

SaskTel 

1994

ANNUAL REPORT

ications

C

Listening Learning Responding

PERSON TO PERSON

CORPORATE PROFILE

SaskTel is a provincial crown corporation that provides local and long distance voice, data, image and text services throughout Saskatchewan's 652,000 square kilometres. Through SaskTel Mobility, the corporation provides the most extensive cellular and paging coverage in Saskatchewan.

The corporation is an acknowledged leader in the telecommunications industry, developing and delivering advanced products and services to approximately 450,000 residential and business customers. From its headquarters in Regina, SaskTel manages assets of approximately \$1.2 billion and employs 3,863 people in more than 60 communities across the province.

As a member of Stentor, an alliance of Canada's nine major telecommunications companies, SaskTel provides a full range of national and world-wide long distance communications services.

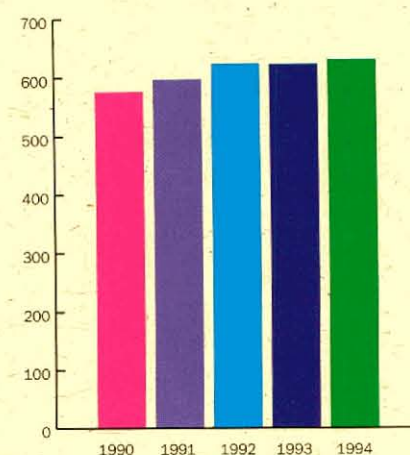
As part of its diversified activities, SaskTel undertakes investment opportunities that have solid potential to make favourable long-term contributions to the growth of the corporation. SaskTel also shares its technical and management expertise in the pursuit of diversification opportunities world-wide through its wholly owned subsidiary, SaskTel International.

CONTENTS

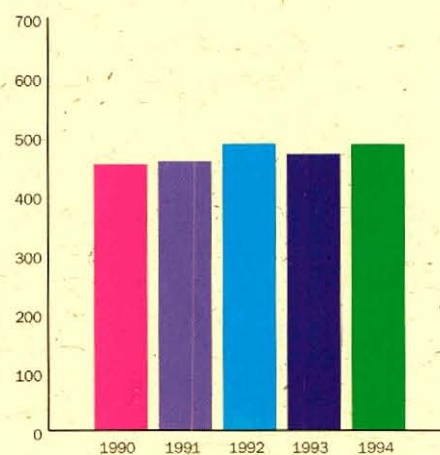
Meeting the challenge	1
Year in review	4
1994 operational highlights	16
Financial review	20
Corporate directory	36
Board of Directors	inside back cover

FINANCIAL HIGHLIGHTS

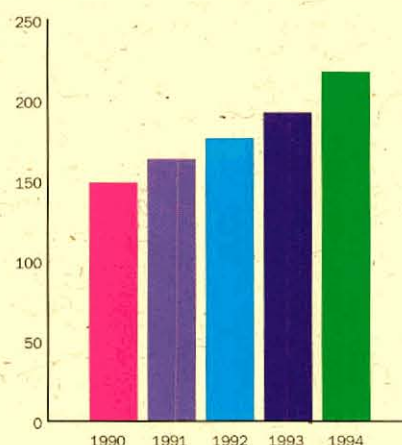
Operating revenues
(\$ millions)




Operating expenses
(\$ millions)



Long distance messages
(millions)



4



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.

Howard Ross Library
of Management

MAY - 8 1995

McGILL UNIVERSITY



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 fulfil 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.

MEETING THE CHALLENGE

In 1994 SaskTel began the most exciting and most important challenge in the history of this company. In the face of our rapidly changing and increasingly competitive business environment, we have set out to reshape and reposition SaskTel. Our goal: to be where our customers want us to be; to excel as Saskatchewan's telecommunications provider of choice.

These changes, both large and small, represent a transformation in the way SaskTel conducts business. With a sharp and unwavering focus on meeting customers' needs, one of our more traditional goals, however, remains the same: delivering affordable, universal services throughout Saskatchewan.

We began the year with a bold new five-year strategic plan. It clearly sets out SaskTel's vision of the future and establishes a set of nine strategic imperatives that will allow us to define and measure our success. It will drive us to become more diversified, financially stronger, and more firmly established as the market leader. The plan places customers' needs first, and encourages the kind of teamwork that will allow us to deliver the benefits of these efforts to our most important business partners, the people of Saskatchewan.

Competition is not new to SaskTel. For several years we have successfully faced commercial competition in almost every facet of our business. However, one of our greatest challenges may soon be upon us. In 1994 the Government of Saskatchewan released a discussion paper and invited public comment on ways to allow long distance competition into the province. It may well be the most critical test SaskTel has faced in its 86-year history.

SaskTel has traditionally used millions of dollars of long distance revenues to subsidize local rates, in order to keep the cost of basic telephone service well within the reach of every Saskatchewan resident. If competition continues to be a factor in driving down long distance rates, it could have a significant impact on SaskTel's ability to maintain the current level of subsidy for basic local services.



Fred Van Parys (left), SaskTel's President and Chief Executive Officer, with Honourable Ed Tchorzewski, Minister Responsible for SaskTel.

Long distance competition in other parts of Canada is already having an impact on revenues in Saskatchewan. SaskTel's revenue from inter-provincial long distance calls continues to drop by millions of dollars annually. Internally, we have responded by aggressively growing our international and diversified operations, and by reducing our overhead costs.

"Our goal:

SaskTel employees deserve special recognition for their very important contributions in this area. Their innovation and continued dedication is vital in our ongoing challenge to reduce expenses and streamline operations, while growing the company and generating new revenues at the same time. We acknowledge their dedication and resourcefulness in helping the company achieve its financial and organizational objectives again in 1994.

to be where our

One of the cornerstones of our five-year plan is to achieve a superior level of service excellence. A special process re-engineering team has been at work seeking new and innovative ways to enhance customer service and to simplify internal business processes. Its work crosses all departments, and signals that SaskTel is embracing change, putting customers' needs first, and building a competitive culture where innovation and efficiency are paramount.

customers want us

to be; to excel as

SaskTel's moratorium from federal Canadian Radio and Television Commission (CRTC) regulation may be removed by the federal government in 1998. This moratorium has provided SaskTel with the opportunity to introduce new products and services for our customers without facing the long and costly CRTC regulatory process. The financial savings because of this amounted to an estimated five or six million dollars last year alone. This has provided a clear competitive advantage for SaskTel, allowing us to be the first in Canada to introduce services like Advantage Preferred™ and the Real Plus™ long distance savings plan. Advantage Preferred saved business customers an average of 30 to 60 per cent in 1994. The Real Plus program, new in 1994, saves residential customers an average of 15 to 20 per cent. It also provides a rewards program that can save customers up to an additional 15 per cent.

Saskatchewan's

telecommunications

provider of choice."

In 1993 we restructured ownership of SaskTel by creating both a holding corporation and a telco-operating company. This will help protect SaskTel's non-integral assets from federal regulation if the federal moratorium ends. The new structure also encourages a more competitive corporate culture, and strengthens SaskTel in the ever-changing business environment of the 1990s.

To ensure that SaskTel continues to move forward as we pursue our strategic goals and objectives, an important organizational change took place at the executive level in 1994. Two new Senior Vice-President positions were created: one responsible for Customer Services, and the other in charge of Strategic Business Development and Administration.

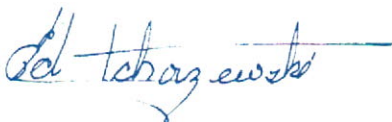
The race for technological innovation is placing unprecedented pressure on all telcos in Canada. In 1994 the Stentor alliance of telecommunications companies, which includes SaskTel, announced *The Beacon Initiative*. It represents a pooling of resources, and an investment of some \$8 billion over the next decade, to create a national high-capacity network to deliver enhanced interactive data, image and video services. This is a major, long-term project that will provide a framework for what is often referred to as the information highway.

