

Connected to **your** world.



SaskTel is...

A provincial Crown corporation that has been delivering first-rate telecommunications to the people of Saskatchewan for 88 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 3845 employees. SaskTel people live in 60 different communities throughout Saskatchewan so that we can deliver the best of today's telecommunications products and services to every corner of the province.

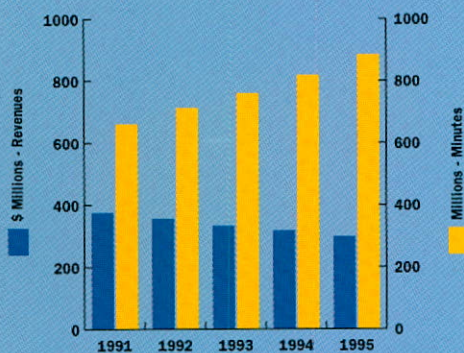
A holding company that manages increasingly diversified assets of approximately \$1.2 billion. The holding company allows us to subdivide our business into distinct subsidiaries and investments. This structure keeps the core

telco-operating company we refer to as 'SaskTel' separate from other elements of our business such as SaskTel Mobility, our cellular and paging business division, and SaskTel International, a wholly-owned subsidiary which pursues diversification initiatives around the world.

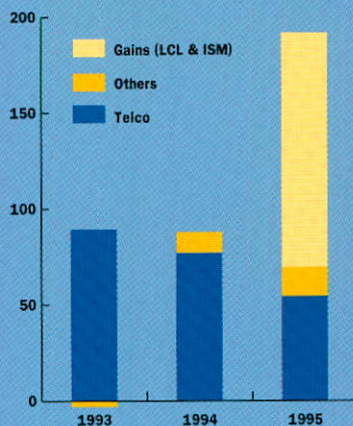
A province-wide, all-digital network that links Saskatchewan's 12 cities with more than 670 smaller communities and their surrounding rural areas, including more than 70,000 farms. Our network – one of the first on the continent to go all-digital – serves over 580,000 network access lines throughout the province's 652,000 square kilometres, bringing the world to our subscribers through local and long distance voice, data, image and text services.

Financial Highlights

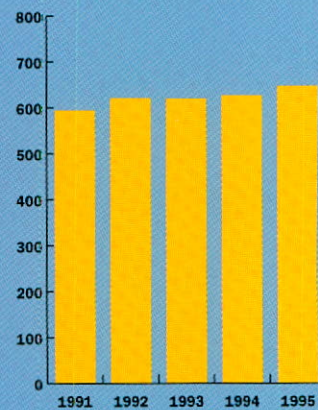
Long distance revenues/minutes comparison



Net income (\$ Millions)



Operating revenues (\$ Millions)



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VISION & VALUES

OUR VISION

SaskTel is 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 anticipate and fulfill our customers' needs for cost-effective communications solutions.

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

We 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

SaskTel is committed to a series of values as the beliefs of our organization which define our corporate culture and guide our daily behaviors.

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 creates 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 fosters autonomy and an entrepreneurial spirit among our employees.

Excellence

We believe SaskTel will achieve ongoing success through:

- 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.

LETTER OF TRANSMITTAL

Regina, Saskatchewan

March 30, 1996

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, 1995, 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 Act.

Respectfully submitted,



Hon. Carol Teichrob

Minister Responsible for SaskTel

Strategic Imperatives

To bring this vision to bear in the life of SaskTel, we committed ourselves in 1994 to a program of nine Strategic Imperatives, each with measurable objectives. Here are some highlights of our progress in 1995.

1 FINANCIAL MANAGEMENT

- Our debt/equity ratio continued to drop in 1995 – over the past five years it has dropped from 68.3% to 44.5%.
- Profits of over \$124 million from the sale of our interests in LCL Cable Communications Ltd. and ISM allowed us to reduce our debt significantly.
- We funded our \$184.5 million capital spending program without having to borrow.

2 SERVICE EXCELLENCE

- The eight consumer business offices across the province are now networked together, to provide customers with faster service when they call us.
- We are streamlining install and repair activities with an eye to offering customers specific appointment times and one-number provincial trouble reporting in the future.

3 HUMAN RESOURCES

- 37 employment equity candidates were hired in 1995.
- We have implemented a new 'Partnership for Excellence' program to help our people manage change as they grow in their careers.

4 CORE BUSINESS

- Over the next 6 years we will spend \$194 million on our digital switching and trunking systems to keep pace with the emerging technologies, and ensure that we will be well placed to deliver new information highway services to customers across the province.

5 COMMUNICATION

- We have made several changes in the way we use advertising and the media to keep our customers informed of changes to our products and services.

6 DIVERSIFICATION

- Successes include: the NST Network Services project in the U.S. Midwest; the sale of LCL shares for a profit of over \$114 million; Mobility's net income increasing 88.7% from 1994 to 1995; 'Always On' SmartTouch™ features made available to subscribers in 94% of the province.

7 INFORMATION TECHNOLOGY

- We have developed an Information Technology Leadership Plan to ensure that SaskTel remains front and centre in the information technology marketplace.
- We brought the Internet to Saskatchewan, providing good reliable access to this information service throughout the province.

8 REGULATORY ENVIRONMENT

- With long distance competition beginning in 1996, we worked hard in 1995 to get ready.

9 STRATEGIC ALLIANCES

- As a member of Stentor, SaskTel is now part of an alliance with MCI and British Telecom (Concert Services) to provide a new suite of global services to multi-national telecommunications customers.
- Mobility struck a deal with the Canadian Automobile Association to offer cellular phone customers a special member value plan.

Minister's and President's Joint Address

A SaskTel year goes by at breakneck speed. 1996 is here, bringing us to the halfway point of our Strategic Plan and into the era of long distance competition in Saskatchewan. For SaskTel, this new era will be characterized by many challenges to which we are already responding. For our customers, it will mean greater choice of service and service provider, and more savings on long distance rates. Let's take a look at some of the complex market forces we have faced as well as the responses we have made to these challenges.

The past

For most of our history it has been enough to be a Crown corporation with an exclusive mandate to provide telephone service to Saskatchewan. Operating as a monopoly allowed us to build one of North America's finest networks, delivering good affordable communications throughout a landscape where people often travel thirty miles or more for coffee and the local news.

Current challenges

Things have changed. Advancements in telecommunications and transportation and a climate of free trade and free-market competition have brought all local economies into an increasingly centralized and global economy, with its attendant benefits and difficulties.

Motivated by these economic realities over the past decade, the industry and its regulators have introduced competition into the Canadian telecommunications marketplace. For SaskTel, this has raised two primary challenges.

First, how do we reduce the impact of long distance revenue losses? And second, how do we serve both the customer who lives at the end of the road where our competitors may never reach and the customer in the city who can choose from an array of technologies and services offered by dozens of telecommunications providers?

In 1992, the Canadian Radio-Television and Telecommunications Commission (CRTC), which regulates the marketplace in every jurisdiction in Canada outside Saskatchewan, introduced long distance competition throughout the rest of Canada. Meanwhile, over the past five years Canadian telcos have dropped long distance rates by more than 50%. Although we have been under a moratorium from CRTC regulation, we chose to match those lower rates, providing our customers with the kinds of savings other Canadians enjoy.

Naturally, our revenues from long distance have dropped significantly – over \$100 million from 1990 to 1995. Meanwhile, because of lower rates, the annual number of long distance minutes

originated by our customers has actually increased by more than 280 million minutes over the same period (a 47% increase).

Our revenue from long distance service has dropped from an average of \$0.462 per minute in 1990 to \$0.249 in 1995. At the same time, the income we receive from our share in Stentor's national revenue settlement has fallen sharply.

