

**SASKATCHEWAN'S COMMUNICATIONS COMPANY**



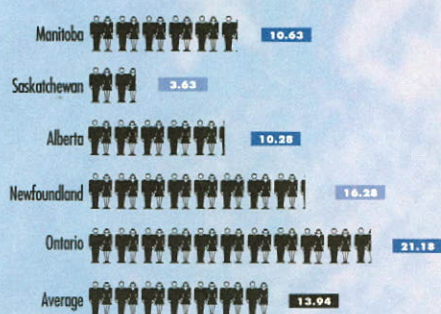
*"They understand  
the business, they've  
been in it for a long  
time, they know  
Saskatchewan."*

John Darke, SaskTel customer,  
talking about Saskatchewan's  
communications company.



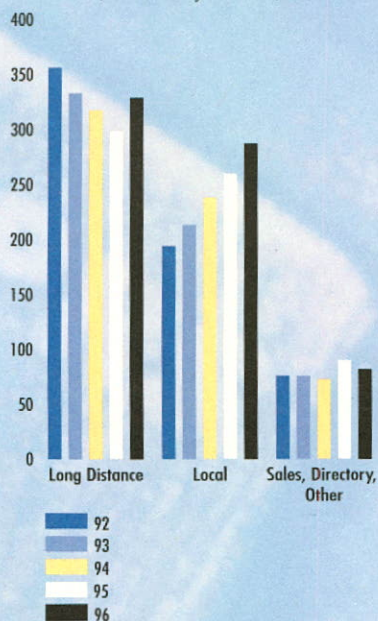
## FINANCIAL HIGHLIGHTS

### Local service challenge — accesses per kilometre of network

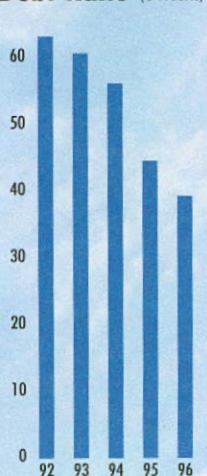


Source: Statistics Canada — Telephone Statistics 1994

### Operating Revenues (Millions of Dollars)



### Debt Ratio (Percent)



## SASKTEL IS...

The leading full service communications company in Saskatchewan, providing voice, data, Internet, text and messaging services over a digital network, as well as cellular, paging, and Fleetnet 800 service through its SaskTel Mobility division.

A holding company that manages increasingly diversified assets of approximately \$1.2 billion. The holding company allows us to subdivide our business into distinct subsidiaries and investments. This structure keeps the core telecommunications company we refer to as 'SaskTel' separate from our diversified portfolio, including SaskTel Mobility, and SaskTel International, a wholly-owned subsidiary which pursues diversification initiatives around the world.

A provincial Crown corporation that has been delivering first-rate telecommunications to the people of Saskatchewan for 89 years. We enjoy the challenge of serving the diversity of needs, aspirations, and cultural backgrounds presented to us by our more than 450,000 business and residential customers.

A workforce of 3896 employees. SaskTel people live and work in communities throughout Saskatchewan so that we can deliver the best communications products and services to every corner of the province.

A province-wide, all-digital network that links Saskatchewan's 12 cities with more than 670 smaller communities and their surrounding rural areas, including more than 70,000 farms. Our network — one of the first on the continent to go all-digital — serves over 607,000 network access lines throughout the province's 652,000 square kilometres, bringing the world to our customers.

## CONTENTS

Letter of Transmittal	2
Minister's and President's Joint Address	3
Services to meet all of your communications needs.	6
Simplifying your world.	10
We are first to market with innovative solutions.	12
SaskTel has been listening to you.	16
Call centre solutions.	18
Committed to supporting Saskatchewan communities.	20
SaskTel away from home.	22
Management Discussion and Analysis	24
Corporate Directory	44
Board of Directors	inside back cover





*SaskTel's employees -  
our key to building  
customer loyalty.*

Aditi Ram is a business  
representative at SaskTel's  
Customer Care Centre.



## LETTER OF TRANSMITTAL

Regina, Saskatchewan

March 31, 1997

To His Honour

The Honourable J.E.N. Wiebe

Lieutenant Governor of the

Province of Saskatchewan

Dear Lieutenant Governor:

I have the honour to submit herewith the annual report of SaskTel for the year ending December 31, 1996, including the financial statements, duly certified by auditors for the corporation, and in the form approved by the Treasury Board, all in accordance with The Saskatchewan Telecommunications Holding Corporation Act.

Respectfully submitted,



Hon. Carol Teichrob

Minister responsible for SaskTel

## SASKTEL'S VISION & VALUES

### Our vision

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

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

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

### Our values

#### *Honesty, integrity and mutual respect*

At the base of all our beliefs is honesty, integrity and mutual respect. These are inherent in everything we do and say.

#### *Open communication*

Open communication will create an atmosphere of trust and common purpose. Only through open communication and clearly stating our values will the acceptable behaviors be known and understood in our organization. We believe open communication will foster autonomy and an entrepreneurial spirit among our employees.

#### *Excellence*

We believe SaskTel will be successful through excellence:

- Excellence in serving our customers by providing value through price, quality and service.
- Excellence from every person at SaskTel through living our values.
- Excellence in our business through innovative products and processes supporting our customer service.



## **SaskTel — Saskatchewan's communications company.**

Not a day goes by at SaskTel without at least one reminder that our customers are interested in the direction of this corporation. By letter, fax, e-mail, telephone, and in person, we hear your concerns, comments, and ideas. Through this process, SaskTel people maintain a dialogue with the people of Saskatchewan, a dialogue that over the years has helped us stay in touch with the needs of our customers. What is more, we have come to realize that there is strength in this gathering of voices. These contacts with our customers arise from a bond — unparalleled within the telecommunications industry — of care and interest between SaskTel and the people we serve.

1996 will be remembered as the year long distance competition arrived in Saskatchewan. We believe that it will also be remembered as the year SaskTel, in the face of mounting pressure from new competitors, confirmed its role as "Saskatchewan's communications company." Everything we know about the skills and commitment of our people leads us to believe that we will continue winning the fight for long distance callers.

In the face of intense competition and advertising from large out-of-province telecommunications companies, we want to be sure that Saskatchewan people realize what separates SaskTel from the crowd. SaskTel remains a Crown corporation serving the relatively small and widely dispersed community that makes up this province. Our employees, 3,896 strong, are your friends, relatives, and neighbours.

When you pay your SaskTel bill, the money does not go to Toronto, or Halifax or New York. It stays home, in Saskatchewan. In fact, SaskTel's profitability and financial well-being are in many ways bound up with the well-being of your household. Much of our profit goes back into providing you with the best communications the world can offer. A large share is paid out as a dividend to the province, helping to pay down debt and fund health, education, and economic and social development in this province. Add to this SaskTel's direct contributions, through corporate sponsorships, to the social and cultural fabric of this province, and you will see that we are different from our competitors, because we are Saskatchewan's communications company.

The foundation upon which SaskTel has built its relationship with its customers and the communities of Saskatchewan is its strong balance sheet. In 1996, SaskTel's financial results turned out to be stronger than anyone would have predicted a year ago. The year before, excluding the gain from our sale of LCL Cable Communications Ltd., net income from the core of our business actually took a drop. We expected a similar decline in 1996. However, this did not happen, for several reasons.

*SaskTel's profitability  
and financial well-  
being are in many ways  
bound up with the  
well-being of your  
household.*





*Minimizing market loss  
will require hard work,  
shrewd decision-  
making, and leadership  
— the very qualities  
that have helped  
SaskTel to succeed in  
an industry that is  
about as predictable as  
prairie weather.*

First, despite a further drop in long distance prices, the revenues we receive from long distance calling in Saskatchewan actually increased by 10%, thanks in part to the great success of our Real Plus Extra™ savings plan, which has spurred an increase in long distance calling. Second, our inter-provincial long distance revenues rose as well, the first increase we have had in this category for six years. Third, a stronger economy in the province increased our local revenues, particularly in enhanced local services and the business sector. Fourth, once again we enjoyed significant revenues from our diversified operations, including SaskTel International and SaskTel Mobility.

Still, our solid performance in 1996 will not shield us from the realities of head-to-head competition in 1997 and in years to come. In the last two months of the year, SaskTel felt the full brunt of competition when new service providers began a blitz of our customers to secure a share of the long distance market. We have done well to date, retaining the lion's share of our customers, and winning back a large percentage of those who initially switched to other carriers. However, we can expect to face new opponents in the local service market within two years. As well, the climate in which SaskTel operates could change, with possible CRTC regulation in 1998 or 1999.

In the immediate future we can expect to lose some long distance market share and revenues. As anyone who operates a business in a highly competitive market knows, this is a fact of life. Minimizing market loss will require hard work, shrewd decision-making, and leadership — the very qualities that have helped us to succeed in an industry that is about as predictable as prairie weather.

Diversified revenue from the operations of SaskTel International and SaskTel Mobility will continue to keep the bottom line healthy as we face further erosion of our traditional revenues. But diversification alone will not be enough to offset any substantial decline in earnings from long distance. Telecommunication companies across Canada have had to raise local service rates to make up for lost long distance profits. At the same time, our competitors will seek to pay lower contribution rates — the subsidy all long distance carriers make towards local service. As well, SaskTel's share of inter-provincial long distance revenue will drop in 1997. Like all other telecommunications firms in North America, SaskTel will continue looking for ways to reduce costs, create efficiencies, and bring rates for certain services in line with the costs of providing them.

SaskTel's local rates, frozen since August 1993, remain the second lowest in Canada. In fact, as of January 1, 1997, the national average rates for residential single line service were 16 - 26% higher than SaskTel's average rate. Despite freezing local rates, SaskTel has reduced many long distance rates by over 50% since 1990, in addition to our competitive long distance savings plans.

In 1996, SaskTel also experienced the first full scale strike in its 89-year history. After a long period of negotiation to arrive at a suitable agreement, talks between union and management, unfortunately, broke down. The unionized workers went out on strike on April 10, and returned to work 21 days later, after approving a new contract offer. We appreciate our customers' patience and support during this period. As well, we would like to recognize SaskTel's managers for putting in long and hard hours to fill the void left by the striking union members. Thanks also to the SaskTel locals of the Communications, Energy, and Paperworkers of Canada (CEP) for their openness and cooperation at the bargaining table.



and throughout the strike. Employees, management, and executive have all learned from the experience, and deserve praise for the character and integrity they showed during this difficult period. Industrial relations at SaskTel must become one of our competitive strengths. In the coming year, we will be working hard to continue building our relationships with our employees and the CEP.

In placing a renewed focus on people, SaskTel has also affirmed its continued commitment to promoting diversity within our corporate structure. By ensuring that we reflect the diversity in our customer base, we become a better employer and a better corporation, accessible to all people within Saskatchewan society.

Take a good look at the services and projects we highlight in the following pages. The people you will read about in this report are living testimony to the bond between Saskatchewan people and Saskatchewan's communications company. Consider our services — SimplyOne™, Internet for Schools, Sympatico™, and SaskTel Beyond. Take a look at our savings plans — Real Plus Extra™ and Advantage Select™. Evaluate our customer service improvements — the new bill, our Customer Care Centres, and extended hours of service. Each were created in response to the needs of our customers who have asked us for simple, innovative service at competitive prices. If we continue responding to customer needs in this way, we are confident that SaskTel will out-shine all comers in this market. In short, if we can simplify our customers' world, we will remain Saskatchewan's communications company.