This initiative is contingent upon the Stentor alliance receiving CRTC approval to provide a full range of services. Because SaskTel is well advanced in the digital switching and network computerization that has brought universal, urban-quality individual line service to all customers, we have a significant lead in bringing this new initiative to Saskatchewan.

We are both pleased and proud to report that SaskTel continues to make great strides in achieving our goal of being a low-cost provider of innovative telecommunications solutions. It is further evidence that SaskTel possesses incredible vitality and flexibility. We are leaders and innovators, not just at home, but, through SaskTel International, in far-off places like Tanzania and the Philippines. Our business is growing and diversifying. Our financial base is strong, as reflected in the year's financial achievements. We are well equipped for the transformation our changing environment constantly demands.

But SaskTel is much more than just a telecommunications company. As a responsible crown corporation, SaskTel has an obligation to its owners — the people of Saskatchewan — to help create jobs and diversify the provincial economy. In tandem with our social responsibility, as SaskTel moves forward, the corporation will continue in its commitment to provide the financial and technological benefits of this burgeoning industry to the people of Saskatchewan.

We wish to extend our most sincere thanks to SaskTel's Board of Directors, to management, and to all employees across this great province who continue to provide their vision, their talents and their hard work in transforming SaskTel's strategic plan from words into action.



Honourable Ed Tchorzewski
Chairman of the Board



Fred Van Parys
President and Chief Executive Officer

THE WINNING TEAM, THE RIGHT SOLUTIONS



Since cellular service was introduced in the province in 1989, SaskTel Mobility has dominated the market and grown to become the fourth largest cellular provider within the Mobility Canada alliance. SaskTel Mobility's superior coverage and its strong province-wide network of more than 200 regional dealers, including SaskTel Telmarts, have contributed to the extremely rapid growth of cellular customers.

One of SaskTel's key goals is to excel as Saskatchewan's telecommunications provider of choice. This means listening to customers, understanding their needs, and responding with products and services superior to any in the marketplace.

These are not lofty ideals. These are SaskTel's strategic imperatives that are already having a significant impact on the company's day-to-day operations.

Today, SaskTel Mobility dominates the rapidly growing and intensely competitive wireless communications marketplace. Through Mobility Canada, SaskTel customers enjoy the widest national coverage available when they travel outside the province.

SaskTel Mobility's cellular coverage is the most comprehensive in the province, expanding in the past five years to reach 85 per cent of the population. Assiniboia, Biggar, La Ronge, Meadow Lake and Shellbrook were added to the network in 1994, with seven more communities to be linked in 1995 — Canora, Kamsack, Kipling, Kyle, Lucky Lake, Neilburg and Redvers. These new locations were selected after reviewing their business activity, traffic flow and labour force to ensure that cellular service is economically viable.

SaskTel Mobility also offers a cost-effective dispatch service called FleetNet 800, an advanced mobile radio network for companies needing fleet or group communications. Besides providing fleet communications, FleetNet 800 connects customers to the public telephone network, making it ideal for companies who need to communicate both with groups and individuals. Some of the provincial utilities currently using FleetNet 800 are the Department of Highways, SaskEnergy, and SaskTel.

On September 15, SaskTel Mobility launched FleetNet 800 to private industries as well. Since 1991, FleetNet 800 has expanded to offer blanket coverage from the 54th parallel in the north to the American border in the south, making it the largest network of its kind in the world. In 1994, SaskTel Mobility completed construction of the FleetNet network in the south and announced further expansion to the north. The 1995 FleetNet 800 expansion plan includes the main highway corridors to Laloche, Key Lake, Collins Bay, Sandy Bay, and Cumberland House. This expansion represents SaskTel Mobility's first major entrance to the northern markets.

SaskTel Mobility also offers personal paging services. In 1994, SaskTel Mobility launched a paging advertising campaign, focusing on "pagers for kids". Pagers for kids is a way for families to keep in touch and make plans, regardless of where they all are located at any particular time.



Near Glenbain, ostrich farmer and SaskTel Mobility customer Ira Heebner reflects the growing diversification of rural Saskatchewan businesses. About five years ago, Ira and Velma Heebner purchased a breeding pair of ostriches and nicknamed them Ozzie and Harriet. Today, they have about 70 of the large birds that when full-grown stand six feet tall and weigh in excess of 250 pounds.

MARKETING TECHNOLOGICAL SKILLS AROUND THE WORLD



SaskTel is a world-class company with diversified operations. The company continues to find new sources of revenue by selectively marketing its technological expertise and management skills around the globe through SaskTel International. The latest contracts in Tanzania and the Philippines, worth a total of more than \$46 million, reaffirm SaskTel's reputation as a technological leader.

With increased competition in SaskTel's traditional markets, diversification is essential to sustain business growth. The company's five-year strategic plan challenges all business divisions to increase revenues from new sources. By 1998, the goal is to have 40% of SaskTel's revenues coming from non-traditional markets and products. That growth is on target, due largely to the extraordinary success of SaskTel Mobility, a number of strategic corporate investments, and the global reputation of SaskTel's wholly owned subsidiary, SaskTel International.

In 1994, SaskTel International won its largest contract to date, a \$36 million telecommunications project in the Philippines. This is SaskTel International's third contract with the Government of the Philippines, and involves the engineering, supply and installation of rural telecommunications to an additional 10 provinces in the island nation. SaskTel International also landed a \$10 million contract with the Tanzanian Telecommunications Company in 1994 to design, install and test new telephone facilities in the African capital of Dar es Salaam.

As well, the completion of the English Channel Tunnel in 1994 ended four years of high-profile involvement for SaskTel International on the largest construction project of the 20th century.

The diversification efforts of SaskTel reach beyond the successes of SaskTel International. SaskTel itself now holds majority ownership in LCL Cable Communications Ltd., a combined telecommunications and cable television company in England. Expected to be a profitable business in its own right, LCL also provides SaskTel with additional experience and technologies that can be applied as convergence nears between cable TV and telecommunications companies in Canada.

Another example of the company's successful diversification efforts is Norstar Network Services, a joint venture with Norstar Communications of Vancouver. The company recently secured a \$46 million contract from Ameritech to build two major fiber optic/co-axial cable networks in Chicago and Detroit to deliver interactive video services such as video-on-demand.



Mike Ryan, Facilities Designer for SaskTel International, provides leadership for a major telecommunications project now underway in Tanzania. The two-year contract to provide modern telecommunications facilities through four exchange areas in Dar es Salaam, follows the completion of a previous contract in Tanzania to modernize trackside communications between Dar es Salaam and Mwanza.

LISTENING, LEARNING AND RESPONDING TO CUSTOMERS' NEEDS



SaskTel's superior solutions and competitive prices deliver value for all customers. Innovative products and reliable service are the foundation of the company's customer-focused, market-driven direction. During the year, more than 150,000 customers were contacted by SaskTel Call Centre employees who explained the numerous benefits of the Real Plus long distance savings plan.

In 1994, SaskTel was the first telecommunications company in Canada to offer its customers the Real Plus long distance savings plan, with discounts of 15 and 20 per cent on all long distance calls. This underscored SaskTel's commitment to lowering long distance costs and its determination to be the winner in the anticipated challenge from other long distance suppliers.

SaskTel was able to achieve this service "first" because Saskatchewan currently enjoys a moratorium from federal CRTC regulation. This moratorium enables SaskTel to offer customers new products and services without incurring costly regulatory delays. It has also given SaskTel more flexibility in meeting customers' needs and developing innovative telecommunications solutions to fit the unique requirements of the Saskatchewan marketplace.

