($ millions)	**2002**	2001	Change	%
Return on equity	**10.1%**	16.0%	(5.9)	(36.9)

Return on equity decreased in 2002 due to the writedown of investments. The Corporation's consolidated return on equity in 2002 was 16.5% before these writedowns.

RETURN ON EQUITY
(percentage)



CAPITAL STRUCTURE

	2002	2001	Change	%
Debt ratio	**40.0%**	41.3%	(1.3)	(3.1)

The Corporation's debt ratio decreased in 2002, as it continues to self-finance its capital and dividend requirements. The overall level of debt decreased by $10.8 million during the year and retained earnings increased $6.5 million after recording net income of $65.1 million and dividends of $58.6 million.

REVIEW BY SEGMENT

SaskTel Wireline

www.sasktel.com

In 2002, SaskTel Wireline generated 68.0% of the Corporation's total operating revenues.

Operating Revenues

($ millions)	**2002**	2001	Change	%
Local Service	**$ 323.9**	$ 331.8	$ (7.9)	(2.4)
Long Distance Service	**145.6**	163.8	(18.2)	(11.1)
Data, Internet and Entertainment Service	**138.0**	125.7	12.3	9.8
Other	**54.5**	54.0	0.5	0.9
Total	**$ 662.0**	$ 675.3	$ (13.3)	(2.0)

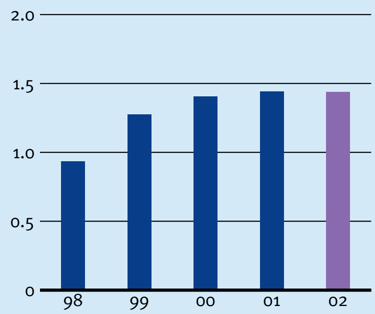
Local Service

Effective January 1, 2002, the CRTC modified its method of calculating payments to, and receipts from the national contribution fund. While the modifications resulted in a net benefit to the Corporation, the changes reduced SaskTel Wireline contribution revenues by $7.4 million compared to 2001. SaskTel Wireline's local access revenue decreased by $1.7 million mainly due to a 29% price reduction for residential telephone equipment rentals, customers purchasing telephone sets rather than renting, and a 0.5% decrease in the number of accesses as high speed internet was introduced in 78 communities during 2002 and customers switched from dial-up, discontinuing their second lines. This decrease is partially offset by a $1.7 million increase in local features revenue due to increased demand for consumer features such as *SmartTouch*™ services and *MessageManager*™ service, and increased facilities revenue from the new cellular sites added throughout 2002.

Long Distance

SaskTel Wireline offers business and residential customers in Saskatchewan an extensive range of long distance plans designed to meet their calling needs.

LONG DISTANCE MINUTES
(millions)



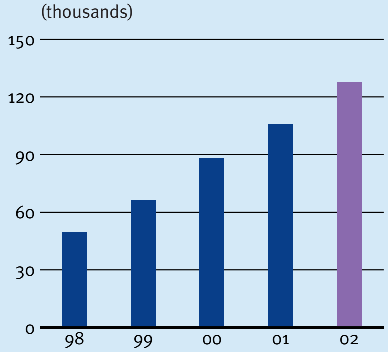
Total long distance minutes remained relatively constant in 2002 and long distance revenues continued to decline – a further drop of $18.2 million from 2001. The reduction in long distance revenues is due to increased competitive activity, particularly in the business market, while residential customers continue to switch from flat rate plans to unlimited long distance plans. Increased cellular usage and emerging alternate technologies contributed to the lack of growth in long distance minutes. SaskTel Wireline has retained approximately an 89% share of the long distance market in Saskatchewan.

Data, Internet and Entertainment Services

The introduction of SaskTel High Speed Light, *Max* Interactive Services, web-based e-mail and rapid expansion of SaskTel High Speed Internet service led to an $8.0 million increase in internet and entertainment services revenues in 2002.

At year end, 124 communities in Saskatchewan had access to SaskTel High Speed Internet Service. The Corporation remains Saskatchewan's number one internet service provider with high speed internet access currently available to 69% of the population, and an overall internet market share of approximately 71%.

INTERNET ACCESSES
(thousands)



SaskTel Wireline launched *Max* Interactive Services to Regina and Saskatoon in September 2002 with subsequent launches to seven other major Saskatchewan locations in October 2002. *Max* Interactive Services deliver digital video signals, including network and specialty channels, and high speed internet access, to subscribers' television sets.

Data revenues grew $4.3 million in 2002. A substantial portion of this increase relates to the *Lanspan IP*™ service. This service was introduced in 2000 to support the CommunityNet Program by connecting educational institutions, health care facilities, government offices and private sector businesses.

Other

Other revenues increased $0.5 million during the year. A $1.7 million increase in installation revenues and a $1.2 million increase in managed information services revenues, were offset by a $1.0 million decrease in sales of private branch exchanges and a $1.5 million decrease in interest on subscriber accounts.

Operating Expenses

($ millions)	**2002**	2001	Change	%
Operating expenses	**$ 422.3**	$ 390.3	$ 32.0	8.2
Contribution and carrier costs	**16.8**	36.4	(19.6)	(53.8)
Depreciation and amortization	**114.9**	129.7	(14.8)	(11.4)
Total	**$ 554.0**	$ 556.4	$ (2.4)	(0.4)

Operating Expenses

In 2002, the Operational Efficiency Program contributed $22 million of savings in salaries, operating and maintenance expenditures bringing the total annualized savings to $49 million. The additional savings were more than offset by increases in salaries (as per collective agreement), pensions and benefits, corporate capital taxes, *Max* Interactive Services operating expenses and internet sales commissions.

Contribution and Carrier Costs

Contribution and carrier costs decreased by $19.6 million in 2002 as a result of the CRTC lowering the contribution requirement from 4.5% of eligible revenues in 2001 to 1.3% for 2002.

Depreciation and Amortization

Depreciation and amortization expense decreased due to lower depreciation rates in several asset categories. The Corporation completed a comprehensive depreciation study which resulted in reduced depreciation rates.

SaskTel Wireless (SaskTel Mobility)

www.sasktelmobility.com

SaskTel Mobility's core business is centered 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 84% and 92% of the Saskatchewan population respectively. Through its partnership with a local independent retail distribution network, SaskTel Mobility offers sales and service for its products and services in over 300 locations in Saskatchewan.

Operating Revenues

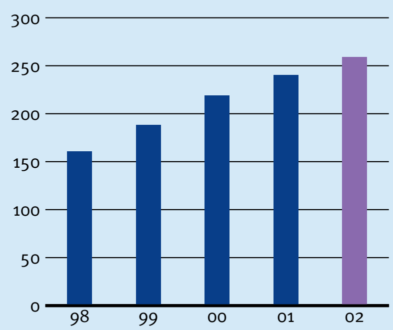
($ millions)	**2002**	2001	Change	%
Total	**$ 159.5**	$ 148.4	$ 11.1	7.5

SaskTel Mobility's revenue growth is attributable to increases in voice and data cellular revenues and diversified revenues, such as *LoadTrak*® service and *Site.link*®. In 2002, the company discontinued its paging service, which resulted in a decline that offset the growth in other areas.

A 7.7% increase in cellular subscribers, an 87.0% increase in wireless data accesses, a 63.6% increase in wholesale revenues, and an increase in demand for enhanced features all contributed to cellular revenue growth.

Net cellular subscriber additions were 18,579 in 2002, a 14% decrease from the previous year. The decrease in net additions reflects aggressive marketing by competitors to increase their foothold in the Saskatchewan market, declining growth rates as market saturation approaches and the challenging economic conditions of the province.

CELLULAR ACCESSES
(thousands)



Operating Expenses

($ millions)	**2002**	2001	Change	%
Total	**$ 129.7**	$ 127.3	$ 2.4	1.9

Operating expenses remained reasonably constant year-over-year. Higher operating expenses, largely due to increased expenses to support a growing customer base and an aggressive build of the company's digital network, were offset by reduced contribution payments to the national fund to subsidize high cost serving areas.

SaskTel Mobility's expenditures have risen because the increasingly competitive market has driven up the costs of acquiring and maintaining customers. As in past years, Mobility's growing customer base has increased commissioning and billing costs.

In 2002, SaskTel Mobility continued to aggressively expand its digital network. The deployment of 62 new digital sites, 13 of them providing cellular coverage to areas with no previous cellular coverage, led to increased facilities, tower and provisioning expenses. SaskTel Mobility reduced costs by taking analog radio channels out of service as the customer base shifted from analog to digital cellular service throughout the year.

SaskTel International

www.sasktel-international.com

A decrease in overall business and significant challenges in international markets caused SaskTel International's decline in operating revenues.

Operating Revenues

($ millions)	**2002**	2001	Change	%
Total	**$ 11.4**	$ 18.0	$ (6.6)	(36.7)

Consulting and equipment revenues were $1.3 million compared to $8.1 million in 2001. Contracts in Tanzania, United Kingdom and Canada generated most of these revenues.

Software sales were $10.1 million in 2002 compared to $9.3 million in 2001. Software revenue sources in 2002 were: sales and support related to Martens International and Switchgate International Client Associations; software support consulting; and *MARTENS*® Suite of products sale to TDS Telecom, a company that provides communications services to over 900 rural and suburban communities across the United States.

Operating Expenses

($ millions)	2002	2001	Change	%
Total	$ 10.8	$ 17.4	$ (6.6)	(37.9)

SaskTel International generated less revenue in 2002. Therefore, cost of sales decreased by $5.8 million and administrative expenses declined by $0.8 million.

DirectWest

www.directwest.com

DirectWest continues to provide consistent operating results.

Operating Revenues

($ millions)	2002	2001	Change	%
Total	$ 33.7	$ 32.3	$ 1.4	4.3

Revenues increased in all three prime business areas of directory, internet business services and agricultural services. The core directory business maintained its focus on product enhancement and high quality, and continued to show revenue growth. Agricultural services revenue was also higher, supported by the first full year of revenue from The Ag Dealer Magazine. Rapid growth continued in the internet business area, where DirectWest implemented agreements with SaskTel Wireline and Sympatico-Lycos to make www.mysask.com the default portal for all SaskTel internet service customers. Mutual links are also established across Canada with Bell Canada sites such as www.yellowpages.ca and www.canada411.com. With this new environment, the www.mysask.com internet portal enjoyed a major traffic increase and continued to set traffic and usage records.