SaskTel's successes in 1996, detailed throughout this annual report, would not have been possible without the dedication and determination of our talented employees, management team, executive members, and Board of Directors. To all of them, we extend our sincere appreciation. At the same time we thank you, our customers, shareholders, and partners — the people we serve and the people we must answer to — for your support and interest in our operations during the past year. All that we envision and all that we undertake depends upon our ability to continue earning your confidence and faith.

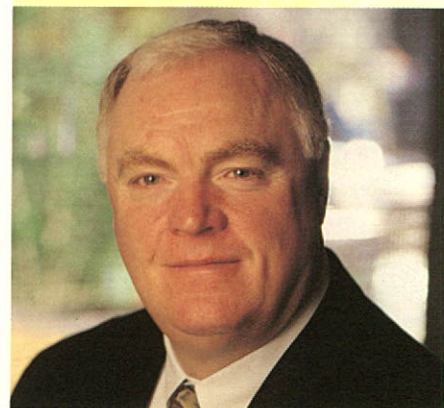


Honourable Carol Teichrob  
Board Chair and Minister responsible for SaskTel



Donald R. Ching  
President and Chief Executive Officer

*SaskTel's successes in 1996, detailed throughout this annual report, would not have been possible without the dedication and determination of our talented employees, management team, executive members, and Board of Directors.*







**service**

(sûr'vîs) n.

A helpful act, function,  
or labour contributing  
to the well-being of others.

## Services to meet all of your communications needs.

Increasingly today, SaskTel customers want communications tools that can travel with them wherever they go. In a province where people drive long distances daily to get to where they need to be, the cellular phone is becoming a standard for businesses and households. That standard would not exist without the work of SaskTel Mobility, Saskatchewan's leading provider of cellular and mobile

*Mobility's customers  
enjoy the most  
extensive cellular  
coverage in  
Saskatchewan.*



Donna Heimbecker, Metis  
Employment and Training of  
Saskatchewan, Ltd., Saskatoon.

communications systems. In December of 1996, SaskTel Mobility signed up its 100,000th customer. Now one in 10 Saskatchewan residents use cellular service on SaskTel Mobility's network. This landmark illustrates Mobility's success in achieving the second highest rate of market penetration among Mobility Canada member companies. Mobility's customers enjoy the most extensive cellular coverage in Saskatchewan — expanded again in 1996 and now stretching 105,000 square kilometres beyond any competitor's coverage area — and can roam outside of Saskatchewan's borders affordably, thanks to alliances with Mobility Canada members and various American cellular carriers.



In 1996, Mobility expanded its coverage to include Outlook, Hudson Bay, Preeceville, Spiritwood, Porcupine Plain, Watrous, Southey, Raymore, and Naicam.

SaskTel Mobility's wireless communications solutions also include paging, satellite communications, and FleetNet 800 trunked mobile radio systems. In addition, Mobility has been licensed by Industry Canada to introduce emerging wireless technologies such as two-way paging through narrowband Personal Communications Services (PCS) and broadband PCS for digital communications.

The success of SaskTel Mobility is a key part of SaskTel's overall effort to address the customer's total communications needs. Here is a story about an application of wireless technologies that is making a difference to one business and the thousands of people they serve.

*A farmer hurrying to get the last of his canola off the fields and into the bin at his farm northeast of Prince Albert radios to his wife that he feels a tightening in his chest, a pain in his left arm. He loses consciousness after telling her what field he is working in. She quickly calls the rural emergency number for an ambulance, and tells them the land location.*

*The north-central Emergency Dispatch Centre in Prince Albert handles the call and immediately enters the land location into their GPS (Global Positioning System)-based Rural Mapping system. At the same time the dispatch attendant uses their state-of-the-art FleetNet 800MHz trunked radio communication system, leased from SaskTel Mobility, to dispatch an ambulance from the emergency service nearest to the man in trauma. The ambulance attendants hit the road and enter the land location into their on-board computers, also equipped with GPS software. The computers at the emergency dispatch centre and in the ambulance communicate with a satellite to track and display instantaneously the location of the man in trauma, the location of the ambulance and the route between the two.*

*The GPS mapped route quickly leads the ambulance to the field where the farmer lies unconscious. Using FleetNet 800 radio to communicate with the emergency unit in Prince Albert's Victoria Hospital, the ambulance attendants quickly transfer the man to the ambulance and head for the hospital. En route they run a test called a "twelve-lead field EKG" on the patient's circulatory system. They download the test results via FleetNet 800 radio to the doctors in the emergency unit. The doctors immediately make a diagnosis and, again using FleetNet, advise the ambulance attendants of treatment they can administer in transport.*

This scenario is not a techno-dream of the distant future; it is based on an actual pilot project that began in 1996 in north-central Saskatchewan. The trial, testing currently available technologies, was run by a family-owned ambulance business in Prince Albert, in partnership with SaskTel Mobility and other technology suppliers such as Soo Mapping and Physio Control. According to Barry Dutchak, president of Parkland Ambulance, this kind of early treatment and response for cardiac patients, within the first hour of symptom onset, can make the difference between life and death.

Working closely with SaskTel Mobility in 1996, Parkland Ambulance opened its new \$100,000 Emergency Dispatch Centre to begin dispatching ambulance and rural fire fighting services throughout much of north-central Saskatchewan, all from one secure and technologically-advanced control centre.

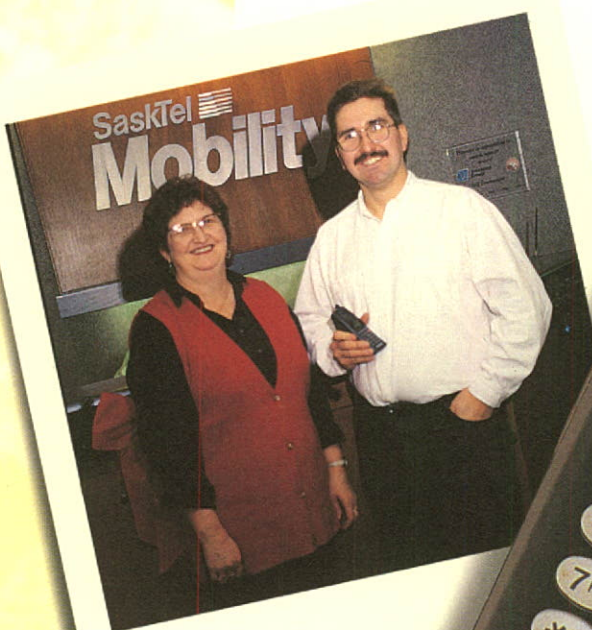
*The success  
of SaskTel Mobility  
is a key part  
of SaskTel's overall  
effort to address  
the customer's  
total communication  
needs.*



*Dahlila Moldenhauer  
and her son Darren,  
SaskTel Mobility's  
100,000th customer,  
received a special  
promotional package,  
including a free  
cellular telephone,  
one year Liberti plan,  
and a \$500.00 credit.*

The backbone of such a huge undertaking is its communications, and there is no better mobile communications system than FleetNet's 800 MHz trunked radio network linked to a Maestro central dispatch base station. Without the FleetNet technology, offered in Saskatchewan only by SaskTel Mobility, this advanced life-saving infrastructure would not be possible.

For the people who live in the health districts covered by the dispatch centre, including communities as far-flung as Lac La Ronge, Big River, and Pelican Narrows, having the FleetNet-based emergency communications system has meant faster, better access to emergency services. For Parkland, the partnership with SaskTel Mobility has meant an entirely new way of doing business. Barry Dutchak: "Because of FleetNet and the Maestro system, we can dispatch now for the whole region. It has opened up new doors for us to expand from an ambulance company to being an emergency dispatch centre for a region that includes six large health districts. Our close working relationship with SaskTel has allowed us to become leaders in this field."







*For the people who  
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Chris Hill (left) and George Bolduc,  
of Parkland Ambulance.

**SaskTel**   
**Mobility**  
**FleetNet 800**





## Simplifying your world.

### **simplify**

(sîm'plə-fî') *tr.v.*

To make simple or simpler; render less complex or intricate.

SaskTel's customers experienced competition for their long distance dollars for the first time in 1996. This was made possible as a result of the Saskatchewan government's decision to open up the Saskatchewan long distance market in 1996, ensuring consistency with the rest of Canada.

Preparations for long distance competition included SaskTel's leadership in reducing long distance rates over the past six years, and in introducing long distance plans to meet the needs of Saskatchewan customers. In fact, SaskTel has reduced many of its long distance rates by over 50% since 1990. Now that long distance competition is here, our long distance plans will continue to evolve in response to customers' needs.

We understand Saskatchewan enough to know that a "one size fits all" approach to pricing is not the way to keep our customers happy. Our Real Plus Extra™ Savings Plan is designed specifically with the residential customer in mind. Similarly, SaskTel Advantage™ meets the needs of our small to medium-sized business customers.

Our rural customers have particular long distance calling patterns that require yet another approach. With this in mind, SaskTel introduced a new short haul component of the Real Plus Extra™ plan in 1996. Under this plan, we provide an increasing discount on long distance calls made within a 40 mile (or 60 kilometre) radius of the local exchange. Customers who spend more than \$50 per month on such calls will receive rates as low as \$.12 per minute, in addition to time of day and Real Plus Extra™ savings of up to 25%.



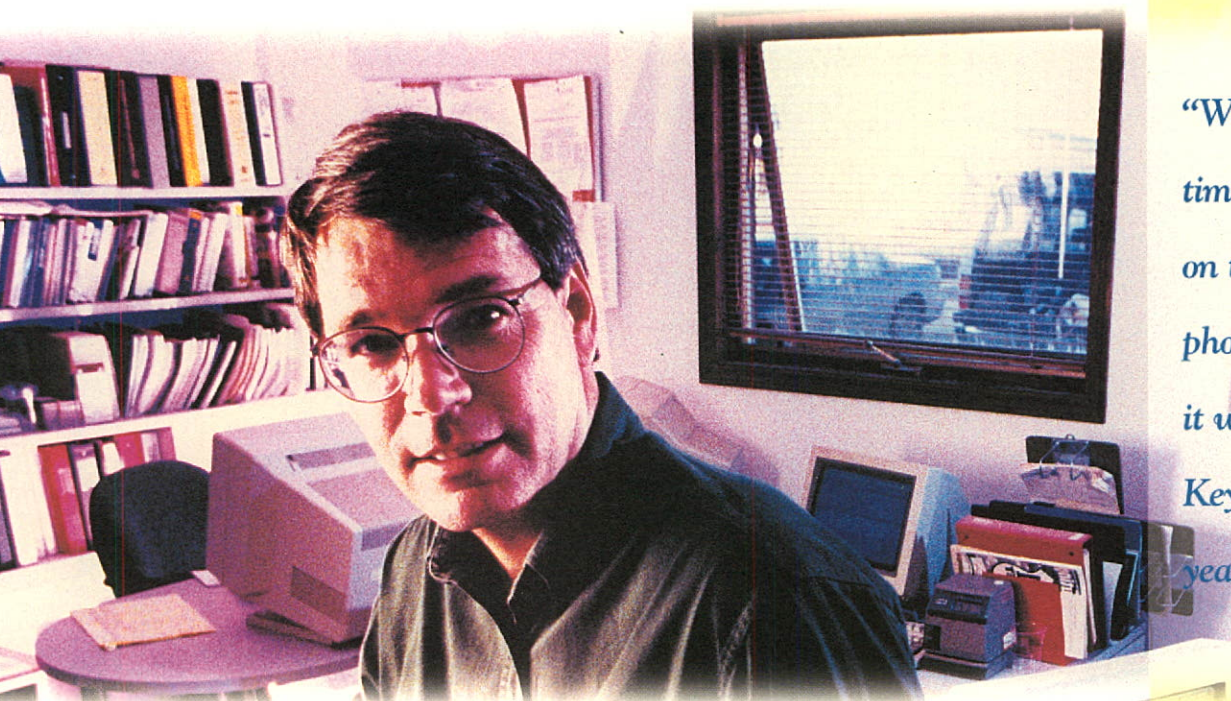
SaskTel customers enrolled in either savings plan also receive valuable SaskTel Rewards™ points which they can use to reduce their phone bill, accumulate points with Air Miles™, Aeroplan™ or Canadian Plus™ programs, or convert to credits with Saskatchewan Wheat Pool's AgShare program.