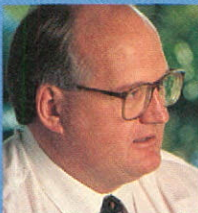
Which brings us to the second challenge – meeting the demands of our customers fairly. Traditionally, we have used our revenues from long distance to subsidize the real cost of providing local service throughout the sparsely populated landscape of this province. But now the revenue base for this subsidy is shrinking. Meanwhile, the market fosters consumer demand for new and better services requiring ever more complex technologies – many of which are expensive to deliver to the end of the road. Our ability to subsidize the cost of these services will be increasingly challenged, as we face more competition in all areas of our business.

How we have responded to these challenges

When the CRTC began introducing competition into the Canadian telecommunications marketplace in the 1980s we could see where the industry was headed. And we could see that SaskTel would need to respond to the challenge with a new attitude of openness to change.

The first major change was the restructuring we underwent in 1993. By an act of the Saskatchewan Legislature we reorganized the corporation and formed a holding company, or 'holdco', that oversees assets and operations not considered core to the provision of basic telecommunications services. This has allowed us to keep our holdco operations – including divisions and subsidiaries such as SaskTel Mobility and SaskTel International – separate from the

'telco' business of providing basic wire-line services. We believe that this reorganization will provide us with the optimum corporate structure to meet the demands of regulation, federal or provincial.



The second major change was a new Strategic Plan in 1994. By implementing a set of nine Strategic Imperatives we committed ourselves to 'a new direction that will focus our efforts and improve our competitive advantage'. Now in the third year of our five-year plan, we depend on its objectives and strategies more than ever to guide us through the dual challenge of facing declines in our traditional business while we try to serve, as best and fairly as we can, the diverse needs of our customers.

We have responded to shrinking long distance revenues by acting upon the Strategic Plan's directive to diversify our business, expand existing markets and move into new areas where we can apply our skills and assets profitably. The financial pages of this annual report tell the story of our success at diversification to date. Despite downward trends in long distance revenues, our bottom line is still strong and the revenues for the holdco for 1995 are healthy. We caution readers, however, that the income figures are artificially inflated by the sale of our investment in LCL Cable Communications Ltd. This was of course an unusual event – one that we cannot expect to repeat.

Descriptions of some of our recent diversification initiatives appear in the following pages of the annual report. We are particularly proud of our venture with NST Network Services Inc. to build hybrid fiber-coax networks for Ameritech in Chicago and Columbus.

While enterprises such as the NST project are important, they do not in any way distract us from our role as the provider of universally-accessible telecommunications to the people of Saskatchewan. In fact, we believe that a diversified revenue base is an important source of the financial strength that will enable us to continue delivering good local service.

However, we have to be realistic. The income we have had in the past from long distance is not coming back and it cannot be replaced entirely by new sources of revenue. Other measures will be required.

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1996 & beyond

As for the immediate future, we can be certain of one thing – our customers will continue to benefit from lower long distance rates provincially and nationally. This of course means the downward trend of our traditional revenues will continue.

1996 brings with it the advent of long distance competition in Saskatchewan. We are pleased that Saskatchewan people will begin to receive the choice in long distance service they have been asking for. Competition in other areas of our business has always been good for us, sharpening our marketing skills and re-focusing us on the customer. Long distance competition will be no different, for it will give us an opportunity to prove that our customers will stay with us because they want to be our customers and not simply because they have no alternative. And so we welcome the competition and are pleased that it is being introduced on terms that are fair to the people of this province and their long-term investment in the telecommunications infrastructure.

These events will challenge the traditional ways we have done business. We will, of course, be looking for ways to lower costs and increase revenues by reapplying and making better use of the resources we have. Cost-cutting will become particularly important. The more our traditional revenues drop the more we will have to reduce what we pay to run the business. But we will also have to examine the question of whether we can continue to subsidize local basic service at the current level. The day is coming when we will no longer be able to provide services at rates that do not reflect their cost.



The years ahead will demand of us the grace and wisdom to pull off some fundamental re-channeling of resources. No one need be afraid of this. We have every reason to believe that the strength

and flexibility this company has shown to date will only intensify as we carry on step for step moving with an industry that – just when we think we have caught our breath – picks up the pace and re-creates itself once again.

Responding to challenge, diversifying our business, meeting the competition – these things amount to a great deal of work and work is done by people. Fortunately at SaskTel we have people who always give their best when it comes time to roll up the sleeves and get the job done. And so we would like to take this opportunity to recognize and thank our employees, management, and Board of Directors for all of their commitment, creativity, and hard work in 1995.

The bottom line...

doesn't always tell the whole story. We can be proud of the profit we made in choosing the right time to sell our interest in LCL. It raised our net income figure beyond all expectations, but in doing so it has hidden a basic financial reality SaskTel faces. In fact, if we omit the gains on the sales of LCL and ISM, our 1995 net income results would actually show a decline from 1994 of several million dollars. That is the other bottom line.

Honourable Carol Teichrob
Board Chair

Dan Baldwin
Acting President and Chief Executive Officer

Regulation, Competition, and the Converging Marketplace

At the end of 1995, the Saskatchewan government announced that it would introduce long distance competition into Saskatchewan during the first quarter of 1996. By the time this report is made public, rebillers will already be operating in the province; facilities-based carriers may begin operations as early as the third quarter of 1996. SaskTel believes in the principles of fair competition and supports its introduction according to the guidelines laid out in the government white paper.

The Canadian Radio-Television and Telecommunications Commission (CRTC), which regulates the industry in all of Canada except Saskatchewan, began introducing competition into one element of the business after another, until in 1992 it finally opened the long distance market up to new carriers.

The very same year, the Saskatchewan government negotiated a moratorium with Ottawa to keep the province free of CRTC regulation until at least 1998. Since this time of course we have continued to face competition directly in many aspects of our business – for example, cellular, terminal, and competitive networks – and indirectly to the extent that we have chosen to offer our customers the lower long distance rates enjoyed by the rest of Canada.

For SaskTel and our customers, the moratorium has been good. It has allowed us the time to prepare our corporate culture for competition and to centre ourselves on the customer and the marketplace. Part of

this has been the corporate restructuring – to a holding company with several operating companies – that we believe is helping us manage our increasingly diverse holdings more effectively. Meanwhile, we have learned that the way to make a dollar in this business is to offer services at a good value and in a way that will simplify our customers' lives.

The moratorium has enabled us to bring our customers not only reduced long distance rates and savings through programs such as Real Plus and Advantage Preferred, but some advanced products and services on a schedule far ahead of the rest of the nation. SaskTel's freedom from the often restrictive guidelines of the CRTC has allowed us to introduce province-wide services, such as Internet, and to become one of the first phone companies to bring single-line telephone service to all of its customers across an all-digital network.

And finally, the successes we have had with diversification and in the international marketplace would have been much harder to manage had we been subject to the regulatory strictures of the CRTC.

Competition has been good for SaskTel and the people of Saskatchewan, and we have every reason to believe that it will continue to be so in the years to come. We welcome all comers to the long distance marketplace on the fair terms that have been set by the Saskatchewan government. We will let our voices be heard, however, whenever we see a large global corporation aiming to extract maximum profits from the communications marketplace in Saskatchewan. Unencumbered by any commitment to the well-being of this province and its culture, private corporations based elsewhere will not hesitate to take what they can and leave a minimum residue of economic benefit to the people who live and work on our farms and in our towns and cities.

The notion of granting entrant competitors some kind of subsidy or free access to the telecommunications infrastructure would be especially inappropriate in a market like Saskatchewan's. Saskatchewan is different, because access to telephone service has always been a

Real Plus™
Long Distance Savings Plan

ADVANTAGE

According to the provincial government white paper on long distance competition, SaskTel 'has effectively utilized the telecommunications sector both to stimulate economic development and to enhance the social well-being of the residents.'

community-based public good here. The phone in your hand may have changed from a standard issue black 'model 300' to a cellular handset, but effective telephone service, accountable to the people and available throughout the province, continues to be an identifying and binding characteristic of Saskatchewan. The preservation of this communications clause in the Saskatchewan social contract – not the preservation of SaskTel's revenues – is what should be on our minds as we invite new entrants into the marketplace. Handled properly, competition will support and find a place within the evolution of this contract.

