2006 ANNUAL REPORT

Saskatchewan Telecommunications Holding Corporation C

Go Beyond

You can *stay connected*

SaskTel

Letter of Transmittal

Regina, Saskatchewan
March 31, 2007

To His Honour
The Honourable Dr. Gordon L. Barnhart
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, 2006, including the financial statements, duly certified by auditors for the Corporation, and in the form approved by the Treasury Board, all in accordance with *The Saskatchewan Telecommunications Holding Corporation Act*.

Respectively submitted,

Deb Higgins

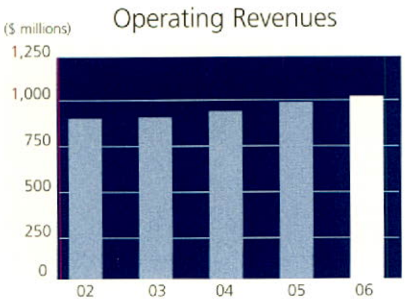
Deb Higgins
Minister Responsible for SaskTel

Look
Around

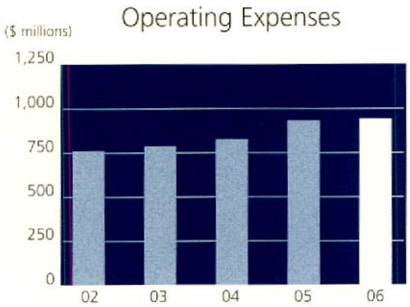
It is a time of
great promise,
where our dreams
can meet with reality.

Contents

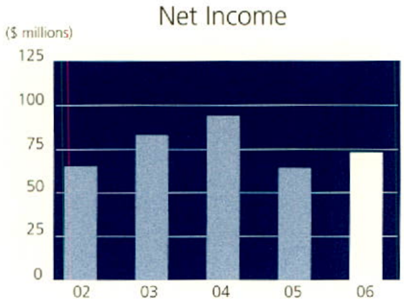
Financial Highlights



Operating Revenues exceeded $1 billion for the first time in our history, $30.8 million higher than 2005. Strong customer growth in cellular services and *Max*™ Entertainment Services allowed us to achieve this milestone.



Operating Expenses increased $27.0 million from 2005. The increase was driven by expenses to support cellular and *Max* Entertainment Services revenue growth, and restructuring charges related to the early retirement program.



Net Income increased 12.7% over 2005. Income from operations was $92.2 million and cash provided by operating activities was $228.6 million, enabling us to continue to self-finance all our capital expenditures, acquisitions, debt obligations and dividend requirements.

Capital Expenditures were $233.6 million in 2006, reflecting the most aggressive capital program in SaskTel's history. This program is aimed at enhancing our infrastructure to deliver improved Internet Protocol (IP) services to both urban and rural Saskatchewan. We also invested in other growth initiatives, including *Max* Entertainment Services and cellular network expansion.

Dividends of $50.0 million were declared in 2006.

Robert Watson

President and Chief Executive Officer

Going Beyond

By building the network that can bring the latest and best to our customers, we are extending to them an invitation of sorts. A bold invitation for our customers to expect more from us than they would from any other service provider.

This is what we mean when we say we want to go beyond. By building the network that can bring the latest and best to our customers, we are extending to them an invitation of sorts—a bold invitation to expect more from us than they would from any other service provider. Expect us to be more innovative, more timely, more responsive, more accessible, more committed to your community. And expect to have more time for your friends and family, more options for entertainment and information, more productivity in your home and business.

Within that intention to be more and go beyond is our confidence that convergence and intensified competition will be good for the people we serve. Whether it is in telephone, TV or internet, competition is stimulating innovation in services and pricing in our marketplace and Saskatchewan people are benefiting.

No matter what the competitors offer, our customers know they can expect more of us, not merely because the technology is there and because we consistently meet and exceed their expectations. They expect SaskTel to be more, to go beyond our competitors because we are more than a service provider. Our customers know us as a source of well-being and development in their community—delivering high speed internet to remote and sparsely populated areas, fostering opportunities and hope for young people with programs like our YOUTHnetwork, working with dealers and suppliers, small local businesses, to create economic spin-offs in every corner of Saskatchewan, helping to bring the SaskTel Jazz Festival and the Rolling Stones into the province.

The promise to go beyond is there in our unwavering commitment to the communities we serve; it is there in the service representative who goes out of her way to enrich the customer's experience; it is there in the array of information, communication and entertainment that we deliver to your computer, your TV, or your cell phone in the office or at home; and it is there in our strong financial results, returning solid dividends to our shareholder no matter what the market brings.

Before closing, I want to thank our staff for the recognition we received in our industry this year: once again J.D. Power and Associates, a global market research firm, has declared that SaskTel has the highest customer satisfaction levels for contracted wireless providers of any service provider in Canada. On the human resources front, we received three awards: the Interprovincial Association for Native Employment Ivan Ahenakew Award, recognizing our contributions to the employment of Aboriginal peoples, and the Aboriginal Government Employees Network Industry (AGEN) Award for Aboriginal Participation. And, for the seventh year in a row, SaskTel was selected as one of Canada's Top 100 Employers.

These achievements, and many others that are highlighted in the pages of this report, demonstrate that at SaskTel, we are already in so many ways living up to the promise to go beyond.

As always, I extend my heartfelt thanks to all of our staff, our executive, and members of our Board of Directors for doing the work that allows us to make good on that promise every day.

Robert Watson

President and Chief Executive Officer

The annual report is a chance for a corporation to focus its vision on an entire year, the obstacles met and overcome, new directions taken, and then resolve it into a single, coherent image. If we had such a comprehensive snapshot of SaskTel 2006, some of the picture would no doubt reflect a corporation that is re-committing to its core business and customers, consolidating its divisions, examining its processes and resources carefully. But other parts of the picture would show us expanding, taking bold steps into new revenue streams, leading the market with technologies that anticipate customer needs. In other words, the picture would reveal a corporation that is both consolidating its resources and expanding its opportunities at the same time. At SaskTel, we believe this is a measure of our health: we sustain our commitment to our core business and customer base, by changing and growing as our industry evolves, by going beyond what we have been in the past.

The past twelve months have been a time to evaluate the elements that make up SaskTel and look for ways to draw our circle more tightly. We've integrated our wireless division back into the main operations of the company, allowing us to simplify things for our customers and to economize on resources. We're unifying and simplifying our branding to make it clear to customers who we are. We've consolidated our real estate, saving hundreds of thousands of dollars annually; and we've re-deployed management and staff to ensure that we have the right people in the areas where we are growing.

It has been a time of gathering our resources and energy, not only to simplify and economize but to prepare for the coming months when SaskTel will apply those resources and that energy to reach further, to provide our customers with experiences that go beyond their expectations.

For our Centrex business customers this year, for example, we introduced SaskTel Centrex IP. Using internet protocol technology, Centrex IP offers business customers truly integrated voice and data at lower rates than traditional Centrex service along with the ability to manage their own telephone moves and changes for a single monthly fee.

This was also the year we began one of the largest undertakings in our history, an unprecedented capital construction program that will bring leading-edge products and services to the people of this province. That upgrade—which we call NGAI or the Next Generation Access Infrastructure program—together with the evolution of CommunityNet and our wireless network, will bring the latest information, communication and entertainment services to our customers over one of the most sophisticated networks in the world. Already, the benefits are coming to home and business subscribers who are signing up for the high speed internet and high definition TV (HDTV) packages we offer through *Max*™ Entertainment Services. Our *Max* HD service is the world's first commercial launch of HDTV over an IPTV (internet protocol television) network.

Although NGAI concentrates on increasing bandwidth to large urban centres, we are constantly improving service to rural areas by redeploying existing technologies to increase bandwidth, and expanding digital cellular service, CommunityNet and high speed internet access. Around the province, these initiatives are aimed at increasing the overall number of subscribers to our services and providing them with the best access possible.

Beyond Customer Service

Our customers deserve more than talk about good customer service. That's why we go beyond the usual promises and platitudes and focus, instead, on customer *satisfaction*. The only way to really find out if your customer service is any good is to ask your customers if they are satisfied.

This is more than a shift in words: when you measure service levels, you are measuring current levels against past levels or some projected goal. Customer service levels might be at an all-time high, but if customer expectations have outpaced your service, you're still failing the people you are supposed to be serving. Customer satisfaction testing, on the other hand, allows you to compare yourself against the most important yardstick of all: the expectations of the customer right now.

We measure our customer satisfaction levels each quarter, giving us an up-to-date indicator that lets us know whether we are meeting the expectations of the families and businesses we serve.

Customer focus is important for all of us at SaskTel, whether we deal directly with customers, or indirectly by producing the essential information, guidance or support required to provide our customers with service. During 2007, a strong focus will be placed on our customer experience and our customer satisfaction goals.

We believe
our customers deserve
more than talk.

Just as important as our own customer satisfaction results are those that come from outside our research. For the second year in a row, the Canadian Wireless Customer Satisfaction Study, conducted by J.D. Power and Associates, has ranked SaskTel the highest in customer satisfaction with contracted wireless service. Improving our survey results from the previous year, SaskTel received the highest ratings in call quality, service plan options and customer service.

SaskTel also received the prestigious Nortel Partner Advantage CSAT award. The award recognizes SaskTel for having the highest Customer Satisfaction Survey score of all Nortel Canadian Elite Advantage Partners. The Nortel Partner Advantage program is founded on four business standards: mutual profitability, maximized growth, rewards for commitment and market-recognized brand equity based on performance.

But the most important recognition of all comes from the customer when one of our products or services anticipates their needs or exceeds expectations. This year, by launching our Next Generation Access Infrastructure program (NGAI), we took a major step toward ensuring that our network will have what it takes to meet and exceed customer demand for higher bandwidth services. NGAI is part of the nearly $2.9 billion we have invested in our world-class network since 1987, but this latest installment, at $310 million, is the largest network project we have undertaken as a corporation.

Login

Text Message

HDTV

Beyond Innovation

Leading the way is a long-standing tradition at SaskTel. From building the first major fiber optic network in the world more than twenty years ago to offering the world's first HDTV service delivered commercially over an IPTV system this year, innovation is a part of our commitment to Saskatchewan. We see NGAI, CommunityNet, and our expanding digital cellular network as a single gateway of innovation leading to a new era of communication, entertainment, and information services for Saskatchewan people and communities.

Under NGAI's five-year plan, we are providing fiber optic cable one step closer to customer premises in ten Saskatchewan cities. In other words, in these major centres, NGAI will extend optical fibers from telephone switches to distribution points very close to subscribers' homes and businesses, where the fiber is then converted to copper pair.

This new infrastructure allows us to match the bandwidth capabilities of our competitors today, which means faster high speed internet access, as well as HDTV and up to four set-top boxes for *Max* customers.

Introducing the best and latest services.

Our 27 HD channels comprise one of the largest HDTV line-ups in Canada. Late in the year, with the addition of HDTV, pay-per-view live events and local programming delivered on demand, *Max* exceeded 50,000 customers. NGAI will ensure that we will be able to continue introducing value-added entertainment services for *Max* customers.

In fact, over the long term, we see NGAI as the foundation for future network enhancements that will ultimately allow the delivery of up to 100 Mbps to our customers. NGAI is a cornerstone of SaskTel's move toward IP-based services, which we continued to introduce over the past year. We launched our new Centrex IP service, offering a hosted Voice Over Internet Protocol (VoIP) solution to business customers using Centrex service logic. The new service combines the basics of traditional Centrex (3 way call, call forward, ring again, speed call, etc.), with the cost-savings of VoIP calling over a managed IP data network. Our new Centrex IP customers are already enjoying the benefits of being able to manage and move their own Centrex features via a web portal while they benefit from reduced "line" rates and toll costs.

In 2006, we made significant enhancements to WebCall, our access-independent VoIP service. We expanded the service to include Saskatchewan-based telephone numbers (Prince Albert, Regina and Saskatoon locations) and introduced a wholesale version of the product that enables small cable companies, internet service providers or communications service providers to add a full-featured, VoIP service to their product mix without making a large capital investment.

Constantly expanding and improving our coverage.

Meanwhile, the wireless side of our business has grown so fast that it now contributes more earnings to our bottom line than wireline services. With wireless data use on the rise, more people text messaging and downloading everything from ring tones to movie trailers to sports highlights, the options for wireless customers are taking us closer to the day when a full suite of mobile services will deliver all content on the go. With the largest 1X and digital cellular network in Saskatchewan, now serving 95% of the province's population, we are constantly expanding and improving our coverage and introducing the latest and best services so that our customers can access a world of information and entertainment from their wireless devices wherever they live, work, and move.

Talk

See

Touch

Hear

In 2006, we launched SaskTel *10-4*™ service, a push-to-talk service that allows SaskTel cellular customers to use capable phones like a two-way radio or walkie-talkie. We also began to offer wireless streaming video and are now working on delivering streaming radio service provided by QuickPlay Media. SaskTel was the first company in Canada to offer Say & Send service, which allows our postpaid cellular customers to record voice messages and send them instantly to other SaskTel cellular customers. It was also the year we joined with Groove Mobile, the world's leading mobile music commerce platform, to establish the SaskTel Mobile Music Store, which delivers full-track music downloads direct to mobile handsets, access to multiple charts, downloading high quality album art, shop and play, browsing and previews.

In an industry that is rapidly shifting to IP-based services that brings more content and functionality to the wireless world every month, as the three screens—TV, computer, and handheld devices—all begin to offer the same kinds of access, SaskTel manages to hold its focus on the customer. If we see that our customers are satisfied, that we meet and even go beyond their expectations, then we know that we are on course.

Innovation is part of our commitment to Saskatchewan.

Beyond Our Borders

For 20 years now, SaskTel has been going beyond its borders to generate revenue and apply its expertise in other parts of the world. It began with SaskTel International (SI), a SaskTel subsidiary that has been helping clients around the globe develop, improve and expand their telecommunications systems since 1986. During that time we've worked in more than 30 countries on six continents.

Over the years, SI has won project management and consulting projects worth millions bringing significant revenues back to the province—from projects in the Philippines that totalled $84 million to the six stand-alone projects that it completed in Tanzania totalling $56 million. Today, SI's Software Division has grown to become the main profit engine, bringing in steady income from service providers that use our operational support software. Our list of software clients includes Alaska Communications Systems, NorthwesTel, Commonwealth Telephone Enterprises, and TDS Telecom.

But even with the success of our business expansion efforts, one question still arises: why doesn't SaskTel stay within Saskatchewan? The answer is simple. The communications industry moves fast and every service provider that wants to stay in business has to move with it. Changes in technology and in the regulations that govern competition and international trade have created a globalized marketplace that has no boundaries. A communications corporation that attempts to ignore this new reality simply cannot survive.

Bringing significant revenues back to the province.

Our customer base here in Saskatchewan is now available to competitors from around the world offering them information, communication and entertainment services by applying economies of scale that outstrip anything we can achieve within the province. Our traditional revenue sources have long ago fallen away, and any new sources of revenue—broadcasting, wireless services and IP-based services—are hard won in a competitive landscape that is largely borderless. This means that for SaskTel to continue as a profitable enterprise that can afford to deliver the latest in information, communication and entertainment technologies throughout a serving area as sparsely populated as Saskatchewan, it must go looking for other customers, it must expand beyond its borders.

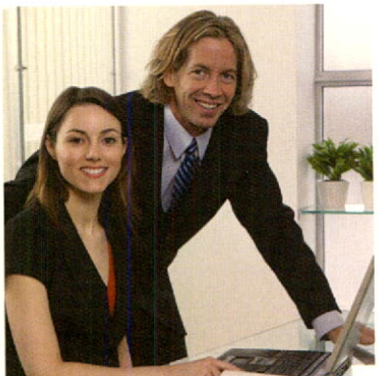
In recent years we have made some careful expansions into other Canadian markets, looking for opportunities to grow and generate profit by making the most of our expertise and experience. Perhaps the best example of this growth has been DirectWest, which now owns The Phone Book Company in Alberta and publishes directories in Grande Prairie, Red Deer, Edmonton, Medicine Hat, Lethbridge, and now, Calgary. While going deeper into the Alberta market, DirectWest also moved into the Winnipeg market in 2006. Capitalizing on double-digit growth rates in the independent directory industry, DirectWest will continue to evaluate further expansion opportunities in coming years.

Hospitality Network, our subsidiary that provides managed communication and entertainment solutions to the Canadian healthcare market, generated 92% of its revenues (approximately $24 million) last year from outside Saskatchewan. The Hospital Division of Hospitality Network is the largest provider of hospital patient TV and telephone rental in Canada, and the Senior Care Home Division is the leading provider of communication and entertainment services for senior care homes.

SaskTel's Expansion Division, which is our sales channel in British Columbia and Alberta, underwent some major changes in 2006 to integrate it more closely with SaskTel and eliminate duplication of similar functions. One of the highlights this year was receiving the contract to design and build points of presence (POP) sites for a major project that is bringing affordable and accessible broadband services to the people on the Island of Haida Gwaii in British Columbia.

The Expansion Division remains essential for the long-term vitality of SaskTel because it gives us a mechanism to serve our Saskatchewan-based customers when they require service outside of Saskatchewan. If SaskTel is to capitalize on new services, such as VoIP, that span provincial boundaries we cannot afford the luxury of staying within our traditional serving area and customer base. Expansion into new markets is allowing us to acquire a customer base that is large enough to support the growth of the systems needed to serve business requirements within Saskatchewan. By improving our economies of scope and scale we can spread our operating, development, and replacement costs over a larger revenue base.

Helping clients around the globe develop, improve and expand.



SecurTek, our commercial and residential security monitoring subsidiary, has been very successful in expanding across Western Canada and into select markets in Eastern Canada. Today, SecurTek is the largest monitoring company in Saskatchewan, serving over 60,000 residential and commercial customers from its base in Yorkton, Saskatchewan.

While the monitoring industry is extremely competitive, SecurTek thrives because of its dealer network, skilled employees, adaptability and financial stability as a SaskTel subsidiary.

One of the latest examples of SaskTel extending its reach beyond traditional boundaries is our new Global Account Management Program. With our Expansion Division now completely integrated back into SaskTel, we are offering Saskatchewan-based companies with offices outside of Saskatchewan the convenience of dealing with one service provider (SaskTel) that they know and trust for all of their telecommunications needs inside and outside Saskatchewan. SaskTel leverages the network and wholesale relationships of our Expansion Division to coordinate the billing, implementation and support for customers' data networks, customer premise equipment such as IP-enabled key and PBX (Private Branch Exchange) systems, hosting services and toll. In 2006, SaskTel's new Global Account Management Program surpassed its target of $800,000 in new revenue by securing seventeen new opportunities worth a total of $1,283,000.