But that is only one part of your SaskTel bill. Our rates for local service make SaskTel one of the best overall bargains for total telephone service anywhere in Canada. While other telephone companies have been steadily increasing their local service rates, SaskTel has not had a local rate increase since August, 1993. In fact, as of January 1, 1997, the national average rates for residential single line service were 16 - 26% higher than SaskTel's average rate. In business single line service, we fared even better: the national average was 25 - 36% higher than the SaskTel rate.

Traditionally, SaskTel has used long distance revenues to subsidize the true cost of providing local phone service. Providing local access is a challenge with a population of one million people spread over



652,000 square kilometre. The national average is 13.6 accesses for every kilometre of network. SaskTel has only 3.5 accesses per kilometre of network — meaning higher costs per customer to maintain and update this network. Based on 1995 information, on average, SaskTel's basic monthly service rate falls \$9.42 per line short of paying the cost of providing access to our network. New market share loss, a reduction in inter-provincial long distance revenues in 1997, increased demand to solve local calling and exchange area problems, and competitive pressures to further reduce long distance rates will all make it difficult to continue to subsidize local access at traditional levels.



*"We now spend three times as much time on the phone, and the phone bill is less than it was when we started Keystone four or five years ago."*

If you want an indication of how competitive SaskTel long distance is, just talk to Charles Hume and his business partner Darhl Vercaigne at Keystone Marketing. From the small community of Sedley in southeast Saskatchewan, Charles and Darhl buy and sell commodity futures and options contracts and arrange cash grain sales for their 375 clients.

"We are in touch every day with our clients and they're spread pretty evenly across the province, from the southeast corner to the northwest corner," Charles says. He was impressed when SaskTel introduced the Advantage™ Savings program, with discounts of 30% to 60% on regular daytime rates.

"I bet we now spend three times as much time on the phone," says Charles, "and the phone bill is less than it was when we started Keystone four or five years ago."

Charles Hume  
Keystone Marketing, Sedley.





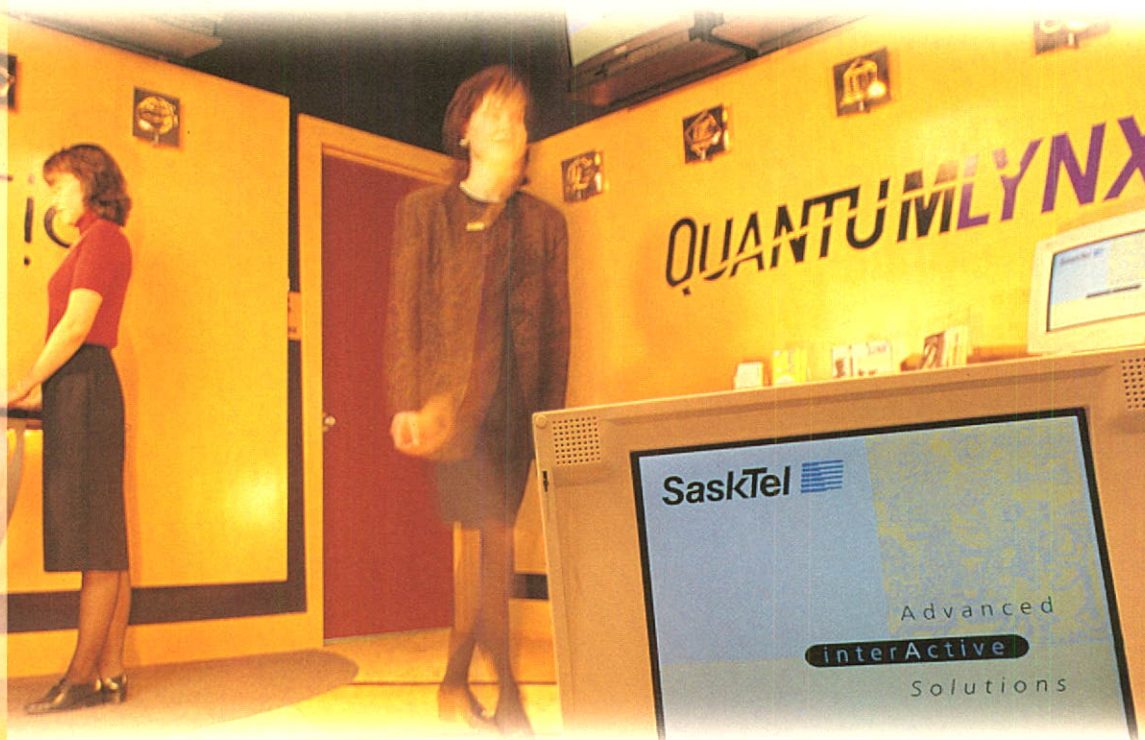
**innovative**  
(in'-vā'tiv) *adj.*  
Introducing  
something new;  
a change.

## We are first to market with innovative solutions.

At SaskTel we take pride in being first. We were the first Canadian telecommunications company to run an all-individual line service network, to bury all of our toll lines, to trial integrated personal communications services, to introduce custom calling features, to offer Real Plus™, to offer Internet free of any off-net or long distance charges. We were also the first in the world to use fiber optic transmission on a large scale and to transmit video-on-demand with fiber optic technology. In 1996, SaskTel became the first telecommunications company in Canada to deliver commercial highspeed Internet using ADSL (asymmetric digital subscriber line) technology.

Wayne Knipple on  
QuantumLynx™  
interactive solutions:  
“SaskTel technology  
has the potential to  
take us into markets  
we didn't think we  
could reach.”

Wayne Knipple  
manages Falcon Collection  
and Investigations Inc., Regina.



Being quick to deliver new technologies is important, but we realize that to succeed in this industry, we must ensure that the applications meet our customers' evolving needs. Any new technology becomes more marketable as we develop innovative ways for it to solve problems in the daily lives of customers. One example of this solutions-based approach is our new Advanced Interactive Solutions (AIS) group.



Officially launched in November 1996, AIS is SaskTel's interactive and Internet solutions team, responsible for creating and selling Internet-related services to business and residential customers in the marketplace. Its full suite of complementary Internet services includes Sympatico™, QuantumLynx™, and Media and Transaction Services. Sympatico™ is our basic Internet offering provided at one rate for all customers in the province, making Saskatchewan one of the few places in the world where rural people can access the Net affordably. Sympatico™ Highspeed is our ADSL-based Internet service, offering speeds up to 50 times faster than 28.8 kbps modem service. QuantumLynx™ includes an array of interactive solutions for business customers who want to use the Net to interact securely with their clients and suppliers. AIS also provides Media and Transaction Services to develop content for the Net and will soon be introducing interactive media such as cyber malls (shopping on the Net) and secure credit card transactions.

From the outset, the 26 creative and energetic people working in AIS recognized that it would not be enough to simply sell our Internet technologies. AIS is thriving because it also sells solutions and builds relationships.

Applying on-line technology from the QuantumLynx™ set of solutions, AIS is helping Saskatchewan businesses create and fill new niches in the marketplace. Wayne Knipple manages Falcon Collection and Investigations Inc., a credit information agency based in Regina. He is using QuantumLynx™ technology to expand his credit information business by offering his clients a variety of services on-line, including customer credit information, electronic mail, protection of confidential on-line information, and Internet access. "After being introduced to the people at SaskTel and learning about the technology available, my outlook for the future of Falcon was totally changed," says Wayne. "I saw that we could broaden the scope of our business tremendously. SaskTel technology has the potential to take us into markets we didn't think we could reach."

This kind of application allows AIS to build vital links between consumers and suppliers using the Internet. Each connection that we can encourage between these two sides of the interactive market adds value to the services we offer by showing customers that through Sympatico™ or QuantumLynx™ they can access the buyers, sellers, ideas, and solutions they need.

Another way in which AIS is fostering this interactivity, creating mutual benefits for consumers and businesses, is through its suite of Media and Transaction Services. This new effort to add value to Sympatico™ is bringing buyers and





*The challenge of bringing the Internet to students throughout Saskatchewan at affordable rates led to another solution we are proud of — SaskTel's Internet for Schools program.*

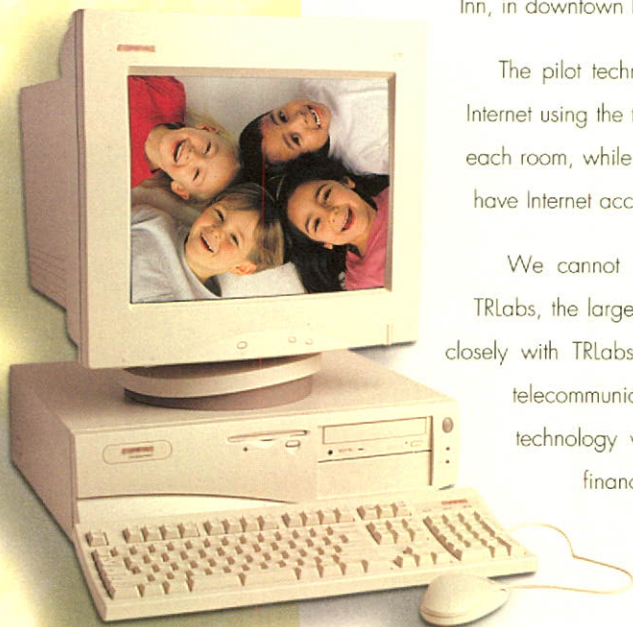
sellers together in the interactive marketplace by offering personal and corporate web site services, by helping to establish cyber malls, cyber magazines, and communities of interest (e.g. chat groups), and by providing secure transactions and advertising space. Two examples of 1996 achievements in this area were the launching of Sympatico's™ own electronic "cyberzine," *First and Main*, featuring content from *The Regina Free Press*, and our live Internet broadcast of *The Huron Carole*, which was produced at the Saskatchewan Centre of the Arts in December.