In addition to being first to offer the plan, SaskTel achieved the highest percentage acceptance rate for Real Plus savings among the nine member companies of the Stentor alliance. Nearly all eligible SaskTel residential customers enrolled in the Real Plus program in 1994. This savings program continues the trend of reducing long distance rates in Saskatchewan. Since 1990, prices for long distance calls have typically dropped by as much as 60 per cent.

SaskTel was the first Stentor partner to introduce the benefits of the Advantage Preferred long distance plan to larger business customers. As well, SaskTel was among the first in Canada to offer Name Display, an optional service that enhances convenience and security by displaying the names of incoming callers.

Three significant new product trials were underway in 1994. TalkMail, an innovative and economical method of communicating, was tested in North Battleford and in two Regina high schools. At Regina's Campbell Collegiate, an advanced multimedia trial uses fiber optics and optical switching to enhance more traditional learning tools. Also in Regina, SaskTel continued its video-on-demand trial in 1994, in cooperation with the retail chain Acme Video.



*Sandsoother
manufacturer Laurie
McSymyts employs
SaskTel fax and
cellular services and a
toll-free 800 number
in her successful
home-based business,
Calmax Industries,
located near Wynyard.
The sand-filled hot
and cold therapy
packs are sold in
seven different shapes
and sizes. More than
10,000 have been sold
to physiotherapists,
chiropractors, sports
clubs and many
home users.*

INVESTING IN PEOPLE AND COMMUNITIES



Maintaining good business relations with customers goes beyond friendly, efficient service.

SaskTel is also dedicated to doing business in a manner that protects the environment, which includes numerous recycling projects province-wide. In addition, alarm systems are being installed at SaskTel sites that are powered by diesel generators, and work continues on projects to comply with Saskatchewan's new fuel storage tank regulations.

For 86 years, SaskTel has played a leadership role in serving more than the telecommunications needs of Saskatchewan people. As a responsible corporate citizen, SaskTel continues to support hundreds of community projects and special events each year, to practice employment equity, and to enforce strict environmental management programs throughout the company.

SaskTel enjoys a rewarding partnership with the more than 3,200 Saskatchewan members of the Telephone Pioneers of America — a group of active and retired employees who give generously of their time and talents in support of more than 40 community service projects. Last year the organization raised \$148,000 and contributed 35,000 volunteer hours to help improve the quality of life for the elderly, people with special needs, and to support various environmental projects.

But SaskTel's community support goes much further. Corporate financial contributions to Saskatchewan not-for-profit and charitable organizations exceeded \$400,000 in 1994. At the same time, SaskTel employees, through their Telcare benevolent fund, donated more than \$168,000 to a variety of worthwhile organizations. In addition, through SaskTel's event marketing program, the University of Saskatchewan Homecoming Gala, the Saskatchewan Roughriders Plaza of Honour Dinner, and the Saskatchewan Jazz Festival — among many others — received significant corporate support in exchange for product and service promotion opportunities.

As in previous years, SaskTel and its employees are working hard to protect the environment. SaskTel and DirectWest, publishers of SaskTel telephone books, have partnered to promote the collection and recycling of outdated directories. Local environmental committees, SaskTel Pioneers and school boards are partnering to support this important recycling initiative in many communities.

SaskTel's new strategic plan foresees the company being the employment equity leader in Saskatchewan. To increase diversity in the workplace, SaskTel actively supports initiatives to help build linkages with the four target groups: women, aboriginals, visible minorities and people with disabilities.



Dedicated volunteers in SaskTel's Paint-It-Recycled program helped win the prestigious Telephone Pioneers of America international award for the best environmental program in North America. In Regina, more than 3,000 gallons of waste paint has been collected for recycling. (Left to right), Garry Simons, Senior Vice President, Customer Services; Aubrey Hicks, SaskTel Database Services Manager; and Christine Trapp, City of Regina Public Affairs Officer, represent the partnership program's sponsors.

DELIVERING THE BENEFITS OF TECHNOLOGY TO CUSTOMERS



Early in 1995, Saskatchewan residents will be able to use SaskTel's new Internet Access Services. The corporation's advanced digital network will provide province-wide Internet access and a no-charge, 24-hour help-line service will enhance customer support. SaskTel Internet Access Services are part of a global network linking some 60 million people to the world's largest and most comprehensive public communications and information resource.

SaskTel is recognized as an industry leader in delivering the benefits of new technology to its customers. Fiber optics, conversion to powerful and flexible digital switching, and the delivery of urban-quality, private lines to virtually all its customers, ranks SaskTel among the top telecommunications companies in Canada.

At the end of 1994, SaskTel was nearing completion on a major multi-year network upgrading program. During the year, under the final phase of this massive \$146 million undertaking, an additional 42 rural communities gained access to the benefits of information age technology. A similar \$29 million upgrading program in northern Saskatchewan, which began in 1992 and will be concluded in 1995, will complete the province-wide conversion from analog to digital switching and transmission facilities.

By the end of 1995, SaskTel will achieve the distinction of providing one of the world's largest geographical areas with an all-digital network. SaskTel's advanced, computer-driven infrastructure has the capability to economically deliver a dazzling array of new and exciting features, such as Call Display, Name Display, Call Waiting and Call Forwarding, that customers want and need to enhance choice, security and convenience — both at home and at work. At year end, SaskTel was preparing to introduce the latest SmartTouch™ services including Last Call Return and Busy Call Return.

Through its technological leadership, SaskTel is playing an active role in developing the new global electronic network often referred to as the information highway. SaskTel is committed to moving ahead with the investments necessary to match the needs of Saskatchewan businesses and consumers. In 1994, responding to growing consumer demand, SaskTel announced plans to assume the role of Internet access provider in Saskatchewan. This new commercial offering, which fits with the company's aggressive diversification strategy, will begin providing affordable Internet access to all Saskatchewan customers in early 1995.



Sandi Triffo, an employee at Regina's Wascana Rehabilitation Centre, is always in touch with her mobile Companion 100 phone system. Installation of the new SaskTel digital wireless service, which allows hospital staff to make and receive calls anywhere in the complex, was completed in 1994. Early in 1995, similar systems will be operational at the Regina General Hospital, Pasqua Hospital and Plains Health Centre.

DEPENDABLE SERVICE AND COMPETITIVE RATES CREATE VALUE

SaskTel is in the telecommunications business for the long haul. The company's goal is to help customers obtain maximum benefit from the latest technology, according to their individual needs.



During 1995, SaskTel will achieve the distinction of having one of the largest serving areas in North America with a 100 per cent computer-driven digital network in place. A series of network and switching replacement programs completed over the last few years, costing in excess of half a billion dollars, have made this milestone possible.

In Saskatchewan, where geography and climatic conditions vary dramatically, and the population is widely scattered, providing value to customers offers many challenges. In Prince Albert, SaskTel met that challenge in 1994 for the Weyerhaeuser Pulp and Paper mill. SaskTel won a competitive bid to install and implement a fiber optic Local Area Network, one of the largest such installations in Canada.

When the project is completed in 1995, it will provide Weyerhaeuser employees with highly advanced and reliable telecommunications services such as data processing, video conferencing and voice mail.

During the year, work progressed on schedule on SaskTel's Northern Saskatchewan Modernization program. The \$29 million network upgrading project will provide the benefits of advanced telecommunications systems to a resource-rich, but thinly-populated region of the province. Components of the three-year program include digital radio routes, the latest computerized switching equipment for many northern communities, a fiber optic route and satellite service to some of the more remote areas.

In some settlements, such as Grandmother's Bay, the radio link completed in 1994 brought telephone service to the community for the first time. Even before the service was up and running, residents were signing up to become SaskTel's newest customers.

This initiative, and many more like it, are examples of SaskTel's firm commitment to provide outstanding value to all its customers, no matter where they live in Saskatchewan.