Operating Expenses

($ millions)	2002	2001	Change	%
Total	$ 32.1	$ 31.5	$ 0.6	1.9

Although DirectWest continued to make additional expenditures to support revenue growth, generate new sources of revenue and respond to increased competition, the company successfully minimized the increase in overall expenses through continued focus on improving operational efficiency.

Liquidity and Capital Resources

Sources and (Uses) of Cash

($ millions)	2002	2001	Change	%
Operating activities	$ **251.1**	$ 269.7	$ (18.6)	(6.9)
Financing activities	**(81.0)**	(85.0)	4.0	(4.7)
Investing activities	**(177.8)**	(134.0)	(43.8)	32.7
(Decrease) Increase in cash	$ **(7.7)**	$ 50.7	$ (58.4)	(115.2)

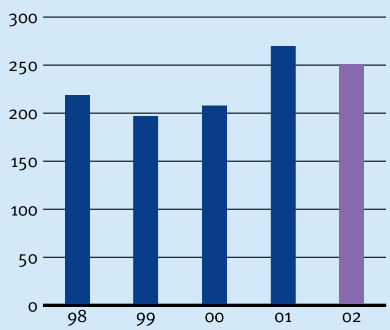
OPERATING ACTIVITIES

In 2002, cash from operating activities decreased by $18.6 million to $251.1 million. The decrease is attributable to reduced earnings and working capital requirements.

FINANCING ACTIVITIES

Debt related activities required net cash of $7.1 million in 2002, as opposed to generating $16.2 million in 2001. In 2002, dividends paid to Crown Investments Corporation of Saskatchewan amounted to $73.9 million (2001 – $101.2 million). During the last five years, the Corporation paid a total of $380.6 million in dividends while maintaining a debt ratio of 40.0%.

OPERATING ACTIVITIES
($ millions)



INVESTING ACTIVITIES

Capital Spending

The Corporation's net capital spending in 2002 was $165.0 million, compared to $126.7 million in 2001. Capital spending increased by $38.3 million this year; reflecting a greater focus on growth and diversification initiatives such as *Max* Interactive Services, multimedia development, CommunityNet and digital cellular expansion.

SaskTel Wireline

SaskTel Wireline invested approximately $99.7 million (2001 – $63.9 million) in growth and diversification initiatives in 2002, an increase of $35.8 million. In addition, expenditures relating to sustaining capital assets decreased by $4.7 million to $28.2 million in 2002 (2001 – $32.9 million).

Continuing with our strategy of growth and diversification, SaskTel Wireline continued to build on the initiatives started last year. An additional $14.6 million was invested (2001 – $7.2 million) for further development of *Max* Interactive Services. This development allowed SaskTel Wireline to successfully launch the service in the third quarter. An additional $7.0 million (2001 – $7.0 million) was spent to extend the reach of *Lanspan IP*™ service to additional locations throughout the province in support of CommunityNet. CommunityNet is a joint initiative between the Corporation, the Provincial Government and Saskatchewan Communications Networks (SCN) to provide province-wide data connectivity for the public sector. SaskTel Wireline also spent an additional $8.3 million (2001 – $9.1 million) on the high speed initiative, introducing this service to 78 more rural communities in Saskatchewan.

The Access Network Infrastructure Program (ANIP), which provides for the installation of a high speed access network infrastructure in nine major locations within the province, was completed during the year. Capital resources of $13.7 million (2001 – $7.5 million) were allocated to the Desktop Computer Provisioning and Enterprise Storage Architecture initiatives, which 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. In 2002, SaskTel Wireline invested another $5.3 million (2001 – $15.3 million) in network infrastructure to ensure it continues to meet demand without compromising its quality of service.

SaskTel Wireless

Capital expenditures totalled $29.1 million in 2002, an increase of $6.8 million or 30% from 2001. The majority of this investment was used for digital cellular network development, expansion and coverage improvements. The remainder was primarily used for information technology projects such as replacing the billing platform.

SaskTel Mobility added 62 new cellular sites to its digital cellular network in 2002. With these additional sites, SaskTel Mobility has been able to build the infrastructure needed for higher quality voice service and increased call capacity.

SaskTel Mobility believes the quality and coverage of its digital network is one of the distinct competitive advantages that allows it to attract the majority of new wireless customers in the Saskatchewan market.

Businesses Acquired

During 2002, the Corporation increased its equity position in Retx from 63.0% to 90.0% for total consideration of $4.4 million.

In 2002, the Corporation also increased its interest in Ag Dealer from 84.4% to 100% for total consideration of $2.1 million. Subsequently, the ownership was restructured, and the net assets were acquired by DirectWest at their carrying amount. The company now operates as part of DirectWest which provides agricultural publications along with directory, interactive and on-line services.

Over the year, the Corporation made an additional investment of $1.0 million in BWI, increasing its ownership from 85.9% to 93.1%.

In 2002, the Corporation acquired the customer base and network assets of Entirety Communications Inc. (Entirety), one of the largest internet service providers on Vancouver Island, for $0.5 million total consideration. Entirety provides internet access, hosting and web design services.

During 2002, the Corporation acquired 100% of the issued shares of three corporations providing security services in Alberta and Ontario. The total purchase price was $5.2 million, and the full amount was assigned to customer contracts.

Long-term Investments

During the year the Corporation purchased additional shares of TappedInto.com, Inc. (TappedInto), increasing its ownership from 45.0% to 53.6%, for total consideration of $1.6 million.

Performance Management

Saskatchewan Telecommunications Holding Corporation (the Corporation), is a subsidiary of Crown Investments Corporation (CIC), the holding company for Saskatchewan's commercial Crown corporations. As such, the Corporation receives its strategic direction from CIC.

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

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

The Balanced Scorecard measures the Corporation's performance for its strategic objectives such as customer, financial management, growth, technology, public policy and people. These strategic objectives are aligned with CIC's overall strategic objectives.

EVALUATION OF 2002 KEY OBJECTIVES AND INITIATIVES

Achievement of Financial Targets

The Corporation reports several performance measures to CIC quarterly. The 2002 key performance measures and actual results are reflected below:

	2002 Target	2002 Actual
Revenue growth	**6 to 8%**	3.5%
Operational efficiency	**$17 million**	$22 million
Capital investments	**$270 million to $290 million**	$178.2 million
Dividends declared	**$91 to 93 million**	$58.6 million
Return on equity	**14 to 16%**	10.1%
Market share		
Local	**95 to 97%**	99.7%
Long distance	**85 to 87%**	88.7%
Wireless	**77 to 79%**	85.7%
Internet	**69 to 71%**	71.4%

Factors contributing to these results are:

Lower than Expected Revenue Growth

Operating revenues grew 3.5% year-over-year. The 6% to 8% target for the year was not met primarily due to lower than expected revenues from the Corporation's growth and diversification initiatives.

Downturn in the Communications Industry

The Corporation recorded writedowns of its investments in Austar United and Soft Tracks of $40.4 million and $0.9 million respectively. These writedowns significantly reduced the Corporation's return on equity (ROE) and its dividends. Without these writedowns, the Corporation would have exceeded the 14% to 16% ROE target.

SaskTel International's revenues were lower than projected for 2002 due to a decrease in overall business and significant challenges in international markets.

Operational Efficiency

In 2002, this program contributed $22 million of savings in salaries, operating and maintenance expenditures bringing the total annualized savings to $49 million. Operational efficiency savings contributed approximately 54% of the SaskTel Wireline net income in 2002, a significant positive impact to the Corporation's consolidated results.

Expansion of SaskTel High Speed Internet Service

Part of the Corporation's growth strategy is to expand its high speed internet service into rural Saskatchewan and explore ways of providing wireless high speed internet access throughout Saskatchewan.

In 2002, the Corporation introduced high speed internet access to 78 additional rural communities. All communities in Saskatchewan with a population of 1,000 or more can enjoy this service. The Corporation believes its aggressive deployment schedule for high speed internet is unmatched in the industry.

The Corporation also introduced high speed light in 2002 to 14 urban centers in Saskatchewan. SaskTel High Speed Light is faster than dial-up service, featuring download and upload speeds of 128 kilobytes.

As a result of the above expansion, SaskTel experienced a 21% increase in internet accesses and a 22% increase in internet revenues.

Expansion of Digital PCS Service

SaskTel Mobility expanded digital cellular service to an additional 62 sites in 2002; 13 of these were in previously unserved areas of Saskatchewan. With this expansion, SaskTel Mobility's digital coverage increased, while providing higher quality voice service and increased call capacity. This expansion contributed to the 7.7% increase in cellular accesses and the 7.5% increase in wireless revenues.

Launch of *Max* Interactive Services

In 2002, the Corporation launched *Max* Interactive Services to nine major locations in Saskatchewan.

Customer Loyalty

The Corporation is proud to be a Saskatchewan company and is thankful for the loyalty our customers have shown to date. To show appreciation, the Corporation provided three 30-minute prepaid long distance cards to its residential customers and one month free service to its internet customers in 2002.

2003 Outlook

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document, including statements which may contain words such as "anticipate", "could", "should", "expect", "may", "intend", "will", and similar expressions, and statements that are based on current expectations and estimates about the markets in which the Corporation and its subsidiaries operate and management's beliefs and assumptions regarding these markets, constitute forward-looking statements. Such statements are subject to important risks, uncertainties and assumptions, which are difficult to predict. The results or events predicted in these statements may differ materially from actual results or events.

THE COMMUNICATIONS INDUSTRY

The Canadian communications industry, in the midst of the market slump that has dominated the communications and technology sectors for over a year, continues to undergo significant layoffs, debt writedowns, debt restructuring, labour difficulty and bankruptcy. Most corporations are looking for ways to cut costs and find new revenue streams. Former members of the defunct Stentor alliance are competing in one another's territory as well as against new entrants in the wireline and wireless markets. As competition for customers intensifies, eroding the customer base for some wireline, wireless and cable TV providers, shareholder pressure to improve revenues may begin to drive a new round of consolidations and mergers.

SaskTel, meanwhile, is content with its current alliance with Bell Canada and does not foresee any changes to that alliance in the near term. The issues surrounding foreign ownership, a recent review by the federal government notwithstanding, are less of a concern during the current market downturn. However, in the long term, the threat of international industry consolidation and liberalized foreign ownership remains.