The challenge of bringing the Internet to students throughout Saskatchewan at affordable rates led to another solution we are proud of — SaskTel's Internet for Schools program. In 1996, hundreds of Saskatchewan schools signed up for the program, which gives all libraries and elementary, secondary, and post-secondary educational institutes across the province a preferred Internet access rate package, together with multiple mailboxes. A further demonstration of our commitment to interactive education in Saskatchewan is our role in the Computers for Schools initiative, in which SaskTel and other government agencies, and Crown corporations donate used computers to Saskatchewan schools. As well, the SaskTel Pioneers, a volunteer organization of active and retired SaskTel employees, are offering their time and skills to refurbish the donated equipment.

In the innovative solutions business, research and development is the spark that ignites each new burst of activity in the marketplace. Through SaskTel's participation in Hospitality Network Canada Inc., we have been bringing Nintendo's® interactive video games as well as movies on demand into the hotel rooms of Saskatchewan. In 1996, Hospitality Network began marketing these interactive services domestically in Alberta and overseas in Hong Kong. Now, after some research and development work, SaskTel's AIS group has partnered with Hospitality Network to launch an Internet TV pilot at the Regina Inn, in downtown Regina — the first such pilot in Canada.

The pilot technology, still under development, provides hotel guests with access to the Internet using the television set in their hotel room. This eliminates the need for a computer in each room, while catering to the travelling Internet user and allowing guests who do not yet have Internet access at home an opportunity to "surf the Net" at an hourly rate.

We cannot talk about innovation without mentioning our ongoing partnership with TRLabs, the largest not-for-profit telecommunications R & D consortium in Canada. Working closely with TRLabs keeps SaskTel in touch with the latest in information technology and telecommunications research, and helps us to test innovative solutions like the ADSL technology we are using for Sympatico™ Highspeed. In 1996, we renewed our financial support for TRLabs with a commitment of \$2.75 million over a five year period. Through this partnership, SaskTel helps contribute to the economic development of Saskatchewan and helps to create high tech education opportunities for students at TRLabs research facilities at both of the province's universities.





# lympATiço

*The AIS team is  
SaskTel's interactive  
and Internet solutions  
group.*

Part of SaskTel's AIS team:  
Back row (l to r) – Rick Fesciuc,  
Glen Raboud, Larry Wagman,  
Shara McCormick, Lori Sartison.  
Middle row (l to r) – Cindy Grubb,  
Bob Novakowski, Lisa Olah, Ben  
Checkowy.  
Front row – Shelly Smith.







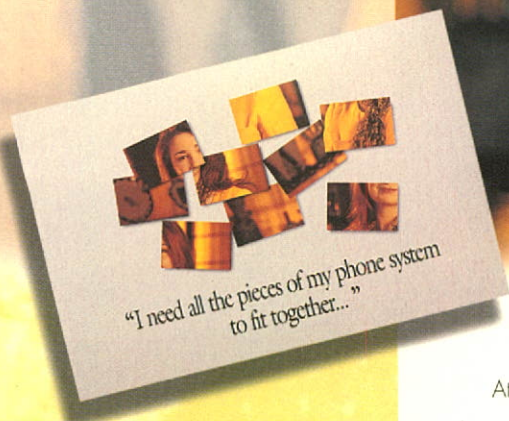
## SaskTel has been listening to you.

### listening

(lɪs'ən-ɪŋ) *intr. v.*

To hear with thoughtful attention.

You work long hours at your job or business, come home and face more work — tasks and errands that need your time and attention. You would like some of these, including your dealings with your communications company, to be simpler. You can't always be at home during the day to have a telephone replaced. You want one, easy to understand bill and more options for payment, because you can't always get away to pay your bill. You want to get in on the new long distance savings plans, but don't have time to figure out which one is best for you.



At SaskTel, we have been listening — and we are responding. We have extended our business office hours. Now residential customers can call their local SaskTel office from 8 a.m. to 8 p.m. Monday to Friday, and 9 a.m. to 5 p.m. Saturday. As well, you can return your telephone for repair or replacement either in person at one of our 12 Telmart locations, or you can send and receive telephone sets for repair or replacement via Priority Post.



SaskTel Telmarts have become an increasingly important point of contact with customers. With this in mind, during 1996, we took a look at the way people are served at Telmarts and created what we believe is a more open and effective design for meeting the walk-in customer's needs. The prototype for the re-design was opened in the new Saskatoon Telmart last September. By removing counters and queues in the customer service area, we have placed our sales staff in direct contact with customers on the floor, where they can more readily help people find what they need. For the customers, it means better service and fewer line-ups.

Also in 1996, we completely redesigned our bill, after consulting with customers, to present you with an easier to understand format. With the new bill, SaskTel customers can quickly locate their customer account number and the appropriate customer service number to call with any questions or concerns regarding the bill or anything else from service charges to trouble and repair. A billing summary of charges and credits is organized to allow customers to quickly locate the details they need. As well, Real Plus™ and Real Plus Extra™ long distance savings and SaskTel Rewards™ are highlighted clearly. And, by printing on both sides of the recyclable paper, we have reduced the environmental impact of our billing process.

These enhancements to our billing complement SaskTel's payment options such as Linkline and the Pre-authorized Payment plan. With Linkline, customers can make secure payments over the phone for SaskTel, SaskTel Mobility, SaskEnergy, or SaskPower accounts. Customers who choose the Pre-authorized Payment plan can pay their SaskTel bills by having their bank accounts debited accordingly.

In early 1996, SaskTel launched a trial called "SimplyOne" to consolidate and simplify personal communication services — home, business, and mobile — for a group of over 1300 customers. This trial, driven by the needs of our customers, has been a success in every respect. One of the features most popular with participants was the combined bill for both cellular and landline communication services. This allowed SimplyOne customers to collect Real Plus™ and Real Plus Extra™ reward points on cellular as well as regular long distance calls. Trial participants also liked having one point of contact for all billing, repair, or service inquiries, whether it be for cellular, landline, or Internet services.



Dianna Cook, SaskTel Business Representative serving Yan Liu at the Saskatoon Telmart.

*SaskTel Telmarts have become an increasingly important point of contact with customers. Better Telmarts means better service and fewer line-ups.*





## Call centre solutions.

### **solutions**

(sə-lōō'shəns) n., pl.

Actions or processes  
applied in  
solving problems.

*The SIIT Call Centre  
telemarkets SaskTel's  
communication  
solutions to  
First Nations people.*



The SIIT Call Centre team with  
(seated r to l) Hon. Carol Teichrob,  
FSIN Chief Blaine Favel, Premier  
Roy Romanow, and  
(standing r to l) SaskTel Board  
members James Scharfstein, Hon.  
Keith Goulet.

Meeting every customer's individual needs with first class service is priority one at the SaskTel Customer Care Centre. Over 150 employees at the centre work hard to keep SaskTel in touch with each of our customers, large and small. Our representatives receive and place over 20 million calls during the year.

In 1996, the SaskTel Call Centre became the first tenant in the new Customer Care Centre in Regina — a state-of-the-art, fully-blended and multi-functional telemarketing operation. Although the Customer Care Centre is currently the only one of its kind among Stentor member companies, our partners in this national alliance are making plans to emulate its design and technology. As the heart and soul of our competitive strategy for the consumer market, the centre has been tremendously successful as a means of promoting savings plans and specials, building relationships with customers, and winning back customers who have switched to alternative long distance carriers. In fact, of all the centres run by Stentor members, SaskTel's is the most successful at winning back customers. Demonstrating SaskTel's commitment to diversity in the workplace, the centre features the most ethnically diverse group of employees in the corporation, and offers customer service in nine different languages, including German, Italian, and



Punjabi. The Customer Care Centre will provide a single point of contact for customers and increase customer satisfaction by providing faster resolution to customer issues, knowledgeable representatives, quality of contact, consistency, and quicker response to competitive actions.

Recognizing the importance of reaching the Aboriginal community in our marketplace, SaskTel signed a contract in 1996 with the Saskatchewan Indian Institute of Technology (SIIT) to create the first call centre in Canada owned and operated by First Nations people. Through a five-year agreement between SaskTel and SIIT, the SIIT Call Centre will telemarket SaskTel's communication solutions to First Nations people living on and off the reserve. The Call Centre will market to First Nations people in the Cree, Dene and Saulteaux languages, as well as in English.

A primary thrust in our diversification strategy has been the effort to attract and develop call centres from within and outside the province. Having our own state-of-the-art Customer Care Centre has allowed SaskTel to showcase our technology, our people, our business acumen, and our province. In 1996, the Canadian Imperial Bank of Commerce opened their national Telephone Banking Centre in Regina. This is one of the largest telemarketing operations SaskTel has brought into the province so far, employing over 180 telephone professionals as of the end of 1996. In all, SaskTel serves well over 50 call centres which have created over 1500 jobs in the province, including agencies and corporations as diverse as Saskatchewan Government Insurance, the Canadian Automobile Association, and the Canadian Cancer Society.

SaskTel has a wide range of services that we offer to help call centres achieve the best possible results. SaskTel's Custom Application Team promotes SaskTel's call centre expertise outside the province to encourage prospective businesses to consider Saskatchewan as a call centre location. Meanwhile, our Phone Power group works with businesses and organizations already based in Saskatchewan.

The pressure faced by our business customers today makes telemarketing all the more attractive as an efficient means of improving their sales and service. This is where a "service bureau" call centre can help. Service bureaus can deliver integrated telesales and marketing services for customers who want to hire a call centre to promote their products and services for them and develop ongoing client relationships.

During the latter weeks of 1996, SaskTel formed an alliance with one of the most reputable service bureau companies in the world, Zacson Corporation, based in California. Zacson has 13 service bureaus worldwide, including centres in Mexico, Japan, and Belgium. Zacson's new Saskatchewan call centre, already established in Regina, is the company's first service bureau in Canada. Zacson expects to employ as many as 200 people in Saskatchewan by the end of 1997. By bringing a world-class service bureau to Saskatchewan, this strategic alliance with Zacson allows SaskTel to deliver a much-needed service to the province's business community.

*During the latter weeks of 1996, SaskTel formed an alliance with one of the most reputable service bureau companies in the business, Zacson Corporation.*







### **community**

(kə-'myū-nət-ē) n.

A body of people sharing a common history as well as political, social, and economic interests.

## **Committed to supporting Saskatchewan communities.**

For nearly 90 years SaskTel and its employees have served more than the telecommunications needs of Saskatchewan people. SaskTel's commitment to social responsibility and good citizenship is reflected in its support — directly and through its partnerships with employee groups and other organizations — for hundreds of community projects and special events each year.

SaskTel enjoys a rewarding partnership with more than 3600 SaskTel Pioneers — active and retired employees who give generously of their time and talents to support almost 100 ongoing projects. Last year the Pioneers raised more than \$280,000 and contributed 48,000 volunteer hours to educational projects for young people, to improve the quality of life for people with special needs, and to support various environmental projects across the province.

SaskTel's commitment to the community goes much further. Corporate financial contributions to Saskatchewan non-profit and charitable organizations were \$575,000 in 1996. Some of the major sponsorships included \$10,000 in support for various events of the Saskatchewan Special Olympics; \$26,500 for Telemiracle 20; and \$5000 for the Arthritis Society's 1996 Mini Grand Prix fundraiser events in Regina and Saskatoon.

In addition to these corporate contributions, SaskTel employees, through their Telcare benevolent fund, donated \$200,000 in 1996 to 140 charitable agencies across the province. SaskTel matches \$.50 for every dollar that employees contribute, meaning an additional \$100,000 for these worthwhile causes.