*Al Sutherland,
Manager of
Information Services
at Weyerhaeuser
Canada's pulp and
paper mill in Prince
Albert, is responsible
for the company's new
in-house fiber optic
LAN system, one of the
largest in Canada.
SaskTel won the
contract bid in August
1994 to install
leading-edge network
technology which will
help Weyerhaeuser
maximize the benefits
of information age
services.*

1994 OPERATIONAL HIGHLIGHTS

New buildings

In 1994, a new SaskTel work centre was opened in La Ronge, featuring a mini-Telmar, a garage for installing mobile radios, an assembly area for SaskTel staff and a storage area for equipment and supplies used at northern work sites.

In Moose Jaw, some 80 employees from various departments made the official move into a new \$1.2 million administration centre. The energy-efficient building will save SaskTel about \$250,000 a year in operating costs.

Helping Saskatchewan business grow

SaskTel's Supplier Development Group continued its search for Saskatchewan-based suppliers who provide high-quality, cost-effective equipment and services. Approximately 80 per cent of the dollars spent by SaskTel go to Saskatchewan manufacturers, distributors, contractors or consultants who provide goods and services to the company. SaskTel encourages Saskatchewan-based suppliers to market their products outside the province, which helps to increase economic activity and enhance province-wide diversification activities.

TeleBonds popular again

SaskTel successfully refinanced Credit and Interest TeleBonds, issued in 1989, with a new \$35 million issue of five-year Credit TeleBonds.

The 9,400 customers holding Credit TeleBonds Series 2 continue to receive interest in the form of a credit towards their monthly telephone bill.

New opportunities for business

In 1994, SaskTel introduced Advantage 900 service to businesses looking for new ways to provide information-based services to customers. By calling a company's 1-900 number, callers gain access to a variety of these services. Callers are charged on their monthly SaskTel bills, a portion of which is then automatically remitted to the business providing the service.

New area codes to meet growth

Across North America, the continuing demand for new services like fax machines and cellular telephones requires the addition of some 13,500 new telephone numbers every day. In 1994, this finally exhausted the existing-160 area codes currently in use.

As a result, a change in dialing procedures began on September 4, 1994. On that date, customers were asked to begin dialing the Saskatchewan area code "306" as a prefix on all in-province long distance calls. The new procedure became mandatory in January 1995.



SaskTel 
TeleBonds 

306

Protecting customer privacy

In response to customer needs, SaskTel announced it will introduce free enhanced Call Display blocking options and Call Trace in 1995, as well as new telemarketing regulations. The new services will enable callers to prevent their names and numbers from appearing on display-capable sets. Customers simply enter the appropriate code before placing their call.

Call Trace, however, will still enable a customer to initiate tracing of obscene, threatening, or harassing calls, even if the name and number are blocked. A customer receiving such a call can enter a special code, creating a permanent record of the call for use by police investigating the complaint.

Under the new regulations, telemarketers must not block their names or numbers and are prohibited from using automatic dialing devices. In addition, customers can request to be placed on a do-not-call list, which Saskatchewan telemarketers must maintain for at least three years. The regulations also restrict the hours that telemarketers can place calls on SaskTel's network.

VideoForum expands

VideoForum, offering point-to-point and multi-point meetings with fully-interactive video and audio, expanded to an additional seven cities during 1994: Estevan, Moose Jaw, North Battleford, Prince Albert, Swift Current, Weyburn and Yorkton. Regina and Saskatoon have had similar facilities since 1989. VideoForum offers customers increased communication flexibility while saving travel time and costs. SaskTel also has VideoForum rooms for intra-company use in Regina and Saskatoon.

Safety on the road

In 1994, SaskTel Mobility, in cooperation with the Saskatchewan School Trustees Association, began offering a special cellular telephone rate plan to school boards. The program is designed to enable mobile communications between bus drivers, schools and parents, especially during emergency situations. School boards pay a reduced monthly access rate for the cellular phones, including a block of free airtime.

Educational partnerships create new opportunities

The Prince Albert Public School Division and SaskTel signed an innovative partnership agreement in 1994 that initiates cooperation on several activities and special events. This includes "job shadowing" where students observe SaskTel employees performing their jobs on a normal workday.

As the result of another partnership, a new piece of artwork called *The Vision Seekers* decorates the lobby of SaskTel's head office, thanks to the combined talents of seven aboriginal artists from Scott Collegiate in Regina. The mural was a gift to SaskTel in recognition of the cooperation between SaskTel and the students at Scott since 1991.



Twelve Saskatchewan schools are among 300 across Canada taking part in SchoolNet, a federal government initiative linking them to the educational resources of the Internet. SaskTel's new Internet Access Services, which will be offered early in 1995, will make it easier and more economical for schools to go "on line".

Scholarships

SaskTel's scholarship program, established in 1990, provided scholarships to 10 students in 1994. One program objective is to encourage students from minority groups to take post-secondary courses in fields that involve the telecommunications industry. The scholarship program encourages applications from minority group candidates and other eligible students who demonstrate financial need and community involvement.

In 1994, for the second consecutive year, SaskTel partnered with the Federation of Saskatchewan Indian Nations to hold a science summer camp, designed to encourage interest in science, math and technology among aboriginal students from Grades 9 to 11.

The company also established innovative partnership agreements with the Saskatoon and Prince Albert Public School Boards. A unique partnership with Scott Collegiate in Regina focuses on academic growth, self-development and job readiness among the largely aboriginal student population.

Liberti

Customers on the move, looking for the freedom and convenience of cellular, now have the Liberti plan from SaskTel Mobility. Liberti is a national product that SaskTel Mobility launched in unison with other Mobility Canada members. Liberti is an all-in-one cellular package that includes network access and a cellular phone for one monthly rate. It also offers customers free weekend calling. After one year, customers own the phone and can choose one of SaskTel Mobility's CellPac rate plans. Liberti is an affordable package for customers who want the increased convenience, security, and productivity that mobile communications offers. Previously, cellular was primarily a business tool. With Liberti, more people can realize the benefits of cellular in their personal lives.

Rate changes

In the spring of 1994, SaskTel and the other members of the Stentor alliance implemented a new overseas rate schedule for calls to 74 countries, including Great Britain, to better reflect costs and other market conditions. As a result, prices for calls to Saskatchewan customers' most-popular destinations, including the United Kingdom, dropped an average of 13 per cent.



The Federal Government ordered the CRTC to review its decision that would have allowed federally-regulated telcos to "rebalance" local and long distance telephone rates in 1995. Rebalancing would have allowed the companies to raise local rates by \$2 a month and decrease long distance rates by an equivalent dollar amount. While the CRTC decision does not directly affect SaskTel, the company is consulting with its Stentor partners and awaiting the final outcome of the CRTC's review of its decision.

Call Centres create new jobs

The new Sears Call Centre in Regina handled more than 60,000 calls from catalogue shoppers on the first Monday in December, its busiest day of the year. SaskTel engineers and technicians worked throughout the summer to expand and upgrade the Call Centre, preparing it for the busy shopping season to come. The upgrade enabled Sears to add 168 sales representative positions, creating approximately 300 new jobs at the national Call Centre.

Other major Call Centres that have recently been established include a national computer help line at Co-operators Data Services Limited (CDSL) and a Western Canada Payroll Centre set up by the Royal Bank.

In partnership with private business, the provincial government continues to aggressively market the development of Call Centres in Saskatchewan. The advantages of a Saskatchewan location are many: SaskTel's advanced telecommunications network, its unique flexibility to offer customer-specific tariffs, Saskatchewan's low cost of living, a stable, well-educated work force, location in the central time zone, and the provincial tax-free status of 800 service.

Awards for excellence

Two partnerships of educational and business institutions are Saskatchewan winners of the SaskTel-sponsored Conference Board of Canada's National Awards for Excellence in Business/Education partnerships. Kelsey Institute and John Deere Limited of Saskatoon were recognized in the post-secondary group. Herchmer School and Regina Exhibition Park received the award in the elementary/secondary category.