Having said that, it is worth recalling that AT&T's annual revenue is more than two times the Province of Saskatchewan's total Gross Domestic Product. Companies the size of Unitel and Sprint (partially owned by AT&T and Sprint U.S., respectively) can well afford to make fair compensation for their use of the telecommunications infrastructure built and paid for by residents of Saskatchewan and to contribute to funds that will help offset the cost of maintaining local service throughout the province.

The day is not far off when telcos, cable TV operators, software companies, and information and entertainment companies will be sharing one marketplace that brings together voice, video, and data in a convergence of technology and information services. The CRTC has a responsibility to allow this to evolve at a pace that suits the needs of Canadians. SaskTel is preparing itself for this eventuality by building the right alliances and keeping a hand in as many of the emerging technologies as we can – things like Personal Communication Services (PCS), the Internet, video-on-demand, interactive TV, and hybrid fiber-coax networks.

Every time the rules and conditions of our marketplace change, we ask ourselves a question – is there an advantage SaskTel can find in this so that we can stay strong and improve our service and business? Regulators and competitors will come and go, changing the environment we operate within, but SaskTel will remain and will continue to answer this question with an unqualified 'Yes.'



**Harry Cook,
Chief of the
Lac La Ronge
Indian Band, is one
of our many Mobility
customers benefiting
from our extended
cellular coverage
north of
the 54th parallel.**

New Technologies and the Information Highway

We have launched a new program to help the province's smaller communities bring the information highway down main street. We call it 'Community Access' because it gives rural people web site access to Internet services at a price they can afford and in a manner that enriches the social fabric of the town and its surrounding countryside. SaskTel provides the community with dedicated Internet access at rates it can share among members of a non-profit community group or co-op, typically formed between local people, businesses, schools, and other organizations. In towns like Craik (see opposite page) local businesses and households will be connecting to the service as early as the spring of 1996.



Bringing the information highway to your front door

Reserve tickets to see a Vancouver Grizzlies game, join a discussion group on gardening, research alternative therapies for arthritis, send e-mail to your cousin in New Zealand or to the editor of *The Western Producer* – the possibilities on the Internet expand daily. In 1995 we brought Saskatchewan onto this major lane of the information highway by investing \$1.2 million in infrastructure. Regardless of whether you live in Saskatoon or Sandy Bay, SaskTel can deliver a world of information to your household with the Internet.

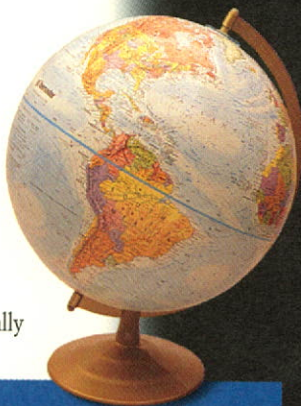
In the province's largest centres, demand is high enough to justify 'on-net' service. In the rest of Saskatchewan, where demand tends to be lower, we offer the same Internet service using 'off-net' dial-up access. Despite the high cost of providing Internet to these off-net areas of the province, our customers do not have to pay long distances charges when they connect to the Internet. Any other Internet provider operating in the province or in the rest of Canada is charging off-net customers long distance rates for their dial-up access. Now that we have brought the entire province onto the digital network, the service we can provide to remote areas of Saskatchewan is unparalleled in other provinces.

SaskTel is committed to offering the benefits of the information highway throughout the province at reasonable rates, which is why we are offering special packages to schools, programs like Community Access, and dial-up access without long distance charges.

Second-guessing the future

What is SaskTel doing to usher in the other elements of the information highway? In some ways it is a matter of backing the horse (or horses) that look most promising – hedging our bets. In terms of transmission will it be cable, fiber, satellite, or some hybrid? Will telephony be pulled into a PC-based information access system like the Internet or will PCS (Personal Communications Services) evolve into a basic service some day? Our Network Services and R & D people stay in touch with the latest developments on all of these fronts so that SaskTel will be well-placed to introduce new systems and services as they become ready for market.

Looking further down the road, with the regulators and technology moving us toward new opportunities and away from existing ways of doing business, we can see that the elements of the communications marketplace (for example, telecommunications, cable, entertainment, and computer-based services) will begin to converge. Diversification will lead the telephone companies even further from the core services we have traditionally provided. This may be what finally breathes life into the information highway – a convergence of networks so that the interactive communications of voice, video, and data become available over a single network at a low cost to anybody anywhere. As this comes together, SaskTel will be there to deliver it to Saskatchewan.

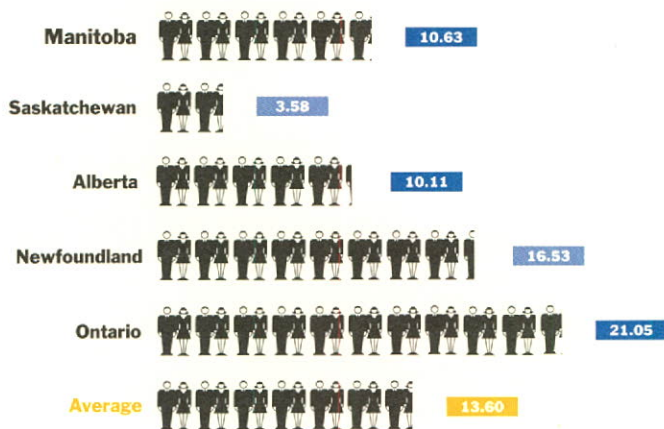


High school teacher Debbie Wildfong and student Chad Carlson are part of an ad hoc group that is working with SaskTel to bring Internet Community Access to the town of Craik. The group plans to offer public access at stations available in the school, the town library, and the rural municipality office.

The Saskatchewan Challenge

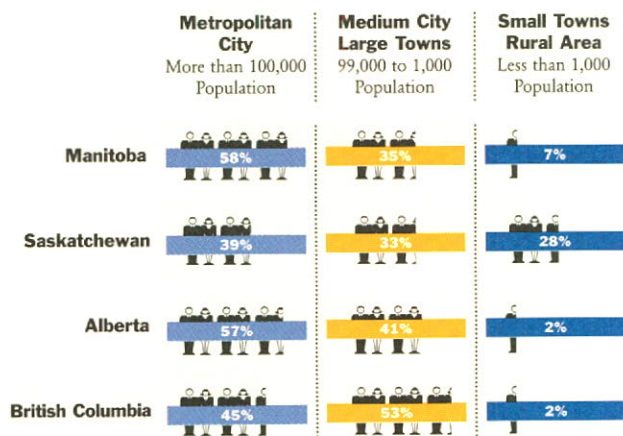
We serve a population of one million people scattered over 652,000 square kilometres of some very challenging landscape.

Local service challenge — accesses per kilometre of network



Source: Statistics Canada – Telephone Statistics 1993

Percentage provincial population per location category



Source: Statistics Canada Census 1991

Telephone access has become an essential service in Saskatchewan, where 98% of households have a telephone – a high percentage by any standard. Providing good single-line service to each of these homes in a territory as geographically challenging as Saskatchewan has been one of our greatest achievements as a telephone company, but it has been expensive – particularly in sparsely populated areas. There are on average only 3.5 accesses for every kilometre of cable in our network. (Compare this to the national average of 13.6 accesses per kilometre.) The costs of updating and maintaining this network, meanwhile, do not go away. In 1995 we completed a \$256 million program to expand digital service throughout our serving area, including \$29 million in the north alone. Over the next six years we will spend almost \$200 million upgrading digital equipment and expanding our network capacity in the province.

On average, the basic monthly service rate each subscriber pays falls \$18 short of paying the cost of providing access to the network. As a Crown corporation, we have a mandate to provide universal and affordable service. Therefore, to subsidize the high cost of providing local service, we have always used our revenues from long distance.