MARKET ISSUES

Competition

SaskTel operates in competitive local access, payphone, long distance, wireless, data, internet, e-business, managed services, entertainment services and directory markets.

Local Access

While local access competition has been slow in establishing itself in Canada, and especially in Saskatchewan, it is now a reality in the province. SaskTel is seeing some competition for large business accounts from national resellers who want to serve their customers in Saskatchewan. The residential Saskatchewan local access market has seen the entry of some reconnect companies but is not expecting to see any significant activity from competitors in the near future.

Payphone Market

The Corporation's payphone market share will remain stable into the near future. The overall payphone market will continue to shrink, year-over-year, as wireless solutions and prepaid cards become more prevalent.

Long Distance Competition

The long distance market continues to decline due to re-pricing, competitive activity in the business market and cellular usage. The Corporation expects continued aggressive price competition from long distance competitors and alternate technology providers in the business market and the increased possibility of this type of competitive activity in the consumer market.

Wireless

Nationally the market for wireless customers is intensely competitive. During 2002, the Canadian wireless industry saw a focus on profitable customer growth with an increased focus on wireless data services. Industry analysts expect this to continue. Analysts have also predicted penetration rates of 69% for wireless voice services by 2007, which translates into 54% growth of the current wireless subscriber base in Saskatchewan. Despite intense competition in the wireless market, SaskTel Mobility expects to remain the market leader in the province. SaskTel Mobility is well-positioned to capture a majority of the market growth given its network coverage advantage, competitive rate plans, strong customer service and broad distribution network.

During 2002 SaskTel Mobility began deploying a next generation digital packet-data network known as 1xRTT, and plans to launch this network commercially in 2003.

Data, Internet and Entertainment Services

The rate of internet growth is slowing. Across Canada the overall dial-up market has declined in the number of accounts and the high speed internet market growth is slowing, yet the Corporation is still growing its customer base. This is due to aggressive, unparalleled expansion to cities and towns in Saskatchewan. In 2003, the Corporation will launch high speed internet to over 100 more Saskatchewan communities, and will continue to compete with local and national internet service providers.

The Corporation has a strong commitment to supply high speed internet service to approximately 95% of Saskatchewan's population within the next three to five years. To achieve this goal, the Corporation is evaluating a wireless solution to provide service to communities that the Corporation or its competitors cannot serve economically with the current technology.

In 2003, the Corporation will continue to expand *Max* Interactive Services. This bundle of television and internet and future interactive services should position the Corporation to compete effectively with cable and satellite companies, now and in the future.

The Corporation is developing a national Virtual Private Network (VPN)/Frame Relay service. Expansion and development of these services will continue in 2003, as VPN technology is an emerging market.

E-business

SaskTel continues to supply world-class managed data and internet-based services such as managed hosting, e-messaging, data security, web conferencing, and e-solutions to its business customers across North America.

Spending on these types of information technology (IT) services slowed considerably in 2002, and is not expected to increase significantly in 2003. The Corporation's competitors in these lines of business – communications companies, multinational IT solutions providers, and small niche players – are all aware of this situation and are preparing to solidify customer relationships and retain market share during this slow-down. The Corporation will also proactively bolster its customer relationships and, at the same time, enter new markets by evolving its line of managed services.

The number of customers using eBill, the Corporation's on-line customer payment option, is expected to keep growing in 2003. Also, based on a steady increase in the number of registered users of both the eStore and sasktel.com, the Corporation predicts increased use of various e-channels.

Directories

DirectWest holds a 92% *Yellow Page*™ directory advertising market share despite facing competition in all 10 markets. While DirectWest has been extremely successful in the competitive market, the directory competitors continue to get stronger as they refine their marketing strategies and develop uniquely scoped telephone directories. Strengthening competition, a mature directory product and Saskatchewan's struggling agricultural sector pose challenges, but DirectWest's directory division will face these challenges, move forward with modest future growth, and maintain their leadership position.

The market for directory internet solutions and internet access devices is expected to grow according to national figures, and DirectWest will capture these growth opportunities. DirectWest's business model of "bringing buyers and sellers together" within the Saskatchewan marketplace is the foundation for the internet business solutions division. This division forecasts continued future growth and is confident that their leadership position and long term strategies are blueprints for future success.

REGULATORY ISSUES

As the regulator of all communications and broadcast activities in Canada, the Canadian Radio-television and Telecommunications Commission (CRTC) influences many aspects of the Corporation's operations. Of particular significance are CRTC decisions that impact the Corporation's delivery of local telephone services within Saskatchewan, and broadcasting decisions impacting the Corporation's *Max* Interactive Services.

Regulation of Local Telephone Service

In May 2002, the CRTC released the details of the price cap framework that will apply to the Corporation and all incumbent local exchange carriers (ILECs) for the next four years. Under this price cap plan, the Corporation has very limited flexibility as it relates to pricing of local residential and business services. The price cap plan also results in annual reductions to the amount of funding available to support high cost areas, and annual reductions to the prices paid by competitors for services obtained from the Corporation. In addition, this plan introduces penalties for any ILEC failing to meet CRTC-mandated quality of service standards established for consumers and competitors.

The Corporation and all ILECs face a very unfavourable regulatory climate in 2003 and beyond. Upon its release, the price cap decision was estimated to cost the Corporation approximately $50 million over the four year price cap period. Subsequent activities of the regulator could see this cost increase significantly. Recent CRTC decisions have increased the scope of services available to competitors, decreased the prices these competitors pay, and increased the regulatory constraints imposed on the ILECs and their affiliates. Such regulatory intervention is expected to continue until competitors obtain sizable market share, at least within Canada's major local markets.

The extent to which the CRTC and federal policy makers are prepared to modify the existing competition framework in order to promote competition within the local telephone market represents a significant regulatory risk for the Corporation. By mid 2003, the Federal Cabinet must respond to an appeal of the price cap decision filed by AT&T. This appeal requests that competitors receive a 50% discount on all services obtained from the ILEC. Competitors have also repeatedly requested the removal of foreign ownership restrictions, in order to increase their access to foreign capital. A review of the foreign ownership restrictions is currently underway, with completion scheduled for early in 2003.

Entertainment Services

The Corporation's delivery of broadcast services is regulated by the CRTC under the *Broadcasting Act*. As a new entrant into the broadcasting industry, the Corporation faces a policy and regulatory framework which was established without consideration of the Corporation, or the DSL-based technology that the Corporation has deployed. In 2003 the Corporation will be seeking to remove regulatory and competitive barriers influencing the success and/or evolution of *Max* Interactive Services. It is anticipated the Corporation will receive approval to operate a Video on Demand (VOD) service, and receive the necessary regulatory support to access Pay-Per-View services. As is the case with the regulation of communications services, the CRTC has a desire to see sustainable competition in broadcast distribution. The Corporation will expect the Commission to address barriers to its entry into broadcasting, just as it has removed the competitive and regulatory barriers to competition in communications services.

FINANCIAL OUTLOOK

Income Outlook

In a period when the communications and technology sectors worldwide have collapsed and strategies and business plans have failed in spectacular fashion, SaskTel has achieved record operating results. SaskTel has succeeded by emphasizing Saskatchewan first, focusing on its customers, investing prudently without undertaking significant risk and reviewing and containing costs proactively instead of reactively. Given the current environment, SaskTel's future success depends on strategically maintaining its focus on revenue enhancements, growth, cost containment, e-business, service excellence and strengthening relationships with its customers.

Revenues are anticipated to grow 4 to 6% in 2003 due to *Max* Interactive Services expansion and enhancements, increases in wireless voice and data applications, data and internet services, and growth in diversified operations. These increases will be partially offset by reduced long distance revenues, increased competition and a depressed rural economy.

SaskTel expects losses from diversified operations for the next two years. After this time, many of SaskTel's investments that are currently in the start-up phase are expected to mature and generate operating profits. By 2005, SaskTel's objective is to achieve $17 million in net earnings from existing growth and diversification initiatives.

In 2003, the Corporation will continue its focus on cost containment and plans to remove an additional $10 million of expenditures from its core business to address the challenges of declining long distance revenues, an increasing cost base, the changing competitive landscape, CRTC regulation and evolving technologies. Despite these savings, operating expenses are expected to increase marginally over the next few years as diversification and growth costs rise. In 2003, the Operational Efficiency Program is expected to contribute more than 85% to the forecasted 2003 SaskTel Wireline net income.

Internet technologies are a key part of SaskTel's continued success. SaskTel's goal is to be the company of choice to provide e-business solutions to its customers. Therefore, SaskTel will continue to focus on ensuring the Corporation has the competencies, products and services that will enable its customers to become e-business engaged, and transforming SaskTel into an e-business company by using internet technologies to improve business processes with customers, partners, suppliers and employees.

For continued success in a competitive environment, SaskTel must maintain and renew its commitment to building and improving customer relationships and loyalty, and ensure service continues to be our differentiator. If each customer interaction delivers true service excellence, this customer excellence will drive strong revenues, market share and return on investment.

Key Factors Affecting Performance

A number of factors may have a significant impact on future financial performance:

- Ability to develop new products and services to support SaskTel's growth and diversification initiatives. These initiatives include: internet protocol networking, broadband, new media, *Max* Interactive Services, and continued expansion of the digital network and wireless data applications.
- Next generation technologies delivering internet protocol products and services through traditional and new, non-traditional competitors.
- Ability to realize cost savings from process improvements while maintaining a high quality of customer service.
- Competitive pressures in internet, wireless and long distance markets.
- CRTC decisions on price cap appeals and national fund adjustments.

GROWTH

A depressed rural economy, increased competition, and decreased revenues and margins from traditional services continue to put pressure on the Corporation's financial results. SaskTel's first priority is to be "Saskatchewan's Communications Company," maintaining its focus on becoming the service provider of choice in Saskatchewan. However, because of these pressures, SaskTel has to grow, change and diversify, pursuing opportunities without geographic limits and increasing the scope of its business ventures to generate revenues from non-traditional sources. SaskTel will continue to provide Saskatchewan people with the latest technology and quality of service, while using its experiences at home to seize opportunities worldwide. The Corporation's growth strategy will continue to focus on three areas: providing new products in both existing and new markets, providing existing products in new markets, and providing new products in new markets.