One financial contribution that stood out in 1996 was SaskTel's participation in the Canadian Cancer Society's Luminarium Project. Through Telcare and corporate donations, SaskTel and its employees helped to light up the doorsteps of the province at Christmas time by providing \$22,000 (\$14,700 from Telcare and \$7,300 from the corporation) to this unique fundraising initiative. Brett Taylor, who volunteers his time as Saskatchewan's Special Events Chair for the Canadian Cancer Society, says that the SaskTel contributions got the project off the ground: "That \$22,000 was pretty important. The Luminarium project would not have happened without the support of SaskTel and Telcare. As a non-profit organization we are happy when we can get a corporation like SaskTel onside, giving our project not only a cash injection and distribution outlets, but also their name in good standing."

Through its Telmarts, SaskTel helped to distribute the luminaria. A simple tea candle mounted within a small paper bag to be placed on the doorstep, each luminarium represented either hope to those who currently suffer from cancer, tribute to those who have beaten cancer, or solace to those who have lost a loved one to the disease. A card within each bag encouraged the homeowner to make a contribution



*SaskTel's commitment to social responsibility and good citizenship is reflected in its support for hundreds of community projects and special events each year.*

**CANADIAN WESTERN**  
**Agribition**



in honour of a friend or relative who suffered from cancer. SaskTel and its employees were proud to sponsor this worthy cause and have committed to be a part of the program for Christmas 1997.

SaskTel's event marketing program provided significant corporate support to events such as the Saskatchewan Roughriders Plaza of Honour Dinner, Canadian Western Agribition and the SaskTel



*"The Luminarium project would not have happened without the support of SaskTel and Telcare. As a non-profit organization we are happy when we can get a corporation like SaskTel inside."*

Saskatchewan Jazz Festival — among many others — in exchange for exclusive product and service promotion opportunities. Sixty of the 300 volunteers involved in the 1996 SaskTel Saskatchewan Jazz Festival were SaskTel employees, illustrating how employees support their communities through their personal interests.

SaskTel's long-standing interest in the economic and social well-being of the province extend into its every day business decisions as well. When the corporation needs to purchase goods and services, it looks within Saskatchewan first. Thanks to a very successful supplier development and purchasing program, approximately 80% of SaskTel's purchasing dollars — over \$200 million in 1996 — go to Saskatchewan manufacturers, distributors, contractors, consultants, and other agencies who provide high-quality, cost-effective equipment and services to the corporation.

SaskTel encourages Saskatchewan-based suppliers to diversify their products and services and market their products outside the province. We also encourage businesses outside the province to relocate or partner with local firms, which helps to increase economic activity and diversify the province's economic base.

Brett Taylor,  
Canadian Cancer Society  
Special Events Chair.





## SaskTel away from home.

**international**  
(in'tar-nash'ən-əl) n.  
Relating to one  
whose activities extend  
across national boundaries.



SaskTel International employee Rick Pulfer of Weyburn with a local co-worker in Dar es Salaam.

*SI has been active in Africa as well, working on a major contract in Tanzania to provide a telecommunications cable infrastructure within the capital city of Dar es Salaam.*



During the 1993 national election in the Philippines, it took five weeks to count the votes before a winner could be declared and the results communicated. When the next national election is held, this waiting period should be reduced significantly, thanks to a SaskTel International (SI) project providing telecommunications to 28 provinces in the Philippines. In a country like the Philippines, where some of the infrastructure of a developing nation is still under construction, improved telecommunications can make all the difference in the world.

The damp jungles and mountains of the Philippines archipelago look nothing like the spruce and poplar forests of northern Saskatchewan, but these landscapes present similar challenges when it comes to constructing a telecommunications network. Techniques SaskTel perfected in providing service to the villages and remote communities north of Saskatchewan's 54th parallel are now being put to good use in improving the rural-based networks of some of the Philippines' most remote regions.

SaskTel International, a subsidiary of SaskTel that markets the corporation's expertise around the world, has been working closely with the Philippine government and with a consortium of Philippine telephone companies for the past six years. Using locally appropriate technology, including solar power for electricity and water buffalo to haul equipment, SI has been designing and installing digital exchange networks and microwave radio systems in most areas of the project. UHF analog radio systems are being used in project areas where topography would impede microwave transmission.

Construction for Phase III of the rural telecommunications project, financed by the Canadian and Philippine governments, was wrapped up in 1996. This third contract, valued at approximately \$29 million US, brings the entire project value to \$64 million US, one of the largest in SI's 11 year history.

At the same time, SI personnel have provided consulting services for the Philippine Long Distance Telephone (PLDT) company, to help improve methods for developing capital works projects including switching, transmission, outside plant, and operational support systems.

As for 1997 and beyond, SI, the Philippine government and SR Telecom, a primary supplier and project partner from Quebec, will begin negotiating a fourth contract worth \$30 million US that will further expand the rural telecom network into some of the islands' more outlying communities, called "Barangays."

Early in 1997, Don Ching, SaskTel President and Chief Executive Officer, travelled to the Philippines to witness the launch of negotiations for this work. The timing of Ching's trip coincided with the visit of Saskatchewan Premier Roy Romanow and Prime Minister Jean Chrétien, as part of a Team Canada trade mission to the Philippines.



Additional work for SI in the Philippines will result from a joint consultancy contract SaskTel signed in January 1997 with Telic-Phil, a consortium of alternative telecommunications providers.

SI has been active in Africa as well, working on a major contract in Tanzania to provide a telecommunications cable infrastructure throughout four exchange areas within the capital city of Dar es Salaam. The undertaking involved design and installation of all transmission facilities between subscribers and switching centres. In 1996, SI personnel completed the work three months ahead of schedule, a significant achievement on a two-year project. More opportunities in Tanzania are currently under consideration, including sub-contracting work for two major telecommunications suppliers, Ericsson and Alcatel.

In addition to these consulting, design, and installation contracts overseas, SI has made a name for itself marketing telecommunications software solutions internationally. Its two main products are called MARTENS® and SwitchGate®. MARTENS® (Mechanized Assignment Records Telephone Equipment Numbering System) is a telecommunications facilities management system. SwitchGate®, an optional module of the MARTENS® system, allows service representatives to activate new service features for customers from their desktop.



SI has sold MARTENS® and SwitchGate® technology to telephone companies serving a total of over 3,000,000 customer lines throughout North America and in the United Kingdom. A new client/server version of MARTENS® was introduced in 1996. This version gives the user more control of the system at their own desktop computer (rather than having to rely on a mainframe computer), and is already being used by Thunder Bay Telephone, owned by the City of Thunder Bay.

To keep pace with changes in the industry, SI continues developing and improving the MARTENS® and SwitchGate® systems. Through the MARTENS® and SwitchGate® International Client Associations, SI clients have invested more than \$18 million over the past 11 years to ensure that these two systems remain the best facilities management and service provisioning products on the market.

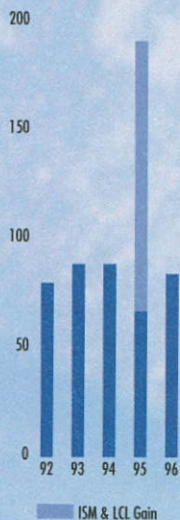
*In a country like the Philippines, where some of the infrastructures of a developing nation are still under construction, improved telecommunications can make all the difference in the world.*

(l to r) Kelly Megson, VP Marketing, SI; Primitivo Penaranda, president, Telic-Phil; Dale Bassen, president, SI; Guiling Mamondiong, Undersecretary, Philippines Department of Transportation and Communications; and Alphonso Legaspi, president and CEO, Textron Corp., meeting in Regina.

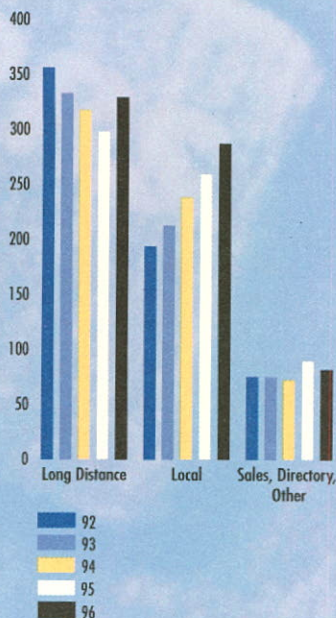


## MANAGEMENT DISCUSSION & ANALYSIS

**Net Income**  
(Millions of Dollars)



**Operating Revenues**  
(Millions of Dollars)



### Overview of Operations

The Saskatchewan Telecommunications Holding Corporation (the Corporation) is the leading full service communications company in Saskatchewan, providing voice, data, Internet, text and messaging services over a digital network, as well as cellular, paging and Fleetnet 800 service through its SaskTel Mobility division. The Corporation also maintains investments in companies that provide management and project design consulting services, in addition to telephone directory and multimedia services.

The Corporation's major asset is a wholly owned subsidiary, Saskatchewan Telecommunications (SaskTel). SaskTel has been the principal supplier of telecommunications in Saskatchewan for nearly 90 years, providing Saskatchewan residents with affordable access to the latest in telecommunications products and services. SaskTel markets a complete portfolio of terminal, local and long distance, data, and Internet products and services throughout Saskatchewan. Through an interconnection agreement with the Stentor alliance of Canadian telecommunications companies, SaskTel is part of the national and global communications network.

### Results of operations

#### Operating Revenues

##### Long Distance

In February 1996, the Saskatchewan government opened the provincial marketplace to long distance competition, leading up to the entry of facilities-based competition in the fourth quarter. SaskTel prepared for long distance competition by lowering many of its long distance rates by more than 50% since 1990, and through its early introduction of savings plans such as Real Plus™ in 1994 and Real Plus™ Extra in 1996. These moves, in part, resulted in SaskTel recording over one billion long distance minutes for the first time in its history.

However, these price reductions have also eroded SaskTel's revenue derived from long distance. Therefore, while conversation minutes in the last 5 years have increased dramatically, thanks in part to the stimulation from these savings plans, SaskTel's overall income from long distance has declined during this same period as revenue per minute has fallen. Average revenue per minute (ARPM) has declined 33% from 1992 to 1996. Long distance revenues also decreased in the past 5 years due to a decrease in the pool of interprovincial settled revenue shared among all Stentor companies. This decline was attributable to the market share loss and price reductions of the other Stentor companies.



After five consecutive years of declining long distance revenues, SaskTel's long distance revenues actually rose in 1996 by 10%, owing to three largely unanticipated events: first, there was a significant increase in SaskTel originated long distance minutes, caused by the success of our savings plans and advertising; second, the Stentor pool of settled revenue was higher than expected because of a leveling of market share losses across Canada combined with a cost sharing formula for Stentor partners that was advantageous to the Corporation in 1996; and third, there was more growth than anticipated in cellular long distance. These three areas of increased revenue contributed to the Corporation's positive yearend position.

#### Local Service

Local access revenue has increased over 1995 for a number of reasons, including increased use of SmartTouch™ services, increased cellular usage, increased use of other telephone convenience services, and marginal growth in the local access market.