As this annual report shows, however, this traditional source of revenue is in decline. Despite efforts to replace the lost income through diversification, our capacity to continue 'business as usual' is eroding year after year. In the coming years we will be looking for new ways to recover the actual cost of some services we have been providing at a loss. Local rates will necessarily increase somewhat, and we will begin to charge for things like long distance directory assistance.

Inevitably, there will be changes to the way we deliver and pay for some services. Universality remains a goal for SaskTel; however, everything we do is increasingly subject to economic realities and technical limitations.

Diversification Initiatives

As competition changes the environment in which we do business, our financial strength resides in our capacity to expand existing markets and move into new areas where we can apply our skills and assets profitably. To this end, the Strategic Plan has set a diversification target for the company — that by 1998 we will be earning 40% of our revenues from non-traditional markets and products. In 1995 we took confident steps toward our future as a diversified telecommunications corporation. Here are a few examples.

SaskTel away from home

SaskTel International, a subsidiary of SaskTel marketing our management and technological expertise around the world, has become a primary source of new revenue for the corporation. In the Philippines, SaskTel International people continue their work on Phase III of an \$84 million contract to engineer, supply, and install telecommunications in this nation of islands. In 1995 SaskTel International was awarded two other contracts in the Philippines: a World Bank project to help the Philippines Long Distance Telephone company improve its project management processes, and a project with Telic-Phil, a consortium of Philippines telecommunications carriers, to develop a business case for a proposed communications backbone network. Meanwhile, in Tanzania we are continuing to install telephone facilities in Dar es Salaam. In addition, we sold \$1.7 million worth of software to Pacific Telecom of Vancouver, Washington.



Building the highway — in Columbus and Chicago

Because the pace of technological development in our industry is moderated by regulation in Canada, some information highway services and networks will be introduced elsewhere before we can offer them here. But that doesn't stop us from learning and profiting by sending our people and expertise to wherever we see the highway being built. When we found out that Ameritech, one of the largest telecommunications companies in the world, would be building hybrid fiber-coax networks to deliver interactive video services to the U.S. Great Lakes region, we knew we wanted a piece of the action. So we linked up with NS Telecom of Vancouver to form a communications construction company called NST Network Services Inc.

NST won the multi-year contract to provide construction services to Ameritech and now we are on the streets of Chicago and Columbus building the fiber and cable network that will deliver interactive services such as video-on-demand to residential and commercial customers in the American Midwest.



When the network is completed, it will serve approximately 6.5 million homes in the region. We are hoping for big things from this stretch of the information highway. Analysts are expecting the construction of hybrid fiber-coax networks to become a major industry during the next decade.

More than TV – the Hospitality Network and Hollywood at Home

Depending on who you believe, the television will either be front and centre in the transformation of how information enters and leaves our households and businesses, or it will take a back seat to the personal computer. Until a clear winner is announced, SaskTel is keeping active in both areas. Our main thrust in the personal computer services area has of course been our rollout of Internet across the province.

We have two television-based projects underway. Working with the Hospitality Network – a small local business in which SaskTel holds a minority interest – we are now delivering on-demand services such as movies and Nintendo® interactive video games to hotel guests in Regina and Saskatoon. Depending on discussions we are holding with interested parties outside Saskatchewan, we may soon be selling this system to other service providers in Canada and abroad.

For the past two and a half years we have been working on a video-on-demand project we call 'Hollywood at Home'. This trial, involving more than 60 homes in a portion of south Regina,

has allowed us to test a technology that gives homeowners more control over their entertainment alternatives. Before the trial ends in June 1996, participants will be able to view summaries of their telephone bills on screen.



In terms of signal delivery for television, our experience with LCL Cable in England has given us some good grounding for the day when the CRTC opens the cable TV market to competition.

Mobility expands and looks ahead – to PCS

SaskTel Mobility continues to be a growing part of SaskTel's business – increasing its subscribership by 39%, broadening its coverage, and improving its services. Some 1995 highlights: we expanded our cellular network to bring in Canora, Kamsack, Lucky Lake, Neilberg, Redvers, Kipling, and Kyle. (In 1996 we will be extending service to nine more communities.) We were the first carrier on the continent to eliminate national roaming charges. We made a deal with Canadian Automobile Association (CAA) to launch an exclusive member value program, in which CAA members who purchase a Liberty All-in-One Plan can reach CAA roadside service by calling *222 from their cellular phones.



With a network of over 170 SaskTel Mobility dealers throughout the province, we are able to deliver a range of wireless solutions, including paging, cellular, and trunked dispatch.

For 1996 there are plans to launch a satellite service and to begin working on a Personal Communications Services (PCS) project. The satellite service will extend wireless communication beyond cellular coverage and into the most remote corners of the province.

Still in its early development phase, PCS is a phenomenon that evades definition. For now, all we can say is that additional radio licenses awarded to SaskTel Mobility and Mobility Canada have given us the opportunity to trial and test market a new generation of wireless telecommunications.

A modern network delivering a diversity of services

Thanks to some hard work by the folks in Network Services, the Digital Network Modernization Program is now complete. This undertaking, which included a \$29 million service upgrade for northern Saskatchewan, has made SaskTel one of the few jurisdictions on the continent to be served by an all-digital, all individual line service network.

While there may be as many as 309,000 households in the rest of Canada that are still served by party lines, SaskTel's 450,000-plus customers – each served by an individual line attached to a digital network – are getting more service and value out of their telephones every year. Because we have made the effort to modernize, you can now get services like voice messaging and calling features like call forwarding, no matter where you are in the province.

SaskTel knows the value of keeping its network up-to-date, and so despite passing the digital threshold, there is more work to do. In 1995 we launched a 6-year program to continue upgrading and modernizing our switching and transmission systems. The Core Network Evolution Program will spend \$194 million replacing outdated digital switches, fiber optic cable, and other equipment with the best the industry has to offer.

For our customers the benefits will be higher quality and more consistent service offerings across the province, and improved network survivability in case of cable damage or equipment failure. As well, by preparing the core network to support the introduction of narrowband services and the deployment of broadband overlay systems, this upgrading program will get us ready to deliver more diversified services as the information highway develops. In particular it will bring many of our smaller communities (for example, Kamsack, Warman, and Humboldt) up to the standard that new communication technologies require.

Diversifying SaskTel and Saskatchewan with call centres

Among our most successful diversification strategies has been our initiative to bring call centres to Saskatchewan. Businesses have discovered that Saskatchewan's economic environment and SaskTel's telecommunications infrastructure make the province an ideal place to locate a call centre. For the company establishing the call centre this means more efficient customer service and expanded business. For SaskTel it means partnerships and solid diversified revenue. And for Saskatchewan it means economic benefits and jobs.



Marla Preston, General Manager at the Regina Inn, uses SaskTel's Hospitality Network to offer her customers a range of Nintendo® and movie services. The Hospitality Network, Hollywood at Home, the NST hybrid fiber-coax network, our new satellite service, and our PCS initiative, are all helping us prepare for the next generation of the information highway.

Mobility began a twelve month pilot project in July using our FleetNet 800 dispatch communications technology to integrate dispatching of emergency services in the Northwest and Southwest Health Districts.

SaskTel 
Mobility
FleetNet 800



One of SaskTel's strongest selling points in bringing call centres to the province has been the unqualified success of our own call centre, which was recognized nationally by Stentor for its 85% customer sign-up rate on the Real Plus savings program. In the coming years we plan to continue to showcase the SaskTel call centre in its evolving leadership as a 'best of breed' model call centre.

To serve our call centre customers better, we now have a division – made up of a telemarketing group and a Customer Application Team – that is dedicated to attracting and supporting the infrastructure of call centres. The big success of 1995 was being awarded the call centre for the Canadian Imperial Bank of Commerce. Scheduled to open in Regina in early summer 1996, the CIBC Telephone Banking Centre will generate millions of calls annually.