For 2003, SaskTel's growth initiatives will center on finding an international investment opportunity; governing, managing and developing existing investments to lower overall portfolio risk; enabling existing investments to continue to capture growth opportunities; and responding to low-risk Saskatchewan investment prospects.

Specific new service initiatives that contribute to the growth strategy are *Max* Interactive Services, CommunityNet, Voice over IP, SaskTel High Speed Internet service, *Site.link*, *LoadTrak* service and SafetyNet.

It is important for all business units and subsidiaries to continue to focus on growth:

SaskTel International (www.sasktel-international.com) will continue to operate in a challenging and difficult environment, and will continue to pursue consulting and large communications projects worldwide. These projects, like the one that SaskTel International was recently awarded to bring telephone service to parts of rural India, may lead to additional business in Africa, the Americas, Asia and around the world. SaskTel International will continue to develop its software suite of products to meet changing business objectives and increase market share.

SaskTel Mobility's (www.sasktelmobility.com) voice cellular market is in the maturity phase and, like the other players in the industry, the company must focus on profitable growth. In addition, during 2003 SaskTel Mobility will increase its emphasis on growth in wireless data and diversified services such as *Lightning Mobile Commerce®* service, *LoadTrak* service and *Site.link*. The company will pursue diversified growth opportunities in Saskatchewan and selectively outside the province.

SaskTel Mobility will further expand its digital cellular network bringing cellular and wireless data services to more urban and rural Saskatchewan residents. SaskTel Mobility expects to invest an additional $10 million in 2003 to continue expanding its digital cellular network and migrating its data network to next generation packet data technology referred to as 1xRTT. When the digital expansion program is completed in 2003, SaskTel Mobility will have invested approximately $55 million in its digital network and it will cover about 92% of the Saskatchewan population.

DirectWest's (www.directwest.com) core directory business is a mature business for which minimal growth is projected. Saskatchewan economic growth has been slowed by the struggling agricultural sector, and big box stores are impacting local retail outlets who are DirectWest's prime customers. Competitive pressure will continue to increase, however, the company expects to continue to compete successfully and to produce stable results. DirectWest's internet business solutions continue to lead and innovate, and further growth is expected in this area. DirectWest's products in the agricultural market, such as Warrens Agricultural Directory and The Ag Dealer Magazine, are also expected to see year-over-year growth. This growth may be limited by the current challenges in the agricultural sector. Overall, DirectWest expects modest revenue growth and steady profitability.

SecurTek (www.securtek.net) expects to see continued rapid growth in 2003 due to ongoing demand for residential monitored security systems. With recent acquisitions in the Ontario market, SecurTek is on track with its expansion plans into strategic Canadian markets. Given these acquisitions and its program of partnering with independent security alarm businesses, SecurTek is well-positioned to deliver monitored security solutions in five provinces, and to meet targeted market share objectives. SecurTek will continue to improve its customer value proposition with a new focus on environmental monitoring services, such as smoke, carbon monoxide and temperature monitoring. With these value-added services, and other technology advances on the horizon, SecurTek plans to turn a security system into a valuable home appliance.

Hospitality Network (www.hospitalitynetwork.ca) will strive to improve its customer value proposition in the Canadian healthcare industry. The company will continue to pursue opportunities in its three market segments: hospitals, long-term care, and point-of-sale terminals. Hospitality Network will strive to grow through geographic market expansion, service development initiatives for new markets and securing new customer agreements in existing markets.

Navigata (www.navigata.ca) expects to capitalize on its prepaid card platform and carrier sales to drive future revenues, and use its direct sales force to attack the retail market that has become less competitive due to the demise of certain competitive local exchange carriers. As well, Navigata will capture synergies with Saskatchewan Telecommunications Holding Corporation, including developing shared, next-generation communications platforms.

TARGETS FOR 2003

SaskTel's long-term strategy focuses on six strategic imperatives that include financial management, customer, growth, people, technology and public policy. To measure its success, the Corporation has committed to the following performance targets:

	2003 Target	2002 Actual
Revenue growth	**3 to 5%**	3.5%
Operational efficiency	**$10 million**	$22 million
Capital investments	**$280 to $310 million**	$178.2 million
Dividends	**$83 to $87 million**	$58.6 million
Return on equity	**14 to 16%**	10.1%

Revenue growth targets are centered on continued expansion of *Max* Interactive Services and high speed internet, increased usage of wireless data applications, improved penetration of the Corporation's hosting services, further penetration of the security monitoring market, and successful growth for Navigata, Hospitality Network and the rest of the Corporation's diversified investment portfolio.

To date, SaskTel has realized savings of $49 million from its Operational Efficiency Program. In 2003, the Corporation has committed to a further $10 million reduction in annualized operating expenditures.

Capital expenditures will focus on further investment in growth and diversification initiatives, while sustaining current capital assets. A large portion of the growth expenditures will expand the coverage and improve the quality of the high speed internet and digital cellular networks. Capital investments will include network growth and refurbishment, further investment in *Max* Interactive Services, hosted multimedia services, managed information services and digital cellular expansion.

The dividend and return on equity targets presented are largely based on the success of the revenue growth, operational efficiency and capital investment program objectives.

	2002	2001	2000	1999	1998
Finance					
(Thousands of dollars)					
Operating revenues	**$ 893,485**	$ 863,426	$ 785,609	$ 763,461	$ 769,325
Operating expenses	**753,999**	710,579	675,194	697,695	642,302
Other	**(40,625)**	(9,360)	24,447	37,785	2,689
Interest and related costs	**33,715**	41,990	41,525	26,987	44,272
Net income	**65,146**	101,497	93,337	76,564	85,440
Dividends	**58,631**	91,347	87,280	60,770	51,259
Gross construction expenditures	**166,979**	128,271	116,227	161,642	173,892
Property, plant & equipment*	**2,512,258**	2,411,795	2,309,505	2,256,534	2,205,045
Long-term debt (gross)*	**473,907**	478,934	390,203	453,089	420,373
Financial ratios					
Return on equity	**10.1%**	16.0%	14.9%	12.4%	14.4%
Debt ratio	**40.0%**	41.3%	39.6%	39.6%	40.5%
Employees and payroll					
Number of permanent employees (excluding part-time)					
Diversified operations**	**761**	714	481	435	456
SaskTel Wireline	**3,370**	3,354	3,370	3,819	3,771
Total	**4,131**	4,068	3,851	4,254	4,227
Salaries earned (thousands of dollars)	**$ 252,011**	$ 223,302	$ 226,517	$ 223,589	$ 208,529
Operational highlights					
Network access services*	**613,695**	616,292	621,766	621,946	615,601
Internet access services*	**127,927**	105,757	88,427	66,435	49,435
Cellular access services*	**259,071**	240,492	218,856	188,002	160,434
Originated long distance minutes (in thousands)	**1,437,747**	1,442,165	1,406,739	1,273,545	932,745

* At December 31

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

management's responsibility for financial statements

The accompanying consolidated financial statements included in the annual report of Saskatchewan Telecommunications Holding Corporation for the year ended December 31, 2002, 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.

Donald R. Ching
President & Chief Executive Officer

Randy Stephanson
Chief Financial Officer
January 28, 2003

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, 2002 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, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for December 31, 2001 were reported on by another firm of chartered accountants.

KPMG LLP

Chartered Accountants

Regina, Canada
January 28, 2003

CONSOLIDATED STATEMENT OF **OPERATIONS**

For the year ended December 31 (Thousands of dollars)	2002	2001
Operating revenues	**$ 893,485**	$ 863,426
Operating expenses		
Operating expenses	**589,384**	510,728
Contribution and carrier costs	**18,881**	42,720
Depreciation and amortization	**145,734**	157,131
	753,999	710,579
Income from operations	**139,486**	152,847
Other items (Note 4)	**774**	(9,360)
Interest and related costs (Note 5)	**33,715**	41,990
Net income before the following	**106,545**	101,497
Writedown of investments (Note 7)	**(41,399)**	–
Net income	**$ 65,146**	$ 101,497

CONSOLIDATED STATEMENT OF **RETAINED EARNINGS**

For the year ended December 31 (Thousands of dollars)	2002	2001
Retained earnings, beginning of year	**$ 391,127**	$ 380,977
Net income	**65,146**	101,497
	456,273	482,474
Dividends	**58,631**	91,347
Retained earnings, end of year	**$ 397,642**	$ 391,127

See Accompanying Notes

CONSOLIDATED STATEMENT OF **FINANCIAL POSITION**

As at December 31 (Thousands of dollars)	2002	2001
Assets		
Current assets		
Cash and short-term investments	$ 34,367	$ 45,995
Accounts receivable	97,648	101,882
Inventories	3,308	9,046
Prepaid expenses	12,997	13,269
	148,320	170,192
Property, plant and equipment (Note 6)	936,290	911,667
Investments (Note 7)	22,214	78,592
Goodwill (Note 8)	28,440	18,026
Customer accounts (Note 9)	31,348	21,472
Other assets (Note 10)	54,207	48,907
	$ 1,220,819	$ 1,248,856
Liabilities and Province's equity		
Current liabilities		
Bank indebtedness	$ –	$ 3,969
Accounts payable and accrued liabilities	97,168	104,821
Dividend payable	5,266	20,490
Service billed in advance	30,406	27,791
Current portion of long-term debt (Note 11)	15,115	6,866
	147,955	163,937
Long-term debt (Note 11)	424,339	443,346
	572,294	607,283
Non-controlling interest	845	446
Province of Saskatchewan's equity		
Equity advance (Note 12)	250,000	250,000
Cumulative translation adjustments	38	–
Retained earnings	397,642	391,127
	647,680	641,127
	$ 1,220,819	$ 1,248,856

See Accompanying Notes

On behalf of the Board

Reg Bird

Alison Renney

CONSOLIDATED STATEMENT OF **CASH FLOWS**

For the year ended December 31 (Thousands of dollars)	2002	2001
Cash provided by (used in):		
Operating activities		
Net income	**$ 65,146**	$ 101,497
Items not affecting cash from operations (Note 13)	**185,038**	164,215
Net change in non-cash working capital items (Note 14)	**927**	4,011
	251,111	269,723
Financing activities		
Repayment of long-term debt	**(4,844)**	(16,961)
Proceeds from long-term debt	**–**	90,000
Capital lease obligations	**(2,285)**	(525)
Dividends paid	**(73,880)**	(101,155)
Short-term borrowings (repayments)	**–**	(56,338)
	(81,009)	(84,979)
Investing activities		
Property, plant and equipment expenditures	**(164,998)**	(126,673)
Businesses acquired (Note 3)	**(4,431)**	(28,909)
Investments	**(1,587)**	(6,847)
Customer accounts (Note 3)	**(6,803)**	(5,289)
Other assets	**58**	33,737
	(177,761)	(133,981)
(Decrease) increase in cash	**(7,659)**	50,763
Cash and cash equivalents, beginning of year	**42,026**	(8,737)
Cash and cash equivalents, end of year	**$ 34,367**	$ 42,026
Comprised of:		
Cash and short-term investments	**$ 34,367**	$ 45,995
Bank indebtedness	–	(3,969)
	$ 34,367	$ 42,026
Interest Paid	**$ 37,351**	$ 36,243

See Accompanying Notes

Note 1 — The Corporation

Saskatchewan Telecommunications Holding Corporation (the Corporation) markets and supplies a range of voice, data, internet, wireless, text, image and entertainment products, systems and services. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of The Saskatchewan Telecommunications Holding Corporation Act, and as such, the Corporation and its wholly owned subsidiaries, except as identified in Note 20, 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.