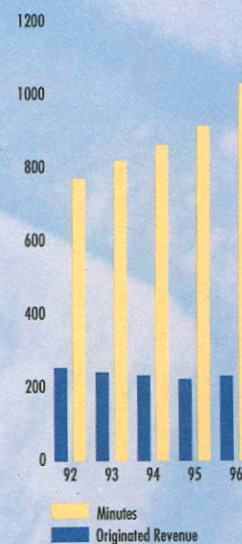
Overall, the local access market in Saskatchewan remains constant, with Network Access Service (NAS) lines increasing only 7% over the last five years, from a level of 569,785 lines in 1991 to 607,092 lines in 1996, which is the highest number recorded in the company's history. The increase in NAS is due, in part, to the success of the Corporation in attracting call centres into Saskatchewan, as well as increased business activity in the province.

#### Other Revenue

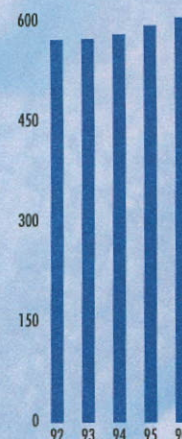
An increasing proportion of SaskTel's revenue is derived from non-traditional products and services as part of the Corporation's strategic diversification initiative. Non-traditional revenue streams amount to 26% of the Corporation's total revenue. The Corporation is on track to reach its target of 40% diversified revenue by 1998. Examples of the Corporation's diversified operations have included projects in the United Kingdom, the Philippines, Tanzania and the United States (U.S.). Though the U.S. is a challenging market, as a result of increasing diversification opportunities elsewhere in the world, the Corporation decided to conclude its involvement in NST Network Services, in February 1997.

The Corporation's most significant result in the strategic diversification initiative was recognized in 1995 with the sale of the Corporation's interest in LCL Cable Communications Ltd., a British cable and telephony company, in Leicester, England. Although the sale netted a gain of \$114.3 million to the Corporation in 1995, it also resulted in the loss of LCL revenues for 1996 and beyond. With the removal of this diversified revenue stream, other revenue has declined by 6%, from \$92.3 million in 1995 to \$86.4 million in 1996.

**Long Distance Revenues & Minutes**  
(Millions)

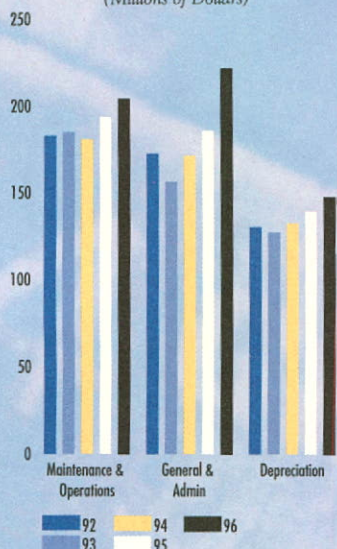


**Network Access Services (NAS)**  
(Thousands)

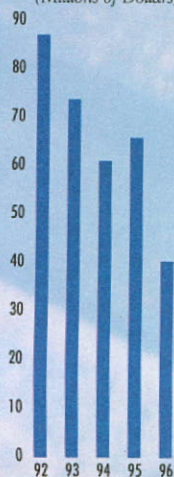




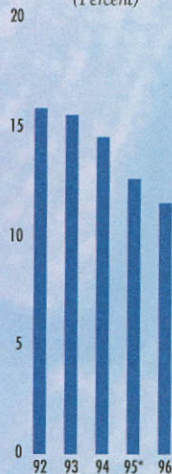
### Operating Expenses (Millions of Dollars)



### Interest and Related Costs (Millions of Dollars)



### Return on Net Assets (Percent)



\*RONA excluding ISM & LCL Gain

### Operating Expenses

The following is a breakdown of the Corporation's operating expenses:

Overall, total operating expenses increased to \$571.9 million in 1996, a \$54.8 million increase over the 1995 operating expenses of \$517.1 million. In 1996, revenue growth from diversified operations contributed to a corresponding increase in overall operating expenses for the Corporation.

1996 maintenance and operating expenses increased 5% from the 1995 level. This increase arose from additional advertising and sales costs incurred to promote new products and services and preserve SaskTel's customer base; and from an increase in SaskTel Mobility's costs, necessary to accommodate revenue and customer growth.

General and Administrative expenses increased 8% from 1995 levels, excluding the \$20.5 million cost recorded for a voluntary Early Retirement Plan (ERP) introduced in 1996, to take effect in 1997 and continue until 1999.

Depreciation expense was up by \$8.3 million, resulting from two primary causes: the Corporation increasing its asset base through the ongoing expansion and upgrading of its network; and SaskTel using a depreciation policy that is designed to reflect the rapid advances of technology in the telecommunications industry.

### Interest Expense

Reducing debt has been an important area of focus for the Corporation, which led to a 39% decrease in interest expense between 1995 and 1996. In 1995, interest costs were \$66.0 million, and in 1996, this expense amounted to \$40.4 million.

The Corporation's debt ratio, at 39%, is among the best within the Stentor alliance of Canadian telecommunications companies.

### Return on Net Assets

The Corporation's Return on Net Assets (RONA) was 11.6%, compared to the 1995 return of 12.7% (24.7% including the LCL Cable and ISM gains). The 1996 RONA would have been 13.4% excluding the costs of the voluntary Early Retirement Program recorded during the year.



## Liquidity and Capital Resources

### Self funded

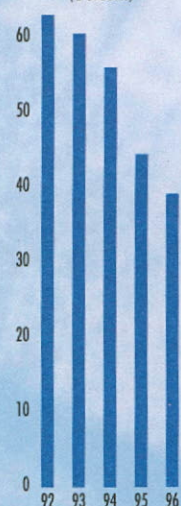
Another factor that has had a positive impact on interest expense is the Corporation's strategy of self-financing. In 1996, cash generated from operating activities was \$253.7 million (\$232.6 million in 1995). Cash used in financing activities required \$136.3 million (\$123.3 million in 1995), while investing activities used cash disbursements of \$175.5 million (\$19.6 million in 1995). This resulted in internally-generated funds equivalent to 114.4% of funding requirements.

After funding the capital program and dividend payment, net debt repayment resulted in a decrease in cash of \$58.2 million during 1996, while still maintaining a cash balance of \$6.8 million at year end. Operating and investing activities in 1995 generated a net increase in cash of \$89.7 million, primarily due to cash generated by the sale of investments.

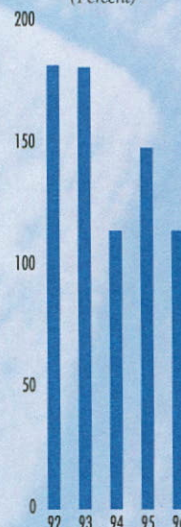
### Investing activities

Capital spending in 1996 amounted to \$177.9 million (\$184.5 million in 1995). The 1996 expenditures included capital spent on the continuing work of the Core Network Evolution program, which provides for modernization, upgrading and replacement of key elements of the SaskTel switching and transmission network. The multi-million dollar Digital Network Modernization and Northern Saskatchewan Modernization programs were completed prior to 1996 and now provide the Corporation's customers with a 100% digital network. The Corporation made further investments in information technologies in 1996, which allowed for the introduction of new services such as Sympatico High Speed™, SaskTel's asymmetric digital subscriber line (ADSL) based Internet service. In diversified operations such as SaskTel Mobility, these technological investments allowed for expanded cellular and FleetNet 800 coverage.

**Debt Ratio**  
(Percent)



**Internally Generated Funds**  
(Percent)



**Capital Expenditures**  
(Millions of Dollars)





## Outlook

Some of the factors that may influence the Corporation's near term financial outlook include:

- the need to adjust local rates, to reduce the shortfall in providing this service;
- continued loss of market share, carrying over from the entry of facilities-based competitors in late 1996, though mitigated by SaskTel's winback initiatives and new marketing efforts;
- continued competitive pressure to reduce long distance rates;
- a review of exchange area boundaries in 1997;
- the revenue sharing arrangement among Stentor members, for distributing revenue from out-of-province long distance, will be less advantageous for SaskTel;
- projected growth in the Sympatico™ market and other advanced interactive services;
- growth in SaskTel Mobility's customer base and revenues;
- continued revenue growth from attracting new call centres and service bureaus to the province—contributing to the Corporation's long-term diversification strategy;
- new license to offer Personal Communications Services (PCS) digital services in the 2 GHz range, by late 1997;
- the possibility that SaskTel will be regulated by the Canadian Radio-Television and Telecommunications Commission (CRTC) in 1998 or 1999; and
- the possibility of total competition, including local service, in 1998 or 1999.

## Revenue growth

The 1993 Strategic Plan committed the Corporation to diversification as a means of replacing revenues lost through competition and price reductions. New revenues will be generated from non-traditional products, services, and markets. The Corporation's diversification goal is to derive 40% of its revenues from these diversified operations by 1998. The activities of SaskTel International (SI), SaskTel Mobility, and the new Advanced Interactive Solutions (AIS) group, as well as investments such as Hospitality Network Canada Inc. and DirectWest, are moving the Corporation toward this goal.

SI is central to the Corporation's diversification efforts, marketing facilities management software, in addition to project management and design consulting services around the world. SI's revenues will continue to contribute to the Corporation's financial performance, as it penetrates new markets in South America, Asia, and Africa, looking for new opportunities in engineering and technical consulting, software development, project management, systems integration, and equity investments.

SaskTel Mobility's revenues will continue to grow strongly in 1997 and beyond, with further market penetration, customer loyalty, and a solid market share. Consumer demand will increase for wireless services and integrated wireless/wireline services, along with the prospects for new digital wireless services (e.g. PCS). These will be enhanced by the increasing deployment of value-added services and features (e.g. data transmission), Fleetnet 800, and satellite services.



The Internet market sector, managed by SaskTel's AIS group, is another area where the Corporation can expect rapid growth. Projections currently suggest a ten-fold increase in the consumer and business Internet market over the next five years, as more households, businesses, and institutions become interconnected through electronic commerce, education, and entertainment.

Another diversified operation experiencing revenue growth is DirectWest. New products and services, building upon the success of current Yellow Pages™ offerings, as well as expansion into new multimedia advertising, will be the source of this growth.

However, diversification cannot be expected to make up entirely for the revenues SaskTel will lose through long distance competition and lower long distance rates. The Corporation will have to create more revenue from the core business by continuing to introduce new products and services. At the same time, SaskTel will review local access rates and costs with a view to reducing the widening gap between the costs incurred and the revenues gained in the local service markets. As well, SaskTel will be looking for ways to reduce operating expenses, while improving customer service levels.

### **Competition**

With rebillers and facilities-based carriers entering Saskatchewan's long distance marketplace in 1996, changes to SaskTel's market share have occurred and are expected to continue to occur throughout 1997. Despite some erosion of market share, and the associated decline in revenues, SaskTel is well positioned, as the leading provider of communication services in Saskatchewan, to succeed in a fully competitive environment.

As stated earlier, competition, with its attendant price reductions and advertising promotions, has led to a general increase in consumer long distance volume. Although lower prices and savings plans will likely generate further increases in total long distance minutes, the revenue per minute will continue to fall, offsetting the benefit of this growth.

In the coming years, the Corporation will be facing new forms of competition in virtually all of its markets. With the developing convergence in the communications marketplace, SaskTel may soon face direct competition in the local access market. A new variety of competition that SaskTel is beginning to see, and which is expected to become more significant, involves packaging long distance with other services such as cable TV. PCS and cellular resale are two areas where new competition will emerge for SaskTel Mobility and in SaskTel's local market.