SaskTel's advanced telecommunications network and unique flexibility in offering customer-specific tariffs, together with Saskatchewan's low cost of living, stable well-educated work force, and the provincial tax-free status of 800 service – these advantages and more combine to make Saskatchewan a prime location for call centres. Efforts to secure increased call centre activity for Saskatchewan and SaskTel will continue in 1996.

Look what your phone can do now

Our new revenues and expertise from diversifying have not only come from the ventures of our subsidiaries. As a corporate strategy, diversification has urged us to build more value into everything we do, to layer new services on top of our traditional services.

Now with local basic service you get a lot more than dial tone and the capacity to receive and send calls. SaskTel currently provides access to 911 emergency service to more than half of the province's population. And we have plans to introduce a province-wide 911 service on a five-year implementation schedule, beginning in the spring of 1996.

In 1995 we introduced a program we call 'Always On' to provide our customers with access to three SmartTouch™ calling services: Last Call Return, Busy Call Return, and Three-way Calling. At a cost of \$.25 per use, customers receive the benefit of these convenient services that add


to the power and value of using a telephone. Although right now we provide these features to 94% of the province, by late 1996 all of our customers will have access to these three services.

Of course, subscribers throughout the province can always rent any of our SmartTouch™ services, such as Call Forwarding, Call Waiting, Ident-a-Call, or Speed Call 30.

In June 1995 we launched TalkMail™, a new voice messaging service that makes the simple telephone a powerful tool for wide distribution of voice information. Using technology developed by Octel Communications Canada, TalkMail™ allows a customer to send instantaneous and simultaneous voice messages to a predetermined list of people, each of whom have been given a voice 'mailbox' associated with their telephone number and managed from the central office. The people on the receiving end of the message know they have a message waiting when they pick up the receiver and hear a stutter tone. This inexpensive service has already become an important communication tool for many Saskatchewan businesses, schools, and community organizations.

First in the world to try voice-activated dialing—VoiceConnect

We are doing what we can to simplify our customers' lives. So naturally we are proud to be the first in the world to experiment with voice-recognition technology as a way of placing a call with a minimum of fuss. Under the VoiceConnect trial initiated in late 1995, our Regina customers can connect to one of approximately 350 participating businesses simply by lifting the handset, pressing *00, and answering prompts requesting the name of the business they would like to reach. Results from the trial will help us determine what direction we would like to take with this technology.



Heather Schilling was a part of the CIBC team that selected Saskatchewan and SaskTel to host the CIBC Telephone Banking Centre. In 1995 another call centre was awarded to SaskTel — the Canadian Cancer Society. We are working with Bell Quebec to implement a French-speaking centre in Montreal while the English-speaking centre will be operating in Regina by fall 1996.

FINANCIAL REVIEW

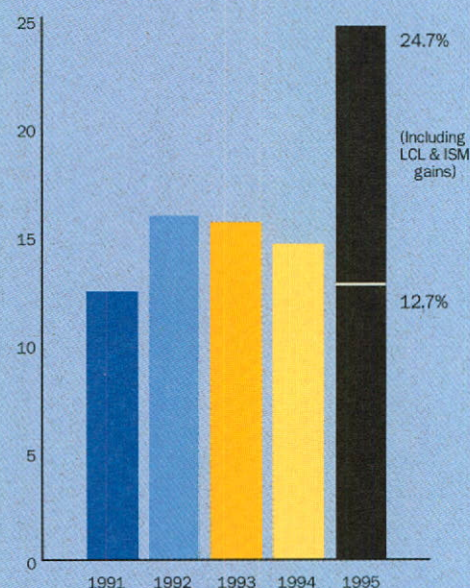
The Saskatchewan Telecommunications Holding Corporation (the Corporation) consolidated financial statements that follow include the results of its subsidiaries: Saskatchewan Telecommunications (SaskTel Telco), Saskatchewan Telecommunications International, Inc. (SaskTel International), DirectWest Publishers Ltd. (DirectWest), and prior to its sale on September 26, 1995, the accounts of LCL Cable Communications Ltd. (LCL Cable). These results also proportionately consolidate the results of the Corporation's interests in two joint ventures, NST Network Services (NST) and Segitel/SI (Tanzania). The following review is intended to help readers understand the Corporation's operational results and financial position. This review should be read in conjunction with the audited financial statements and the supporting notes.

1995 Operating Results

1995 was an outstanding year for the Corporation with record earnings of \$191.8 million (\$88.5 million in 1994). While earnings were the highest in the history of the company, the one-time, non-recurring gains on the sale of LCL Cable (\$114.4 million) and ISM shares (\$10.5 million) contributed \$124.9 million (65%) to the total. Earnings for the Corporation before these gains were \$66.9 million, down \$21.6 million (24%) from 1994. SaskTel Telco's net income for 1995 was \$54.6 million, down by \$23.6 million from 1994 and down by almost \$35 million since 1993, due to the continuing decline in long distance revenues. The decline in SaskTel Telco's net income was offset by growth in the profitability of the diversified subsidiaries.

The Corporation's return on net assets (RONA) was 24.7%, up by 10.1 percentage points from 1994. RONA excluding the gains on sale of LCL Cable and ISM shares, was 12.7%, down 1.9 percentage points from the 1994 RONA of 14.6%. Most of the decrease in RONA was due to a \$14.7 million decrease in net operating income.

Return on net assets (RONA)
(per cent)



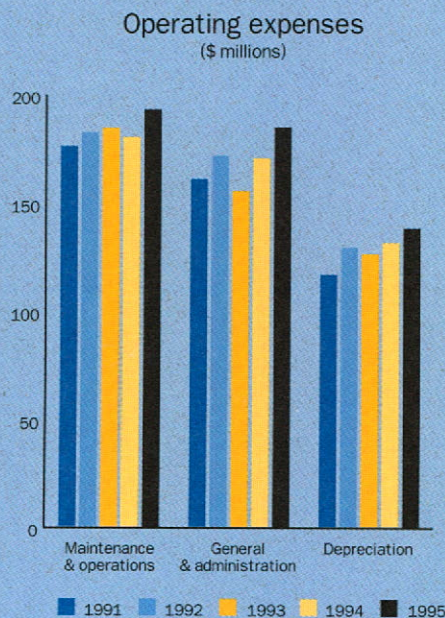
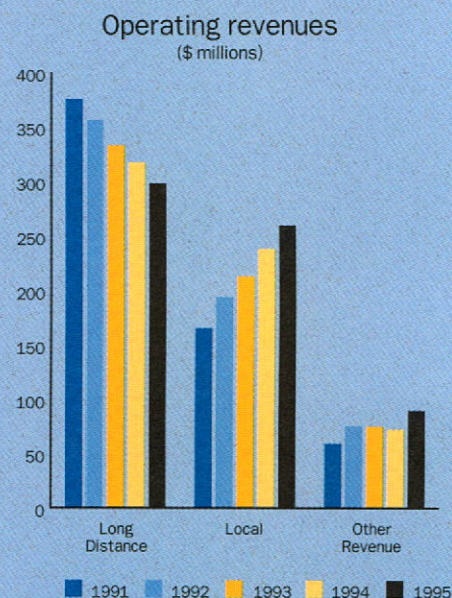
Operating Revenues

Operating revenues of \$646.9 million increased by \$20.5 million over the 1994 level of \$626.4 million. Long distance revenues were \$297.9 million (\$316.8 million in 1994). These revenues have now dropped from 50.6% of total revenues in 1994 to 46.1% of total revenues in 1995, despite an 8.2% increase in long distance minutes. Local service revenues of \$259.3 million increased by \$21.7 million from 1994, while sales, directory, and other revenues increased by \$17.5 million.