The Corporation's subsidiaries, Saskatchewan Telecommunications, and Navigata Communications Inc., 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, and in conformity with prevailing practices in the Canadian communications industry.

Subsidiaries and investments

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

Declines in value below cost, of investments held using the equity or cost method, are recognized as a charge to income when such declines are considered to be other than temporary. Writedowns of investments are first applied against equity method goodwill of the investment and secondly against its net assets.

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

Name	Percentage ownership	Basis for inclusion
Operating entities:		
Saskatchewan Telecommunications	100.0%	Consolidation
Saskatchewan Telecommunications International, Inc.	100.0%	Consolidation
DirectWest Publishing Partnership	100.0%	Consolidation
Hospitality Network Canada Inc.	95.2%	Consolidation
Hospitality Network Canada Partnership	95.2%	Consolidation
SecurTek Monitoring Solutions Inc.	100.0%	Consolidation
Navigata Communications Inc. (formerly RSL COM Canada Inc.)	100.0%	Consolidation
Business Watch International Inc.	93.1%	Consolidation
Retx, Inc. (formerly Retx.com, Inc.)	90.0%	Consolidation
Craig Wireless International Inc.	18.7%	Equity
Soft Tracks Enterprises Ltd.	19.5%	Equity
TappedInto.com, Inc.	53.6%	Equity
Austar United Communications Limited	1.3%	Cost
Persona Inc.	6.2%	Cost
NSI Global Inc.	0.1%	Cost

Although the Corporation holds a 53.6% interest in TappedInto.com, Inc., it does not currently have control and therefore the results have not been consolidated in these financial statements.

The following is a summary of the non-operating entities of the Corporation: 101000606 Saskatchewan Ltd., 101000607 Saskatchewan Ltd., 3339807 Canada Ltd., 3364381 Canada Ltd., Avonlea Holding, Inc., Battleford International, Inc., Carlyle Holding, Inc., Dundurn Holding, Inc., Esterhazy Holding, Inc., Foam Lake Holding, Inc., Grenfell Holding, Inc., Hollywood At Home Inc., Jan Lake Holding, Inc., Katepwa Lake Holding, Inc., Melfort Holding, Inc., Navigata Holding, Inc., Nokomis Holding, Inc., Outlook Holding, Inc., Pleasantdale Holding, Inc., Qu'Appelle Holding, Inc. (formerly The Ag Dealer Ltd.), Rosetown Holding, Inc., Saskatchewan Telecommunications International (Tanzania) Limited, SaskTel Data Exchange Inc., SaskTel Holding (Australia), Inc., SaskTel Holding (New Zealand) Inc., SaskTel Holding (U.K.) Inc., SaskTel International Consulting, Inc., SaskTel Investments Inc., SaskTel New Media Fund Inc., SecurTek Partnership No. 3, SecurTek Partnership No. 4, SecurTek Partnership No. 5, SecurTek Partnership No. 6, SecurTek Partnership No. 7, Shellbrook Holding, Inc., STI Communications Pty Limited, Tisdale Holding, Inc., and Unity 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.

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.

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

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

Goodwill

Effective January 1, 2002, the Corporation adopted the new accounting recommendations for goodwill and intangible assets. Under the recommendations, the Corporation has assigned each of its unamortized goodwill balances to its reporting units and no longer records any goodwill amortization. The Corporation identifies goodwill impairment by comparing the fair value of its reporting units to their carrying amounts. Fair values of reporting units are calculated using industry specific valuation methods which include discounted cash flows, earnings multiples and market comparable approach. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets may be impaired. Any goodwill impairment is presented as a charge against earnings in the year the impairment is recognized.

Customer accounts

Customer accounts acquired individually or with a group of other assets are initially recognized and measured at cost. The cost of internally developed customer accounts includes direct development costs and overhead directly attributable to the development activity. Customer accounts are amortized using the straight-line method over their useful lives. The Corporation annually reviews the amortization method and useful lives of the customer accounts.

Revenue recognition

Revenues from local communications, data, internet, entertainment and security services are recognized in the period the services are provided. Revenues from long distance and wireless airtime are recognized based on usage or rate plans in the period the services are provided. Revenues from equipment sales are recognized at the point of sale. Directory revenues are recognized during the period the directory is in circulation. Revenues for longer term consulting contracts are recognized based on the percentage of completion method.

Inventories

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

Employee benefit plans

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

The cost of pensions and other retirement 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.

For the purpose of calculating the expected return on plan assets, those assets are valued at market related value.

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.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the yearend 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.

The financial statements of the Corporation's self sustaining foreign operation are translated using the current rate method, under which all assets and liabilities are translated at the exchange rate prevailing at year end, and revenues and expenses at average exchange rates during the year.

Financial instruments

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

Income taxes

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

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. In determining estimates of net realizable value for its investments, the Corporation relies on assumptions regarding applicable industry performance and prospects, as well as general business economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 3 — Acquisitions

Businesses acquired

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

During 2002, the Corporation increased its equity position in Retx, Inc. (Retx) from 63.0% to 90.0% for a total consideration of $4.4 million. Effective March 2002, the Corporation acquired control and as a result changed from the equity method to the consolidation method of accounting. Retx is an e-business service company providing transaction clearinghouse service and load management for the retail energy sector.

During 2002, the Corporation increased its interest in The Ag Dealer Ltd. (Ag Dealer) from 84.4% to 100% for a total consideration of $2.1 million. Subsequent to the transaction, the ownership was restructured such that the net assets were acquired by DirectWest Publishing Partnership (DirectWest) at their carrying amount. The company acquired now operates as part of DirectWest which provides agricultural publications along with directory, interactive and on-line services.

During 2002, the Corporation made an additional investment in Business Watch International Inc. (BWI), increasing its ownership from 85.9% to 93.1%, for a total consideration of $1.0 million. BWI provides crime prevention computer software to police agencies, pawnbrokers, and other businesses engaged in the acquisition and resale of used goods.

On October 15, 2002, the Corporation acquired the customer base and network assets of Entirety Communications Inc. (Entirety), a Vancouver Island based provider of internet access, hosting and web design services for a total consideration of $0.5 million.

During 2002, the Corporation acquired 100% of the issued shares of three corporations providing security services in Alberta and Ontario. The total purchase price was $5.2 million, the full amount of which was assigned to customer accounts.

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):

	Retx	Ag Dealer	BWI	Other	Total
Total consideration	$ 4,386	$ 2,098	$ 1,001	$ 5,772	$ 13,257
Total assets	3,663	876	924	6,617	12,080
Total liabilities	–	38	–	845	883
Net assets acquired	3,663	838	924	5,772	11,197
Goodwill acquired in 2002	$ 723	$ 1,260	$ 77	$ –	$ 2,060

In the prior year, the Corporation acquired Navigata Communications Inc. (formerly RSL COM Canada, Inc.) and its subsidiaries for $16.7 million; an 84.4% interest in The Ag Dealer Ltd. for $6.0 million; 85.9% interest in Business Watch International Inc. for $1.0 million; and 100% of the issued shares of two corporations which provide security services in Alberta and British Columbia for $2.4 million.

Investments in significantly influenced companies: equity method

On March 19, 2002, the Corporation purchased additional shares of TappedInto.com, Inc. (TappedInto.com), increasing its ownership from 45.0% to 53.6%, for a total consideration of $1.6 million. TappedInto.com is a broadband internet streaming company based in Nashville, Tennessee.

In the prior year, the Corporation acquired additional equity positions in Craig Wireless International Inc. and Retx.com, Inc. for $3.0 million and $5.5 million respectively. In addition the Corporation purchased a 45% equity interest in TappedInto.com for a total consideration of $3.8 million.

Note 4 — Other items

	2002	2001
	(Thousands of dollars)	
Net share of loss from significantly influenced companies	$ (7,645)	$ (12,462)
Proceeds from termination of foreign currency swap	4,733	–
Interest income	954	1,048
Other	1,824	1,831
Non-controlling interest	908	223
	$ 774	$ (9,360)

Note 5 — Interest and related costs

	2002	2001
	(Thousands of dollars)	
Interest expense	$ 38,589	$ 38,172
Foreign currency translation (gains) losses	(919)	8,129
Other	19	49
	37,689	46,350
Less: Sinking fund earnings	2,737	3,351
Interest on short-term investments	1,237	1,009
	$ 33,715	$ 41,990

Note 6 — Property, plant and equipment

Asset	Useful life
Buildings	20-35 years
Plant and equipment	15 years
Office furniture, equipment and leaseholds	3-17 years

	Cost	Accumulated depreciation & amortization	Net book value 2002	Net book value 2001
			(Thousands of dollars)	
Buildings	$ 222,938	$ 111,636	$ 111,302	$ 108,248
Plant and equipment	1,997,846	1,388,360	609,486	630,808
Office furniture, equipment and leaseholds	144,874	75,972	68,902	60,931
Plant under construction	125,526	–	125,526	91,301
Materials and supplies	11,860	–	11,860	11,175
Land	9,214	–	9,214	9,204
	$ 2,512,258	$ 1,575,968	$ 936,290	$ 911,667

Depreciation and amortization for the year totalled $142,053,091 (2001 – $152,018,962)

Property, plant and equipment includes assets under capital leases of $10,569,683 (2001 – $10,542,428) and accumulated depreciation and amortization of $1,664,714 (2001 – $413,693).