Next generation of payphones

Responding to growing customer need, Calling Card™-activated Millennium payphones became much more visible in public places. The number of technically-advanced Millennium units grew from 24 to 600 in the final three months of 1994, and will continue to climb over the next few years as older sets are upgraded.

Millennium payphones are also being installed as part of the Northern Saskatchewan Modernization program to reduce coin shipments in and out of northern communities. Millenniums also accept major credit cards, and can be monitored electronically, so SaskTel can instantly detect malfunctions.

SEARS

CDSL
CDSL CANADA LIMITED



ROYAL BANK



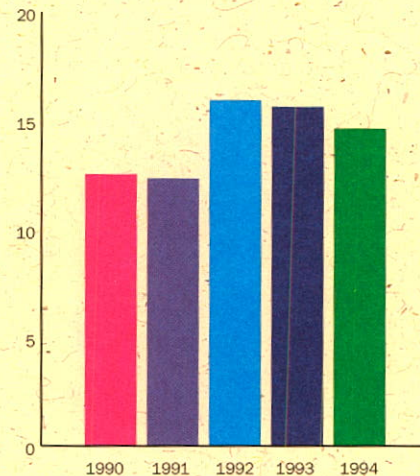
FINANCIAL REVIEW

The Saskatchewan Telecommunications Holding Corporation consolidated financial statements that follow include the results of its subsidiaries: Saskatchewan Telecommunications, Saskatchewan Telecommunications International, Inc., SaskTel U.K. Holdings Inc. (LCL Cable Communications Ltd.) and DirectWest Publishers Ltd. (DirectWest).

1994 operating results

Consolidated net income totalled \$88.5 million for 1994, unchanged from 1993. This represents a return on net assets (RONA) of 14.6% (15.6% - 1993). RONA, a measure of profitability before interest, has declined because net operating income decreased \$14.1 million while net assets remained essentially at 1993 levels. Overall profitability remains strong because the erosion of long distance revenues was offset by a decline in interest expense.

Return on net assets (RONA)
(per cent)

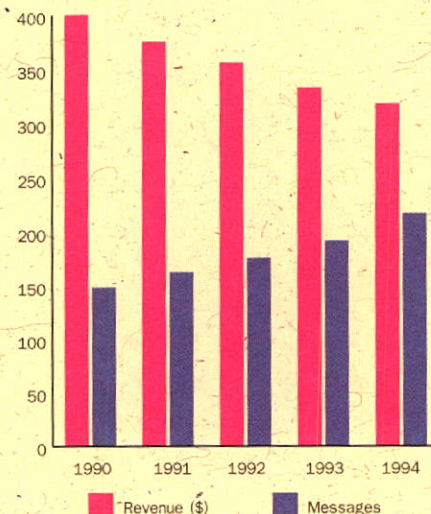


Operating revenues

Operating revenues for 1994 totalled \$626.4 million, up \$6.7 million (1.1%) from 1993 operating revenues of \$619.7 million. Implementing SaskTel's new five-year strategic plan has better positioned the company to manage its diverse holdings and meet the challenges of competition in the marketplace. As a result of the diversification strategy, 18% (13% in 1993) of revenues are now derived from non-traditional sources. Increasing revenues from these diversified operations continues to be a priority for the corporation.

Long distance revenues continued to decline in 1994. These revenues have been affected by increased long distance competition in other provinces, the introduction of the Real Plus Savings Plan and other toll savings plans such as the Advantage portfolio. The result was a \$14.4 million (4.3%) drop in long distance revenues from 1993. Continued strong growth in long distance messages (13.3 % increase over 1993) was not enough to offset these reductions. Although declining, long distance revenues of \$318.0 million still represent 50.8% (53.6 % in 1993) of the corporation's total revenues.

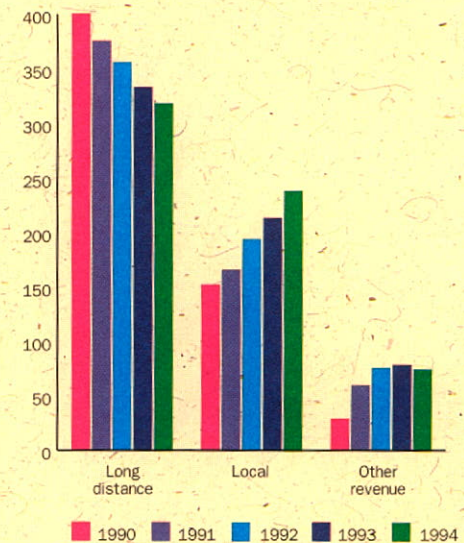
Long distance revenues/messages
comparison
(millions)



Local service revenues, which are comprised primarily of charges for network access, network features, equipment rentals and service connection charges, totalled \$237.7 million in 1994, an increase of \$25.0 million (11.8%) over 1993. During 1994 revenues from custom calling features and network accesses increased \$6.9 million. Strong growth in cellular also contributed to the increase in local service revenues.

Other revenues totalled \$70.8 million in 1994, a decrease of \$4.0 million (5.4%) from 1993. Increases in SaskTel terminal equipment sales, Mobility sales and LCL Cable revenues were offset by decreases in Saskatchewan Telecommunications International sales. Directory advertising revenue remained constant.

Operating revenues
(\$ millions)



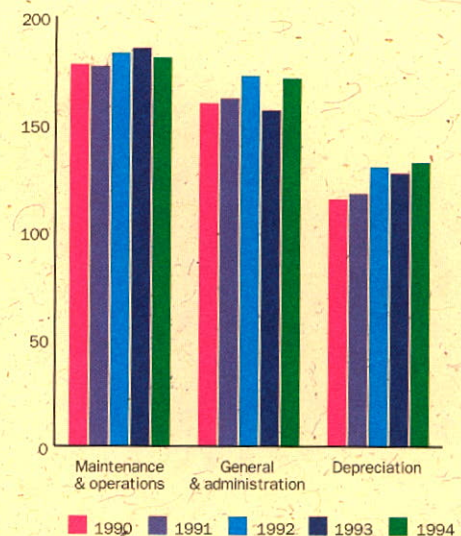
Operating expenses

Operating expenses for 1994 totalled \$482.9 million, up \$16.2 million (3.5%) from 1993. Maintenance and operations expenses decreased \$4.1 million from 1993 as a result of reduced cost of sales associated with the SaskTel International decrease in sales. The increase of \$15.2 million in general and administration expense was largely due to increased costs associated with the growth in cellular service, the full year impact on salaries and benefits of the 1993/94 salary increases, and increased Stentor expenses. Depreciation expense increased \$5.2 million mainly due to an increased capital program in 1994 and decreasing average service lives on depreciable plant assets.

Other income

Other income totalled \$2.1 million in 1994, down \$4.6 million from 1993. The 1993 figure included income from the buyout of remote signal delivery commitments by various cable operators.

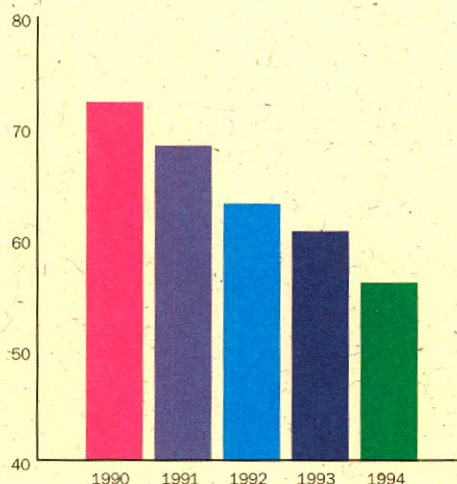
Operating expenses
(\$ millions)



Financial position

The financial position of the company continues to strengthen. The corporation has managed interest costs downward by repaying long-term debt. Interest and related costs for 1994 totalled \$61.1 million, down \$12.7 million from 1993. The \$35 million raised by the issuance of TeleBonds Series II was used to partially refinance the higher rate TeleBonds Series I that matured in 1994. As a result of the debt repayment strategy, the debt ratio has dropped from 60.6% in 1993 to 56.0% in 1994, moving closer in line with industry standards.