Out-of-province long distance revenues totaled \$157.3 million in 1995. These revenues were down \$13.0 million from 1994 levels. SaskTel Telco (a member of the Stentor alliance) is experiencing continued decline in the amount of long distance revenues available for settlement due to increasing competition for long distance revenues in other provinces. In-province long distance revenues of \$140.6 million were down \$5.9 million from 1994. Long distance savings plans such as Advantage and Real Savings, while stimulating usage, have substantially reduced long distance rates per minute.

While long distance revenues declined in 1995, revenues from diversified sources increased. Local service revenues of \$259.3 million were up by \$21.7 million in 1995 primarily due to an increase in Mobility cellular service revenues over 1994 levels. Sales, directory and other revenues of \$92.3 million increased by \$17.5 million from 1994. SaskTel International revenues were \$24.5 million (\$10.5 million in 1994), the highest in its ten year history. LCL Cable recorded revenues of \$10.1 million for the nine months prior to it's sale, compared to \$5.3 million in 1994.

Revenues from diversified sources represent 24% of total revenues (18% in 1994). The continued increase in diversified revenues has helped to reduce the negative effect of declining traditional long distance revenues. As competitors enter the market, and SaskTel's traditional long distance revenues continue to decline, the company considers diversification opportunities a priority and is actively pursuing this strategy.



Operating Expenses

The Corporation's operating expenses in 1995 were \$517.1 million, an increase of \$34.2 million over 1994 expenses of \$482.9 million. Operating expenses of the diversified businesses have increased \$32.4 million year over year in conjunction with their growth, while SaskTel Telco's operating expenses have remained flat.

Maintenance and operations expenses of \$193.3 million increased by \$12.9 million from 1994 due to a \$19.9 million increase in cost of sales and a \$2.2 million increase in station provisioning expense. These increases were offset by a decrease in maintenance expense of \$2.9 million and a decrease of \$5.9 million resulting from reclassification of directory commissions upon consolidation of DirectWest expenses.

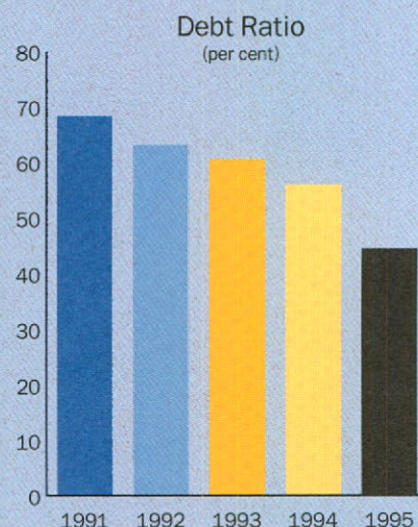
General and administrative expenses of \$185.1 million increased by \$14.4 million from 1994. The majority of the increase was due to consolidation of the expenses of DirectWest and NST Network Services, a \$2.4 million increase in Stentor expenses, and a \$1.1 million increase in information technology expenses.

Depreciation expense of \$138.7 million increased by \$7.0 million from 1994. This resulted from the increased base of depreciable assets in the Corporation.

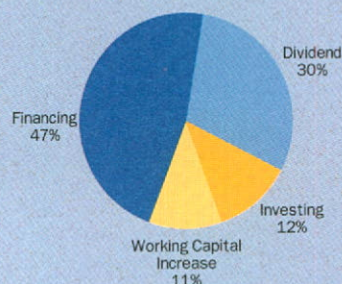
Financial Position

Interest and related costs were \$66.0 million (\$61.1 million in 1994). Cash proceeds from the sale of LCL Cable and ISM shares allowed the Corporation to retire \$46 million of US debt (\$62.2 million Canadian) as well as \$19.9 million of short term notes in the fourth quarter of 1995. An additional \$8.9 million in premiums and foreign exchange adjustments was incurred as a result of this early repayment of debt. Had these additional costs not been incurred, interest and related costs would have been below 1994 levels. Since 1990, annual interest and related costs have declined \$20.9 million in total.

The Corporation's Debt Ratio has improved from 56.1% in 1994 to 44.5% in 1995, putting the debt ratio in line with industry averages.



1995
Uses of cash
\$159.7 million



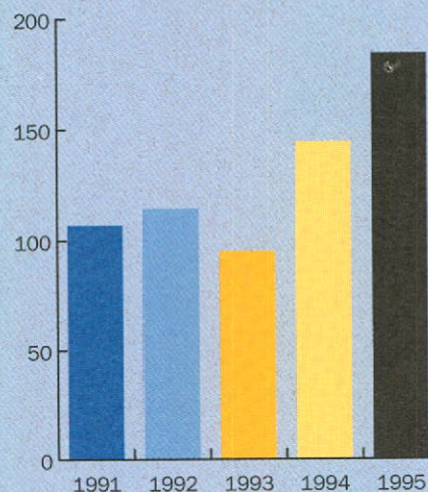
Cash Flows

The Corporation continues a strategy of being self-financing, using the cash generated from operations to fund capital construction and dividend payments. Cash provided by operating activities was \$232.6 million (\$198.4 million in 1994), cash used in financing activities required \$123.3 million (\$143.6 million in 1994), and investing activities, including capital expenditures, required cash disbursements of \$19.6 million (\$126.3 million in 1994). The Corporation's cash position was strengthened through the sale of the investments in LCL Cable and ISM, netting cash proceeds of \$150.0 million. After funding of the capital program, dividends, and debt repayment, the Corporation realized an increase in cash of \$89.7 million during the year.

Capital Spending

Capital spending in 1995 increased to \$184.5 million, a 27.9% increase over the 1994 level of \$144.3 million. SaskTel Telco increased capital expenditures for the Core Network Evolution program, (which provides for modernization, upgrading and replacement of key elements of the transport and switching network) and to complete the multi-million dollar Digital Network Modernization and North Saskatchewan Modernization programs. Diversified businesses, primarily SaskTel Mobility and LCL Cable, required capital expenditures of \$33.0 million, in line with 1994 levels.

Capital Expenditures
(\$ millions)



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.

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

FIVE-YEAR RECORD OF SERVICE

For the year ended December 31

	1995	1994	1993	1992	1991
Network Access Services *	595,104	581,816	574,962	573,464	569,785
Originated long distance messages (in thousands)					
Telephone	200,084	184,810	162,126	145,488	134,845
Data and other voice services	39,718	31,779	28,931	29,669	27,198
Total messages	239,802	216,589	191,057	175,157	162,043
Conversation minutes	885,112	818,728	760,274	713,489	661,589
Average revenue per minute (ARPM)	\$ 0.24	\$ 0.29	\$ 0.33	\$ 0.36	\$ 0.40

Finance

(in thousands of dollars)

Operating revenues	\$ 646,871	\$ 626,443	\$ 619,727	\$ 620,882	\$ 594,698
Operating expenses	517,070	482,896	466,683	484,065	454,445
Other income (losses)	125,999	2,111	6,762	2,615	(8,414)
Interest and related costs	65,965	61,062	73,834	87,250	80,822
Net income	191,800	88,514	88,547	79,916	51,017
Dividend	73,500	48,700	58,400	51,700	0
Gross construction expenditures	184,539	144,257	94,762	114,039	106,520
Property, plant & equipment **	1,922,763	1,876,318	1,795,708	1,729,728	1,673,228
Long term debt (gross) **	501,456	649,588	718,289	751,318	887,077

Financial ratios

Return on net assets	12.7%	14.6%	15.6%	15.9%	12.3%
Return on net assets including LCL and ISM gains	24.7%	n/a	n/a	n/a	n/a
Debt ratio	44.5%	56.1%	60.6%	63.1%	68.3%
Internally generated funds as a percent of net construction expenditures	148.4%	114.4%	181.5%	182.3%	131.3%

Employees and payroll

Number of employees (excluding part-time) **	3,845	3,863	3,699	3,861	3,981
Salaries Earned (thousands of dollars)	\$ 165,503	\$ 163,772	\$ 158,875	\$ 166,021	\$ 168,991

* 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, 1995, 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.