Note 7 — Investments

	2002	2001
	(Thousands of dollars)	
Significantly influenced companies: equity method		
TappedInto.com, Inc.	**$ 3,040**	$ 2,861
Soft Tracks Enterprises Ltd.	**1,000**	3,228
Retx, Inc.	**–(a)**	9,755
Craig Wireless International Inc.	**–**	4,122
Other	**–**	38
Other long-term investments: cost method		
Persona Inc. (1,223,491 common shares)	**14,682**	14,682
Austar United Communications Limited (9,550,574 ordinary shares)	**3,452**	43,846
Other	**40**	60
	$ 22,214	$ 78,592

(a) Effective March 2002, the Corporation acquired control of Retx and as a result changed from the equity method to the consolidation method of accounting.

Included in the above balances is equity method goodwill of $3,208,817 (2001 – $15,514,645), which represents the excess of cost of the investments over the Corporation's share of net book value of the investment.

There was a decline in value of certain investments of the Corporation that was considered to be other than temporary, resulting in a writedown in 2002 as follows:

	(Thousands of dollars)
Austar United Communications Limited	$ 40,394
Soft Tracks Enterprises Ltd.	947
Other	58
	$ 41,399

At year end the quoted market value of the Austar United Communications Limited and Persona Inc. investments were $1,443,216 (2001 – $2,139,329) and $5,322,186 (2001 – $13,042,414) respectively (see Note 15).

Note 8 — Goodwill

The Corporation has conducted the transitional impairment test in accordance with the requirements of the new accounting recommendations for goodwill and intangible assets and has determined that goodwill was not impaired.

The following table provides the reconciliation of net income amounts for December 31, 2001, adjusted to exclude the effects of goodwill amortization.

	(Thousands of dollars)
Net income, as previously reported	$ 101,497
Add back: goodwill amortization	2,980
Adjusted net income	$ 104,477

The changes in the carrying amount of goodwill for the year ended December 31, 2002 are as follows:

	(Thousands of dollars)
Balance as at January 1, 2002	$ 18,026
Acquired during the year (Note 3)	2,060
Transfer from equity method goodwill – Retx	8,354
Balance as at December 31, 2002	$ 28,440

Note 9 — Customer accounts

The cost of customer accounts acquired is being amortized over their estimated useful life of 3 – 12.5 years from date of acquisition. Amortization of these definite life intangible assets during the year totalled $3,150,517 (2001 – $1,825,210).

	Cost	Accumulated depreciation & amortization	Net book value	
			2002	2001
			(Thousands of dollars)	
Customer accounts	**$ 36,069**	**$ 4,721**	**$ 31,348**	$ 21,472

Note 10 — Other assets

	2002	2001
	(Thousands of dollars)	
Deferred pension costs (Note 17)	**$ 44,031**	$ 39,125
Competition implementation costs	**3,866**	4,324
Unamortized discount on long-term debt	**2,380**	2,400
Sales-type leases	**738**	607
Other	**3,192**	2,451
	$ 54,207	$ 48,907

Depreciation and amortization for the year totalled $530,239 (2001 – $306,929).

Note 11 — Long-term debt

	Years to Maturity	Weighted Average Interest Rate (%)	2002 (Thousands of dollars)	2001 (Thousands of dollars)
Province of Saskatchewan				
Canadian dollar issues	1 to 5	11.07	**$ 83,333**(a)	$ 69,736
Canadian dollar issues	6 to 10	6.89	**110,779**(a)	124,376
Canadian dollar issues	27	5.51	**110,000**(b)	110,000
U.S. dollar issue	18	9.38	**157,760**(c)	159,260
			461,872	463,372
Capital lease obligations			**11,026**(e)	13,284
Other			**1,009**	2,278
			473,907	478,934
Less sinking funds			**34,453**(d)	28,722
Total long-term debt			**439,454**	450,212
Less current portion of long-term debt			**15,115**	6,866
			$ 424,339	$ 443,346

(a) Long-term debt totalling $104,112,000 is subject to redemption at the option of the issuer on 30 days notice, as outlined in the terms and conditions.

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

(c) Represents long-term debt repayable in U.S. funds having a U.S. dollar face value of $100,000,000 converted to $115,360,000 Canadian at the time of issue. The recorded amount is based on the foreign exchange rate at December 31, 2002 of 1.5776 (2001 – 1.5926).

(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. The sinking funds include investments denominated in U.S. dollars held in the fund having a U.S. dollar value of $19,508,535 recorded at $30,066,745 Canadian dollar equivalent.

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

	(Thousands of dollars)
2003	$ 12,419
2004	$ 32,184
2005	$ 3,228
2006	$ 35,826
2007	$ 16,825

(e) 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 7.0% and 10.2% (2001 – 6.9% and 9.5%), with a weighted average of 8.2% (2001 – 8.1%). The lease agreements expire variously between 2003 and 2006. During the year, the Corporation acquired property, plant and equipment under capital leases at a cost of $27,255 (2001 – $80,084).

	2002	2001
	(Thousands of dollars)	
2002	**$ –**	$ 3,586
2003	**3,761**	3,697
2004	**3,700**	3,659
2005	**3,738**	3,711
2006	**2,557**	2,544
2007	**–**	–
Aggregate future minimum lease payments	**13,756**	17,197
Portion representing implied interest	**2,730**	3,913
Capital lease obligations	**11,026**	13,284
Less current portion	**2,696**	2,341
Long-term portion	**$ 8,330**	$ 10,943

Interest expense on capital lease obligations during the year totalled $1,266,075 (2001 – $435,048).

Note 12 — Equity advance

As a Saskatchewan Provincial Crown corporation, the Corporation's equity financing is in the form of equity advances of $250,000,000 (2001 – $250,000,000) from CIC.

Note 13 — Items not affecting cash from operations

	2002	2001
	(Thousands of dollars)	
Depreciation and amortization	**$ 145,734**	$ 157,131
Pension income of defined benefit plan	**(4,906)**	(15,570)
Net share of loss from significantly influenced companies	**7,645**	12,462
Foreign currency translation (gains) losses	**(919)**	8,131
Sinking fund earnings	**(2,737)**	(2,588)
Writedown of investments	**41,399**	–
Other	**(1,178)**	4,649
	$ 185,038	$ 164,215

Note 14 — Net change in non-cash working capital items

	2002	2001
	(Thousands of dollars)	
Accounts receivable	$ 4,279	$ 8,632
Inventories	5,838	1,913
Prepaid expenses	322	1,196
Accounts payable and accrued liabilities	(11,674)	(9,209)
Service billed in advance	2,162	1,479
	$ 927	$ 4,011

Note 15 — Financial instruments

Credit risk

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

Currency exposure

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

At year end, the Corporation has no outstanding 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 judgement 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 (Thousands of dollars):

	2002		2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Equity in sinking funds	$ 34,453	$ 37,287	$ 28,722	$ 29,352
Long-term debt, Province of Saskatchewan	$ 461,872	$ 564,654	$ 463,372	$ 536,447
Cross currency forwards and swap	$ –	$ –	$ –	$ 5,330

The fair values of investments which are publicly traded are determined by the quoted market values for each of the investments (Note 7). The fair values of other investments approximate their carrying amounts.

Note 16 — Segmented information

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

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

The reportable segments are the major strategic business units of the Corporation. Each business unit is managed separately because they provide products and services requiring different technology and marketing strategies.

Reportable operating segments:

(Thousands of dollars)	SaskTel Wireline	SaskTel Wireless	SaskTel International	DirectWest	All Other[1]	Total
2002						
Total revenue	$ 662,027	$ 159,525	$ 11,371	$ 33,732	$ 107,333	$ 973,988
Depreciation and amortization	114,891	15,047	62	1,121	14,613	145,734
Income from operations	108,024	29,824	620	1,597	5,896	145,961
Other significant non-cash items:						
Writedown of investment	–	–	–	(20)	(41,379)	(41,399)
Net share of loss of significantly influenced companies	–	–	–	–	(7,645)	(7,645)
Total assets	861,233	114,963	11,543	14,028	472,793	1,474,560
Equity method investments	–	–	–	–	4,040	4,040
Net property, plant and equipment expenditures	126,392	28,527	39	629	9,411	164,998
2001						
Total revenue	$ 675,313	$ 148,422	$ 17,979	$ 32,345	$ 72,514	$ 946,573
Depreciation and amortization	129,654	15,386	106	1,240	10,745	157,131
Income from operations	118,943	21,076	624	861	18,846	160,350
Other significant non-cash items:						
Gain on sale of investment	–	–	–	–	–	–
Net share of loss of significantly influenced companies	–	–	–	–	(12,462)	(12,462)
Total assets	881,824	102,532	10,440	14,187	512,155	1,521,138
Equity method investments	–	–	–	–	20,004	20,004
Net property, plant and equipment expenditures	94,818	22,993	72	793	8,159	126,673

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

Reconciliation to reportable segments:

		2002		2001
		(Thousands of dollars)		
Total revenues for reportable segments	**$**	**973,988**	$	946,573
Elimination of intersegment revenues		**80,503**		83,147
Consolidated operating revenues	**$**	**893,485**	$	863,426

		2002		2001
		(Thousands of dollars)		
Total income from operations for reportable segments	**$**	**145,961**	$	160,350
Elimination of intersegment income		**6,475**		7,503
Consolidated income from operations	**$**	**139,486**	$	152,847

		2002		2001
		(Thousands of dollars)		
Total assets for reportable segments	**$**	**1,474,560**	$	1,521,138
Elimination of intersegment assets		**253,741**		272,282
Consolidated total assets	**$**	**1,220,819**	$	1,248,856

Note 17 — Employee benefit plans

The Corporation has two defined benefit pension plans providing pension benefits to its employees.

The largest of the two plans is governed by Saskatchewan Telecommunications (SaskTel), which has been closed to new membership since 1977. Current service costs of this plan are charged to earnings on the basis of actuarial valuations, the most recent valuation for SaskTel was December 31, 2001. The accrued benefit obligation as at December 31, 2001 has been increased by $46,117,000 to reflect the results of this valuation.