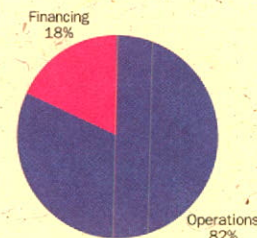
Debt ratio
(per cent)



Cash flows

The company maintains a position of 100% self-financing, using the cash generated from operations to fund the capital construction program. Cash provided by operating activities totalled \$198.2 million, (\$201.5 million - 1993). Financing activities required \$127.4 million (\$91.7 million - 1993). This included the repayment of long-term debt of \$112.7 million (\$41.6 million - 1993), and a dividend payment of \$58.4 million (\$51.7 million - 1993). Investing activities, including capital expenditures, required a net cash outlay of \$142.2 million (\$93.3 million - 1993).

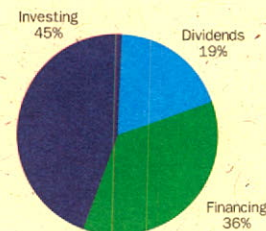
Sources of funds
\$241.7 million



Capital spending

Capital spending of \$144.3 million in 1994 was up \$49.4 million over 1993. The corporation continued the long term, capital intensive modernization program to upgrade its switching and transmission networks to digital operation. The Digital Network Modernization Program (DNMP) accounted for spending of \$18.5 million in 1994, up from \$13.8 million in 1993. Work also continued on the North Saskatchewan Modernization project with spending totalling \$11.7 million in 1994, up from \$5.5 million in 1993. Completion of these projects in 1995 will result in SaskTel's switched telephone network served almost 100% by digital technology.

Uses of funds
\$313.4 million



Diversified operations also required additional capital expenditures in 1994. Construction spending by LCL Cable increased \$15.6 million due to expansion of telephone and cable operations. SaskTel Mobility also increased its spending by \$5.2 million over 1993 to meet market demand for cellular and FleetNet services.

SEGMENTED INFORMATION

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

	Saskatchewan Telecommunications	Other Subsidiaries & Eliminations	Saskatchewan Telecommunications Holding Corporation
(In thousands)			
Statement of operations data			
Operating revenues	\$ 554,126	\$ 72,317	\$ 626,443
Operating expenses	431,929	50,967	482,896
Net operating revenue	122,197	21,350	143,547
Other income	1,356	755	2,111
Interest and related costs	45,390	15,672	61,062
Minority interest in losses	—	3,918	3,918
Net income	\$ 78,163	\$ 10,351	\$ 88,514
Statement of financial position data			
Telecommunications property	\$ 810,312	\$ 155,115	\$ 965,427
Other assets	41,809	8,796	50,605
Investments	8,392	5,264	13,656
Current assets	130,032	(5,112)	124,920
Total assets	\$ 990,545	\$ 164,063	\$ 1,154,608
Long-term debt	\$ 432,206	\$ 114,192	\$ 546,398
Minority interest	—	1,420	1,420
Province of Saskatchewan's equity	433,610	4,464	438,074
Current liabilities	124,729	43,987	168,716
Total liabilities & Province of Saskatchewan's equity	\$ 990,545	\$ 164,063	\$ 1,154,608

FIVE-YEAR RECORD OF SERVICE

For the year ended December 31

	1994	1993	1992	1991	1990
Network access services *	581,816	574,962	573,464	569,785	562,179
Originated long distance messages					
(In thousands)					
Telephone	184,810	162,126	145,488	134,845	123,053
Data and other voice services	31,779	28,931	29,669	27,198	24,490
Total messages	216,589	191,057	175,157	162,043	147,543
Finance					
(In thousands of dollars)					
Operating revenues	\$ 626,443	\$ 619,727	\$ 620,882	\$ 594,698	\$ 593,764
Operating expenses	482,896	466,683	484,065	454,445	449,974
Other income (losses)	2,111	6,762	2,615	(8,414)	(4,911)
Interest and related costs	61,062	73,834	87,250	80,822	86,946
Net income	88,514	88,547	79,916	51,017	46,873
Dividend	48,700	58,400	51,700	0	46,873
Gross construction expenditures	144,257	94,762	114,039	106,520	155,960
Property, plant and equipment **	1,876,318	1,795,708	1,729,728	1,673,228	1,628,206
Long-term debt (gross) **	649,588	718,289	751,318	887,077	847,658
Financial ratios					
Return on net assets	14.6%	15.6%	15.9%	12.3%	12.5%
Debt ratio	56.0%	60.6%	63.1%	68.3%	72.2%
Internally generated funds as a percent of net construction expenditures	114.4%	181.5%	182.3%	131.3%	84.9%
Employees and payroll					
Number of employees **					
(excluding part-time)	3,863	3,699	3,861	3,981	4,216
Salaries earned					
(thousands of dollars)	\$ 163,772	\$ 158,875	\$ 166,021	\$ 168,991	\$ 172,346

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

** At December 31.

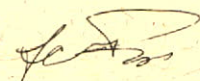
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements included in the annual report of Saskatchewan Telecommunications Holding Corporation for the year ended December 31, 1994, 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.

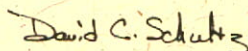
To ensure the integrity and objectivity of the financial data, management maintains a comprehensive system of internal controls including written policies and procedures, an organizational structure that segregates duties, and a comprehensive internal audit program. These measures provide reasonable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



Fred Van Parys
President &
Chief Executive Officer



David C. Schultz
Vice President Finance

Regina, Saskatchewan
February 24, 1995

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, 1994, and the consolidated statements of operations, retained earnings and changes in cash 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, 1994, and the results of its operations and the changes in its cash position for the year then ended, in accordance with generally accepted accounting principles.



Chartered Accountants

Regina, Saskatchewan
February 24, 1995

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended December 31

	1994	1993
(Thousands of dollars)		
Operating revenues		
Long distance service	\$ 317,979	\$ 332,352
Local service	237,667	212,620
Sales, directory, other	73,631	77,476
Uncollectible operating revenues	(2,834)	(2,721)
	626,443	619,727
Operating expenses		
Maintenance and operations	180,446	184,576
General and administrative	170,706	155,589
Depreciation	131,744	126,518
	482,896	466,683
Net operating revenue	143,547	153,044
Other income (Note 4)	2,111	6,762
	145,658	159,806
Interest and related costs (Note 5)	61,062	73,834
Net income, before minority interest	84,596	85,972
Minority interest in losses	3,918	2,575
Net income	\$ 88,514	\$ 88,547

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31

	1994	1993
(Thousands of dollars)		
Retained earnings at beginning of year	\$ 148,260	\$ 118,113
Net income	88,514	88,547
	236,774	206,660
Dividend	48,700	58,400
Retained earnings at end of year	\$ 188,074	\$ 148,260