Beyond the Bottom Line

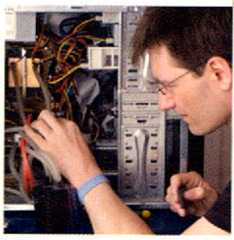
Annual reports have traditionally been the domain of the bottom line. The only reporting that mattered pertained to revenue, cost, net income and the other details of a corporation's financial accounting. Over the past decade, however, that has changed as many corporations have begun to account for their social and environmental impact upon the communities they serve. At SaskTel, we are moving toward a corporate culture that encourages staff to consider a triple-bottom line—financial, environmental and social—in making day-to-day decisions.

How we make those daily choices determines the social and environmental value of going beyond the traditional bottom line. Increasingly, we choose to reduce our use of non-renewable energy; we choose to recycle materials; we choose to partner with and sponsor organizations and events that enrich the lives of Saskatchewan people; we choose to make high speed internet services accessible and affordable in areas where other service providers fear to tread; we choose to retail our services with and buy our materials from Saskatchewan companies; we choose to support the SaskTel Pioneers, who help keep our employees and retirees active in the communities we serve.

To be sure, each of these choices reflects an investment that has its own financial return in the long run, but that is precisely the point. All three sides of the triangle—financial, social and environmental concerns—benefit over the long run when the right decision is made.

In 2006, we continued to implement our new environmental strategy, which we are calling "Eco(log)ical", to reflect this pragmatic, triple bottom line thinking. The strategy commits us to consider the environment in all decision-making, and has already yielded results in an ISO14001-aligned Environmental Management System that measures our progress toward creating an ecologically sound business culture at SaskTel. Turning off lights, reducing our paper consumption, opting for video conference rather than travelling to meetings—these are the kinds of choices that are helping us to manage consumption upstream so we don't have so much waste to manage downstream. This year we diverted more than 500,000 kilograms of waste from landfills, spared 7,500 trees from the pulpmill, saved 30,000 litres of water, and prevented 4,600 tonnes of greenhouse emissions. Meanwhile, schools and children across the province received more than 1,500 refurbished computers free of charge. We were awarded both the "Youth and Schools Award" and the "Corporate Leadership Award for Strategy and Leadership" from the Saskatchewan Waste Reduction Council and Tetra Pac.

Accounting for our social and environmental impact.



The social side of the bottom line brings SaskTel into the daily lives of the public we serve. With approximately 4,400 employees all living, working and shopping in Saskatchewan, SaskTel is part of the social fabric of its communities. For the seventh year running, we made Canada's Top 100 Employers list. Meanwhile, our representative workforce strategy is transforming our employee base so that it more closely represents the diversity we see in the whole of Saskatchewan. This year we received the Interprovincial Association for Native Employment Ivan Ahenakew Award, recognizing our contributions to the employment of Aboriginal peoples, as well as the Aboriginal Government Employees Network Industry Award for Aboriginal Participation. AGEN is a network of Government of Saskatchewan public servants and Crown Corporation employees.

One of our primary social priorities at SaskTel is youth, which means we look for opportunities to support initiatives in Saskatchewan communities that target young people. In addition to the sponsorships and scholarships we maintain, we are particularly proud of our YOUTHnetwork, a comprehensive youth awareness strategy designed to address long-term employment needs in Saskatchewan. By encouraging our youth to stay in school, to pursue a post-secondary education and to think of SaskTel as a future employer of choice, we hope to show them that they can fulfill their career dreams, whatever they may be, by staying in Saskatchewan.

This year, SaskTel was excited to have a chance to help Saskatchewan people relive their own youth by contributing to the effort that brought the Rolling Stones to the province for the very first time. By sponsoring events such as the SaskTel Saskatchewan Jazz Festival and the Rolling Stones Bigger Bang tour, we help broaden the range of cultural activity available to people in this province, but we are just as happy when we can be part of a winter festival or a swim meet.

Bigger Bang for all Saskatchewan people.

Our purchasing policy, which looks locally first in purchasing the goods and services we need to do business, is another vital link between SaskTel and the people we serve. In 2006, we purchased goods and services from more than 4,300 Saskatchewan suppliers, contributing more than $364 million to the Saskatchewan economy. By building business relationships that benefit ourselves and Saskatchewan entrepreneurs, we begin to see the social and financial bottom lines merge. And, as we continue to work with suppliers and urge them to adopt environmental standards as well, the third side of the triple bottom line comes into play.

We also partner with small businesses around the province to retail SaskTel services and products. At the end of the year, we were working with more than 102 dealers offering SaskTel services. These dealers operate in more than 50 communities, and have become a keystone of our marketing strategy. Last year, SaskTel supported the bottom line for these businesses to the tune of more than $28 million in earned commissions. Outside Saskatchewan, we have dealers in Alberta, British Columbia, Manitoba, Ontario and Nova Scotia, representing LoadTrak and other market expansion initiatives.

Building business relationships.

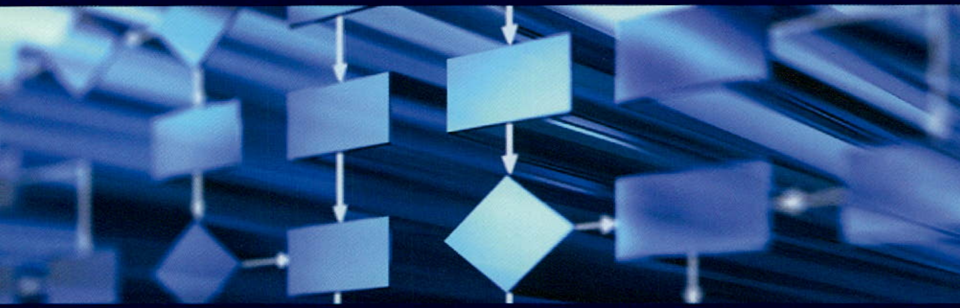
As well, in 2006, 1,363 community associations benefited from the SaskTel corporate investment program, for a total donation of more than $2,658,181 to Saskatchewan non-profits. Through SaskTel TelCare, the employees' benevolent fund, $234,614 was donated, which is matched 50% by SaskTel for a total of $351,921 to 90 Saskatchewan charities.

The economic connections made through business partnerships and community investment is a vital aspect of our contribution to the province, but just as important are the personal contributions of SaskTel employees and retirees who volunteer their spare time every year to enrich the lives of children, families, seniors and communities in Saskatchewan. The SaskTel Pioneers, an organization of more than 4,600 active and retired SaskTel employees, are well known for their tireless work and countless volunteer hours spent on worthy causes, ranging from Camp Easter Seals to the Canadian Cancer Society. In 2006, the Pioneers donated 74,941 hours and over $450,288 in supporting charities, refurbishing computers for schools, working in soup kitchens, gathering used toys and clothing, building things, maintaining green spaces, holding bake sales, working with youth, and a whole lot more. Once again, at the international Telecom Pioneers annual meeting, the SaskTel Pioneers received several national and international awards—twelve altogether, including, for the third year in a row, the President's Award for excellence at the international level.

The Pioneers do what they do because they know that people and communities are much more than can be expressed in any bottom line. By serving interests and values that go far beyond the bottom line, and bringing environmental and social considerations into our business decisions, SaskTel is striving to become a more complete reflection of the people and communities it serves.

People and communities are much more than can be expressed in any bottom line.

Move
Forward



Management's

Discussion &

Analysis

Contents

SaskTel Overview

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

We are the leading full service communications provider in Saskatchewan, offering competitive voice, data, dial-up and high speed internet, entertainment and multimedia services, security, web hosting, text and messaging services, and cellular and wireless data services over our digital networks. We also provide security monitoring services through SecurTek, directory services through DirectWest, in-room communications services to the healthcare sector through Hospitality Network, telecommunications consulting service through SaskTel International and have an out-of-province sales and service channel in Alberta and British Columbia. Our subsidiaries have significant points of presence throughout Canada and internationally.

SaskTel and our wholly-owned subsidiaries have a workforce of approximately 5,100 permanent, part-time, casual and temporary employees including all interns, co-op and summer students.

As reflected in our vision, *SaskTel is an innovative, quality-driven communications solutions provider for our customers worldwide. Together, our team of dedicated employees, our business partners, and our technology leadership will deliver sound financial returns and public policy benefits to the people of Saskatchewan.*

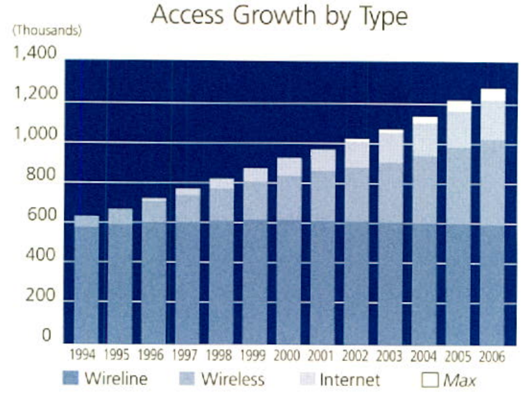
Saskatchewan Telecommunications (Telco)

www.sasktel.com

Our key growth areas are within our largest subsidiary, Saskatchewan Telecommunications (Telco), a wholly-owned operating company. Providing traditional services such as local access and long distance, the Telco has evolved over time and currently offers services that have significantly contributed to our growth over the past several years, including digital cellular voice and data, text messaging, *Max*™ Entertainment Services, data, high speed internet, data storage, enhanced voice services, and WiFi internet access in Saskatchewan. The Telco is one of the largest employers in Saskatchewan, employing approximately 4,400 people in Saskatchewan, with the head office located in Regina. The Telco provides communication services to more than 425,000 Saskatchewan business and residential customers living in 13 cities and 535 smaller communities and their surrounding rural areas, including about 49,000 farms.

Beyond Saskatchewan's borders, the Telco also provides a full range of telecommunications products and services including local, long distance, internet, telephone cards (prepaid and postpaid), high speed data, hosting, web services and wholesale carrier services to customers across Canada and internationally through our Expansion Division, formerly Navigata Communications. In May 2006, the out-of-province operations were integrated into the Telco because they remain core to SaskTel's business and future success. This integration has enabled the Telco to consolidate systems, increase operational savings and provide opportunities for customer and revenue growth. The Expansion Division serves as a sales and service channel for the Telco to market their services to markets outside of Saskatchewan.

The following graph illustrates the areas of growth by type of access since 1994.



DirectWest Corporation (DirectWest)

www.directwest.com

DirectWest, a wholly owned subsidiary of SaskTel, has been publishing telephone directories in Saskatchewan for almost 50 years. The business has evolved to include new media opportunities and expanded into the internet market, the specialty publishing market, and the independent phone directory market outside Saskatchewan. DirectWest publishes and distributes 10 telephone directories across Saskatchewan, and provides these directories online at Saskatchewan's leading internet portal: www.mysask.com. In addition to consistently generating value through their print and online directories, the company continues to add new services and solutions for their customers including web site development, online advertising, e-mail marketing, e-commerce and specialty publications.

In early 2007, DirectWest acquired the remaining interest of The Phone Book Company Partnership and now publishes and distributes five telephone directories in Alberta. Further expansion will occur in 2007 in Manitoba through DirectWest Canada, a wholly-owned subsidiary of DirectWest. DirectWest's head office is in Regina, with a second office in Saskatoon. The company employs over 120 people in Saskatchewan.

Hospitality Network Canada Partnership (Hospitality Network)

www.hospitalitynetwork.ca

Hospitality Network is the preferred provider of managed communication and entertainment solutions for the Canadian healthcare market. Hospitality Network provides service to more than 230 healthcare locations in over 100 locations nationwide, including Canada's largest hospitals and seniors care homes. Originally founded with private Saskatchewan business interests in 1993 to provide entertainment services to the hospitality industry, Hospitality Network became a wholly-owned subsidiary of SaskTel in 2005. Their head office is in Regina, with 310 employees nationwide including 32 in Saskatchewan.

Saskatchewan Telecommunications International Inc. (SaskTel International)

www.sasktel-international.com

SaskTel International, a wholly owned subsidiary of SaskTel, helps their clients in countries around the world to develop, improve and expand their telecommunications systems by providing infrastructure project management services. SaskTel International also offers innovative software solutions that provide a modular approach to managing every aspect of a telecommunications network. Throughout SaskTel International's history, they have worked in more than 30 countries on six continents.

Over their 20 years of existence, SaskTel International has helped bring total revenues of $515 million and total profits of $122 million to SaskTel, and has earned a profit every year since 1992. All SaskTel International's revenues and profits are repatriated to SaskTel, where they are used to sustain and improve SaskTel's network and services in Saskatchewan and enhance returns to the Province in the form of dividends. SaskTel International employs 78 people.

SecurTek Monitoring Solutions Inc. (SecurTek)

www.securtek.com

SecurTek, a wholly owned subsidiary of SaskTel, provides commercial and residential security monitoring services to customers in Saskatchewan, Alberta, Manitoba, British Columbia, and selectively in Ontario and Nova Scotia, from their Yorkton, Saskatchewan and Winnipeg, Manitoba monitoring centres. Operating a security monitoring centre leverages SaskTel's call centre, network management and process expertise to provide value added services. Through their dealer program, SecurTek partners with 134 independently-owned firms including retail, wholesale, and servicing dealers who provide security sales and service expertise to their customers. Fourteen of SecurTek's dealers are Saskatchewan-based firms. SecurTek employs 101 people including 92 at their head office in Yorkton.

Saskatoon 2 Properties Limited Partnership (Saskatoon Square)

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

Streamlogics Inc. (Streamlogics)

www.streamlogics.com

Streamlogics' webcasting solutions and services help over 500 corporations, government agencies and associations improve the effectiveness of their sales and marketing initiatives, corporate and internal communications activities, and training and continuing education efforts. Streamlogics' head office is located in Toronto, Ontario and its research and development and support facility is currently in Regina, Saskatchewan. At the end of 2006, SaskTel had an equity interest in Streamlogics of 42%. In early 2007, SaskTel reduced its equity interest in Streamlogics to 16%.

Investment Portfolio Summary

The following chart provides a summary of SaskTel's current investment portfolio.

Investments as of December 31, 2006

($ millions)	Book Value
DirectWest	$14.7
Hospitality Network	33.6
Saskatoon Square	0.3
SaskTel International	3.0
SecurTek	29.7
Streamlogics	0.7
Total	$82.0

The leading full service communications provider in Saskatchewan.

Industry Overview

The communications industry is changing and consolidating as technologies converge and corporations look to reduce costs from legacy business, invest in enabling networks for the future, and find new sources of revenue. The advent of internet protocol (IP) technologies and businesses that enable a digital lifestyle bring new players without legacy systems and processes and/or have globally recognized brands that have a competitive advantage. Therefore, incumbent providers must continually focus on reducing costs, deploying new networks and services, and improving efficiency to remain competitive. Given the evolving business models, non-traditional competitors are becoming a greater concern as they continue to vertically integrate or diversify their products to offer different bundles to consumers.

Continually evolving new technologies that increase the function and appeal of network devices are positive for consumers; however, they may result in stranded technology investment and more players vying for a smaller revenue base. For example, customers are increasingly choosing to not have a wireline access and to instead use only wireless access to their communication services. However, the new revenue from the customer with only a wireless access does not equal the loss of revenue for the wireline access. While it may be some time before such trends have a material impact, we are monitoring this trend and taking measures to ensure that we are positioned to use it to our advantage.

Service bundles continue to gain popularity throughout North America. The services in the bundle and the technology used to deliver the service must continue to evolve to meet customers' expectations. Service providers are adapting their business model to offer components in the bundle that they may not have traditionally offered. For example, cable companies are providing voice services; providers that have not offered cellular services in the past are establishing resell agreements; and telcos are offering broadcast services through satellite, satellite resell or IPTV via digital subscriber line (xDSL) technology. While bundles may vary, the majority offer a voice service, whether it is wireline, wireless or VoIP (Voice Over Internet Protocol), a high speed internet service and a broadcast component.

RBC Capital Markets anticipates the compounded annual growth rate for Canadian communication revenues between 2005 and 2010 to be 3.4%. This is a blended rate comprised of the continued decline in long distance, local access and some data products, and the growth of wireless, broadband and broadcast products.

VoIP services have been available in Saskatchewan primarily through pure play VoIP providers. Slower than expected mass adoption in Canada has been attributed to disciplined pricing by competitors and the inability of the pure play VoIP providers to offer a bundle. Industry analysts agree that incumbent telephone companies (ILECs) will experience greater revenue and subscriber loss to cable telephony rather than to pure play VoIP providers.

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

Previously, applications such as voice, video and data were "access dependent" or the delivery mechanism and the application were bundled. For instance, a customer required local access service to make local or long distance calls. The advent of IP has shifted many access dependent applications to access independent. In many cases, all that is necessary is a broadband internet connection to enable voice, video and data services from a provider selected by the customer.

As with many new web-based applications, early adopters are typically users with a technical background. As applications become more user friendly, and word of their availability spreads, more people use the application and adoption increases. During this initial period, a variety of business models are tested, typically associated with a period of time where the application and/or content are available for free. The opportunity and disruption of IP technology extends to the information and entertainment industries where their content is available online and traditional business models no longer fit. The availability of the content online is not the issue, but the business models used to create the content are at risk. Industry players are challenged to find new business models that provide consumers their desired flexibility while generating revenue to sustain their business.

The communications industry is changing and consolidating as technologies converge.

Strategic Direction

Over the past number of years, we have faced numerous challenges, including waves of competitive pressures that have changed our economic model. This continues today, as the strong adoption of IP-based services changes our industry and the technologies it employs. Our home market, with little population growth and challenging demographics, does not offer the density of early-adopter customers and the economies of scale and scope often found in other serving areas. We also face threats from both new competitors in emerging markets and entrenched competitors for legacy services.

We are also confronted with significant financial challenges posed by the decisions of a non-Saskatchewan based regulator. However, many of these challenges are not unique to SaskTel; we share these challenges with other incumbent providers in Canada.

In addition to the above challenges, we have identified three key critical issues that must continue to be addressed in order to be successful in 2007 and beyond:

1. Revenue sustainability and growth;
2. Sustainable cost reductions; and
3. Human Resources development.

Revenue Sustainability and Growth

We recognize the continued decline of revenue from legacy services. We must maintain our existing revenue in-province and find new sources of revenue to ensure the long-term health of SaskTel. This issue is directly addressed through our Financial, Customer and Innovation and Growth strategies.

Sustainable Cost Reductions

Implementing cost reduction initiatives to sustain profitability is equally important to growing the revenue base. With the onset of significant local competition and continued requirements to invest in technology as margins decline, it is essential for us to conduct business in the most cost effective manner possible. We will continue to manage and implement cost reduction programs within the Telco to ensure the viability of the organization into the future. This issue is directly addressed through our Financial, and Innovation and Growth strategies.