In the Internet and electronic media markets, an area of promising and important growth for SaskTel, the AIS group will face strong competition in 1997 and beyond. Competition will include traditional Internet Service Providers, Systems Integrators, who provide customized solutions to the business market, as well as a growing number of competitors in the intermediary role between buyers and sellers. Non-traditional competitors will also emerge.



### **Competitive strategy**

One of the Corporation's primary strategies for remaining competitive as new forms of competition enter the marketplace is to develop and implement customer service programs that meet specific customer needs. By increasing its understanding of each segment of its customer base, the Corporation ensures that customer needs drive product development and marketing. To retain its markets, and develop its business, the Corporation will continue to:

- expand volumes in current services and add profitable new services;
- deliver integrated solutions to select market segments;
- get to know its customers better than any competitor;
- build positive customer relationships;
- monitor customer perception and customer loyalty;
- pursue market-based pricing;
- pursue targeted customer programs;
- invest aggressively in new growth areas—tomorrow's core services;
- re-design and improve all elements of service delivery; and
- partner with corporate customers to bring new services to market.

### **Income outlook**

A moderate decline in income is expected for the Corporation in 1997, as any growth in diversified operations will be offset by increased operating expenses and a continued decline in revenues from the core business, associated with the effects of long distance competition. Operating expenses are forecast to increase in 1997, reflecting costs incurred in developing and expanding business volumes in both diversified and core business operations. SaskTel intends to contain the rate of expense growth, however, by taking measures to reduce costs and improve productivity. As well, the Corporation's strong financial position will continue to keep interest costs low, thereby helping to minimize its operating expenses in the coming years.



**SEGMENTED HISTORY**

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

	1996	1995	1994	1993
<i>(in thousands)</i>				
<b>Statement of operations data</b>				
Operating revenues	\$ 569,764	\$ 538,799	\$ 554,126	\$ 575,606
Operating expenses	471,611	434,209	431,929	432,016
Net operating revenue	98,153	104,590	122,197	143,590
Other income	1,333	1,307	1,356	6,295
Interest and related costs	33,432	51,342	45,390	61,161
Net income	\$ 66,054	\$ 54,555	\$ 78,163	\$ 88,724
<b>Statement of financial position data</b>				
Telecommunications property	\$ 846,753	\$ 826,439	\$ 810,312	\$ 833,319
Other assets	48,032	43,659	54,768	29,330
Investments	8,392	8,392	8,392	8,392
Current assets	90,405	81,881	117,073	165,347
Total assets	\$ 993,582	\$ 960,371	\$ 990,545	\$ 1,036,388
Long-term debt	\$ 343,937	\$ 336,992	\$ 432,206	\$ 398,761
Province of Saskatchewan's equity	487,884	458,160	433,610	398,437
Current liabilities	161,761	165,219	124,729	239,190
Total liabilities & Province of Saskatchewan's equity	\$ 993,582	\$ 960,371	\$ 990,545	\$ 1,036,388



**FIVE-YEAR RECORD OF SERVICE**

For the year ended December 31

	1996	1995	1994	1993	1992
<b>Network Access Services *</b>	<b>607,092</b>	595,104	581,816	574,962	573,464
<b>Originated long distance messages</b> (in thousands)					
Telephone	<b>222,444</b>	200,084	184,810	162,126	145,488
Data and other voice services	<b>38,553</b>	39,718	31,779	28,931	29,669
Total messages	<b>260,997</b>	239,802	216,589	191,057	175,157
<b>Finance</b> (in thousands of dollars)					
Operating revenues	<b>\$ 696,897</b>	\$ 646,871	\$ 626,443	\$ 619,727	\$ 620,882
Operating expenses	<b>571,943</b>	517,070	482,896	466,683	484,065
Other items	<b>(593)</b>	127,964	6,029	9,337	30,349
Interest and related costs	<b>40,361</b>	65,965	61,062	73,834	87,250
Net income	<b>84,000</b>	191,800	88,514	88,547	79,916
Dividend	<b>46,200</b>	73,500	48,700	58,400	51,700
Gross construction expenditures	<b>177,877</b>	184,539	144,257	94,762	114,039
Property, plant & equipment**	<b>2,025,022</b>	1,922,763	1,876,318	1,795,708	1,729,728
Long term debt (gross)**	<b>485,981</b>	551,631	649,588	718,289	751,318
<b>Financial ratios</b>					
Return on net assets	<b>11.6%</b>	12.7%	14.6%	15.6%	15.9%
Return on net assets including LCL and ISM gains	<b>n/a</b>	24.7%	n/a	n/a	n/a
Debt ratio	<b>39.2%</b>	44.5%	56.1%	60.6%	63.1%
Internally generated funds as a percent of net construction expenditures	<b>114.4%</b>	148.4%	114.4%	181.5%	182.3%
<b>Employees and payroll</b>					
Number of employees (excluding part-time)**	<b>3,896</b>	3,845	3,863	3,699	3,861
Salaries earned (thousands of dollars)	<b>\$ 169,230</b>	\$ 165,503	\$ 163,772	\$ 158,875	\$ 166,021

\* Represents each working facility having primary connection to our network as at December 31.

\*\* At December 31.



## 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, 1996, are the responsibility of management of the corporation and have been approved by the Board of Directors. Management has prepared the consolidated financial statements in accordance with generally accepted accounting principles in Canada. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

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

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

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



**Donald R. Ching**  
President &  
Chief Executive Officer

Regina, Saskatchewan  
February 26, 1997



**Randy Stephanson**  
Chief Financial Officer

## AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Telecommunications Holding Corporation as at December 31, 1996, and the consolidated statements of operations, retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1996, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Chartered Accountants

Regina, Saskatchewan  
February 26, 1997



**CONSOLIDATED STATEMENT OF OPERATIONS**

For the year ended December 31

	1996	1995
	(Thousands of dollars)	
<b>Operating revenues</b>		
Long distance service	\$ 328,612	\$ 297,912
Local service	286,867	259,331
Sales, directory, other	86,356	92,343
Uncollectible operating revenues	(4,938)	(2,715)
	<b>696,897</b>	646,871
<b>Operating expenses</b>		
Maintenance and operations	203,932	193,317
General and administrative	221,056	185,093
Depreciation	146,955	138,660
	<b>571,943</b>	517,070
<b>Net operating revenues</b>	<b>124,954</b>	129,801
<b>Other items</b> (Note 3)	<b>(593)</b>	3,090
<b>Interest and related costs</b> (Note 4)	<b>40,361</b>	65,965
<b>Net income before the following</b>	<b>84,000</b>	66,926
<b>Gain on sale of investments</b> (Note 5)	—	124,874
<b>Net income</b>	<b>\$ 84,000</b>	\$ 191,800

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS**

For the year ended December 31

	1996	1995
	(Thousands of dollars)	
<b>Retained earnings, beginning of year</b>	<b>\$ 306,374</b>	\$ 188,074
<b>Net income</b>	<b>84,000</b>	191,800
	<b>390,374</b>	379,874
<b>Dividend</b>	<b>46,200</b>	73,500
<b>Retained earnings, end of year</b>	<b>\$ 344,174</b>	\$ 306,374

See Accompanying Notes



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at December 31

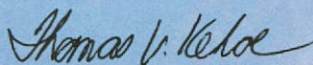
	1996	1995
	(Thousands of dollars)	
<b>Assets</b>		
<b>Property, plant and equipment</b> (Note 6)	<b>\$ 970,270</b>	<b>\$ 939,596</b>
<b>Other assets</b> (Note 7)	<b>57,659</b>	<b>56,108</b>
<b>Investments</b> (Note 8)	<b>10,827</b>	<b>10,730</b>
	<b>1,038,756</b>	<b>1,006,434</b>
<b>Current assets</b>		
Cash and short-term investments	<b>6,861</b>	<b>65,015</b>
Accounts receivable	<b>100,097</b>	<b>93,885</b>
Inventories	<b>5,781</b>	<b>4,683</b>
Prepayments	<b>12,248</b>	<b>10,827</b>
	<b>124,987</b>	<b>174,410</b>
	<b>\$ 1,163,743</b>	<b>\$ 1,180,844</b>
<b>Liabilities and Province's Equity</b>		
<b>Long-term debt</b>		
Province of Saskatchewan (Note 9)	<b>\$ 325,361</b>	<b>\$ 354,333</b>
Other long-term debt (Note 10)	<b>43,431</b>	<b>36,469</b>
	<b>368,792</b>	<b>390,802</b>
<b>Minority interest</b>	<b>2,217</b>	<b>1,865</b>
<b>Deferred taxes</b>	<b>1,798</b>	<b>1,821</b>
	<b>372,807</b>	<b>394,488</b>
<b>Province of Saskatchewan's equity</b>		
Equity advance (Note 12)	<b>250,000</b>	<b>250,000</b>
Retained earnings	<b>344,174</b>	<b>306,374</b>
	<b>594,174</b>	<b>556,374</b>
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	<b>116,405</b>	<b>86,586</b>
Dividend payable	<b>46,200</b>	<b>73,500</b>
Service billed in advance	<b>19,939</b>	<b>15,684</b>
Current portion of long-term debt (Note 11)	<b>14,218</b>	<b>54,212</b>
	<b>196,762</b>	<b>229,982</b>
	<b>\$ 1,163,743</b>	<b>\$ 1,180,844</b>

See Accompanying Notes

On behalf of the Board:



Honourable Carol Teichrob



Thomas V. Kehoe



**CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION**

For the year ended December 31

	1996	1995
	(Thousands of dollars)	
<b>Operating activities</b>		
Net income	\$ 84,000	\$ 191,800
Gain on sale of investments (Note 5)	—	(124,874)
Items not affecting cash from operations (Note 13)	148,041	148,807
Net change in non-cash working capital items	21,664	16,837
Cash provided by operating activities	253,705	232,570
<b>Financing activities</b>		
Repayment of long-term debt	(65,438)	(76,273)
Proceeds from long-term debt	2,597	1,717
Dividend payment	(73,500)	(48,700)
Cash used in financing activities	(136,341)	(123,256)
<b>Investing activities</b>		
Capital expenditures	(175,518)	(160,611)
Sale of investment in LCL Cable	—	137,337
Investment in LCL Cable	—	(9,064)
Sale of ISM shares	—	12,700
Cash used in investing activities	(175,518)	(19,638)
<b>(Decrease) increase in cash</b>	<b>(58,154)</b>	<b>89,676</b>
<b>Cash, beginning of year</b>	<b>65,015</b>	<b>(24,661)</b>
<b>Cash, end of year</b>	<b>\$ 6,861</b>	<b>\$ 65,015</b>

See Accompanying Notes



## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **Note 1 — The Corporation**

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

The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of The Saskatchewan Telecommunications Holding Corporation Act.

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.

As the Corporation is a Provincial Crown corporation, it and its wholly-owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

### **Note 2 — Summary of significant accounting policies**

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

#### **Consolidation**

These consolidated financial statements include the accounts of the Corporation and its subsidiaries: Saskatchewan Telecommunications, Saskatchewan Telecommunications International Inc., DirectWest Publishers Ltd. (DirectWest), and NST Network Services Inc. All significant intercompany transactions and balances have been eliminated.