The second plan is governed by Navigata Communications Inc. Current service costs of this plan are charged to earnings on the basis of actuarial valuations, the most recent valuation being as of December 31, 2001. The accrued benefit obligation as at December 31, 2001 has been increased by $272,000 to reflect the results of this valuation.

	2002	2001
	(Thousands of dollars)	
Plan assets at fair value	**$ 695,604**	$ 757,497
Accrued benefit obligation	**817,202**	750,563
Fund status – (deficit) surplus	**$ (121,598)**	$ 6,934
Deferred pension costs	**$ 43,835**	$ 39,050
Net pension income	**$ 3,931**	$ 15,446
Employee contributions	**$ 3,184**	$ 2,849
Employer contributions	**857**	200
Benefits paid	**(43,552)**	(38,671)

Economic assumptions	**2002**	2001
Discount rate	**6.20%**	6.80%
Expected return on plan assets (net of expenses)	**7.25%**	7.25%
Inflation rate	**2.20%**	2.80%
Expected salary increase	**2.20%**	2.80%
Post-retirement index (not to exceed 2%)	**100% of CPI**	100% of CPI

In 2002, the Corporation adopted an expanded disclosure for employee benefit plans, which has been detailed in the tables below. 2001 comparative figures have not been included since they are not readily available.

Pension income	**2002**
	(Thousands of dollars)
Current service cost – defined benefit plan	**$ (7,072)**
Interest cost	**(50,264)**
Expected return on pension plan assets	**53,770**
Amortization of net transitional asset	**11,641**
Amortization of past service costs	**(4,105)**
Amortization of actuarial loss	**(39)**
Pension income	**$ 3,931**

Accrued benefit obligation		2002
		(Thousands of dollars)
Accrued benefit obligation, beginning of year	$	750,835
Current service cost		10,256
Interest cost		50,264
Benefits paid		(43,552)
Impact of change in discount rate		49,399
Accrued benefit obligation, end of year	$	817,202

Plan assets		2002
		(Thousands of dollars)
Fair value of plan assets, beginning of year	$	757,497
Actual return on plan assets		(22,382)
Employer contributions		857
Employee contributions		3,184
Benefits paid		(43,552)
Fair value of plan assets, end of year	$	695,604

Deferred pension costs		2002
		(Thousands of dollars)
Funded status – (deficit)	$	(121,598)
Unamortized transitional asset		(74,108)
Unamortized past service costs		25,989
Unamortized net actuarial losses		213,552
Deferred pension costs (net)	$	43,835
Comprised of:		
Deferred pension costs	$	44,031
Deferred pension liability		196
	$	43,835

Other future benefits

Effective December 31, 2002, Navigata Communications Inc. ceased sponsorship of all future benefit plans other than pension. The cessation of sponsorship of the Other Future Benefit Plan has been accounted for as both a settlement and a curtailment.

		2002		2001
		(Thousands of dollars)		
Accrued benefit obligation	$	–	$	1,385
Accrued benefit liability		–		329
Employee benefit expense		(319)		3
Employee contributions		–		–
Employer contributions		10		3
Benefits paid		10		3

The significant actuarial assumptions used to measure the company's accrued benefit obligations are as follows:

	2002	2001
Discount rate	–	6.75%

The Corporation also has employees who are members of the Public Employees Pension Plan, which is a defined contribution pension plan. The 2002 pension expense and employer contributions for the Public Employees Pension Plan are $10,302,498 (2001 – $9,738,123).

Note 18 — 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:

	2002	2001
	(Thousands of dollars)	
Operating revenues	**$ 59,030**	$ 55,143
Operating expenses	**38,894**	32,797
Accounts receivable	**12,219**	5,123
Accounts payable	**612**	928
Property, plant and equipment – net (proceeds) expenditures	**(704)**	566

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.

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 19 — Commitments and contingencies

The future minimum lease payments under the operating leases of the Corporation in each of the next five years are as follows:

	(Thousands of dollars)
2003	$ 38,952
2004	$ 34,187
2005	$ 26,998
2006	$ 22,754
2007	$ 21,483

The above payments include $26,169,897 for leases with related parties.

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, 2002 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.

Note 20 — Income taxes

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

As at December 31, 2002, the Corporation has available non-capital losses for income tax purposes of approximately $71,048,000, which are available to be carried forward to reduce taxable income in future years, and expire as follows:

	(Thousands of dollars)
2003	$ 337
2004	34
2005	877
2006	9,933
2007	37,484
2008	2,956
2009	19,427
	$ 71,048

Temporary differences as at December 31, 2002 between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases deductible against taxable income of future years, including non-capital losses, are as follows:

	(Thousands of dollars)
Property, plant and equipment	$ (2,640)
Intangible assets	59
Accrued employee benefit liability	196
Reserves, provisions and other	1,686
Non-capital tax losses carried forward	71,048
Net temporary differences	$ 70,349

The future income tax benefit which may arise as a result of these net temporary differences has not been recognized in these consolidated financial statements.

Note 21 — Comparative figures

2001 figures have been reclassified to conform to the current year's presentation.

Donald R. Ching
President and CEO

Tom Kehoe
Chair of the Board

Frank Proto
Vice Chair of the Board

Wendy Dean
Secretary to the Board of Directors

Reg Bird

Allan Blakeney

Delores Burkart

Wayne Byers

Richard Gladue

Karen Leir

Don Lowry

Kathleen Peterson

Alison Renny

COMMITTEES TO THE BOARD as of December 17, 2002

Audit Committee

Alison Renny, Chair
Reg Bird
Karen Leir
Frank Proto

Corporate Growth Committee

Tom Kehoe, Chair
Delores Burkart
Wayne Byers
Don Lowry
Frank Proto

Governance Committee

Delores Burkart, Chair
Tom Kehoe
Karen Leir
Kathleen Peterson

Environment & HR

Allan Blakeney, Chair
Wayne Byers
Kathleen Peterson
Alison Renny

SaskTel appreciates the contributions of Tom Kehoe, Delores Burkart and Frank Proto who left the Board as of December 18, 2002. On December 18, 2002, Reg Bird was appointed Chair of the Board, Tracy Bakkeli was added to the Board and appointed Vice Chair and Doug Richardson was added to the Board.

SaskTel Executive Officers	Mike Anderson	VICE PRESIDENT, MARKETING
	Dan Baldwin	SENIOR VICE PRESIDENT, BUSINESS DEVELOPMENT
	Don Ching	PRESIDENT AND CHIEF EXECUTIVE OFFICER
	Ken Keesey	VICE PRESIDENT, CUSTOMER SERVICES – SALES
	John Meldrum	VICE PRESIDENT, CORPORATE COUNSEL AND REGULATORY AFFAIRS
	Diana Milenkovic	SENIOR VICE PRESIDENT, CUSTOMER SERVICE OPERATIONS AND MOBILITY
	Byron Pointer	VICE PRESIDENT, HUMAN RESOURCES AND INDUSTRIAL RELATIONS
	Garry Simons	PRESIDENT, SASKTEL INTERNATIONAL
	Randy Stephanson	CHIEF FINANCIAL OFFICER
	Kym Wittal	CHIEF TECHNOLOGY OFFICER
SaskTel Subsidiaries Executive Officers	Gord Farmer	PRESIDENT, DIRECTWEST
	Don Ferguson	INTERIM PRESIDENT, SECURTEK
	Tom Laird	PRESIDENT, NAVIGATA COMMUNICATIONS
SaskTel Senior Operating Officers	Dale Baron	CONTROLLER
	Dave Birnie	GENERAL MANAGER, CUSTOMER SERVICES OPERATIONS
	Phil Bohay	GENERAL MANAGER, CUSTOMER SERVICES – BUSINESS SALES AND SOLUTIONS
	Doug Burnett	GENERAL MANAGER, HUMAN RESOURCES AND INDUSTRIAL RELATIONS
	Lana Doke	GENERAL MANAGER, CUSTOMER SERVICES – CONSUMER ENTERPRISE AND SOLUTIONS
	Gail Lefebvre	GENERAL MANAGER, CUSTOMER SERVICES PLANNING, PROVISIONING AND IMPLEMENTATION
	Dave Lozinski	GENERAL MANAGER, CORPORATE SERVICES
	Darcee MacFarlane	GENERAL MANAGER, CORPORATE AFFAIRS
	Candice Molnar	GENERAL MANAGER, REGULATORY AFFAIRS
	Al Rogers	GENERAL MANAGER, INFORMATION TECHNOLOGY MANAGEMENT
	Garry Reichert	GENERAL MANAGER, TECHNOLOGY, PERFORMANCE AND OPERATIONS
	Stacey Sandison	GENERAL MANAGER, CUSTOMER AND MARKETING SERVICES – MOBILITY
	Daryl Silzer	GENERAL MANAGER, STRATEGIC BUSINESS DEVELOPMENT
	Curt Smith	GENERAL MANAGER, MANAGED INFORMATION SERVICES
	Shelly Smith	GENERAL MANAGER, DIGITAL INTERACTIVE VIDEO
	Dennis Terry	GENERAL MANAGER, BUSINESS, PLANNING AND TECHNOLOGY – MOBILITY
	Pat Tulloch	GENERAL MANAGER, MARKETING
	Al Yam	GENERAL MANAGER, TECHNOLOGY DEVELOPMENT AND ENGINEERING
	Barry Ziegler	EXECUTIVE VICE PRESIDENT, INVESTMENTS, SASKTEL INTERNATIONAL
SaskTel International Senior Operating Managers	Scott Fedec	VICE PRESIDENT, FINANCE AND HUMAN RESOURCES
	Don Prokopetz	VICE PRESIDENT, SOFTWARE SOLUTIONS
	Mike Ryan	VICE PRESIDENT, MARKETING AND OPERATIONS
	Garry Simons	PRESIDENT, SASKTEL INTERNATIONAL
	Barry Ziegler	EXECUTIVE VICE PRESIDENT, INVESTMENTS

BOARD RESPONSIBILITIES

The SaskTel Board of Directors has the statutory authority to manage the affairs and business of the Corporation. In fulfilling its stewardship responsibility, the principal duties of the Board are to assess and approve the strategic direction of the Corporation and to set the broad parameters within which management operates. The Board does this by: participating in an annual strategic planning process; monitoring Corporate performance against agreed benchmarks; evaluating CEO and senior management performance and ensuring appropriate succession plans are in place; overseeing risk management systems; assuring the integrity of financial reports; and promoting effective communications with the shareholder, stakeholders and the public. The Board met nine times in 2002.