Human Resource Development

We are facing a number of human resource implications including increasing competition for skilled workers, changing workforce demographics, and workforce flexibility. These issues are directly addressed through our People strategy.

Core Strategies and Performance Management

In 1999, CIC and their 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, their primary business purposes, common business values and strategic business objectives. We have developed our corporate strategic plan to support CIC's strategic objectives and priorities that encompass: human resources initiatives, economic development, commitment to Saskatchewan and the green agenda.

To succeed in our competitive environment, we have five core strategies (Financial, Customer, Innovation and Growth, People, and Public Policy), which are intended to focus us on the areas deemed critical to our long-term sustainability and to address key critical issues. Each strategy is defined by a statement of direction from which SaskTel management sets objectives, measures and targets. We use a Balanced Scorecard to measure and report 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. Our scorecard is not static; it may change from year to year as our business changes.

The following provides the results from our 2006 Balanced Scorecard and an overview of the outlook targets and initiatives for 2007.

Financial

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

Here In 2006

Objective	Measure	2006 Target	2006 Actual	Results
Revenue growth	Gross Revenue	$1,015.6M	$1,009.6M	–
	Capital	$416.6M	$233.6M	✓
Provide a positive return to shareholder	Net Income	$70.5M	$72.5M	✓
	Return on Equity (before restructuring)	15.5%	18.5%	✓
	Debt Ratio	42.2%	30.5%	✓
	Dividends Declared	$30M	$50M	✓
	Operational Efficiency (annual targeted expense reductions)	$17.4M	$18.4M	✓

Please refer to the Results of Operations on page 38.

Going Beyond 2006

Objective	Measure	2007 Target
Revenue growth	Gross Revenue	$1,054.4M
Provide a positive return to shareholder	Net Income	$61.4M
	Return on Equity (before restructuring)	14.5%

The telecommunications industry continues to evolve and be highly competitive. In order to remain a player in the industry, we must continue to reduce costs and look for new sources of revenue. We will continue to maximize opportunities that arise from our core business. However, as traditional revenue sources decline we must focus on deploying leading-edge services and technologies and expanding beyond our borders.

We must continue to work to understand what customers need and value.

Customer

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

Here In 2006

Objective	Measure	2006 Target	2006 Actual	Results
Sustain our customer base in Saskatchewan while growing our customer base out-of-province	Customer Perception	70%	67.5%	–
	# of Customers In/Out-of-Province			
	In-Province (thousands)	842	878	✓
	Out-of-Province (thousands)	62	57	–
	Dealer Satisfaction	63%	72%	✓

In 2006, we continued our focus on providing outstanding customer service by being easy to do business with and offering best value to our customers. As a result, we received, for the second year in a row, the highest ranking for customer satisfaction with contracted wireless service from J.D. Power and Associates. We also received the Nortel Partner Advantage CSAT award, which recognized SaskTel for the highest customer satisfaction score among Nortel Canadian Elite Advantage Partners. Despite these successes, customer feedback in 2006 indicates that we must continue to work to understand what customers need and value, as our Customer Perception indicator was slightly below target.

In 2006, we began tracking number of customers instead of market share on our Scorecard, both in and out-of-province. With the convergence of IP telecommunications products, defining markets has become challenging. It is believed that measuring customer numbers is a more accurate indicator of consumers in the marketplace. Despite local access competition entering the market in Q4 2006, we held steady on our in-province customers. Out-of-province customers are below target primarily because our target included customer counts for Business Watch International, a SaskTel subsidiary that we sold in March 2006.

Going Beyond 2006

Objective	Measure	2007 Target
Sustain our customer base in Saskatchewan while growing our customer base out-of-province	Customer Perception	70%
	# of Customers In/Out-of-Province	
	In-Province (thousands)	894.9
	Out-of-Province (thousands)	60.1
	Dealer Satisfaction	70%

SaskTel places a high priority on establishing and maintaining mutually beneficial, long-term customer, dealer and supplier relationships that drive customer satisfaction. We must continue to retain and attract customers both in and out-of-province as well as focus on exceeding customer expectations—going beyond customer service. We are proud to be a Saskatchewan company and thankful for the loyalty our customers have shown.

Innovation and Growth

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

Here In 2006

Objective	Measure	2006 Target	2006 Actual	Results
Simplify and improve processes through IP transition	# of Customers Self-Serve Activities	4.7M	5.3M	✓
Increase revenues and decrease expenses to sustain net income	Revenue from Growth Initiatives	$380M	$337M	–
	Earnings from External Investments	$15.5M	$6.8M	–

To grow the business by pursuing profitable investment opportunities that leverage our core business
In the early 1990s, we recognized that, over time, competition, price reductions and regulation would reduce our revenue and margins from traditional sources. In preparation, management developed a growth strategy to increase revenues and profitability from new sources and to add value for customers and the shareholder, without significantly increasing our overall risk profile and without changing or jeopardizing our primary purpose of serving Saskatchewan first.

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

The results for both growth indicators were below target because of revenues and earnings from external investments that did not materialize in 2006. Nonetheless, we continued to generate revenues and earnings from our growth portfolios in 2006. All subsidiaries are now contributing net income.

A key component of our growth strategy is risk mitigation and management. Not all new services and ventures can reasonably be expected to be successful; however, a number of key parameters and governance structures are in place to mitigate risk.

As important as it is for us to grow our revenue base, we are also focused on reducing costs. As we simplify our processes, we are tracking our progress with a new measure we added to our scorecard in 2006—one that tracks IP transition. The number of customer self-serve activities, a trend indicator measuring customer self-serve, was ahead of target for 2006.

To deploy leading-edge services and technologies
In 2006, the Telco started an unprecedented capital construction program to upgrade the Telco's infrastructure to provide leading-edge products and service to the people of Saskatchewan. The Next Generation Access Infrastructure (NGAI) program along with the evolution of CommunityNet and the continuing evolution of the Telco wireless network will provide Saskatchewan residents with one of the most sophisticated networks in the world. While NGAI is primarily focused on increasing bandwidth to large urban centres, work will continue in parallel to expand services to rural areas. These service improvements include the redeployment of some existing technologies to provide access to increased bandwidth to rural areas wherever reasonable, continuing work with the Government of Saskatchewan on the expansion of CommunityNet, expanding high speed internet access, and expanding the footprint of digital cellular service and cellular data services through the deployment of EVDO (Evolution Data Optimized). The Telco is also considering alternative broadband technologies such as WiMAX for increasing access to broadband services in rural areas. The end result will be an increased number of subscribers and greater access to these services in the Province.

Enabled by these network deployments, the Telco launched the following services in 2006:

- high speed internet at greater speeds;
- high definition TV (HDTV) for *Max*™ Entertainment Services;
- three and four set-top boxes for *Max* Entertainment Services;
- Live Event Pay-Per-View and Local Video on Demand for *Max* Entertainment Services; and
- higher bandwidth (EVDO) available for new wireless data and video applications such as Say & Send service.

As well, we launched a number of innovations in 2006. These include IP-based services such as a hosted VoIP solution, Centrex IP for business customers and two new VoIP services for Saskatchewan including WebCall 306 and WebCall Wholesale. The Wireless side of the business also launched Mobile Video Streaming and the Mobile Music Store. We also launched SaskTel *10-4*™ service, a push-to-talk service similar to a two-way radio or walkie-talkie.

Going Beyond 2006

Objective	Measure	2007 Target
Simplify and improve processes through IP transition	# of Customers Self-Serve Activities	5.1M
Increase revenues and decrease expenses to sustain net income	Revenue from Growth Initiatives Earnings from Existing Investments	$374.0M $8.0M

The telecommunications industry will remain highly competitive. To meet these competitive challenges, we will continue to expand our network with NGAI, and cellular, broadband and EVDO expansion and improvement to ensure that Saskatchewan residents have access to the most sophisticated network in the world.

Equally important will be process and product innovation. We will focus on our systems and processes in 2007 to improve our overall productivity. As well, we will continue to develop innovative products such as Personal Video Recorders (PVR) that maximize the potential of our network.

People

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

Here In 2006

Objective	Measure	2006 Target	2006 Actual	Results
Representative Workforce To create an environment that values and more closely reflects the diversity of the community we serve	Female Representation in Management, Professional, or Technical Positions	25.5%	25.5%	✓
	Aboriginal People *(Permanent Hires)*	30	37	✓
	People with Disabilities *(Permanent Hires)*	5	23	✓
Employer of Choice Create and enhance employee engagement (satisfaction)	Employee Satisfaction *(% of factors above the Hay Norm)*	75%	53%	–
Investment in Employees Create a highly productive workforce with the skills and knowledge required to achieve current and future business plans	Percentage of Employees Receiving Training *(5% above National Average from prior year)*	75%	76.9%	✓

We are committed to our Representative Workforce Strategy to reflect the equity demographics of the Province by 2009. In 2006, we either met or well exceeded our Representative Workforce targets.

For the seventh consecutive year we were recognized as one of "Canada's Top 100 Employers". Internally, our commitment to our employees is measured through the annual survey and shown in our annual training investment. The employee survey is conducted by a professional human resources firm to demonstrate corporate strengths and outline opportunities for improvement. The 2006 survey results identified that 72% of SaskTel employees rate their respective subsidiary as an above average place to work, which is well above the norm. However, from a Scorecard perspective we only scored a 53% for the factors that were above the Hay Norm. In terms of training investment, SaskTel exceeded our target with 76.9% of employees receiving training.

Going Beyond 2006

Objective	Measure	2007 Target
Representative Workforce Create an environment that values and more closely reflects the diversity of the community we serve	Female Representation in Management, Professional, or Technical Positions	26.5%
	Aboriginal People *(Permanent Hires)*	30
	People with Disabilities *(Permanent Hires)*	5
	Visible Minorities *(Permanent Hires)*	3
Employer of Choice Create and enhance employee engagement (satisfaction)	Employee Engagement *(% of factors above the Hay Norm)*	70% at or above the Hay Norm
Investment in Employees Create a highly productive workforce with the skills and knowledge required to achieve current and future business plans	Training Investment *(% Employees Receiving Training)*	3% above the Wynford National Average

We continue to face challenges of increased competition for skilled workers, changing workforce demographics, evolving skill sets and workforce flexibility. Although these issues are not unique to SaskTel, ensuring long-term value and sustainability will require workforce planning and organizational development in 2007. We will also continue our focus on our Representative Workforce Strategy.

Public Policy

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

Here In 2006

Objective	Measure	2006 Target	2006 Actual	Results
To be positioned as a company committed to the Province of Saskatchewan	$ Spent Contributing to the Saskatchewan Economy	$489M	$630M	✓
	% of Population with Access to SaskTel High Speed Internet	83.5%	83.7%	✓
Contribute to the lowest cost utility bundle	SaskTel Basic Service Rate Increases	0%	0%	✓
To be an environmentally sustainable organization	Develop and Implement an Environmental Sustainability Strategy	Strategy Implemented	2006 Target Achieved Core Manual Complete Policy revised to align with ISO14001 standards All EMS procedures developed and approved All Telco business units engaged and all subsidiaries engaged in planning for 2007	✓

In 2006 we continued to fulfill our public policy statement by:

- Providing affordable, accessible basic telephone service at competitive rates. We offer and maintain 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 some of the lowest rates in Canada;

- Partnering with local businesses throughout Saskatchewan by establishing dealer networks to market products and services. At the end of 2006, our Saskatchewan dealer network included more than 90 dealers offering SaskTel services (wireless, high speed internet, *Max*) as well as 12 SecurTek IP retail dealers;

- Contributing to the Saskatchewan economy through donations to non-profit and charitable organizations and spending money with Saskatchewan-based vendors and suppliers around the province. In 2006, SaskTel paid over $28 million in commissions to our wireless, high speed internet, *Max* and SecurTek dealers in Saskatchewan;

- Further expanding cellular and high speed internet service. The additional revenue earned by SaskTel's growth strategy has helped SaskTel build one of the best wireline networks in the world and a cellular network that covers approximately 96% of the Saskatchewan population. High speed internet access is now available to 83.7% of the Saskatchewan population;

- Undergoing an unprecedented network upgrade to bring high bandwidth fiber optic cable closer to the home (NGAI). We have invested in excess of $2.4 billion in infrastructure in Saskatchewan in the last 17 years;

- Remaining committed to our green agenda with the development and implementation of the SaskTel Environmental Sustainability (Eco(log)ical) Strategy in 2006.

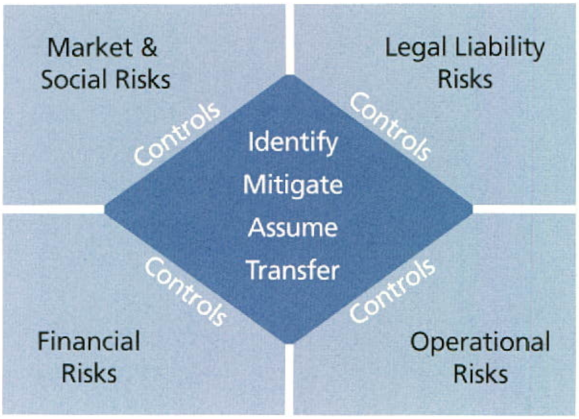
Going Beyond 2006

Objective	Measure	2007 Target
Be positioned as a company committed to the Province of Saskatchewan	$ Spent Contributing to the Saskatchewan Economy	$597.7M
	% of Population with Access to SaskTel High Speed Internet	84.6%
Be an environmentally sustainable organization	Develop and Implement an Environmental Sustainability Strategy	Energy Efficiency: Reduce total litres of fuel consumed per km by 1% compared to the previous year

As a Crown corporation, we have a social responsibility to the people and businesses within the Province of Saskatchewan. We will continue to contribute to the economic and social well being of the Province by "going beyond" in every aspect of our business—economic growth, technical innovation and leadership, skilled workforce, diverse representation, community support, opportunities for youth and environmental stewardship.

Risk Assessment

SaskTel takes an enterprise-wide approach to risk management, reporting key risks into four quadrants: Market and Social, Financial, Legal Liability, and Operational. As depicted in the diagram below, the model centres around the identification, mitigation, transfer, assumption and control of key risks.



An internal risk management team conducts quarterly risk reviews focusing on one of the key risk quadrants. This team is made up of a Corporate Risk Manager and a management prime for each of the four quadrants, each of which are subject matter experts in their respective areas. The team uses a variety of techniques to complete the reviews including interviewing key personnel throughout the organization, conducting site inspections of key facilities and reviewing audits completed by the Internal Audit department. A quarterly report highlighting the significant risks is completed and presented to the SaskTel Executive and the Audit Committee of the Board of Directors.

The quarterly risk reviews are an important component of risk management at SaskTel in that they allow management to identify key risks and assess their likelihood and impact. Complementing these reviews are the ongoing, purposeful activities undertaken to mitigate risk as well as the corporate insurance program and other methods to transfer risk where appropriate.

The following sections detail the significant risks encountered in our business environment and our plans and activities in the management of these risks.

Market and Social Risks

Competition

SaskTel is a full service provider and, as such, we face a myriad of competitors in every facet of our business. Some competitors focus on a particular service or product suite offered by SaskTel, while other competitors are, or soon will be, competing with SaskTel for a broad range of products and services.

The cablecos are perceived to be SaskTel's most significant near-term threat and are well positioned competitors in our core markets because of their network facilities and established customer relationships. In November 2006, announcements were made by two of our competitors officially establishing local competition in Saskatchewan. These competitors will offer the triple-play: local and long distance telephony, high speed internet and broadcast services. In addition to the cablecos, SaskTel also faces competition from Incumbent Local Exchange Carriers/Telephone Companies (ILECs/Telcos). Today, the ILECs compete with us for a variety of services including long distance, data, internet and wireless. The level of competition is expected to increase as the ILECs, similar to SaskTel, continue to diversify their operations. Furthermore, as new technologies emerge and mature, the barriers to competitive entry are being eroded, bringing a number of new non-traditional competitors into the market. These competitors do not carry capital intensive cost structures and have globally recognized brands that provide a significant competitive advantage.

Given this increased competition, SaskTel could lose customers and revenues. We mitigate this risk in a number of ways: by re-pricing services, offering a broad range of bundles and continually investing in our state-of-the-art network to provide leading-edge services to our customers.

Regulatory

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

1. Telecommunications

Price Cap Framework

The CRTC price cap decision, released in 2002, set the overall framework of telecommunications regulation of the incumbent telephone companies until 2006. In 2005, the CRTC extended the current price cap regime for one year, to May 31, 2007. Under the current price cap framework, SaskTel has limited flexibility for pricing local residential and business services, and for bundling services. This framework has reduced prices paid by competitors for services obtained from SaskTel. The price cap plan is currently under review, with a decision on the rules that will apply after May 31, 2007 expected in early 2007. SaskTel anticipates that the next price cap framework will be less onerous and will provide more pricing flexibility than the current one.

The regulatory framework also reduces the amount of funding available to support residential local service in high cost areas. In the foreseeable future, we do not anticipate significant changes in this aspect of the framework.

Quality of Service

The regulatory process requires any Incumbent Local Exchange Carrier (ILEC) to pay rate rebate penalties for failing to meet CRTC-mandated quality of service standards established for consumers and competitors. Failure to meet the service standards established for competitors would also affect SaskTel's ability to meet the current criteria to obtain forbearance from economic regulation of local exchange services. SaskTel takes steps to manage the business risk associated with these penalties in order to strike a balance between the cost of compliance and the direct and indirect costs of non-compliance.

Regulatory Reform

Since its 2002 price cap decision, the CRTC has taken several very intrusive steps which it has deemed necessary to encourage telecommunications competition, particularly within local markets. Such regulatory intervention is not expected to continue at the current levels, given the following actions recently taken or proposed by the Government of Canada:

- On November 9, 2006 the Governor in Council issued an order varying the CRTC's previous decisions regarding the regulation of access-independent Voice over Internet Protocol (VoIP) services provided by an ILEC by removing the requirement for the ILECs to file tariffs for these services.

- On December 11, 2006, Industry Canada issued proposed text for an Order in Council to revise Telecom Decision CRTC 2006-15, Forbearance from the regulation of retail local exchange services. A final decision from the Governor in Council is expected in late March or early April 2007, because the statutory deadline for the Governor in Council to vary this decision is April 6, 2007. The order may, in fact, change by the time this annual report is released. Or, if a federal election is called, the order may not take effect at all. If adopted without change, the Order significantly alters the rules established by the CRTC, reducing the risk that SaskTel will be unable to effectively compete in geographic areas where alternative local exchange service providers choose to begin offering service. Industry Canada has received comments from a wide range of interested parties expressing divergent views on the proposed Order, including comments from SaskTel suggesting further changes that would make the final rules even more reasonable than those proposed.