#### **Investments**

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

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

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

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

#### **Depreciation**

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

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

#### **Discount and issue costs on long-term debt**

Discount and issue costs relating to long-term debt are deferred and amortized on a straight-line basis over the term of the respective debt issue.



## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### ***Goodwill***

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

### ***Revenue***

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

### ***Leases***

Where the Corporation is the lessor, rental revenues from operating leases are recognized as service is rendered to customers. Revenues from sales-type lease transactions are recognized at the inception of the lease. The investment in sales-type leases represents the present value of future lease payments receivable. Finance income is recognized in a manner which produces a constant rate of return over the term of the lease contract.

### ***Inventories***

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

### ***Pension costs***

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

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

### ***Foreign currency translation***

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

### ***Financial instruments***

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



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 3 — Other items**

	<b>1996</b>	1995
	<i>(Thousands of dollars)</i>	
Minority interest	\$ <b>(1,833)</b>	\$ 2,662
Other income	<b>1,433</b>	424
Interest on sales-type leases	<b>674</b>	674
Corporate income taxes	<b>(791)</b>	(701)
Share of earnings of equity investments	<b>(76)</b>	31
	<b>\$ (593)</b>	\$ 3,090

**Note 4 — Interest and related costs**

	<b>1996</b>	1995
	<i>(Thousands of dollars)</i>	
Interest expense	\$ <b>53,577</b>	\$ 67,047
Amortization of unrealized net foreign exchange losses and debt discounts	<b>1,017</b>	2,818
Premium and foreign exchange adjustment	<b>—</b>	8,691
	<b>54,594</b>	78,556
Less: Sinking fund earnings	<b>10,810</b>	9,059
Interest charged to construction	<b>2,110</b>	1,495
Interest on short-term investments	<b>1,313</b>	2,037
	<b>\$ 40,361</b>	\$ 65,965

**Note 5 — Gain on sale of investments**

The Corporation recorded gains in 1995 of \$114,354,000 on the sale of its 56% ownership of LCL Cable, a cable and telephony operation in the United Kingdom, and \$10,520,000 on the sale of shares in ISM Information Systems Management Corporation (ISM).



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 6 — Property, plant and equipment**

	<b>1996</b>	<b>1995</b>
	<i>(Thousands of dollars)</i>	
Buildings, plant and equipment	<b>\$ 1,956,786</b>	\$ 1,872,900
Plant under construction	<b>49,783</b>	30,628
Materials and supplies	<b>9,461</b>	9,959
Land	<b>8,992</b>	9,276
	<b>2,025,022</b>	1,922,763
Less: Accumulated depreciation	<b>1,054,752</b>	983,167
	<b>\$ 970,270</b>	\$ 939,596

The composite depreciation rate on the average depreciable telecommunications property in service was 7.7% in 1996 (1995 - 7.4%).

As at December 31, 1996, the ratio of accumulated depreciation to depreciable telecommunications property was 53.9% (1995 - 52.5%).

**Note 7 — Other assets**

	<b>1996</b>	<b>1995</b>
	<i>(Thousands of dollars)</i>	
Unrealized net foreign currency losses	<b>\$ 18,316</b>	\$ 18,420
Deferred pension costs	<b>18,395</b>	16,585
Competition start-up costs	<b>8,272</b>	4,496
Sales-type leases	<b>4,034</b>	5,139
Goodwill	<b>3,633</b>	3,964
Unamortized discount on long-term debt	<b>2,051</b>	2,350
Other receivables	<b>2,147</b>	3,954
Telesat prepayment	<b>811</b>	1,200
	<b>\$ 57,659</b>	\$ 56,108

**Note 8 — Investments**

	<b>1996</b>	<b>1995</b>
	<i>(Thousands of dollars)</i>	
Equity method:		
Investment in Regional Cable TV (Western) Inc.	<b>\$ 2,674</b>	\$ 2,469
Other	<b>(239)</b>	(131)
Portfolio investments:		
Alouette Telecommunications Inc.	<b>8,392</b>	8,392
	<b>\$ 10,827</b>	\$ 10,730



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 9 — Long-term debt, Province of Saskatchewan**

<u>Years to Maturity</u>	<u>Average Fixed Interest Rate</u> (%)	<b>1996</b> (Thousands of dollars)	<b>1995</b>
Canadian Dollar Issues			
1 - 5 years	10.29	\$ 47,153	\$ 68,416
6 - 10 years	11.45	221,625	239,027
11 - 15 years	10.15	34,376	66,974
		<b>303,154 (a)</b>	374,417
U.S. Dollar Issue			
24 years	9.38	137,060 (b)	136,400
		<b>440,214</b>	510,817
Less: Sinking funds		102,971 (c)	106,617
Due within one year		11,882	49,867
		<b>\$ 325,361</b>	\$ 354,333

(a) The fair value of this long-term debt is \$361,639,000 (1995 - \$427,938,000). Fair value reflects the estimated amount that the Corporation would pay, at current interest rates, to redeem the debt at December 31.

(b) Represents long-term debt repayable in U.S. dollars having a U.S. dollar face value of \$100,000,000 converted to \$115,360,000 Canadian at the time of issue. The recorded amount is based on the foreign exchange rate at December 31, 1996 of 1.3706 (1995 - 1.3640). The fair value of the U.S. debt, expressed in Canadian dollars, is \$168,378,000 (1995 - \$177,729,000). Fair value reflects the estimated amount that the Corporation would pay, at current interest rates, to redeem the debt at December 31.

(c) Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds administered by the Province of Saskatchewan one percent of the outstanding balance of long-term debt received. The sinking funds include investments having a U.S. dollar value of \$15,284,000 recorded at \$20,948,000 Canadian dollar equivalent. The fair value of the sinking funds is \$119,476,000 (1995 - \$119,761,000) determined as the market value of the investments held in the sinking fund as at December 31.

**Note 10 — Other long-term debt**

	<u>Fixed Interest Rate</u> (%)	<u>Maturity Date</u>	<b>1996</b> (Thousands of Dollars)	<b>1995</b>
TeleBonds – II Credit Bond	6.5	1999	\$ 34,109	\$ 34,480
Other	—	1997-2001	11,658	6,334
			<b>45,767</b>	40,814
Less: Due within one year			2,336	4,345
			<b>\$ 43,431</b>	\$ 36,469

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



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 11 — Current portion of long-term debt**

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

	(Thousands of Dollars)
1997	\$ 14,218
1998	\$ 5,575
1999	\$ 38,875
2000	\$ 15,130
2001	\$ 3,631

**Note 12 — Equity advance**

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

**Note 13 — Items not affecting cash from operations**

	1996	1995
	(Thousands of dollars)	
Depreciation	\$ 146,955	\$ 138,660
Other	2,432	(632)
Interest charged to construction	(2,110)	(1,495)
Net loss from LCL Cable operations	—	3,745
Premium and foreign exchange adjustments	764	8,529
	<b>\$ 148,041</b>	<b>\$ 148,807</b>

**Note 14 — Pension plans**

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

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

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



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Details of the defined benefit plan are as follow:

	<b>1996</b>	<b>1995</b>
	<i>(Thousands of dollars)</i>	
Plan assets at market related value	<b>\$ 605,578</b>	\$ 541,832
Present value of accrued pension benefits	<b>547,470</b>	477,969
Surplus	<b>\$ 58,108</b>	\$ 63,863
Pension expense for the year was as follows:		
Defined contribution plan	<b>\$ 5,540</b>	\$ 5,236
Defined benefit plan	<b>(828)</b>	(299)
	<b>\$ 4,712</b>	\$ 4,937

Included in operating expenses is \$20,500,000 for bridging costs and retirement allowances borne by the Corporation pertaining to an early retirement program offered in 1996.

**Note 15 — Related party transactions**

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

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

	<b>1996</b>	<b>1995</b>
	<i>(Thousands of dollars)</i>	
Revenue	<b>\$ 36,036</b>	\$ 37,760
General administrative expenses	<b>48,461</b>	56,539
Accounts receivable	<b>3,305</b>	3,131
Accounts payable	<b>544</b>	1,084

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

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

**Note 16 — Commitments**

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

	<i>(Thousands of Dollars)</i>
1997	<b>\$ 16,757</b>
1998	<b>\$ 16,222</b>
1999	<b>\$ 13,255</b>
2000	<b>\$ 13,430</b>
2001	<b>\$ 13,755</b>



## CORPORATE DIRECTORY

### Executive officers

Donald R. Ching  
President and  
Chief Executive Officer

Dale Bassen  
President  
SaskTel International

Dan Baldwin  
Senior Vice President  
Strategic Business Development  
& Administration/Strategic  
Marketing

Garry Simons  
Senior Vice President  
Customer Services  
Acting Vice President Human  
Resources/Industrial Relations

Gord Farmer  
Vice President  
Sales and Service

John Meldrum  
Vice President  
Corporate Counsel  
and Regulatory Affairs

Diana Milenkovic  
Vice President  
SaskTel Mobility

Kelvin Shepherd  
Vice President  
Network Services

Randy Stephanson  
Chief Financial Officer

### Senior operating managers

Mike Anderson  
General Manager  
Strategic Business Development

Dave Birnie  
General Manager  
Supplies and Services

Sean Caragata  
General Manager  
Corporate Affairs

Don Cherewayko  
General Manager  
Customer Services Saskatoon

Basil Ciepliski  
General Manager  
Mobility

Ron Gartner  
General Manager  
Network Planning Provisioning  
and Access

Betty Hoffart  
General Manager  
Customer Services Support

Ken Keesey  
General Manager  
Customer Services Regina

Tom Laird  
General Manager  
Customer Services-Call Centre

Dave Lozinski  
General Manager  
Human Resources

Byron Pointer  
General Manager  
Industrial Relations

Al Rogers  
General Manager  
Mobility

Stacey Sandison  
General Manager  
Customer Services Districts

Shelly Smith  
General Manager  
Advanced Interactive Solutions

Rhonda Stenz  
General Manager  
Marketing

Wayne Sumarah  
General Manager  
Marketing

Dennis Terry  
Controller

Linda Yeo  
General Manager  
Information Technology  
Management

Barry Ziegler  
Treasurer



## BOARD OF DIRECTORS



Back row (l to r): James Scharfstein, Judy Harwood, Garf Stevenson, Geoff Wilkinson, Susan Banilevic,  
Front row (l to r): Honourable Keith Goulet, Honourable Carol Teichrob, Edward Henderson, Sherry L. Leach,  
Inset left: Thomas V. Kehoe, Inset right: Betty-Jane Thomas

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Minister responsible for SaskTel

**Edward Henderson (Montreal Lake)**  
Education Co-ordinator  
Montreal Lake Cree Nation

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Lawyer and Partner  
Robertson Stromberg Law Firm

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Minister of Northern Affairs

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Business Consultant

**Garf Stevenson (Regina)**  
Business Consultant

**Susan Banilevic (Moose Jaw)**  
C.E.P. Representative

**Sherry L. Leach (Weyburn)**  
Co-ordinator  
Enrollment Management  
Southeast Regional College

**Betty-Jane Thomas (Regina)**  
Risk Manager, Gas and Supply  
SaskEnergy

**Judy Harwood (Saskatoon)**  
Assistant General Manager  
Saskatoon Travelodge

**Geoff Wilkinson (Regina)**  
C.E.P. Representative



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