See accompanying notes

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

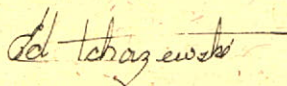
As at December 31

	1994	1993
(Thousands of dollars)		
ASSETS		
Property, plant and equipment (Note 6)	\$ 965,427	\$ 950,518
Other assets (Note 7)	50,605	37,225
Investments (Note 8)	13,656	12,697
	<u>1,029,688</u>	<u>1,000,440</u>
Current assets		
Short-term investments	981	52,942
Accounts receivable	90,827	80,962
Inventories	7,506	6,493
Prepayments	25,606	15,062
	<u>124,920</u>	<u>155,459</u>
	<u>\$ 1,154,608</u>	<u>\$ 1,155,899</u>
LIABILITIES AND PROVINCE'S EQUITY		
Long-term debt		
Province of Saskatchewan (Note 9)	\$ 480,485	\$ 488,243
Other long-term debt (Note 10)	65,913	13,352
	<u>546,398</u>	<u>501,595</u>
Minority interest	1,420	767
Province of Saskatchewan's equity		
Equity advance (Note 12)	250,000	250,000
Retained earnings	188,074	148,260
	<u>438,074</u>	<u>398,260</u>
Current liabilities		
Short-term borrowings (Note 13)	25,642	6,157
Accounts payable	62,981	54,038
Accrued interest	10,523	16,456
Dividend payable	48,700	58,400
Service billed in advance	14,188	10,170
Current portion of long-term debt (Note 11)	6,682	110,056
	<u>168,716</u>	<u>255,277</u>
	<u>\$ 1,154,608</u>	<u>\$ 1,155,899</u>

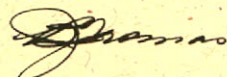
Commitments (Note 17)

See accompanying notes

On behalf of the Board



Honourable Ed Tchorzewski



Betty-Jane Thomas

CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION

For the year ended December 31

	1994	1993
(Thousands of dollars)		
Operating activities		
Net income	\$ 88,514	\$ 88,547
Add: Items not affecting cash from operations (Note 14)	131,509	133,790
	220,023	222,337
Net change in working capital	(21,857)	(20,805)
Cash provided by operating activities	198,166	201,532
Financing activities		
Proceeds from notes receivable	197	1,605
Net repayment of long-term debt	(112,734)	(41,629)
Proceeds from long-term debt	43,566	—
Dividend payment	(58,400)	(51,700)
Cash used in financing activities	(127,371)	(91,724)
Investing activities		
Capital expenditures - net	(141,335)	(94,040)
Long-term investments - net	(906)	731
Cash used in investing activities	(142,241)	(93,309)
(Decrease) increase in cash	(71,446)	16,499
Cash position at beginning of year	46,785	30,286
Cash position at end of year	\$ (24,661)	\$ 46,785
Comprised of:		
Short-term investments	\$ 981	\$ 52,942
Cash and short-term borrowings (net)	(25,642)	(6,157)
	\$ (24,661)	\$ 46,785

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 its subsidiaries: Saskatchewan Telecommunications, Saskatchewan Telecommunications International, Inc., SaskTel U.K. Holdings Inc. (LCL Cable Communications Ltd.) and DirectWest Publishers Ltd. (DirectWest). All significant intercompany transactions and balances have been eliminated.

Property, plant and equipment

Property, plant and equipment is recorded at original cost and includes materials, services, direct labour and associated benefit costs. In addition, the corporation 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 as 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.

Revenue

Operating revenues from the sale of goods and services are recognized at the point of sale or when services are performed.

Investments

Investments in companies in which the corporation has significant influence are accounted for by the equity method. The corporation's proportionate share of earnings or losses are recognized in the consolidated statement of operations and the carrying value of the investment is adjusted accordingly.

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.

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.

LCL Cable Communications Ltd. is considered a self-sustaining foreign operation and its assets and liabilities are reflected at the exchange rate prevailing at the balance sheet date. Revenues and expenses are reflected at the average exchange rate for the year.

Note 3 — Acquisition of DirectWest Publishers Ltd.

On December 31, 1994, the corporation increased its ownership in DirectWest from 10% to 50%. DirectWest is responsible for the publishing and distribution of SaskTel telephone directories. The 10% investment in DirectWest was previously accounted for using the cost basis. As a result of the acquisition, the carrying value of the net assets of DirectWest have been included in the corporation's consolidated statement of financial position.

The acquisition was accounted for using the purchase method, as follows:

(Thousands of dollars)

Assets at assigned values

Current assets	\$ 6,854
Fixed assets	1,915
	<hr/> 8,769
Liabilities	5,119
Net identifiable assets of DirectWest	<hr/> 3,650
Of which SaskTel acquired 40%	1,460
Purchase price, paid in cash	2,800
Goodwill	<hr/> <hr/> \$ 1,340

Note 4 — Other income

	1994	1993
(Thousands of dollars)		
Interest on sales-type leases	\$ 793	\$ 1,577
Custom work	347	135
Share of earnings of equity investments	300	45
Signal delivery buyouts	—	4,090
Other	671	915
	<hr/> \$ 2,111	<hr/> \$ 6,762

Note 5 — Interest and related costs

	1994	1993
(Thousands of dollars)		
Interest expense	\$ 70,189	\$ 81,515
Amortization of unrealized net foreign exchange losses	1,876	947
Amortization of discount	585	1,285
Premium and foreign exchange adjustment	—	7,472
	<hr/> 72,650	<hr/> 91,219
Less: Sinking fund earnings	10,159	13,817
Interest charged to construction	913	528
Interest on short-term investments	516	3,040
	<hr/> \$ 61,062	<hr/> \$ 73,834

Note 6 — Property, plant and equipment

	1994	1993
(Thousands of dollars)		
Buildings, plant and equipment	\$ 1,832,535	\$ 1,734,847
Plant under construction	23,311	17,792
Materials and supplies	10,496	9,561
Land	9,048	8,911
Assets under capital leases	928	24,597
	1,876,318	1,795,708
Less: Accumulated depreciation	910,891	845,190
	\$ 965,427	\$ 950,518

The composite depreciation rate on the average depreciable telecommunications property in service was 7.34% in 1994 (7.30% - 1993).

As at December 31, 1994, the ratio of accumulated depreciation to depreciable telecommunications property was 49.7% (48.0% - 1993).

Note 7 — Other assets

	1994	1993
(Thousands of dollars)		
Unrealized net foreign currency losses	\$ 31,919	\$ 21,787
Sales-type leases	5,938	5,582
Goodwill	4,274	3,486
Unamortized discount on long-term debt	3,460	3,866
Other receivables	3,013	2,389
Telesat prepayment	1,589	—
TeleBond issue costs	290	115
Advances to affiliates	122	—
	\$ 50,605	\$ 37,225

Note 8 — Investments

	1994	1993
(Thousands of dollars)		
Accounted for by the equity method:		
Investment in Regional Cable TV (Western) Inc.	\$ 2,269	\$ 2,000
Other	—	125
Investments in joint ventures:		
Norstar Network Services Inc.	815	—
Portfolio investments at cost:		
Alouette Telecommunications Inc.	8,392	8,392
ISM Information Systems Management Corporation (ISM)	2,180	2,180
	\$ 13,656	\$ 12,697

Subsequent to the year end, the corporation sold its remaining interest in ISM for cash consideration of \$12,700,000 resulting in a gain of \$10,520,000.