- On December 18, 2006 the Government of Canada took further action when the Governor in Council released a Policy Direction to the CRTC. This Policy Direction requires the CRTC to place greater reliance upon market forces, to implement more symmetrical and competitively neutral regulatory measures and to rely upon regulatory measures that are more symmetrical, competitively neutral, and less intrusive.

The above Government of Canada actions have been taken as a direct result of SaskTel and other ILEC submissions to the Governor in Council. SaskTel will continue to further the cause for on-going telecommunications regulatory reform to ensure that CRTC decisions and practices are consistent with the federal government's directives.

Wholesale Services

The CRTC recently initiated a proceeding to review the regulatory regime for wholesale services that telecommunications services providers supply to each other. This is the first major proceeding to be conducted under the auspices of the newly released policy directive. SaskTel will actively participate in this proceeding with goals to limit the scope of the services that SaskTel must provide to other telecommunications service providers on regulated terms and to ensure that SaskTel is not disadvantaged compared to our competitors.

2. Broadcasting

The CRTC does not exercise any control over the rates SaskTel charges for its broadcasting services. However, the CRTC continues to regulate many aspects of the manner in which the service is delivered. Regulatory delay caused by the lengthy and unpredictable nature of the CRTC's review and approval processes affect SaskTel's ability to control the timing of those service enhancements requiring CRTC approval. In 2007, the CRTC will review several key components of the broadcasting regulatory framework. SaskTel will participate in these proceedings to reduce the risk that any future regulatory oversight will be detrimental to our ability to meet our business objectives.

Human Resources

Collective Agreement

A significant portion of our employees are unionized and are represented by the Communications, Energy and Paperworkers Union of Canada (CEP). The current collective agreement expires in March 2007. There can be no assurance that the negotiated terms will be as planned, which could have a negative impact on forecasted profitability in 2007.

Human Resource Development

The changing workforce demographics, increased competition for skilled resources and workforce flexibility all pose human resource challenges for SaskTel and the industry as a whole. SaskTel faces unique challenges because Saskatchewan is expected to experience limited growth; the working age population is projected to decline; and the competition for skilled resources will remain strong. These factors may impair our ability to deliver products and services in a timely manner, increase operating costs and reduce employee morale and productivity. We mitigate this risk through our People Core Strategy, which focuses on strategic workforce planning, continuous learning and development, and employee retention.

Economic Conditions

The Saskatchewan economy is expected to experience relatively stable growth over the five-year planning cycle as a result of an increase in employment levels, consumer spending, new housing starts and non-residential construction. The strong Canadian dollar, low interest rates and steady but low inflation should lead to moderate growth in the Canadian economy in the near future. However, should the provincial and national economies experience a downturn, SaskTel would likely suffer financially.

Technology

The telecommunications industry is characterized by constant technological change, evolving industry standards, changing customer needs, frequent new product and service introductions, and shorter product life cycles. These factors place the useful life of SaskTel's networks and assets at risk. Conversely, as SaskTel updates its networks and introduces new products, services and technologies, it may incur increased technology risk. The following discussion identifies the key technology risks facing SaskTel over the five-year planning cycle.

Transition to Internet Protocol (IP) Networks

Industry analysts predict that IP will become the dominant voice and data protocol. It is both an opportunity and a threat for SaskTel. On the one hand, the delivery of services can be streamlined through convergence to a common IP-based environment, which will provide the opportunity for internal cost reductions and increased flexibility for customers. On the other hand, the transition to IP networks and services is changing existing business models and bringing new non-traditional competitors into the market.

Given this reality, timing becomes very important. If we enter the market too late, we could experience significant customer and revenue loss to competitors. Enter too soon and we cannibalize our own revenues. To help us make the right decisions at the right time, we continually monitor industry trends and competitor activity, we invest in developing our own IP-based services and we focus on the long-term evolution of our network, information technology and processes.

Demand for increased bandwidth

Customers in today's converged market are demanding more and more from their communications provider: faster internet speeds, HDTV, video on demand, personal video recorders and much more. Because our competitors are well-positioned to meet these demands and often able to offer these services before us, we could lose customers and revenues. Therefore, to meet the current and future needs of our customers, and maintain our reputation as a leader in the telecommunications industry we undertook the Next Generation Access Infrastructure Program (NGAI), which will provide us with a state-of-the-art high bandwidth network for the future.

Growth

The telecommunications industry is one of the fastest growing and most competitive sectors in the marketplace. New technologies such as internet protocol (IP) and voice over internet protocol (VoIP), new competitors, increasing customer demands and regulatory implications create significant challenges for SaskTel and the industry as a whole. Revenues from legacy services are eroding as lower-margin, IP-based services replace them. Although we strive to maintain our existing revenue base wherever possible and look for new sources of revenue to fill the gap, not all new ventures will succeed and so overall revenues and net income may suffer.

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

Financial Risks

Cost Reduction

Since 2000, SaskTel has been focused on operational efficiency and removing operating costs from the business. The first operational efficiency program was established in 2000 and was successful in removing approximately $60 million in annual operating costs from the organization. In 2004, a second program was initiated and at the end of 2006, we have removed over an additional $60 million. While these are significant achievements, we cannot be complacent. The onset of local competition, the transition to lower margin IP-based services and the continued decline in legacy revenues reinforce the need to continually focus on initiatives that will improve efficiency and remove costs from the business.

As such, we remain focused on achieving further reductions by improving internal systems and processes to increase overall productivity, and achieving the targeted backfill rates associated with the Early Retirement Program.

Pension Plan

The combined effect of the decline in capital markets, historically low interest rates and the early retirement program has significantly reduced pension income to SaskTel and resulted in the SaskTel Pension Plan (defined benefit) being in a deficit position. If the capital markets do not generate sufficient growth within the plan and if the discount rate used to value pension liabilities decreases, there is a risk that we will have to increase employer contributions, which would have a material and negative effect on net earnings. Capital markets exceeding expectations will have an opposite and positive effect on contributions and net earnings.

We have done a number of things to mitigate this risk, including contributing the maximum level permitted and managing the asset mix to the optimal proportion of equities to bonds. In addition, we completed an actuarial study in 2004, one year earlier than required by legislation. Another actuarial study will be completed in 2007. We also continually monitor market rates of return, interest rates, and the increased funding to determine the impact on deficit reduction.

Legal Liability Risks

SaskTel, like all businesses, faces the risk of being sued. Our employees interact with thousands of people daily and our assets are numerous and visible. We are exposed to various aspects of legal risk, including contractual, professional, statutory and third party liability, which could negatively impact our results and reputation.

Although the legal risk environment that we operate in is reasonably stable, we dedicate significant effort to managing our legal exposures. Central to our legal risk mitigation is the expertise and active business involvement of our Corporate Counsel division, a corporate structure that uses separate legal entities (subsidiaries) to limit liability, a focus on contractual assignment of risk or limitation of liability, and sound operating procedures at the core of our business. Additionally, our corporate insurance program provides a degree of financial protection from specific third party legal liabilities.

Cellular Class Action Suit

In August 2004, the Merchant Law Group brought a class action lawsuit against SaskTel and other national service providers in Canada. The claim includes allegations by wireless customers for breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning system administration fees. In July 2006, the Saskatchewan court ruled that the lawsuit did not meet the requirements to achieve class action certification. While this was a positive judgment for SaskTel, an exposure still exists because the ruling also granted the plaintiffs leave to renew their application. We are confident that we have strong defenses for the allegations. However, if the ultimate outcome favours the plaintiffs, there could be a material and negative impact to net earnings.

Operational Risks

System Security

Systems security involves the protection of systems and networks and associated information. These systems and network assets are used to process, manage and store customer, employee, operational and competitive information. A significant investment in systems and networks is maintained to process, manage and store this information.

As the internet continues to expand and new technologies become available, opportunities for system security breaches grow. External and internal threats become more numerous and complex. These threats include hacker attacks, denial of service (DoS) attacks, malicious software and accidental compromise, access or release of information. Any of these threats could compromise the integrity, availability and confidentiality of information and related services, which, in turn, could interrupt customer service, impair employee productivity, and damage our reputation.

To protect against these threats, we have a comprehensive security program in place. It identifies and classifies information according to its confidentiality, integrity and availability, identifies threats to assets, and identifies the vulnerabilities of infrastructure. Controls and risk management activities include data classification, vulnerability assessment, intrusion detection, patch management, defined information security architecture, corporate anti-virus system, training and awareness, policies, standards and procedures, appropriate physical controls, and defined roles and responsibilities.

Physical Damage

With more than 1,400 locations of SaskTel property, plant, and equipment around the province, we have a substantial investment in physical property. All of it is exposed to damage from natural hazards, vandalism and other forms of accidental loss. Damage or destruction of our assets could reduce revenues, increase expenses and impair asset values.

To reduce and prevent such losses we have taken several measures: a stringent preventative maintenance program, regular inspections by independent loss prevention engineers, strict procedures on housekeeping practices, and appropriate physical security controls. We have hardened our major switching centres; we have installed automatic sprinklers and fire detection systems; and we have developed business continuity and disaster recovery plans. As well, our comprehensive insurance program is in place to transfer any physical loss and business interruption experienced.

Hardware and Software Failures

SaskTel's extensive network has evolved over the years to provide a variety of services from traditional voice services to leading-edge internet, entertainment and data services. The confidence level in the networks is high. However, our network infrastructure is complex and the possibility of a hardware or software failure impairing our ability to provide service to customers cannot be ruled out.

In addition to building high levels of redundancy into our network infrastructure, we use a number of other mitigation strategies to mitigate these risks, including regular operational reviews, business continuity plans, pre-arranged disaster recovery support from vendors, stringent testing procedures for new software, preventative maintenance programs and site hardening of critical locations.

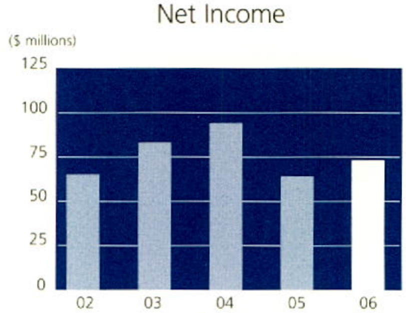
We have a comprehensive security program in place.

Net Income

($ millions)	2006	2005	Change	%
Operating Revenues	**$1,009.6**	$978.8	$30.8	3.1
Operating Expenses	**917.4**	890.4	27.0	3.0
Income from operations	**92.2**	88.4	3.8	4.3
Other items	**5.5**	1.2	4.3	355.3
Interest and related costs	**(25.3)**	(25.2)	(0.1)	0.5
Income before the following	**72.4**	64.4	8.0	12.3
Gain on sale of investments	**0.1**	-	0.1	nmf
Net income	**$72.5**	**$64.4**	**$8.1**	**12.5**

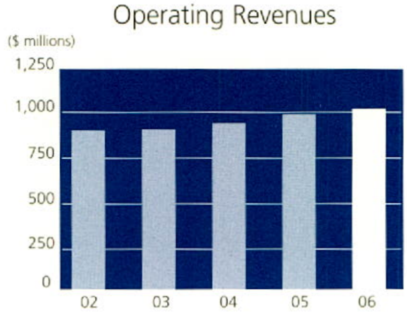
The Corporation's 2006 net income, at $72.5 million, increased $8.1 million from 2005.

Net Income



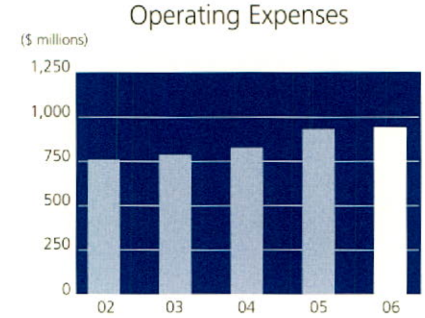
A significant corporate milestone was achieved in 2006 as revenues exceeded $1 billion for the first time in our history. Total revenues increased by $30.8 million from 2005, driven by strong growth in wireless and *Max*™ Entertainment Services.

Operating Revenues



Operating expenses also increased in 2006, by $27.0 million, reflecting the additional costs incurred to support revenue growth and additional restructuring costs associated with the Early Retirement Program.

Operating Expenses



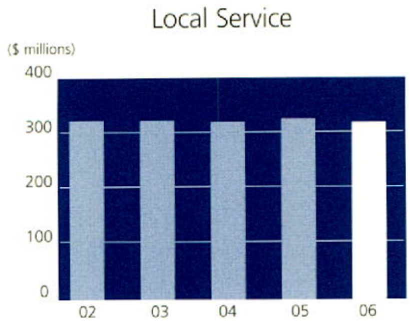
Revenues exceeded $1 billion for the first time in our history.

Operating Revenues

($ millions)	2006	2005	Change	%
Local services	**$314.5**	$321.2	$(6.7)	(2.1)
Long distance services	**124.9**	138.8	(13.9)	(10.0)
Data, internet and *Max* services	**174.4**	176.3	(1.9)	(1.1)
Wireless	**260.2**	219.6	40.6	18.5
Other	**135.6**	122.9	12.7	10.3
Total	**$1,009.6**	$978.8	$30.8	3.1

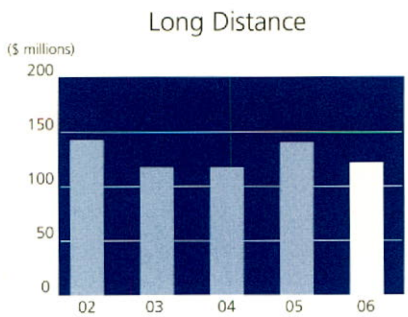
Total operating revenues increased to $1,009.6 million in 2006 from $978.8 million in 2005, an increase of $30.8 million (3.1%).

Local Service



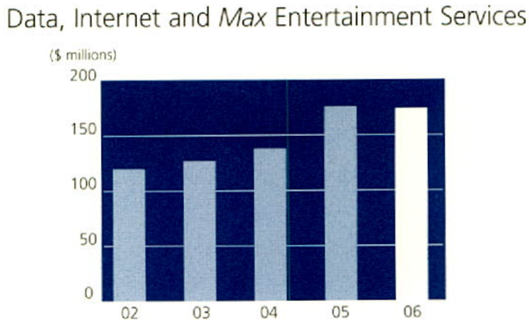
Local service revenues declined to $314.5 million in 2006 from $321.2 million in 2005, a reduction of $6.7 million (2.1%). This decline reflects the reduction in network accesses that occurred during the year as local access competitors entered the marketplace and as customers migrated to wireless service. Revenue from enhanced local services, including *SmartTouch*™ features, remained stable throughout the year.

Long Distance



Long distance revenues decreased to $124.9 million in 2006 from $138.8 million in 2005, a reduction of $13.9 million (10.0%). Competitive pressures continue to drive rate decreases for per minute calling resulting in reduced revenues from outbound long distance. Another factor reducing long distance revenues was the full year impact of the Anytime North America Unlimited long distance plan introduced in 2005. This plan provides unlimited calling in North America for a flat monthly fee.

Data, Internet and *Max* Entertainment Services

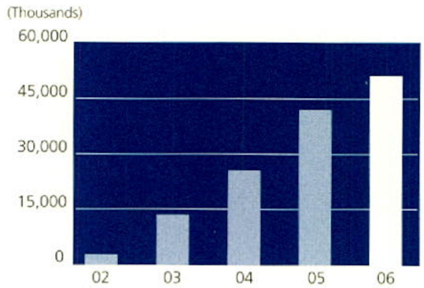


Revenues from data, internet and entertainment services decreased to $174.4 million in 2006 from $176.3 million in 2005, a decrease of $1.9 million (1.1%).

Data revenues decreased by $16.1 million in 2006 as compared to the previous year. Most of this decrease is explained by the one-time impact of the favourable 2005 CRTC ruling on Competitor Digital Network (CDN) Services. As a result of this decision, one-time revenues of $12.1 million were recorded in 2005 that reflect retroactive application of final rates. Revenues also decreased in digital private lines and frame relay services as customers moved to other services such as high speed internet and regional frame relay.

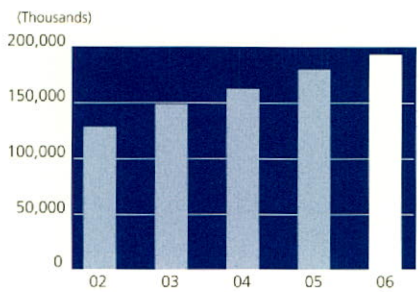
Max Entertainment Services revenues increased by $14.4 million from 2005, driven primarily by continued strong customer growth. At year-end, there were 51,277 *Max* customers compared to 42,089 at the end of 2005, an increase of 9,188 (21.8%). *Max* services deliver digital video signals, including high definition network and specialty television channels, video on demand in partnership with Hollywood studios, local video on demand, live event pay-per-view and "always on" high speed internet.

Max Subscribers



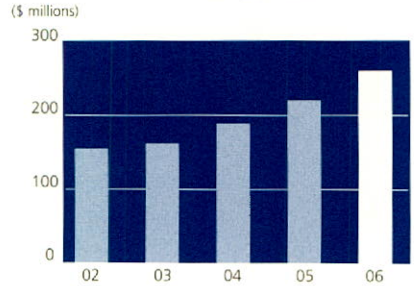
Customer growth in stand-alone internet services, primarily high-speed, also contributed to our increased revenues for the year. This growth was driven, in part, by our expansion of service to more Saskatchewan communities. A decline in dial-up internet service as customers continue to migrate to *Max* Entertainment Services and high speed internet slightly offset the overall revenue increase.

Internet Accesses



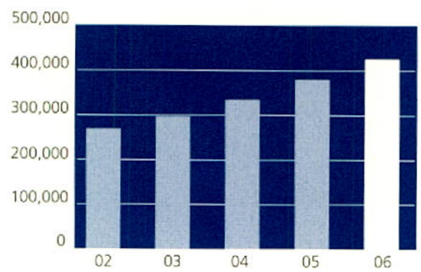
Wireless Services

Wireless Services



Wireless revenues increased significantly to $260.2 million in 2006 from $219.6 million in 2005, an increase of $40.6 million (18.5%). This was driven by strong customer growth as total wireless accesses increased by 43,101 during 2006. The Corporation now has a total of 411,918 wireless accesses. While cellular service was the main contributor to wireless revenue and access growth, we also experienced increases in wireless data service.

Cellular Accesses



Other

Other revenues increased to $135.6 million in 2006 from $122.9 million in 2005, an increase of $12.7 million (10.3%).