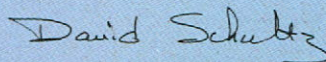
To ensure the integrity and objectivity of the financial data, management maintains a comprehensive system of internal controls including written policies and procedures, an organizational structure that segregates duties, and a comprehensive internal audit program. These measures provide reasonable 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.



Dan Baldwin
Acting President &
Chief Executive Officer



David C. Schultz
Vice President Finance

Regina, Saskatchewan
February 26, 1996

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, 1995, 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, 1995, 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, 1996

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended December 31

	1995	1994
	(Thousands of dollars)	
Operating revenues		
Long distance service	\$ 297,912	\$ 316,768
Local service	259,331	237,667
Sales, directory, other	92,343	74,842
Uncollectible operating revenues	(2,715)	(2,834)
	646,871	626,443
Operating expenses		
Maintenance and operations	193,317	180,446
General and administrative	185,093	170,706
Depreciation	138,660	131,744
	517,070	482,896
Net operating revenues	129,801	143,547
Other items (Note 3)	3,090	6,029
Interest and related costs (Note 4)	65,965	61,062
Net income before the following	66,926	88,514
Gain on sale of investments (Note 5)	124,874	—
Net income	\$ 191,800	\$ 88,514

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31

	1995	1994
	(Thousands of dollars)	
Retained earnings, beginning of year	\$ 188,074	\$ 148,260
Net income	191,800	88,514
	379,874	236,774
Dividend	73,500	48,700
Retained earnings, end of year	\$ 306,374	\$ 188,074

See Accompanying Notes

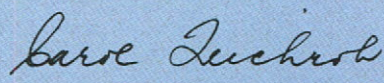
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

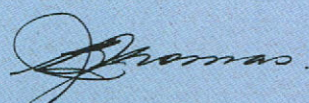
As at December 31

	1995	1994
	(Thousands of dollars)	
ASSETS		
Property, plant and equipment (Note 6)	\$ 939,596	\$ 965,427
Other assets (Note 7)	56,108	63,564
Investments (Note 8)	10,730	13,656
	1,006,434	1,042,647
Current assets		
Cash and short-term investments	65,015	981
Accounts receivable	93,885	90,827
Inventories	4,683	7,506
Prepayments	10,827	12,647
	174,410	111,961
	\$ 1,180,844	\$ 1,154,608
LIABILITIES AND PROVINCE'S EQUITY		
Long-term debt		
Province of Saskatchewan (Note 9)	\$ 354,333	\$ 480,485
Other long-term debt (Note 10)	36,469	65,913
	390,802	546,398
Minority interest	1,865	1,420
Deferred taxes	1,821	1,810
	394,488	549,628
Province of Saskatchewan's equity		
Equity advance (Note 12)	250,000	250,000
Retained earnings	306,374	188,074
	556,374	438,074
Current liabilities		
Short-term borrowings	—	25,642
Accounts payable and accrued liabilities	86,586	71,694
Dividend payable	73,500	48,700
Service billed in advance	15,684	14,188
Current portion of long-term debt (Note 11)	54,212	6,682
	229,982	166,906
	\$ 1,180,844	\$ 1,154,608

See Accompanying Notes

On behalf of the Board


Honourable Carol Tiechrob


Betty-Jane Thomas

CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION

For the year ended December 31

	1995	1994
	(Thousands of dollars)	
Operating activities		
Net income	\$ 191,800	\$ 88,514
Gain on sale of investments (Note 5)	(124,874)	—
Items not affecting cash from operations (Note 13)	148,807	134,815
Net change in non-cash working capital items	16,837	(24,884)
Cash provided by operating activities	232,570	198,445
Financing activities		
Repayment of long-term debt	(76,273)	(128,748)
Proceeds from long-term debt	1,717	43,566
Dividend payment	(48,700)	(58,400)
Cash used in financing activities	(123,256)	(143,582)
Investing activities		
Capital expenditures	(160,611)	(114,205)
Sale of investment in LCL Cable	137,337	—
Investment in LCL Cable	(9,064)	(12,104)
Sale of ISM shares	12,700	—
Cash used in investing activities	(19,638)	(126,309)
Increase (decrease) in cash	89,676	(71,446)
Cash, beginning of year	(24,661)	46,785
Cash, end of year	\$ 65,015	\$ (24,661)
Comprised of:		
Cash and short-term investments	\$ 65,015	\$ 981
Short-term borrowings	—	(25,642)
	\$ 65,015	\$ (24,661)

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., SaskTel Holding (U.K.) Inc. (LCL Cable Communications Ltd.), DirectWest Publishers Ltd. (DirectWest), and prior to its sale on September 26, 1995, the accounts of LCL Cable Communications Ltd. (LCL Cable). All significant intercompany transactions and balances have been eliminated.

Investments

Investments in joint ventures are accounted for using the proportionate consolidation method of accounting. 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.

Goodwill

Goodwill is being 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.

Where the corporation is the lessee, assets recorded under capital leases are amortized on a straight line basis over their expected useful life. Obligations recorded under capital leases are reduced by lease payments net of imputed interest. All other leases are accounted for as operating leases.

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 ages 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.

NST Network Services Inc., the corporation's 50% joint venture in the United States, is considered a self-sustaining foreign operation and its assets and liabilities are reflected at the yearend exchange rate. Revenues and expenses are reflected at the average exchange rate for the year.

Note 3 – Other items

	1995	1994
	(Thousands of dollars)	
Minority interest	\$ 2,662	\$ 3,918
Interest on sales-type leases	674	793
Share of earnings of equity investments	31	300
Other income	424	1,018
Corporate income taxes	(701)	—
	<u>\$ 3,090</u>	<u>\$ 6,029</u>

Note 4 – Interest and related costs

	1995	1994
	(Thousands of dollars)	
Interest expense	\$ 67,047	\$ 70,189
Amortization of unrealized net foreign exchange losses and debt discounts	2,818	2,461
Premium and foreign exchange adjustment	8,691	–
	78,556	72,650
Less: Sinking fund earnings	9,059	10,159
Interest charged to construction	1,495	913
Interest on short-term investments	2,037	516
	\$ 65,965	\$ 61,062

Note 5 – Gain on sale of investments

The corporation recorded a gain on the sale of its 56% ownership of LCL Cable, a cable/telephony operation in the United Kingdom. A gain was also recorded on the sale of shares in ISM Information Systems Management Corporation (ISM). Gains were recorded as follows:

	1995
	(Thousands of dollars)
Proceeds on the sale of investment in LCL Cable	\$ 137,337
Book value of investment	(22,983)
Gain	114,354
Sale of ISM shares	12,700
Book value of investment	(2,180)
Gain	10,520
Gain on sale of investments	\$ 124,874

The results of the corporation include the accounts of LCL Cable to the date of sale as follows:

	1995	1994
	(Thousands of dollars)	
Sales, directory and other revenues	\$ 10,062	\$ 5,263
Operating expenses	(13,053)	(11,104)
Net operating revenues	(2,991)	(5,841)
Interest and related costs	(4,089)	(3,039)
Minority interest	3,335	3,918
Net loss	\$ (3,745)	\$ (4,962)

Note 6 – Property, plant and equipment

	1995	1994
	(Thousands of dollars)	
Buildings, plant and equipment	\$ 1,872,900	\$ 1,833,463
Plant under construction	30,628	23,311
Materials and supplies	9,959	10,496
Land	9,276	9,048
	1,922,763	1,876,318
Less: Accumulated depreciation	983,167	910,891
	\$ 939,596	\$ 965,427

The composite depreciation rate on the average depreciable telecommunications property in service was 7.41% in 1995 (7.30% - 1994).

As at December 31, 1995, the ratio of accumulated depreciation to depreciable telecommunications property was 52.5% (49.7% - 1994).