BOARD COMPOSITION AND COMPENSATION

The Lieutenant Governor in Council appoints members of the Board, and designates the Chair and Vice Chair. Board members are appointed for up to three years and their appointments can be renewed at the expiry of their term. The SaskTel Board is comprised of 12 members with diverse abilities and backgrounds, bringing to the Corporation industry expertise, accounting and legal skills, labour relations capacity, international business experience, extensive community and business contacts and public relations acumen. Nine directors, including the Chair, are independent of SaskTel management. Related directors include the President & CEO of the Corporation and two directors who are members of the employee bargaining agent, the Communications, Energy and Paperworkers Union of Canada.

Board Members receive annual retainers, meeting and travel fees and expenses pursuant to a Policy approved by the Crown Investments Corporation of Saskatchewan (CIC), the Holding Company.

COMMITTEES

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

AUDIT COMMITTEE

The Audit Committee monitors and reviews the financial performance of the Corporation, assists the Board to meet its financial reporting responsibilities, oversees the internal audit program, internal control systems and Corporate risk management activities, serves as the primary communications link between the Board and the external auditors and annually reviews the independence, quality of service and performance of the external auditors. There are four members on the Audit Committee, and it met 11 times in 2002.

CORPORATE GROWTH COMMITTEE

The Corporate Growth Committee assists management to develop its Corporate Growth Strategy and reviews, monitors and reports to the Board respecting the progress of Corporate investments and growth initiatives. There are five members on the Corporate Growth Committee, and it met nine times in 2002.

GOVERNANCE COMMITTEE

The Governance Committee assists the Board to maintain exemplary corporate governance practices, monitors compliance with corporate contribution policies, reviews directors' expenses and administers the Directors' Code of Conduct, which includes acting as the Ethics Advisor to directors. The Committee oversees an annual performance evaluation of the CEO and regular evaluations of the Board as a whole, the Board Chair, all Committees and individual directors. There are four members on the Governance Committee, and it met nine times in 2002.

ENVIRONMENT AND HUMAN RESOURCES COMMITTEE

The Environment and Human Resources Committee monitors the Corporation's management of risks, liabilities, policies, practices and procedures related to human resources, the environment and workplace health and safety. Each year the Committee recommends Corporate Indicators to the Board, which set targets to track progress against the strategic plan and to drive management performance compensation. The Committee is also responsible for monitoring the enforcement of and compliance with Corporate ethics and harassment policies. There are four members on the Environment and Human Resources Committee, and it met three times in 2002.

BOARD ORIENTATION AND TRAINING

New directors appointed to the Board receive a Directors' Reference Manual and attend an orientation session delivered by management. The orientation session addresses key industry trends, the Corporation's organizational structure, critical business risks and challenges, the strategic plan and an overview of the responsibilities of senior staff. CIC sponsors a comprehensive education program for directors of all CIC Crown boards to assist them to develop and enhance their overall governance knowledge and skills.

WORKING WITH MANAGEMENT

The Board strives to build an open and constructive working relationship with management. 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 overall performance. The Board expects management to implement Board directives and policies and keep the Board apprised of management's activities. A comprehensive Final Authorization Policy, applicable to monetary and non-monetary matters, delineates the division of responsibility between management and the Board.

CORPORATE GOVERNANCE INITIATIVES AND PRACTICES

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

TSX CORPORATE GOVERNANCE GUIDELINE (SUMMARY)	SASKTEL'S GOVERNANCE PRACTICES
1. The Board should explicitly assume responsibility for stewardship of the corporation, and specifically for: a) adoption of a strategic planning process b) identification of principal risks and implementation of appropriate risk management systems c) succession planning, including appointing, training and monitoring senior management d) communications policy e) integrity of internal control and management information systems	The Board's Terms of Reference describe its principal duties and responsibilities. The Board either assumes, or has delegated responsibility to monitor and report to it respecting, each key area of responsibility listed: (a) Strategic Planning: the Board holds an annual two-day strategic planning session each fall, and reviews, approves and monitors the strategic plan, business plans, budget and Corporate Indicators. The Growth Committee assists management to develop a growth strategy that fits with the overall strategic direction of the Corporation. (b) Risk Identification and Management: management is responsible for identifying and managing risks and the Audit Committee monitors and reports to the Board respecting risk management activity. (c) Succession Planning: the Board is responsible for appointing the CEO, in consultation with the shareholder. The CEO is responsible for training, monitoring and developing succession plans for senior management. The Environment & Human Resources Committee annually reviews management's succession plans. (d) Communications Policy: SaskTel has developed a comprehensive Communications Policy. The Governance Committee annually reviews and reports to the Board concerning the adequacy of the Policy. (e) Internal Control: The Audit Committee is responsible for overseeing the Corporation's internal control and management information systems in conjunction with the internal and external auditors.
2. Majority of directors should be "unrelated" (independent of management and free from business or other interests that could materially interfere with acting in the Corporation's best interest)	The majority of directors (9 out of 12) are unrelated. None of the unrelated directors or their associates have worked for or received remuneration from the Corporation in excess of fees and compensation associated with serving on the Board or a Committee.
3. Board should disclose annually whether it has a majority of unrelated directors, and how that conclusion was reached.	The Board has disclosed information about the number of unrelated directors in the Annual Report since 2000. A related director is defined as any board member with an employment relationship to the Corporation.

4. Committee should be appointed, comprised exclusively of non-management directors the majority of whom are unrelated, responsible for recommending appointment and assessing performance of directors.	The Governance Committee performs the function of a nominating committee. There are no management directors on the Governance Committee, but an inside employee director sits as a member. The Committee has developed and keeps current a Skills Profile to identify the skills sets needed on the Board. As vacancies occur, the Committee seeks qualified candidates, interviews them and makes recommendations to the Board respecting board appointments. The Committee ensures that regular evaluations of the Board, Board Chair, each Committee and individual directors are conducted.
5. Implement a process to assess the effectiveness of the Board, its Committees and individual directors	Board, Board Chair, Committee and individual director evaluations are performed regularly. The Governance Committee prepares a report outlining the evaluation results, which is referred to the Board for review and approval. A summary of the board evaluation results is submitted to CIC as information. The Governance Committee takes responsibility for any follow-up action required as a result of recommendations made in the evaluation reports.
6. Provide orientation and education programs for new directors	Management delivers an orientation session for new directors appointed to the Board. CIC delivers a comprehensive training program for directors of all its subsidiary Crown boards. The training program focuses on the skills directors need to effectively discharge their responsibilities and reviews trends and best practices in corporate governance.
7. Examine and consider reducing the size of the Board to facilitate effective decision-making	By legislation and policy, the Board is comprised of a maximum of 12 directors. The Governance Committee is responsible to assess size, composition and qualifications of the Board and its Committees, and to make recommendations to promote timely and effective decision-making.
8. Review director's compensation to ensure it reflects responsibilities and risks	CIC sets remuneration rates for directors of its subsidiary Crown boards. CIC reviewed and increased directors' compensation and expense entitlements in 1998 and 2001.
9. Committees should be comprised of outside directors and the majority should be unrelated	The majority of committee members are outside and unrelated, and no management member sits on any Committee. Two directors are members of the employee bargaining unit. One employee director sits on the Corporate Growth and the Environment & Human Resources Committees; the other sits on the Governance and the Audit Committees.

10. Assume responsibility for, or assign to a committee, the Board's approach to corporate governance issues	The Governance Committee oversees and reports to the Board concerning corporate governance processes, including monitoring compliance with existing policies and adopting, where appropriate, new practices. In 2002, significant governance matters considered by the Committee or referred to another Committee or the Board for review include: (a) the recommendations of the Joint Committee on Corporate Governance (the Saucier Report) (b) a CIC policy re: governance of Crown held subsidiaries (c) revisions to the Final Authorization Policy (d) the Corporate Investment Compliance Process (e) the mandate and powers of the Canadian Public Accountability Board (f) the results of a 2001 Conference Board Governance Index survey of Crown boards (g) a CIC proposal respecting governance reporting in Crown corporation annual reports
11. Develop position descriptions for the Board and the CEO, which define limits to management's responsibilities, and approve/develop the CEO's corporate objectives	Board Terms of Reference have been developed that set out the major responsibilities of the Board and address management duties. A Final Authorization Policy approved by the Board specifically delineates the division of authority between Board/management. A CEO Position Description has been developed to set out the CEO's responsibilities, and the CEO's objectives are set and performance is evaluated annually.
12. Establish structures and procedures to enable the Board to function independently of management	The Board's Terms of Reference require it to develop practices to enable it to function independently of management. Such practices include: (a) designating an unrelated, outside director as Chair of the Board (b) scheduling regular in-camera sessions at every meeting (without management present) (c) clearly delineating the division of responsibilities (d) establishing a process for the Board/directors to access external advice

13. The audit committee should: • be comprised only of outside directors • have a specifically defined mandate • have direct communication channels with internal and external auditors • be responsible for management reporting on internal control	The majority of Audit Committee members are outside directors (of four members, one is an inside employee director). The Committee has reviewed this guideline and determined that having an employee director as a member does not give management an opportunity to bias or influence Committee decisions. The Committee has a written mandate that is approved by the Board and specifically sets out the Committee's responsibilities in the following broad areas: financial performance and reporting; external and internal audit plans and reports; internal control and risk management systems; and significant accounting policies. In 2002, the mandate was revised to require the Board to consider a director's financial literacy in making appointments to the Committee, and to explicitly affirm that the external auditor is accountable to the Committee and the Board as representatives of the shareholder. The Committee has direct communication channels with the internal and external auditors, and holds regular in-camera sessions with the auditors in the absence of each other and of management. In conjunction with the internal and external auditors, the Committee is responsible for overseeing and reporting to the Board on the state of the Corporation's internal control systems.
14. Implement a system to enable individual directors to engage outside advisers, at the Corporation's expense and subject to approval by an appropriate committee	The Board and each Committee can access external advisors where necessary to assist in the proper discharge of their functions, duties and responsibilities. In the case of a Committee, such access is subject to the approval of the Board.

contact us

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