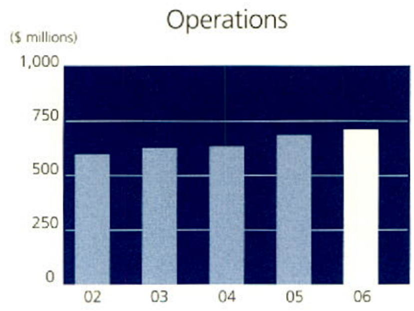
The most significant contributor to the increase in other revenues was DirectWest, which expanded operations in Alberta through their subsidiary company, The Phone Book Company. Hospitality Network also contributed to increased revenues by expanding their managed communication and entertainment solutions to Canadian hospitals and seniors care homes. SaskTel International also realized revenue growth in their consulting and installation services to international customers.

Operating Expenses

($ millions)	**2006**	2005	Change	%
Operations	**$709.7**	$684.4	$25.3	3.7
Depreciation and amortization	**152.6**	149.7	2.9	2.0
Restructuring charges	**55.1**	41.0	14.1	34.5
Write-down of long-lived assets	–	15.3	(15.3)	(100.0)
Total	**$917.4**	$890.4	$27.0	3.0

Total operating expenses increased to $917.4 million in 2006 from $890.4 million in 2005, an increase of $27.0 million (3.0%).

Operations



Operations expenses increased to $709.7 million in 2006 from $684.4 million in 2005, an increase of $25.3 million (3.7%).

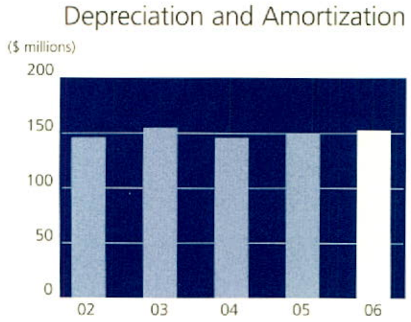
A major contributor to operations expenses was business volume related expenses, which increased by $22.5 million in 2006. Within this category, the primary factor was increased fees, commissions, handset subsidies and other expenses required to support the growing wireless customer base and the corresponding use of wireless services. Increased programming and content costs to support strong growth in *Max* Entertainment Services also contributed significantly to the increase. Other expenses related to business volume that increased in 2006 included those driven by marketing and advertising activities.

Operating and maintenance expenses increased by $17.8 million in 2006. The main factors contributing to this increase were service contracts and service connection charge amortization. Bad debt expense, software maintenance and regulatory costs also contributed to this increase in expense.

Cost of sales in 2006 was consistent with 2005 because increases associated with revenue growth in DirectWest, Hospitality Network and SaskTel International were offset by reduced expenses in SaskTel.

Salaries & benefits decreased by $14.5 million in 2006. The primary contributors to this decrease were the early retirement program and the 2005, one-time, unfavourable impact of the wind-up of the service recognition defined benefit plan. Another factor was a decline in unamortized actuarial losses during the year, which reduced our defined benefit plan pension expense. Partially offsetting these reductions were negotiated increases through the Collective Agreement and increased overtime and temporary salaries expenses that were required to meet service level demands.

Depreciation and Amortization



Depreciation and amortization expense increased to $152.6 million in 2006 from $149.7 million in 2005, an increase of $2.9 million (2.0%).

This increase was caused primarily by our increased investment in property, plant, and equipment during the unprecedented capital construction program of 2006. The increase was offset somewhat by the implementation of revised depreciation rates.

Restructuring Charges

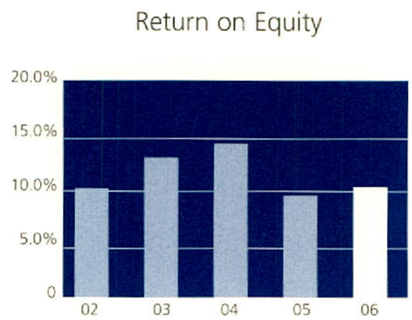
Restructuring charges increased to $55.1 million in 2006 from $41.0 million in 2005, an increase of $14.1 million (34.5%).

This was driven by the Early Retirement Program (ERP), implemented in 2004, with the goal of reducing operating costs in traditional lines of business while at the same time creating opportunities for growth in non-traditional areas. The number of employees electing to retire increased to 187 as compared to 173 in 2005, which contributed significantly to the increased expense. Also contributing to the increase was a reduction in the defined benefit pension plan's discount rate, which increased the special termination costs associated with the early retirements.

The ERP is a key component of the long-term focus on sustainable cost reductions. Although it drives significant up-front restructuring charges, the ongoing savings realized are important to both current and future profitability. The ERP was the primary contributor to the $18.4 million Operational Efficiency result reported in the 2006 Balanced Scorecard (page 26).

Return on Equity

	2006	2005	Change	%
Return on equity	**10.7**	9.7	1.0	10.3



Liquidity and Capital Resources

SaskTel was able to fund all its capital expenditures, acquisitions, debt obligations and dividend requirements with cash generated from operations and cash and short term investments on hand at the start of the year.

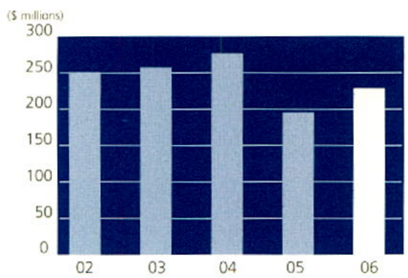
Cash Provided by Operating Activities

($ millions)	**2006**	2005	Change	%
Years ended December 31	**$228.6**	$195.4	$33.2	17.0

Cash provided by operations increased $33.2 million in 2006, when compared to 2005. Cash provided by operations, after adjusting for non-cash items, including depreciation and amortization, pension and termination benefits, and write-down of long-lived assets, decreased $6.0 million compared to 2005. Working capital changes, however, resulted in an increase in cash of $39.1 million compared to 2005.

The most significant changes to working capital include increased cash collections from accounts receivable of $48.3 million related to the Corporation's contract with Crown Investments Corporation to administer the Lowest Cost Utility Program. This resulted in significantly lower cash receipts in 2005 compared to 2006. Partially offsetting this increase was reduced accounts payable and accrued liabilities of $4.3 million primarily related to settlements with other carriers (ILECs) and withholding taxes.

Operating Activities



Cash Used by Investing Activities

($ millions)	**2006**	2005	Change	%
Years ended December 31	**$(231.6)**	$(144.6)	$(87.0)	60.2

In 2006, cash used in investing activities was $87.0 million higher than in 2005, primarily due to property, plant and equipment expenditures, which increased $87.4 million over 2005 expenditures.

Investing Activities

Capital Spending

SaskTel's net property, plant and equipment spending in 2006 was $228.5 million, compared to $141.1 million in 2005. Significant investment was made to advance SaskTel's bandwidth infrastructure through the Next Generation Access Infrastructure program (NGAI), which was designed to support customer requirements in established services such as *Max* Entertainment Services, high speed internet as well as all future IP Service needs. Additionally, SaskTel continued to invest capital to focus on growth initiatives, including development of *Max* Entertainment Services, i.e. high definition television (HDTV), bringing wireless broadband internet to rural communities through the Broadband Expansion in Rural Saskatchewan (BERS) program and developing a web-based sales and activation tool to ensure accurate provisioning and billing of bundled services.

SaskTel invested approximately $185.1 million in growth initiatives in 2006 compared to $100.7 million in 2005. Expenditures to sustain capital assets increased to $38.4 million in 2006 from $33.7 million in 2005.

Liquidity and Capital Resources

Growth initiatives in 2006 included:

- $105.7 million to provide next generation access infrastructure for the future delivery of IP services and network access.
- $20.0 million to further enhance and expand the wireless network including the addition of 28 new cellular sites.
- $12.6 million to further develop *Max* Entertainment Services. This development allowed us to provide new services for *Max* including additional set top boxes for additional sets and High Definition TV capability, improved *Max Front Row*™ Video on Demand, all of which allows us to grow the *Max* customer base.
- $8.6 million to deliver efficient activation and sales integration solutions for customer interface.
- $7.3 million to deliver wireless broadband internet primarily to rural communities, farms and remote areas utilizing Multipoint Communications System (MCS) technology.
- $2.4 million on expansion of high speed internet service.
- $1.1 million to provide customers with utility based business solutions, such as hosting services, security, eMessaging and eSolutions.

Significant investments to sustain capital assets in 2006 included:

- $12.9 million for systems infrastructure and desktop computer provisioning initiatives that replace and establish data and communications infrastructure required for future growth, while sustaining the current information technology infrastructure.
- $13.0 million for network infrastructure to ensure SaskTel continues to meet customer demand without compromising quality of service.
- $5.0 million to sustain wireless network and services.

Targets for 2007

Property, plant and equipment expenditures will be focused on further investment in growth initiatives, network expansion, product innovation, and system and process improvements while sustaining current capital assets. Network expansion initiatives include NGAI Phase II, and continued focus on cellular, broadband and EVDO facilities. Innovation will continue with products that maximize the potential of our networks such as Personal Video Recorders (PVR). System and process improvements will focus on improving productivity, the customer interface and our billing system to meet future technology and product offerings.

Cash Used by Financing Activities

($ millions)	**2006**	2005	Change	%
Years ended December 31	**$(78.0)**	$(95.2)	$17.2	(18.1)

Cash used in financing activities was $17.2 million lower than in 2005. This decreased use of cash resulted from lower dividend payments to Crown Investment Corporation of Saskatchewan of $50.0 million, partially offset by increased debt repayment of $32.4 million. During the last five years, the Corporation paid a total of $339.1 million in dividends while maintaining a debt ratio below 40%.

Debt ratio

($ millions)	**2006**	2005	Change	%
Long-term debt	**$318.3**	$359.1	$(40.8)	(11.4)
Less: cash and short-term investments	**16.1**	97.1	(81.0)	(83.4)
Net Debt	**302.2**	262.0	40.2	15.3
Equity	**687.6**	665.1	22.5	3.4
Capitilization	**$989.8**	$927.1	$62.7	6.8
Debt ratio	**30.5%**	28.3%	2.2%	7.8

The debt ratio increased in 2006 while SaskTel continued to self-finance its capital and dividend requirements. The overall level of debt increased by $40.2 million, primarily because cash and short term investments were used to partially fund investing and financing activities. Retained earnings increased $22.5 million after recording net income of $72.5 million and declaring dividends of $50.0 million.

Debt Instruments

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

The average interest rate on SaskTel's fixed rate debt was approximately 7.7% in 2006 and 7.9% in 2005.

The interest rate on SaskTel's debt depends on the credit rating of the Province of Saskatchewan which issues debt on the Corporation's behalf. The following table lists the credit ratings of the Province at December 31, 2006.

	S&P	DBRS	Moody's
Long-Term debt	AA	AA low	AA1
Short-Term Liabilities	A1 High	R-1 (mid)	Not Rated

Access to Capital

The primary uses of cash in 2007 will be property, plant and equipment expenditures, growth initiatives and dividend payments.

The 2007 plan assumes that funding of capital expenditures, growth initiatives and dividend payments will be from operations and cash balances on hand at the end of 2006. Any additional funding required will be accessed through short-term notes and, potentially, long-term debt issued through the Province of Saskatchewan.

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

Besides this credit facility, the Corporation has authority to issue up to $1.3 billion in combined short-term and long-term debt. At December 31, 2006 total outstanding debt was $368.5 million compared to $403.8 million in 2005.

Use of Financial Instruments

SaskTel uses derivative instruments to manage exposure to interest rate risk and foreign exchange risk. Derivative instruments are not used to speculate. Because derivative instruments are related to specific financial exposures, there is no significant liquidity risk. At December 31, 2006, there were no derivative financial instruments outstanding.

Significant Accounting Policies

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

Key Accounting Estimates and Assumptions

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

Employee Defined Benefit Plans

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

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

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

Discount rate

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

SaskTel determines the appropriate discount rate at the end of every year. SaskTel's discount rate was 5.15% at December 31, 2006, down 0.10% from 5.25% used in 2005. Changes in the discount rate could have an effect on SaskTel's earnings through an effect on the projected benefit obligation. A lower discount rate results in a higher obligation, which could at some point require additional contributions to the plan.

Expected long-term rate of return

In 2006, SaskTel assumed an expected long-term rate of return on plan assets of 6.75% down 0.25% from 7.00% used in 2005. This rate is not currently anticipated to change in 2007.

Allowances for Doubtful Accounts

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

Depreciation and Amortization

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

Long-lived Assets

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

Goodwill

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

Intangible Assets

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

Contingencies

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

Innovation will continue with products that maximize the potential of our networks.

Financial and Operating Statistics

Annual Consolidated Financial Information

Consolidated income statement

($ millions)	**2006**	2005	2004	2003	2002
Operating revenues	**$1,009.6**	$978.8	$930.6	$895.8	$892.6
Operations expenses	**709.7**	684.4	631.2	628.0	607.4
Restructuring charges	**55.1**	41.0	40.5	-	-
EBITDA	**244.8**	253.4	258.9	267.8	285.2
Depreciation and amortization	**152.6**	149.7	145.5	154.5	145.7
Write-down of long-lived assets	**-**	15.3	-	-	-
Operating income	**92.2**	88.4	113.4	113.3	139.5
Other items	**5.6**	1.2	8.1	(21.0)	(40.7)
Interest & related costs	**(25.3)**	(25.2)	(27.0)	(9.3)	(33.7)
Net Income	**$72.5**	$64.4	$94.5	$83.0	$65.1

Consolidated balance sheet

($ millions)	**2006**	2005	2004	2003	2002
Current assets	**$138.6**	$218.6	$216.1	$196.0	$148.3
Property, plant and equipment, at cost	**2,793.5**	2,640.6	2,568.0	2,510.5	2,512.3
Accumulated depreciation and amortization	**1,834.9**	1,766.1	1,675.2	1,595.8	1,576.0
Total assets	**1,207.0**	1,213.6	1,230.7	1,231.8	1,220.8
Current liabilities	**207.8**	218.0	203.9	206.4	148.0
Long-term debt	**301.0**	320.7	362.3	372.5	424.3
Dividends declared	**50.0**	57.9	88.0	76.6	58.6
Total equity	**687.6**	665.1	658.6	656.1	647.7

Consolidated cash flow statement

($ millions)	**2006**	2005	2004	2003	2002
Cash and cash equivalents, beginning of year	**$97.1**	$141.5	$90.6	$34.4	$42.0
Cash provided by operating activities	**228.6**	195.4	276.0	255.1	251.1
Cash used in investing activities	**(231.6)**	(144.7)	(110.2)	(134.4)	(177.7)
Cash used in financing activities	**(78.0)**	(95.1)	(114.9)	(64.5)	(81.0)
Cash and cash equivalents, end of year	**$16.1**	$97.1	$141.5	$90.6	$34.4

Financial ratios

	2006	2005	2004	2003	2002
Return on Equity	**10.7%**	9.7%	14.4%	13.0%	10.1%
Debt Ratio	**30.5%**	28.3%	25.7%	32.7%	38.5%

Quarterly Consolidated Financial Information

Consolidated income statement

($ millions)	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Operating revenues	$257.1	$254.6	$251.5	$246.4	$246.8	$245.6	$237.5	$248.9
Operations expenses	193.7	174.9	174.0	167.1	192.5	165.3	169.5	157.2
Restructuring charges	29.2	-	25.9	-	23.7	0.1	17.2	-
EBITDA	34.2	79.7	51.6	79.3	30.6	80.2	50.8	91.7
Depreciation and amortization	39.3	37.9	37.8	37.6	38.8	38.5	36.4	36.0
Write-down of long-lived assets	-	-	-	-	15.3	-	-	-
Operating Income	(5.1)	41.8	13.8	41.7	(23.5)	41.7	14.4	55.7
Other Items	1.1	1.1	2.4	1.0	(1.8)	0.6	0.7	1.8
Interest & related costs	(5.7)	(6.1)	(6.8)	(6.7)	(5.9)	(6.5)	(5.9)	(6.9)
Net income (loss)	$(9.7)	$36.8	$9.4	$36.0	$(31.2)	$35.8	$9.2	$50.6

Annual Operating Statistics

	2006	2005	2004	2003	2002
Wireless*					
Total wireless access services	**411,918**	368,817	326,916	291,897	264,417
Cellular access services	**402,676**	360,137	318,102	282,679	255,500
Cellular average revenue per access ($)	**55.9**	53.6	50.9	48.7	50.3
Wireline*					
Network access services	**578,979**	584,149	587,185	590,961	594,055
Internet access services (includes *Max* accesses)	**192,734**	179,385	162,098	148,301	127,918
Max customers	**51,277**	42,089	25,800	14,022	3,003
Originated long distance minutes (000's)	**1,393,824**	1,390,614	1,426,493	1,433,936	1,437,747
Employees and payroll					
Total employees	**5,111**	5,134	4,852	4,926	4,928
Salaries earned (000's)	**$275,679**	$272,032	$268,082	$270,332	$255,166

*Does not include SaskTel internal use

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, 2006, 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 primarily of outside directors, which meets periodically with management as well as with the internal and external auditors. The Audit Committee is responsible for engaging or re-appointing the services of the external auditor. Both the internal and external auditors have free access to this committee to discuss their audit work, their opinion on the adequacy of internal controls and the quality of financial reporting. The Audit Committee has met with management and the external auditor to review the Corporation's annual consolidated financial statements prior to submission to the Board of Directors for final approval.