Note 9 — Long-term debt, Province of Saskatchewan

Rate (%) (Thousands of dollars)	Issue Date	Maturity Date	1994	1993
13.375	1981	1996	\$ 46,263	\$ 46,263
7.750	1973	1998	—	5,000
10.000	1974	1999	—	25,000
11.750	1980	2000	22,153	22,153
9.875	1975	2000	2,222	2,222
10.250	1976	2001	25,000	25,000
9.000	1977	2002	25,000	25,000
13.000	1982	2002	68,088	68,088
12.250	1983	2003	20,605	20,605
9.500	1978	2003	30,000	30,000
11.650	1983	2003	8,182 (b)	8,182
12.966	1984	2004	28,956 (b)	28,956
10.000	1979	2004	33,196	33,196
9.583	1986	2006	32,598 (b)	32,598
10.241	1987	2007	13,597 (b)	13,597
7.125	1978	2008	64,483 (a)	60,798
10.092	1988	2008	20,779 (b)	20,779
9.375	1991	2020	140,180 (a)	132,170
			581,302	599,607
Less: Equity in sinking funds			96,508 (c)	106,637
Due within one year			4,309	4,727
			\$ 480,485	\$ 488,243

- (a) Represents long-term debt repayable in U.S. dollars having a U.S. dollar face value of \$146,000,000 converted to \$172,124,000 Canadian at the time of issue. It is recorded at the Canadian dollar equivalent of \$204,663,000 based on the foreign exchange rate as at December 31, 1994 of 1.4018 (1.3217 - 1993).
- (b) Long-term debt totalling \$104,112,000, received through the Canada Pension Plan under 20-year terms, is subject to redemption at six months notice.
- (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 equity includes investments denominated in U.S. dollars held in the fund having a U.S. dollar value of \$4,721,000 recorded at \$6,618,000 Canadian dollar equivalent based on the foreign exchange rate as at December 31, 1994.

Note 10 — Other long-term debt

	Rate (%)	Issue Date	Maturity Date	1994	1993
(Thousands of Dollars)					
TeleBonds - II					
- Credit Bond	6.5	1994	1999	\$ 34,978	\$ —
Debentures	—	1989-94	1996	18,932	9,528
Capital Leases	12.3 - 14.4	1989-94	1995-99	10,459	10,562
TeleBonds - I	11.0 - 14.0	1989	1994	—	93,859
Other	—	—	1995-96	3,917	4,732
				68,286	118,681
Less: Due within one year				2,373	105,329
				\$ 65,913	\$ 13,352

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

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

1995	—	\$ 6,682,000
1996	—	\$ 72,258,000
1997	—	\$ 6,447,000
1998	—	\$ 7,277,000
1999	—	\$ 41,735,000

Note 12 — Equity advance

The equity advance from Crown Investments Corporation of Saskatchewan (CIC) is non-interest bearing and repayable at the discretion of CIC.

Note 13 — Short-term borrowings

Included in short-term borrowings are bank overdrafts and notes payable representing interim financing arranged under established lines of credit with the Province of Saskatchewan. At December 31, 1994 there were \$16,346,000 (\$nil - 1993) of outstanding notes payable bearing interest at an average rate of 7.10%.

Note 14 — Items not affecting cash from operations

	1994	1993
(Thousands of dollars)		
Depreciation	\$ 131,744	\$ 126,518
Interest charged to construction	(913)	(528)
Minority interest	653	767
Investment earnings	(300)	(45)
Foreign currency adjustments	239	947
Premium and foreign exchange adjustment	—	7,472
Other	86	(1,341)
	<u>\$ 131,509</u>	<u>\$ 133,790</u>

Note 15 — 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 employee 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, 1992).

Note 15 — Pension Plans (continued)

	1994	1993
(Thousands of dollars)		
Plant assets at market related value	\$ 493,171	\$ 467,924
Present value of accrued pension benefits	451,602	437,865
Surplus	\$ 41,569	\$ 30,059

	1994	1993
(Thousands of dollars)		
Pension expense (income) for the year was as follows:		
Defined contribution plan	\$ 4,988	\$ 4,427
Defined benefit plan	(740)	2,207
	\$ 4,248	\$ 6,634

Note 16 — Related party transactions

Included in these financial statements 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. No significant transactions occurred during the period.

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

Note 17 — Commitments

a) Leases

The future minimum lease payments under the capital and operating leases of the corporation, together with the obligations under capital leases after deducting interest on the minimum lease payments, are as follows:

	Capital leases	Operating leases
(Thousands of dollars)		
1995	\$ 304	\$ 25,017
1996	663	24,036
1997	1,943	23,251
1998	2,767	22,571
1999	4,858	21,824
Total minimum lease payments	10,535	\$ 116,699
Less: Current portion	258	
Amount representing interest	75	
Obligations under capital leases	\$ 10,202	

Capital leases cover computer and switching equipment through contracts maturing at various dates from 1995 - 1999. The major portion of the operating lease commitment relates to a systems management services agreement ending in 1999. Other commitments are for vehicles, buildings and satellite channel leases.

b) Funding to LCL Cable Communications Ltd.

During the first six months of 1995 the corporation is committed to fund an additional \$2,425,000 (\$5,325,000) to finance the LCL Cable Communications Ltd. construction program and ongoing operations.

CORPORATE DIRECTORY

Executive officers

Fred Van Parys
President and Chief
Executive Officer

Kelly Staudt
President
SaskTel International

Dan Baldwin
Senior Vice President
Strategic Business Development
and Administration

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
Corporate Development

Dale Bassen
General Manager
Network Performance and
Operations

Dave Birnie
General Manager
Supplies and Services

Brien Charlton
General Manager
Marketing

Don Cherewayko
General Manager
Customer Services Saskatoon

Basil Ciepliski
General Manager
Mobile Communications

Ron Gartner
Acting General Manager
Network Planning Provisioning
and Access

Betty Hoffart
General Manager
Process Re-engineering

Kathy Hollands
General Manager
Corporate Affairs

Ken Keesey
General Manager
Customer Services Regina

Tom Laird
General Manager
Stentor Alliance

Dave Lozinski
General Manager
Human Resources

Byron Pointer
General Manager
Industrial Relations

Stacey Sandison
General Manager
Customer Services Districts

Randy Stephanson
General Manager
Customer Services

Dennis Terry
Controller

Linda Yeo
General Manager
Information Technology
Management

Barry Ziegler
Treasurer

BOARD OF DIRECTORS



Back row (left to right), Barbara E. Foster, Honourable John Penner, Geoff Wilkinson, Betty-Jane Thomas, Garf Stevenson, James Scharfstein. Front row (left to right), Edward Henderson, Susan Banilevic, Honourable Ed Tchorzewski, Sherry L. Leach. Missing: Thomas V. Kehoe.

Hon. Ed Tchorzewski (Regina)
Chairman of the Board
Minister Responsible for SaskTel

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

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

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

Thomas V. Kehoe (Swift Current)
President
Spar Group Inc.
Division of National Mfg. Co.

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

Hon. John Penner (Regina)
Associate Minister of Finance
and Minister Responsible for the
Crown Investments Corporation

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

Garf Stevenson (Regina)
Business Consultant

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

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

Dennis Zerr* (Moose Jaw)
C.E.P. Representative

Audit committee

Betty-Jane Thomas (Chair),
Hon. Ed Tchorzewski,
Thomas Kehoe, Barb Foster,
Susan Banilevic

Corporate contributions committee

Jim Scharfstein (Chair),
Edward Henderson, Sherry Leach,
Geoff Wilkinson, Dennis Zerr*

Human resource and compensation committee

Betty-Jane Thomas (Chair),
Tom Kehoe, Hon. John Penner,
Garf Stevenson

Corporate purchasing policy committee

Jim Scharfstein (Chair),
Dennis Zerr*, Garry Simons,
David Schultz

* retired from Board in 1994



SaskTel is dedicated to providing service in a manner
that protects the environment.
This annual report is printed
on recycled paper.

SaskTel's 1994 annual report was
produced in conjunction with the
following Saskatchewan suppliers:

Agency and design:
Brown Communications Group

Photography:
Douglas E. Walker

Pre-press:
TrueColor Graphics

Printing:
Merit Printing

For additional copies contact:

SaskTel Public Affairs
2121 Saskatchewan Drive
Regina, Saskatchewan S4P 3Y2
(306) 777-2008
ISSN 0080-6633



COVER PHOTOS

Front: Peter Lentzos • Back: Matilde Jerez

Both Peter and Matilde are SaskTel Direct Marketing Representatives at the Regina Call Centre.

SaskTel The SaskTel logo graphic, which consists of several horizontal lines of varying lengths stacked to the right of the word "SaskTel".