Note 7 – Other assets

	1995	1994
	(Thousands of dollars)	
Unrealized net foreign currency losses	\$ 18,420	\$ 31,919
Deferred pension asset	16,585	12,959
Competition start-up costs	4,496	2,555
Sales-type leases	5,139	5,938
Goodwill	3,964	4,274
Unamortized discount on long-term debt	2,350	3,460
Notes receivable from joint ventures	2,081	—
Telsat prepayment	1,200	1,589
Other receivables	1,873	870
	\$ 56,108	\$ 63,564

Note 8 – Investments

	1995	1994
	(Thousands of dollars)	
Equity method:		
Investment in Regional Cable TV (Western) Inc.	\$ 2,469	\$ 2,269
Other	(131)	815
Portfolio investments:		
Alouette Telecommunications Inc.	8,392	8,392
ISM	—	2,180
	\$ 10,730	\$ 13,656

Note 9 – Long-term debt, Province of Saskatchewan

Years to Maturity	Average Rate %	1995	1994
(Thousands of dollars)			
Canadian Dollar Issues			
1 - 5 years	12.76	\$ 68,416	\$ 46,262
6 - 10 years	11.32	239,027	263,402
11 - 15 years	9.87	66,974	66,974
		374,417 (a)	376,638
U.S. Dollar Issues			
21 - 25 years	9.38	136,400 (b)	204,663
		510,817	581,301
Less: Sinking funds		106,617 (c)	96,507
Due within one year		49,867	4,309
		\$ 354,333	\$ 480,485

- (a) Includes long-term debt totalling \$104,112,000 received through the Canada Pension Plan under 20-year terms subject to redemption upon six months notice.
- (b) Represents long-term debt repayable in U.S. dollars having a U.S. dollar face value of \$100,000,000 converted to \$115,360,435 Canadian at the time of issue. The recorded amount is based on the foreign exchange rate at December 31, 1995 of 1.3640 (1.4018 - 1994).
- (c) Under conditions attached to a portion of the long-term debt, the corporation is required to pay annually into sinking funds administered by the Province of Saskatchewan 1% of the original value of long-term debt received. The sinking funds include investments denominated in U.S. dollars held in the fund having a U.S. dollar value of \$12,279,000 recorded at \$16,749,000 Canadian dollar equivalent based on the foreign exchange rate of 1.3640 at December 31, 1995.

Note 10 – Other long-term debt

	Rate (%)	Maturity Date	1995	1994
(Thousands of dollars)				
TeleBonds – II				
Credit Bond	6.5	1999	\$ 34,480	\$ 34,978
Other	–	1996 - 1997	6,334	33,308
			40,814	68,286
Less: Due within one year			4,345	2,373
			\$ 36,469	\$ 65,913

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.

Note 11 – Current portion of long-term debt

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

1996	\$ 54,212,000
1997	\$ 5,179,000
1998	\$ 4,536,000
1999	\$ 37,618,000
2000	\$ 15,079,000

Note 12 – Equity advance

The equity advance from CIC is non-interest bearing and repayable at the discretion of CIC.

Note 13 – Items not affecting cash from operations

	1995	1994
	(Thousands of dollars)	
Depreciation	\$ 138,660	\$ 131,744
Premium and foreign exchange adjustments	8,529	239
Interest charged to construction	(1,495)	(913)
Net loss from LCL Cable operations	3,745	4,962
Other	(632)	(1,217)
	<u>\$ 148,807</u>	<u>\$ 134,815</u>

Note 14 – Pension plans

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

A defined benefit plan is maintained for those employees who were hired prior to October 1, 1977 and who did not elect to transfer to the Public Employees (Government Contributory) Superannuation Plan by October 1, 1978. This latter plan is a defined contribution plan, its funding requirements are established by the Superannuation (Supplementary Provisions) Act and employee contributions are matched by the corporation.

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. The plan requires contributions from both employees and the corporation. The corporation's contribution rate of 100 percent of employee contributions is based on the latest actuarial valuation of the plan (December 31, 1994).

(continued)

Note 14 – Pension plans (continued)

	1995	1994
	(Thousands of dollars)	
Plan assets at market related value	\$ 541,832	\$ 493,171
Present value of accrued pension benefits	477,969	451,602
Surplus	\$ 63,863	\$ 41,569
Pension expense for the year was as follows:		
Defined contribution plan	\$ 5,236	\$ 4,988
Defined benefit plan	(299)	(740)
	\$ 4,937	\$ 4,248

Note 15 – Related party transactions

Included in the financial results are revenues and expenses resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown – controlled departments, agencies and corporations with which the corporation is related. Account balances resulting from these transactions are included in the statement of financial position and are settled on normal trade terms.

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

Note 16 – Commitments

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

1996	\$ 22,382,000
1997	\$ 19,094,000
1998	\$ 17,106,000
1999	\$ 16,575,000
2000	\$ 16,218,000

Note 17 – Comparatives

1994 figures have been reclassified to conform to current year's presentation.

Corporate Directory

Executive officers

Dan Baldwin
*Acting President
and Chief Executive Officer*

Kelly Staudt
*President
SaskTel International*

Catherine MacKenzie
*Vice President
Human Resources/
Industrial Relations*

Garry Simons
*Senior Vice President
Customer Services*

Gord Farmer
*Vice President
Sales and Service*

John Meldrum
*Vice President
Corporate Counsel
and Regulatory Affairs*

Diana Milenkovic
*Vice President
SaskTel Mobility*

Louise Robitaille
*Vice President
Strategic Marketing*

David Schultz
*Vice President
Finance*

Kelvin Shepherd
*Vice President
Network Services*

Senior operating managers

Mike Anderson
*General Manager
Strategic Business Development*

Dale Bassen
*General Manager
Network Performance
and Operations*

Dave Birnie
*General Manager
Supplies and Services*

Rhonda Stenz
*General Manager
Marketing*

Don Cherewayko
*General Manager
Customer Services Saskatoon*

Basil Ciepliski
*General Manager
Mobile Communications*

Wayne Sumarah
*General Manager
Marketing*

Ron Gartner
*General Manager
Network Planning Provisioning
and Access*

Betty Hoffart
*General Manager
Customer Services Support*

Mark Stobbe
*General Manager
Corporate Affairs*

Ken Keesey
*General Manager
Customer Services Regina*

Tom Laird
*General Manager
Call Centres*

Dave Lozinski
*General Manager
Human Resources*

Shelley Smith
*General Manager
Stentor Alliance Relations*

Byron Pointer
*General Manager
Industrial Relations*

Stacey Sandison
*General Manager
Customer Services*

Randy Stephanson
*General Manager
Customer Services District*

Dennis Terry
Controller

Linda Yeo
*General Manager
Information Technology
Management*

Barry Ziegler
Treasurer

Board of Directors



*Back row (left to right): James Scharfstein, Geoff Wilkinson, Betty-Jane Thomas, Thomas V. Kehoe, Edward Henderson;
Front row (left to right): Garf Stevenson, Honourable Carol Teichrob, Sherry L. Leach, Susan Banilevic, Honourable Keith Goulet.
Missing: Barbara Foster.*

Hon. Carol Teichrob (Saskatoon)
*Board Chair
Minister Responsible for SaskTel*

Edward Henderson (Montreal Lake)
*Education Co-ordinator
Montreal Lake Indian Band*

James Scharfstein (Saskatoon)
*Lawyer and Partner
Robertson Stromberg Law Firm*

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

Thomas V. Kehoe (Swift Current)
*Executive V.P. & Chief Operating Officer
National-Spar Inc.*

Garf Stevenson (Regina)
Business Consultant

Barbara Foster (Regina)
*General Counsel
Co-operators Data Services Ltd. (CDSL)*

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

Betty-Jane Thomas (Regina)
*Manager Investments
City of Regina*

Hon. Keith Goulet (Regina)
Minister of Northern Affairs

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



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SaskTel The logo graphic for SaskTel, consisting of several horizontal blue lines of varying lengths, creating a stylized 'S' or a signal-like pattern.