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

Robert Watson
President and Chief Executive Officer

Mike Anderson
Chief Financial Officer
February 21, 2007

Auditor's 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, 2006 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada
February 21, 2007

Consolidated Statement of Operations

For the year ended December 31, *(Thousands of dollars)*	2006	2005
Operating revenues	**$1,009,586**	$978,830
Operating expenses		
Operations	**709,698**	684,465
Depreciation and amortization	**152,626**	149,705
Restructuring charges (Note 6)	**55,082**	40,963
Write-down of long-lived assets	**-**	15,282
	917,406	890,415
Income from operations	**92,180**	88,415
Other items (Note 7)	**5,546**	1,218
Interest and related costs (Note 8)	**(25,337)**	(25,279)
Income before the following	**72,389**	64,354
Gain on sale of investment (Note 5)	**114**	-
Net income	**$72,503**	$64,354

See Accompanying Notes

Consolidated Statement of Retained Earnings

For the year ended December 31, *(Thousands of dollars)*	2006	2005
Retained earnings, beginning of year	**$415,067**	$408,632
Net income	**72,503**	64,354
	487,570	472,986
Dividends	**50,000**	57,919
Retained earnings, end of year	**$437,570**	$415,067

See Accompanying Notes

Consolidated Statement of Financial Position

As at December 31, *(Thousands of dollars)*	**2006**	2005
Assets		
Current assets		
Cash and short-term investments (Note 9)	**$16,110**	$97,079
Accounts receivable (Note 18a)	**95,518**	100,081
Inventories	**8,170**	6,832
Prepaid expenses (Note 18a)	**18,804**	14,651
	138,602	218,643
Property, plant and equipment (Note 10)	**958,643**	877,074
Investments (Note 11)	**768**	748
Goodwill (Note 12)	**18,350**	18,953
Intangible assets (Note 13)	**28,369**	29,661
Other assets (Note 14)	**62,222**	68,531
	$1,206,954	$1,213,610
Liabilities and Province's equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 18a)	**$132,688**	$136,845
Dividend payable	**12,500**	815
Services billed in advance (Note 18a)	**45,347**	41,954
Current portion of long-term debt (Note 15)	**17,253**	38,320
	207,788	217,934
Deferred revenue	**10,415**	9,539
Long-term debt (Note 15)	**301,029**	320,742
	519,232	548,215
Non-controlling interest	**152**	328
Province of Saskatchewan's equity		
Equity advance (Note 16)	**250,000**	250,000
Retained earnings	**437,570**	415,067
	687,570	665,067
	$1,206,954	$1,213,610

See Accompanying Notes

On behalf of the Board: Reg Bird Alison Renny

Consolidated Statement of Cash Flows

For the year ended December 31, *(Thousands of dollars)*	**2006**	2005
Operating activities		
Net income	**$72,503**	$64,354
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	**152,626**	149,705
Pension expense of defined benefit plans	**331**	8,796
Special termination benefits cost (Note 20)	**43,399**	29,666
Contributions to defined benefit pension plans	**(35,442)**	(36,948)
Sinking fund earnings	**(2,557)**	(3,575)
Service recognition defined benefit program curtailment	**-**	7,452
Write-down of long-lived assets	**-**	15,282
Other	**(1,742)**	389
Net change in non-cash working capital (Note 18b)	**(525)**	(39,674)
Cash provided by operating activities	**228,593**	195,447
Investing activities		
Property, plant and equipment expenditures	**(228,529)**	(141,129)
Proceeds on disposal of assets	**135**	-
Proceeds on sale of investments	**574**	-
Investments acquired	**(311)**	(3,036)
Customer accounts	**(3,444)**	(2,405)
Other assets	**-**	1,922
Cash used in investing activities	**(231,575)**	(144,648)
Financing activities		
Repayment of long-term debt	**(35,760)**	(3,388)
Capital lease obligations	**(2,462)**	(2,974)
Dividends paid	**(38,315)**	(88,319)
Financing leases	**(1,450)**	(531)
Cash used in financing activities	**(77,987)**	(95,212)
Decrease in cash	**(80,969)**	(44,413)
Cash and cash equivalents, beginning of year	**97,079**	141,492
Cash and cash equivalents, end of year	**$16,110**	$97,079
Comprised of:		
Cash	**$1,116**	$2,094
Short-term investments	**14,994**	94,985
	$16,110	$97,079

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, security and entertainment products, systems and services. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of *The Saskatchewan Telecommunications Holding Corporation Act* and, as such, the Corporation and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

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

One of the Corporation's subsidiaries, Saskatchewan Telecommunications is regulated by the Canadian Radio-television and Telecommunications Commission (CRTC) under *The Telecommunications Act* (Canada).

Note 2 – Summary of significant accounting policies

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

Subsidiaries and investments

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

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

The following is a summary of the operating entities in which the Corporation has an interest:

Operating entities	Percentage ownership	Basis for inclusion
Saskatchewan Telecommunications	100.0%	Consolidation
Saskatchewan Telecommunications International, Inc.	100.0%	Consolidation
DirectWest Corporation	100.0%	Consolidation
DirectWest Canada, Inc. (formerly 3364381 Canada Ltd.)	100.0%	Consolidation
SecurTek Monitoring Solutions Inc.	100.0%	Consolidation
Hospitality Network Canada Inc.	100.0%	Consolidation
Hospitality Network Canada Partnership	100.0%	Consolidation
The Phone Book Company Partnership	85.0%	Consolidation
Saskatoon 2 Management Ltd.	70.0%	Proportionate consolidation
Saskatoon 2 Properties Limited Partnership	70.0%	Proportionate consolidation
Lootah SaskTel LLC (United Arab Emirates Corporation)	49.0%	Equity
Streamlogics Inc.	42.0%	Equity
Manalta Investment Company Ltd.	1.0%	Cost
NSI Global Inc.	0.1%	Cost

Note 2 – Summary of significant accounting policies, continued

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

Cash and short-term investments

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

Inventories

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

Property, plant and equipment

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

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

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

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

Impairment of long-lived assets

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

Asset retirement obligations

Legal obligations associated with the retirement of property, plant and equipment are initially measured at fair value and are adjusted for any changes resulting from the passage of time and any changes to the timing or amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized as part of the related asset and is amortized into earnings over the asset's useful life. There were no significant asset retirement obligations as at December 31, 2006.

Note 2 – Summary of significant accounting policies, continued

Goodwill

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

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

Intangible assets

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

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

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

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

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

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

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

Note 2 – Summary of significant accounting policies, continued

Revenue recognition

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

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

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

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

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

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

Employee future benefits

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

Note 2 – Summary of significant accounting policies, continued

a) Defined benefit pension plans

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

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

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

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

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

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market related value of the plan assets is amortized over the average remaining life of retired members of the plan. The average remaining life of retired members was calculated as a weighted average of 22 years.

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

b) Defined contribution pension plan

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

c) Service recognition defined benefit plan

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

Foreign currency translation

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

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

Derivative financial instruments

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

Note 2 – Summary of significant accounting policies, continued

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

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

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

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

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

Use of estimates

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

Note 3 – Accounting policy developments

Accounting changes

Commencing with the Corporation's 2007 fiscal year, the new recommendations of the Canadian Institute of Chartered Accountants (CICA) for accounting changes (CICA Handbook 1506) will become effective. Most significantly, the new recommendations stipulate that voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The Corporation does not expect to be materially affected by the new recommendations.

Comprehensive income

Commencing with the Corporation's 2007 fiscal year, the new recommendations of the CICA for accounting for comprehensive income (CICA Handbook Section 1530), will apply to the Corporation. The concept of comprehensive income will be to include changes in shareholder's equity arising from items that are excluded from net income calculated in accordance with GAAP, most specifically, unrealized changes in the values of financial instruments. The statement of comprehensive income should show net income; each component of revenue, expense, gain or loss that is required to be shown in other comprehensive income; and total comprehensive income. The Corporation is assessing the impact of the new recommendations.

Financial instruments – recognition and measurement

Commencing with the Corporation's 2007 fiscal year, the new recommendations of the CICA for accounting for financial instruments – recognition and measurement (CICA Handbook Section 3855), will apply to the Corporation. These standards establish guidance for the recognition and measurement of financial instruments. The standards require all financial instruments within their scope, including derivatives, to be included on a company's balance sheet and measured, either at fair value or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost. The standards also specify when gains and losses as a result of changes in fair value are to be recognized in the income statement. The Corporation is assessing the impact of the new recommendations.

Capital disclosures

The new recommendations of the CICA for capital disclosures (CICA Handbook 1535) will become effective for fiscal years beginning on or after October 1, 2007. Early adoption is permitted at the same time an entity adopts other standards relating to accounting for financial instruments. The new recommendations establish standards for disclosing information about the Corporation's capital (debt and equity) and how it is managed. Specifically, information should be disclosed to enable users of the financial statements to evaluate the Corporation's objectives, policies and processes for managing capital. The Corporation is currently assessing whether it will implement the new recommendations in its 2007 fiscal year.

Financial instruments - disclosures

The new recommendations of the CICA for financial instruments – disclosures (CICA Handbook 3862) will become effective for fiscal years beginning on or after October 1, 2007. Early adoption is permitted at the same time an entity adopts other standards relating to accounting for financial instruments. The new recommendations establish standards for financial instrument disclosure that enable users to evaluate the significance of financial instruments for the Corporation's financial position and performance; and the nature, extent and management of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date. The Corporation is currently assessing whether it will implement the new recommendations in its 2007 fiscal year.

Note 3 – Accounting policy developments, continued

Financial instruments - presentation

The new recommendations of the CICA for financial instruments – presentation (CICA Handbook 3863) will become effective for fiscal years beginning on or after October 1, 2007. Early adoption is permitted at the same time an entity adopts other standards relating to accounting for financial instruments. The new recommendations establish standards for financial instrument presentation that enhance the understanding of the significance of financial instruments to the Corporation's financial position, performance and cash flows. The Corporation is currently assessing whether it will implement the new recommendations in its 2007 fiscal year.

Business combinations

Possibly commencing in the Corporation's 2007 fiscal year, the proposed amended recommendations of the CICA for accounting for business combinations will apply to the Corporation's business combinations, if any, with an acquisition date subsequent to the amended recommendations coming into force. Whether the Corporation would be materially affected by the proposed amended recommendations would depend on the specific facts of the business combinations, if any, occurring subsequent to the amended recommendations coming into force. Generally, the proposed recommendations will result in measuring business acquisitions at the fair value of the acquired entities and measurement of changes in non-controlling interests subsequent to the business combination at fair values attributable to non-controlling interests versus the current book values attributable to non-controlling interests.

Note 4 – Rate regulation

The Corporation's telecommunications and broadcast services are regulated by the CRTC. The CRTC, however, regulates rates for only those telecommunications services which have not been found to be subject to sufficient competition to rely on market forces to protect the interests of customers. For these services, the rate which the Corporation may charge must receive CRTC approval prior to being implemented and may not be set below the cost of the service, calculated according to CRTC costing rules.

The CRTC also regulates the rates for all services that are designed for use by competitors. The CRTC requires rates for many of these services to be based on service costs plus approved mark-ups.

In addition, the CRTC has implemented a price cap framework which limits the Corporation's flexibility in the pricing of some rate regulated services and, each year, may force a rate reduction for these services, with the Corporation having some flexibility on which specific service rates must be decreased. Certain competitor services rates are subject to potential annual changes based on this framework. The current price cap framework expires in May of 2007, with a decision expected in early 2007 regarding the framework to be adopted after that date.

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

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

Direct Connect and Access Tandem Services

Direct Connect and Access Tandem are inter-connection services sold to long distance service providers by local exchange carriers. As the Corporation operates as both a long distance service provider and a local exchange carrier, changes to the rates for these services impact both revenues and expenses. On April 27, 2006 the CRTC

Note 4 – Rate regulation, continued

issued Telecom Decision CRTC 2006-22 and Telecom Decision CRTC 2006-23 approving final rates for these services. Rates were set retroactively to June 1, 2002 for Access Tandem Services and to December 17, 2003 for Direct Connect Services. As a result of these decisions, adjustments were made to previously accrued liabilities to reflect the retroactive application of the final rates which the Corporation charges and the rates which the Corporation pays to other service providers. The adjustment to accrued liabilities had a positive impact on 2006 net income of $2,196,000.

Note 5 – Acquisitions and disposals

Investments and disposals: consolidation method

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

On January 10, 2006 the Corporation purchased, through its subsidiary DirectWest Corporation, the directory assets of THE Telephone Book COMPANY Inc. as follows:

	(Thousands of dollars)
Total consideration	$350
Total tangible assets	113
Total intangible assets	244
Total liabilities	(7)
Net assets acquired	$350

During the year, the Corporation disposed of its majority interest in Business Watch International Inc. for cash proceeds of $574,228. The net assets consisted of: goodwill of $593,986 and liabilities of $133,623 resulting in a gain on sale of $113,865.

Effective May 1, 2006, the Corporation integrated the majority of the operations and net assets of Navigata Communications Partnership with those of Saskatchewan Telecommunications. As part of the integration the balance of outstanding partnership units were sold to the former partner for cash proceeds of $100,000 resulting in a nominal gain.

Note 6 – Restructuring charges

During 2006, $55,081,593 (2005 – $40,963,243) was recorded to restructuring charges. The charges relate to phases one and two of a proposed three-phase voluntary Early Retirement Program (ERP) for Saskatchewan Telecommunications. The ERP has been undertaken to reduce operating costs and manage the employee demographic profile in the context of a changing labour market. The first phase began in the fall of 2004 and was completed during 2005. The employee decision date for the first step of the second phase of the ERP was advanced into 2005 and will be completed in 2007. During 2006, 187 employees (2005 – 173) elected to receive a package that included a cash allowance and immediate pension benefits.

An additional charge of approximately $43 million is expected to be incurred in 2007. These costs are not eligible for recognition at December 31, 2006 and will be expensed as incurred.

Note 6 – Restructuring charges, continued

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

	2006	2005 (Thousands of dollars)
Balance in accounts payable and accrued liabilities, beginning of year	**$8,670**	$9,127
Restructuring charges	**55,082**	40,963
Less:		
Cash payments	**12,251**	11,754
Special termination benefits costs (Note 20)	**43,399**	29,666
Balance in accounts payable and accrued liabilities, end of year	**$8,102**	$8,670

Note 7 – Other items

	2006	2005 (Thousands of dollars)
Recovery of competitive toll implementation costs	**$1,803**	$790
Recovery (write-down) of receivable	**1,384**	(1,654)
Interest	**959**	651
Non-controlling interest	**312**	582
Other	**1,088**	849
	$5,546	$1,218

Note 8 – Interest and related costs

	2006	2005 (Thousands of dollars)
Interest expense	**$30,623**	$31,944
Less:		
Sinking fund earnings	**2,557**	3,575
Interest on short-term investments	**2,729**	3,090
	$25,337	$25,279

Note 9 – Cash and short-term investments

The balance consists of funds invested with the Province of Saskatchewan at an average interest rate of 4.29% (2005 – 3.25%).

Note 10 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value 2006	Net book value 2005
			(Thousands of dollars)	
Buildings	**$261,157**	**$139,860**	**$121,297**	$120,769
Plant and equipment	**2,178,727**	**1,613,347**	**565,380**	551,511
Office furniture, equipment and leaseholds	**154,301**	**81,667**	**72,634**	74,085
Plant under construction	**173,656**	**-**	**173,656**	108,957
Materials and supplies	**16,034**	**-**	**16,034**	12,211
Land	**9,642**	**-**	**9,642**	9,541
	$2,793,517	**$1,834,874**	**$958,643**	$877,074

Depreciation and amortization for the year totalled $146,847,361 (2005 – $144,187,564).

Note 11 – Investments

	2006	2005
	(Thousands of dollars)	
Significantly influenced companies: equity method		
Streamlogics Inc.	**$753**	$721
675161 British Columbia Ltd.	**15**	15
Lootah SaskTel LLC	**-**	12
	$768	$748

Included in the above balances is equity method goodwill of $470,395 (2005 – $470,395), which represents the excess of cost of the investments over the Corporation's share of net book value of the investment.

Note 12 – Goodwill

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

	2006	2005
	(Thousands of dollars)	
Goodwill, beginning of year	**$18,953**	$19,411
Acquired	**-**	530
Written-down	**-**	(254)
Disposed (Note 5)	**(594)**	-
Reclassified to intangible assets	**(9)**	(734)
Goodwill, end of year	**$18,350**	$18,953

Note 13 – Intangible assets

	Cost	Accumulated amortization	Net book value 2006	Net book value 2005
			(Thousands of dollars)	
Customer accounts	**$48,327**	**$21,925**	**$26,402**	$27,559
Customer contracts	**1,041**	**162**	**879**	995
Non-competition agreement	**582**	**280**	**302**	360
Customer list and relationships	**808**	**132**	**676**	636
Other	**136**	**26**	**110**	111
	$50,894	**$22,525**	**$28,369**	$29,661

Amortization during the year totalled $4,992,806 (2005 – $4,554,273).

Note 14 – Other assets

	2006	2005
	(Thousands of dollars)	
Deferred pension costs (Note 20)	**$46,569**	$53,743
Deferred expenses	**7,795**	6,975
Unamortized discount on long-term debt	**2,302**	2,322
Financing leases	**1,531**	1,902
Other	**4,025**	3,589
	$62,222	$68,531

Amortization for the year totalled $786,008 (2005 – $963,245).

Note 15 – Long-term debt

	Years to Maturity	Weighted Average Interest Rate (%)	2006	2005
			(Thousands of dollars)	
Province of Saskatchewan				
Canadian dollar issues (a)	1 - 5	7.26	**$124,376**	$156,974
Canadian dollar issue	14	10.08	**126,600**	126,600
Canadian dollar issues	23	5.70	**110,000**	110,000
			360,976	393,574
Other (b)			**7,513**	10,222
			368,489	403,796
Less sinking funds (c)			**50,207**	44,734
Total long-term debt			**318,282**	359,062
Less current portion of long-term debt			**17,253**	38,320
			$301,029	$320,742

Note 15 – Long-term debt, continued

a) Long-term debt totaling $34,376,000 is subject to redemption at the option of the issuer on 30 days notice, as outlined in the terms and conditions.

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

	(Thousands of dollars)
2007	$244
2008	260
2009	277
2010	294
2011	313

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

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

	(Thousands of dollars)
2007	$16,863
2008	24,045
2009	3,266
2010	83,076
2011	2,366

Note 16 – Equity advance

As a Saskatchewan Provincial Crown corporation, the Corporation's equity financing is in the form of equity advances of $250,000,000 (2005 – $250,000,000) from CIC.

Note 17 – Commitments and contingencies

Commitments

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

	(Thousands of dollars)
2007	$35,509
2008	35,965
2009	24,075
2010	21,825
2011	11,373

The above payments include $21,100,000 for leases with related parties.

Note 17 – Commitments and contingencies, continued

Contingencies

On August 9, 2004, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including the Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning system administration fees. The plaintiffs seek unquantified damages from the defendant wireless communications service providers. Similar proceedings have been filed by, or on behalf of, plaintiffs' counsel in other provincial jurisdictions. On July 18, 2006, the Saskatchewan court declined to certify the action as a class action, but granted the plaintiffs leave to renew their application in order to further address certain statutory requirements respecting class actions. The Corporation believes that it has strong defenses to the allegations. Should the ultimate resolution of these actions differ from management's assessments and assumptions, a material adjustment to the Corporation's financial position or results of operations could result.

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, 2006 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's consolidated financial position or results of operations.

The Corporation has provided letters of credit related to both performance and bid bonds to various parties. The total amount at December 31, 2006 is $650,093.

Deferral Account

The current price cap framework, which expires in May of 2007, included a mechanism known as the "deferral account". This mechanism was used to mitigate potential adverse effects on competition in the local market which the CRTC felt might be caused by mandated reductions in the price of local residential service. Rather than lowering rates, as the price cap formula would otherwise have required, the CRTC directed the Corporation to keep a record of the amount of revenue which would otherwise have been lost. Various adjustments to this amount were allowed or required as a result of specific CRTC policy directives.

Since the current price cap framework is about to expire, the CRTC, effective June, 2006, required the Corporation to implement decreases in the rates charged for residential local service. This action halted further growth in the deferral account.

Any remaining amounts in the deferral account must be used to fund initiatives such as service improvements or customer rebates. The CRTC is currently conducting a public proceeding which will determine the specific uses of the deferral account. In addition, there are two cases before the Federal Court of Appeal which may impact the final disposition of these amounts.

The Corporation estimates the accumulated commitment to the deferral account to be $1.5 million, as of December 31, 2006. A liability, should one arise, will be charged to income from operations or property, plant and equipment, as appropriate.

Note 18 – Additional financial information

a) Balance sheet

	2006	2005
		(Thousands of dollars)
Accounts receivable		
Customer accounts receivable	**$77,016**	$80,135
Accrued receivables - customer	**5,251**	5,362
Allowance for doubtful accounts	**(5,162)**	(6,051)
	77,105	79,446
High cost serving area subsidy	**5,894**	5,998
Other	**12,519**	14,637
	$95,518	$100,081
Prepaid expenses		
Prepaid expenses	**$13,581**	$11,218
Deferred service connection charges	**5,223**	3,433
	$18,804	$14,651
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	**$65,939**	$68,617
Payroll and other employee-related liabilities	**55,725**	54,735
Taxes payable	**4,648**	6,175
Interest payable	**5,248**	5,952
Other	**1,128**	1,366
	$132,688	$136,845
Services billed in advance		
Advance billings	**$36,089**	$34,920
Deferred customer activation and connection fees	**6,595**	4,526
Customer deposits	**2,663**	2,508
	$45,347	$41,954

b) Supplementary cash flow information

	2006	2005
		(Thousands of dollars)
Net change in non-cash working capital		
Accounts receivable	**$6,551**	$(41,699)
Inventories	**(1,353)**	257
Prepaid expenses	**(4,956)**	(7,756)
Accounts payable and accrued liabilities	**(4,995)**	(699)
Services billed in advance	**3,393**	5,591
Deferred revenues	**835**	4,632
	$(525)	$(39,674)
Interest paid	**$30,425**	$30,972

Note 19 – Financial instruments

Credit risk
The Corporation has a large and diverse customer base that minimizes the concentration of credit risk.

Currency exposure
The Corporation uses a combination of derivative financial instruments to manage foreign exchange risk exposures. The Corporation does not actively trade derivative financial instruments. At December 31, 2006, there were no derivative financial instruments outstanding.

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

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

	2006		2005	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Equity in sinking funds	**$50,207**	**$51,082**	$44,734	$46,189
Long-term debt, Province of Saskatchewan	**$360,976**	**$460,242**	$393,574	$504,897
Other long-term debt	**$7,039**	**$7,724**	$7,266	$7,763

Note 20 – Employee future benefits

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

a) Defined benefit pension plan
The defined benefit pension plan is governed by Saskatchewan Telecommunications (SaskTel) which has been closed to new membership since 1977. The SaskTel defined benefit pension plan is registered under *The Pension and Benefit Act, 1992*, Saskatchewan, the *Income Tax Act*, Canada and regulated by the Saskatchewan Financial Services Commission – Pension Division. The Corporation is responsible for adequately funding the defined benefit pension plan. Contributions are determined by actuarial valuations. The contributions reflect actuarial assumptions about future investment returns, salary projections and future service benefits. A valuation is performed at least every 3 years to determine the actuarial present value of the accrued pension benefit. The latest valuation is dated December 31, 2003 and was performed as of August 31, 2004.

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

Note 20 – Employee future benefits, continued

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

The introduction of the ERP for SaskTel resulted in a curtailment to the defined benefit pension plan. The impact of the curtailment was to reduce the accrued benefit obligation by $26,596,139 (2005 – $19,108,433).

Key assumptions used as inputs to the actuarial calculations are:

	2006	2005
Discount rate	**5.15%**	5.25%
Expected return on plan assets	**6.75%**	7.00%
Inflation rate	**2.50%**	2.50%
Expected salary increase	**3.00%**	3.00%
Post-retirement index (not to exceed 2%)	**100% of CPI**	100% of CPI

Pension plan assets

The table below shows the allocation of pension plan assets:

Asset category	**2006**	2005
Equity securities	**55.5%**	53.1%
Bonds	**29.0%**	30.4%
Short-term investments (treasury bills, notes and commercial paper)	**8.3%**	9.8%
Real estate	**7.2%**	6.7%
	100%	100%

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

	2006	2005
		(Thousands of dollars)
Current service cost – defined benefit plan	**$(7,480)**	$(7,839)
Interest cost	**(52,241)**	(51,879)
Expected return on pension plan assets	**59,455**	57,429
Special termination benefits costs	**(43,399)**	(29,666)
Amortization of net transitional asset	**11,651**	11,677
Amortization of past service costs	**(4,220)**	(4,957)
Amortization of actuarial loss	**(6,307)**	(13,708)
Impact of settlement	**(2,133)**	-
Net pension cost	**$(44,674)**	$(38,943)

Effective April 5, 2006, the Corporation received approval from the Office of the Superintendent of Financial Institutions to settle the Navigata Communications Inc. Pension Plan, governed by the Navigata Communications Partnership. During the year, the Corporation has funded $2,610,204 and incurred costs of $2,133,034 related to the settlement.

Note 20 – Employee future benefits, continued

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

Accrued benefit obligation	**2006**	2005 (Thousands of dollars)
Accrued benefit obligation, beginning of year	**$1,029,502**	$900,521
Current service cost	**9,124**	9,951
Curtailment gain	**(26,596)**	(19,108)
Interest cost	**52,548**	51,879
Benefits paid	**(64,656)**	(48,186)
Impact due to change in discount rate	**6,047**	104,779
Special termination benefits costs	**43,399**	29,666
Accrued benefit obligation, end of year	**$1,049,368**	$1,029,502

Plan assets	**2006**	2005 (Thousands of dollars)
Fair value of plan assets, beginning of year	**$917,733**	$815,063
Actual return on plan assets	**114,954**	111,620
Employer contributions	**37,977**	37,123
Employee contributions	**1,645**	2,113
Benefits paid	**(64,656)**	(48,186)
Fair value of plan assets, end of year	**$1,007,653**	$917,733

Deferred pension costs	**2006**	2005 (Thousands of dollars)
Funded status – deficit	**$(41,715)**	$(111,769)
Unamortized transitional asset	**(27,147)**	(39,118)
Unamortized past service costs	**8,404**	12,624
Unamortized net actuarial losses	**107,027**	191,728
Deferred pension costs	**$46,569**	$53,465
Comprised of:		
Deferred pension costs	**$46,569**	$53,743
Deferred pension liability	**-**	(278)
	$46,569	$53,465

Note 20 – Employee future benefits, continued

b) Defined contribution pension plan

The defined contribution pension plan requires the Corporation to contribute 6% of employees' pensionable earnings and employees to contribute a minimum of 4% of pensionable earnings. The total cost for the defined contribution plan is equal to the Corporation's required contribution. The Corporation's 2006 pension cost and employer contributions for the Public Employees Pension Plan are $12,651,201 (2005 – $11,898,825).

c) Service recognition defined benefit plan

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

	2006	2005
Discount rate	**4.60%**	5.20%
Expected salary increase	**3.00%**	3.00%
Estimated average remaining employee service life	**14.1 years**	14.1 years

Current year benefit cost	**2006**	2005 (Thousands of dollars)
Defined benefit service cost	**$1,360**	$2,663
Impact of curtailment	-	7,452
	$1,360	$10,115

Accrued benefit obligation	**2006**	2005 (Thousands of dollars)
Accrued benefit liability	**$19,432**	$21,019

Note 21 – 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:

Note 21 – Related party transactions, continued

	2006	2005 (Thousands of dollars)
Operating revenues	**$56,855**	$62,660
Operating expenses	**37,322**	38,384
Other income	**13**	49
Accounts receivable	**4,954**	4,996
Property, plant and equipment	**3,468**	3,436
Accounts payable and accrued liabilities	**1,859**	3,313

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 22 – Subsequent events

Subsequent to year end, the Corporation, through its subsidiary DirectWest Corporation, purchased all of the outstanding partnership units of The Phone Book Company Partnership owned by MidWest Marketing Inc. for cash consideration of $460,000.

Subsequent to year end, the Corporation disposed of a portion of its interest in Streamlogics Inc. for cash proceeds of $1,000,000, resulting in a gain of approximately $620,000.

Note 23 – Comparative figures

Certain of the 2005 figures have been reclassified to conform to the current year's presentation.

Board of Directors

Reg Bird, Chair

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

Alison Renny, Vice Chair

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

Blair Davidson

- Chartered Accountant and a partner in the accounting firm of Hergott, Duval, Stack & Partners LLP since 1989.
- Active on several committees with the Institute of Chartered Accountants of Saskatchewan, chair of the discipline committee, former representative for Saskatchewan on the Public Liability Committee of the Canadian Institute of Chartered Accountants and board member of AIDA Inc., the administrator of the public liability insurance program for the Canadian Institute of Chartered Accountants.
- Has served on several Saskatoon area boards, including: Saskatoon Golf & Country Club; the Board of Directors of Saskatoon City Hospital, Saskatoon City Hospital Foundation, the Board of Directors of the Saskatoon Airport Authority, and the Saskatoon Zoo Foundation.
- B. Comm., University of Manitoba.

Nancy Edge

- 26 years with SaskTel in several positions, most recently as a Regulatory Analyst with Regulatory Affairs.
- Board representative for the Communications, Energy and Paperworkers Union of Canada (CEP).
- B.A. Brock University.

Tom Hope

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

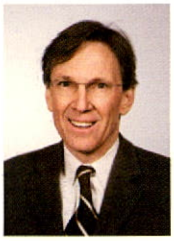
Georgina Jolibois

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

Bill Lawson

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

Douglas B. Richardson, Q.C.



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

Pam Skotnitsky

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

Benjamin Voss

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

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

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

Dale Bloom, Secretary to the Board of Directors

Audit Committee
Alison Renny – Chair
Tom Hope
Blair Davidson
Ben Voss
Georgina Jolibois
Nancy Edge

Corporate Growth and Technology Committee
Ben Voss – Chair
Blair Davidson
Bill Lawson
Tom Hope
Alison Renny

Environment and Human Resources Committee
Bill Wardell – Chair
Georgina Jolibois
Bill Lawson
Pam Skotnitsky

Governance Committee
Doug Richardson – Chair
Nancy Edge
Pam Skotnitsky
Bill Wardell

**Please note that Joan Greyeyes resigned from the Board in November of 2006. She was on the Environment and Human Resources Committee and the Governance Committee while she served.

Executive Officers

Robert Watson – President and Chief Executive Officer

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

Mike Anderson – Chief Financial Officer

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

Doug Burnett – Vice President, Human Resources, Corporate Affairs & Corporate Services, Acting President, SaskTel International

- 17 years with SaskTel, initially as Corporate Counsel and subsequently promoted to his current role.
- Serves as executive Sponsor for Saskatoon Square Investment, as well as on the boards of Wicihitowin Foundation, SecurTek Monitoring Solutions Inc., Saskatchewan Telecommunications International Inc., DirectWest Publishing Partnership, Hospitality Network Canada Inc. and INROADS, Inc.
- Member of the Conference Board of Canada's Human Resource Executives Council (West) and the National Industrial Relations Executive Council.
- Prior to SaskTel, practiced law in Regina.
- B.A, University of Regina; LL.B., University of Saskatchewan; and a Certified Human Resources Professional (CHRP) designation.
- Member of both the Canadian Bar Association and the Law Society of Saskatchewan.

Ken Keesey – Vice President, Customer Services, Sales

- 26 years with SaskTel in a variety of positions within Customer Services and Sales.
- Serves on the boards of Saskatchewan Crime Stoppers, Saskatoon City Hospital Foundation, iTracks Advisory Board and the Saskatoon Centennial Advisory Committee.
- Governor for Junior Achievement of Northern Saskatchewan.

John Meldrum – Vice President, Corporate Counsel and Regulatory Affairs & Chief Privacy Officer, Acting Vice President, Business Development

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

Diana Milenkovic – Senior Vice President, Marketing and Service Development

- 15 years with SaskTel in VP roles of Corporate Affairs, Mobility, Customer Services, Sales & Operation, and Marketing & Service Development.
- Serves on community board of the Regina Symphony Orchestra
- Most recently, her past directorships include Chair of the Board of Saskatchewan Communications Network (SCN) and on the Board of the 2005 Jeux Canada Summer Games.
- Prior to SaskTel, worked as Policy Advisor Executive Council and Leader of the Opposition Office, Government of Saskatchewan; Marketing for Western Canada Summer Games; 12 years with Boards of Education in Regina, Saskatoon, Swift Current.
- B. Music, BA, University of Saskatchewan; Executive Business Programs in Leadership, Finance and Process Mastery.

Jim Pitt – President, SaskTel Expansion Division

- Previous to joining SaskTel, held executive positions at GT Group Telecom from 1999 to 2005, developing and implementing National Partner Programs for agents and resellers, and at Shaw Communications from 1995 to 1999, providing direction for Shaw Paging and Shaw Mobilecomm. Previous to Shaw, held various executive positions within the wireless industry, going back to 1985, where he was involved with the launch of Cantel's cellular service in Canada.
- Attended McGill University.
- Has attended the McGill Management Institute focusing on finance, and transportation and distribution management.

Stacey Sandison – Vice President, Customer Services, Operations

- 23 years with SaskTel including as General Manager of Marketing for Consumer Services and Mobility, and positions in Marketing, Sales, Mobility, Customer Services and Operations.
- Serves on the SaskTel Superannuation Board.
- Previously served on boards of SecurTek and The Canadian Wireless Telecom Association.
- BAdmin, University of Regina, MBA, Ellis College, New York.

Kym Wittal – Chief Technology Officer

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

SaskTel Subsidiaries Executive Officers

Gord Farmer	President, DirectWest
Daryl Silzer	President, SecurTek
Doug Jesse	President, Hospitality Network

SaskTel Senior Operating Managers

(As of December 31, 2006)

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

SaskTel International Senior Operating Managers

Doug Burnett	Acting President, SaskTel International
Scott Fedec	Vice President, Finance
Don Prokopetz	Acting Chief Operating Officer
Steve Sousa	Vice President, Marketing and Operations
Jason Migneault	Assistant Vice President, Marketing & Sales
Wayne Kosior	Assistant Vice President, Marketing & Sales

Authority

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

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

Board Appointments

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

Key Accountabilities

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

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

Corporate Governance Practices

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

On June 30, 2005, the Canadian Securities Administrators (CSA) National Policy 58-201 on Corporate Governance Guidelines and National Instrument 58-101 on Governance Disclosure Rules came into effect. The CSA standards supercede the Toronto Stock Exchange Corporate Governance Guidelines, which the Board has used previously to assess its practices. The Governance Committee has reviewed the Guidelines with a view to adapting the Board's governance practices to the guidelines, where effective and beneficial. Although SaskTel is not required to comply with the CSA governance guidelines, the Corporation has used them to benchmark its corporate governance practices in the following section.

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

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

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
NI 58-101F1, sections 1(e) 1(e) Disclose whether the independent directors hold regularly scheduled meetings at which members of management are not present; disclose the number of such meetings held in the previous 12 months; if such meetings are not held, disclose what the board does to facilitate open and candid discussion among independent directors.	There were five (5) regular Board meetings held in 2006, and during each regular meeting in camera sessions without management present but including all directors were held. Board practices that facilitate open and candid discussion among and independent judgement by directors include: • holding in camera sessions of no fixed duration where directors are encouraged to raise any issues of concern • having an independent director as Chair of the Board • clearly delineating the division of responsibilities between Board and management • providing for the Board/directors to access external advice The Board is satisfied that its governance practices foster full and open discussion and debate and that it retains the independence of mind to make decisions in the best interests of the Corporation and the shareholder.	Yes
NI 58-101F1, sections 1(g) 1(g) Disclose the attendance record of each director for board meetings held in the most recently completed financial year.	The Board held nine (9) meetings in 2006. The number of Board meetings attended by each director in 2006 is set out below. **Director** — **Meetings Attended*** Reg Bird, Chair — 8(9)** Alison Renny, Vice Chair — 9(9) Blair Davidson — 6(9) Nancy Edge — 7(7) Joan Greyeyes — 3(8) Tom Hope — 9(9) Georgina Jolibois — 8(9) Bill Lawson — 8(9) Karen Leir — 1(2) Douglas Richardson — 8(9) Pam Skotnitsky — 7(9) Benjamin Voss — 8(9) William Wardell — 9(9) * For the purposes of this report, members who attended meetings in part were considered to be present. ** Figures in brackets represent the maximum number of meetings for the period in which the individual was a board member.	Yes

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
Board Mandate **NP 58-201, section 3.4** 3.4 The board should adopt a written mandate which explicitly acknowledges responsibility for the stewardship of the corporation and responsibility for: (a) to the extent possible, satisfying itself as to the integrity of the CEO and executive and that they have created a culture of integrity throughout the organization; (b) adopting a strategic planning process and approving at least annually a strategic plan which takes into account, among other things, the opportunities and risks of the business; (c) identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks; (d) succession planning, including appointing, training and monitoring senior management; (e) adopting a communications policy for the corporation; (f) the integrity of the corporation's internal control and management information systems; and (g) developing the corporation's approach to corporate governance, including a set of principles and guidelines specific to the corporation. The written mandate should also address measures for receiving feedback from stakeholders (for example, a process for stakeholders to contact independent directors); and the expectations and responsibilities of directors, including basic duties to attend meetings and review materials in advance.	The Board has written Terms of Reference that contain the majority of the elements required by the Policy. The Terms of Reference outline the Board's principal duties and responsibilities, including responsibility to function as stewards of the Corporation and to: • provide leadership in setting the Corporation's long-range strategic direction and annually approve the Corporation's overall strategic plan • participate in identifying the principal risks of the business in which the Corporation is engaged and oversee the implementation of appropriate systems to manage the risks • appoint the CEO, evaluate the performance of senior management and ensure effective succession planning processes • adopt policies and processes to enable effective communication with the shareholder, stakeholders and the public • monitor the integrity of the Corporation's internal control and management information systems The Board has approved Terms of Reference for Directors where the expectations and responsibilities of individual directors are delineated. SaskTel regularly surveys internal and external stakeholders to obtain feedback about Corporate activities. The Chair of the Board participates in a forum established by CIC, which is comprised of the chairs of all subsidiary Crown boards and senior CIC officials, where issues of mutual interest and concern are shared. Elements of the Policy not specifically identified in the Terms of Reference for the Board include (a) and (g). Respecting (a), the Board has established practices which promote a culture of ethical business conduct (see discussion under section 3.8 of NP 58-201). With respect to (g) the Board has delegated responsibility to the Governance Committee to oversee the Corporation's approach to corporate governance.	Substantial Compliance
NI 58-101F1, section 2 2. Disclose the text of the board's written mandate.	The Board's principal responsibilities are described above. The text of the Board's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.	Yes

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
Position Descriptions **NP 58-201, section 3.5** 3.5 The board should: develop clear position descriptions for the chair of the board and the chair of each board committee; together with the CEO, develop a position description for the CEO delineating management's responsibilities; develop or approve corporate goals and objectives that the CEO is responsible to meet.	The Board has approved Terms of Reference for the Board, the Chair of the Board, each Committee and individual directors and has adopted a Position Description for the CEO. The CEO's Position Description sets out the CEO's primary accountabilities and responsibilities. The Board Terms of Reference address management duties, and a Final Authorization Policy, applicable to monetary and non-monetary matters, sets out those matters that require Board approval and delegates other matters to management. The Environment & Human Resources Committee annually recommends performance indicators for the Corporation and personal goals for the CEO that are approved by the Board. The Board annually approves a business plan that includes Corporate objectives, priorities and performance indicators. The CEO is responsible to see that the Corporation achieves the business plan and to meet any other targets assigned by the Board.	Substantial Compliance
NI 58-101F1, sections 3(a) and (b) 3(a) Disclose whether the board has developed written position descriptions for the chair of the board and the chair of each board committee and, if not, describe how the board delineates the role and responsibilities of each such position. (b) Disclose whether the board and CEO have developed a written position description for the CEO.	The Board has developed written position descriptions for the Chair of the Board, the Chair of each Committee and the CEO.	Yes
Orientation & Continuing Education **NP 58-201, sections 3.6 and 3.7** 3.6 The board should ensure new directors receive comprehensive orientation and fully understand the role of the board and committees, the contribution individual directors are expected to make and the nature and operation of the business. 3.7 The board should provide continuing education opportunities for all directors to enhance their skills and abilities and ensure their knowledge of the corporation's business is current.	Management provides new directors with a comprehensive orientation to the business and the industry. CIC delivers a training program that focuses on the skills that directors need to do their jobs, effective board processes and best practices in corporate governance. Other development opportunities made available to directors are described in the next section.	Yes

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
NI 58-101F1, sections 4(a) and (b) 4(a) Describe the measures taken to orient new directors to the role of the board, committees and directors and to the nature of the corporation's business. (b) Describe the measures taken to provide continuing education opportunities for all directors.	The Corporation provides all members appointed to the Board with a comprehensive *Directors' Reference Manual*, and new directors receive an orientation session delivered by management. The orientation session addresses key industry trends, critical business risks and challenges, the strategic plan, organizational structure and responsibilities of senior staff. New directors are able to meet informally with senior managers to learn about the business, and tours of Corporate operations are arranged periodically. Prior to each regular board meeting, outside experts in various aspects of the telecommunications industry are invited to speak to the Board and senior management. Management has also delivered educational sessions to directors to explain technical aspects of the business. Each year, CIC sponsors a comprehensive education program for directors of CIC subsidiary Crown boards. The program has focused on the key roles and responsibilities of boards, committees and directors, the skills directors need to effectively discharge their responsibilities and best practices and new developments in corporate governance. Directors can participate in external development opportunities related to their duties as directors where authorized by the Corporation or the Board.	Yes
<u>**Code of Business Conduct and Ethics**</u> **NP 58-201, section 3.8** 3.8 The board should adopt a written code of business conduct and ethics applicable to directors, officers and employees of the corporation designed to promote integrity and deter wrongdoing. The code should address: (a) conflicts of interest, including transactions and agreements where a director or officer has a material interest; (b) protection and proper use of corporate assets and opportunities; (c) confidentiality of corporate information; (d) fair dealing with the corporation's security holders, customers, suppliers, competitors and employees; (e) compliance with laws, rules and regulations; and (f) reporting of illegal or unethical behavior.	Board members must comply with the *Directors' Code of Conduct*, which was developed by CIC and applies to the directors of all its subsidiary Crown boards. Officers and employees of the Corporation and its subsidiaries must comply with SaskTel's Business Code of Conduct, which includes a whistle blowing policy. Both Codes are designed to promote integrity and deter wrongdoing, address the elements of the Policy as they apply to a Crown corporation and provide a mechanism to report illegal or unethical behavior.	Yes

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
NI 58-101F1, sections 5(a) 5(a) Disclose whether the board has adopted a written code of ethical business conduct for the directors, officers and employees of the corporation; how to obtain a copy of the code; how the board monitors compliance with the code; and reference any material change report in the most recent financial year relating to any conduct of a director or officer that constitutes a departure from the code.	A copy of the *Directors' Code of Conduct* can be obtained by contacting CIC. A copy of the Business Code of Conduct can be obtained by contacting SaskTel. Committees of the Board monitor compliance with the *Directors' Code* and the Business Code. The Governance Committee monitors compliance with Corporate donation and sponsorship policies and is responsible to administer, monitor and enforce the *Directors' Code*. The Chair of the Committee reports to the Board at each regular meeting any such issues addressed by the Committee, and submits an annual report to the Board regarding compliance with the *Directors' Code*. The Audit Committee monitors the financial performance of the Corporation and assists the Board to meet its responsibilities respecting accounting and financial reporting, risk management, internal controls and accountability. The Committee interacts directly with the internal and external auditors, who report to the Committee concerning, among other things, any instances of illegal or improper treatment of Corporate assets. The Audit Committee receives quarterly risk management reports, including reports related to legal risks. The Chair of the Committee reports to the Board at each regular meeting any such issues addressed by the Committee, and all directors receive summaries of risk management reports. The Environment & Human Resources Committee monitors compliance with environmental, health and safety and human resource programs, including compliance with the Business Code. The Committee receives reports from management that address, among other things, compliance with related policies, legislation and regulations. The Chair of the Committee reports any issues raised at the Committee level to the Board at each regular meeting of the Board. SaskTel does not have share capital and is not an issuer. Therefore, no material change reports have been filed.	Yes
NP 58-201, section 3.9 3.9 The board should monitor compliance with the code and any waivers granted for the benefit of directors and executive officers should be granted by the board or a board committee. Any waivers for a material departure from the code for any directors or officers should disclose full details of the material change.	The Board has delegated to its Committees the responsibility to monitor compliance with the Codes of Conduct. The Committees report any issues dealt with pursuant to the Codes to the full Board. No waivers from either Code have been granted to any director or officer in 2006.	Yes

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
NI 58-101F1, sections 5(b) 5(b) Describe steps the board takes to ensure directors exercise independent judgement in considering transactions and agreements where a director or officer has a material interest.	Where a director has, or may be perceived to have, a personal interest in a transaction being considered by the Corporation, the director is responsible to declare any such interest at the meeting where the matter is considered and not to participate in discussions about or vote on the matter. In 2005, the Board adopted a Disclosure form to enable directors to declare their directorships on and material interests in business other than SaskTel, their knowledge of the business their associates have or may transact with SaskTel and any material contracts they may have entered into with SaskTel or its subsidiaries. The required information excludes the acquisition of services available to the general public. The completed form is provided to the Governance Committee, the Corporate Secretary and their advisors to assist them in proactively addressing potential conflict of interests. Management monitors agenda items to identify any issues where a director may have a material interest and such items are not distributed to the director.	Yes
NI 58-101F1, sections 5(c) 5(c) Describe other steps the board takes to encourage and promote a culture of ethical business conduct.	The Board encourages and promotes a culture of ethical business conduct by following current best practices in corporate governance. These practices are reinforced by open and honest discussion about business issues at Board meetings and at informal gatherings between the Board and senior management. The Board expects management to act ethically in its business dealings, in accordance with all applicable legislation, the Business Code of Conduct and any directives or policies of the Board or the shareholder. In 2005, the Business Code of Conduct was revised to incorporate a whistle blowing mechanism to facilitate reporting by employees of issues of concern. Issues arising under the Business Code are reported to and monitored by the Environment & Human Resources Committee and management reports annually to the Governance Committee respecting significant issues that have arisen pursuant to the whistle blowing policy.	Yes
<u>Nomination of Directors</u> **NP 58-201, section 3.10** 3.10 The board should appoint a nominating committee composed of entirely independent directors.	The Governance Committee functions as the nominating committee. Four (4) of five (5) members of the Governance Committee, including the Committee Chair, are independent directors. One (1) Committee member, an employee of SaskTel, is not independent. The employee director serving on the Committee is not an officer of the Corporation. The Committee has reviewed this guideline and believes that having an employee director as a member does not give officers of the Corporation the opportunity to bias or influence Committee decisions.	Substantial Compliance

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
NI 58-101F1, sections 6(a) and (b) 6(a) Describe the process by which the board identifies new candidates for board nomination. (b) Disclose whether the board has a nominating committee composed entirely of independent directors and, if not, describe the steps the board takes to encourage an objective nomination process.	The Board, through the Governance Committee, reviews the composition and skill sets of directors annually with a view to maintaining an appropriate mix of expertise, experience and diversity on the Board to support the strategic direction and operating needs of the Corporation. The Governance Committee is responsible for identifying the skill sets needed on the Board, developing and maintaining a Skills Profile that delineates the competencies of current directors and identifies any skill gaps and seeking and recommending to the Board nominees that have the required competencies and fill any identified gaps. In addition to competencies and skills, the appointment practices encourage diversity in the composition of the Board. In seeking candidates, the Committee receives recommendations from the directors, senior management and the shareholder. Potential candidates are interviewed to determine their overall fit with the needs of the Board, any conflicts that would preclude their effective participation and whether they have the time to devote to Board work. The Committee recommends a list of candidates for each vacant position to the Board which in turn recommends a list of recommended candidates to the shareholder. The shareholder has the legislative authority to make Board appointments. The Committee believes that following best practices related to Board appointments, maintaining a skills matrix and recruiting candidates who possess the required combination of skills, background and diversity to add value to Corporate decision-making supports an objective nomination process.	Yes
NP 58-201, section 3.11 3.11 The nominating committee should have a written charter establishing the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual directors or subcommittees) and manner of reporting to the board. In addition, the nominating committee should be given authority to engage and compensate outside advisors necessary to permit it to carry out its work. Where a third party has a legal right to nominate directors, the selection and nomination of those directors need not involve the approval of an independent nominating committee.	The Governance Committee has written Terms of Reference setting out its purpose and principal responsibilities, which address the Committee's responsibility to lead the process of recruiting and nominating candidates for appointment to the Board, as well as the other elements of the Policy except member qualifications and the ability to delegate tasks. The Committee has authority to engage outside advisors to assist it in performing its duties, subject to the approval of the Board. The shareholder has the right to nominate candidates for appointment to the Board, and the candidates are assessed by the Governance Committee in the same way as other candidates.	Substantial Compliance

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
NI 58-101F1, sections 6(c) 6(c) If the board has a nominating committee, describe the responsibilities, powers and operation of the committee.	The Governance Committee performs the functions of a nominating committee, and its Terms of Reference describe the responsibilities, powers and operation of the Committee. The Committee is appointed by the Board, serves in an advisory capacity and makes recommendations to the Board within its area of responsibility. A copy of the Committee's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.	Yes
NP 58-201, section 3.12 3.12 The board should adopt a nomination process which considers the competencies and skills of the board as a whole; assesses the competencies and skills possessed by each existing director; and considers the personality and other qualities of each director. The board should also consider the appropriate size of the board, with a view to effective decision-making, and should consider the advice and input of the nominating committee.	The Board's nomination process is described above, and it meets the guidelines of the Instrument. By legislation, the Board is comprised of a maximum of 12 directors. As the Committee responsible for the Board's approach to corporate governance, the Committee makes recommendations to promote timely and effective decision-making.	Yes
NP 58-201, section 3.13 3.13 The nominating committee should be responsible for identifying individuals qualified to become new board members and recommending to the board the new director nominees.	The Governance Committee, serving as the nominating committee, is responsible for leading the process to identify, recruit and recommend qualified candidates for appointment to the Board.	Yes
NP 58-201, section 3.14 3.14 In making its recommendations the nominating committee should consider: the competencies and skills that the board considers necessary for the board as a whole to possess; the competencies and skills of existing directors; the competencies and skills of each nominee; and whether each new nominee can devote sufficient time and resources to board work.	The process followed by the Governance Committee complies with that set out in the Policy and is described above.	Yes
<u>**Compensation**</u> **NP 58-201, section 3.15** 3.15 The board should appoint a compensation committee composed entirely of independent directors.	The Environment & Human Resources (EHR) Committee performs the functions of a compensation committee. Four (4) of five (5) members of the EHR Committee, including the Committee Chair, are independent directors. One (1) Committee member, as an employee of SaskTel, is not independent. The employee director serving on the Committee is not an officer of the Corporation, does not receive any material related to issues where the director may have a direct conflict and does not participate in Board or Committee discussions on such topics. The Committee has reviewed this guideline and believes that having an employee director as a member does not give officers of the Corporation the opportunity to bias or influence Committee decisions respecting management compensation.	Substantial Compliance

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
NI 58-101F1, sections 7(a) and (b) 7(a) Describe the process by which the board determines compensation for the directors and officers of the Corporation. (b) Disclose whether the board has a compensation committee composed entirely of independent directors and, if not, describe the steps the board takes to ensure an objective process for determining such compensation.	The majority of members of the Environment & Human Resources Committee, which serves as the compensation committee, are independent directors. CIC has the legislative authority to fix remuneration levels and set expense guidelines for directors. The Governance Committee has authority to recommend to the Board (and the Board to CIC) adjustments to directors' compensation. The Committee receives quarterly reports respecting the remuneration received by members of the Board, and reports any anomalies to the Board. Each director receives an annual retainer for acting as a board member, directors who are not employees of the Corporation receive fees for attending meetings of the Board and Committees or for performing other functions as a member of the Board. The remuneration levels established by CIC for members of the Board are set out below. **Director Remuneration Schedule** Board Chair retainer $11,000.00 Board member retainer $8,000.00 Board Chair meeting fee $900.00 Committee Chair meeting fee $800.00 Board member meeting fee $700.00 A copy of CIC's remuneration and expense guidelines for directors can be obtained by contacting CIC. CIC has established a framework for executive compensation, and the Board can approve compensation packages within that framework. The Board has delegated responsibility for addressing and making recommendations concerning management compensation issues to the Environment & Human Resources Committee. The Environment & Human Resources Committee reviews and recommends to the Board: changes to the design of the Corporation's overall compensation and benefits plans; management compensation packages that reflect industry standards; performance compensation programs; and annual Corporate indicators, including a sub-set used to determine performance compensation for management. In discharging this function, the Committee has the ability to retain external advisors, subject to approval by the Board.	Yes

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

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
NI 58-101F1, sections 7(d) (d) If a compensation consultant has been retained, at any time during the Corporation's most recently completed fiscal year, to assist in determining compensation for any of the Corporation's directors and officers, disclose the identity of the consultant and briefly summarize their mandate. If retained to perform any other work, state that fact and briefly describe the nature of the work.	In 2006, the Corporation did not retain any compensation consultants to assist in determining compensation for the directors or officers.	Yes
Other Board Committees **NI 58-101F1, section 8** 8 If the board has standing committees of the board, other than audit, compensation and nominating committees, identify the committees and describe their function.	In addition to the Audit, Governance and Environment & Human Resources Committees, the Board has appointed a Corporate Growth & Technology (CGT) Committee. The CGT Committee: works with management to develop a growth strategy and related policies; reviews and recommends investments and divestitures; monitors and reports to the Board respecting the performance of investments; and reviews and makes recommendations concerning the evolution of technology in the Corporation, long-term technology strategies and technology investments. A copy of the Committee's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.	Yes
Board Assessments **NP 58-201, section 3.18** 3.18 The board, its committees and each individual director should be regularly assessed. An assessment should consider: with respect to the board or committees, its mandate or charter; with respect to an individual director, the applicable position description(s), as well as the competencies and skills each individual director brings to the board.	Board, Board Chair, Committee evaluations and director peer assessments are performed annually on a two year cycle, with comprehensive Board and Board Chair evaluations being conducted one year, and director peer and committee evaluations being conducted the following year. The evaluations take into consideration the elements of the Policy.	Yes

CSA Corporate Governance Policy, NP 58-201, and Disclosure Instrument, NI 58-101F1 (SUMMARY)	SaskTel's Governance Practices	Does SaskTel Align?
NI 58-101F1, section 9 9 Disclose whether the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution and, if yes, describe the process used.	The Governance Committee oversees the implementation of the above evaluation processes, and uses an external consultant in the case of director peer assessments. The evaluations are survey-based, using an instrument developed by CIC in consultation with the Governance Committees of the subsidiary Crown boards of directors. Board, Chair, Committee and director performance is measured against the duties and expectations set out in their respective Terms of Reference and the specific standards outlined in the evaluation instruments. The purpose of the evaluations is to identify areas where the Board, Committee, Chair or director is managing well and to highlight areas that may benefit by additional focus and attention. Directors complete surveys to provide feedback in writing on the effectiveness and contribution of the Board, Committees, Chairs and individual directors. The Board Chair or a third party follows up the written responses with interviews of directors to elicit additional concerns or suggestions for improvement. The Governance Committee prepares reports outlining the evaluation results, which are submitted to the Board for review and approval. The Committee recommends follow-up action required as a result of recommendations made in the evaluation reports, and tracks implementation of any action items. In 2006, performance evaluations of the committees and director peer assessment were conducted.	Yes

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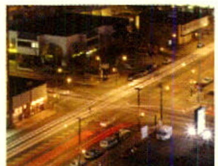
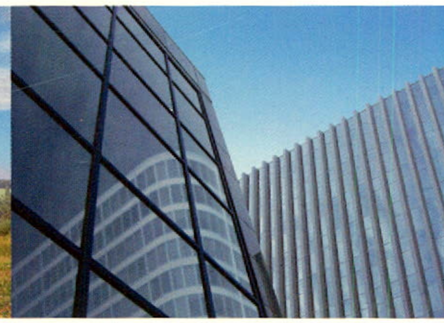
For more information about SaskTel, our initiatives and operations, or to obtain additional copies of the 2006 SaskTel Annual Report, please contact SaskTel Corporate Affairs at 1-877-337-2445 or visit our web site at **www.sasktel.com**.

SEND ski team photograph, page 18, courtesy of Terry Graham, Engineering Assistant (Facilities Management).





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