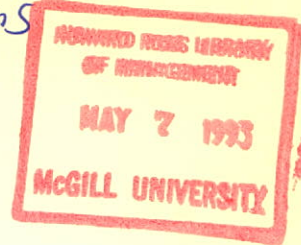


SaskTel 

Saskatchewan Telecommunications



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1992

ANNUAL REPORT



**PORTRAITS
OF PARTNERSHIP**



**UNDERSTANDING
CUSTOMER
NEEDS**

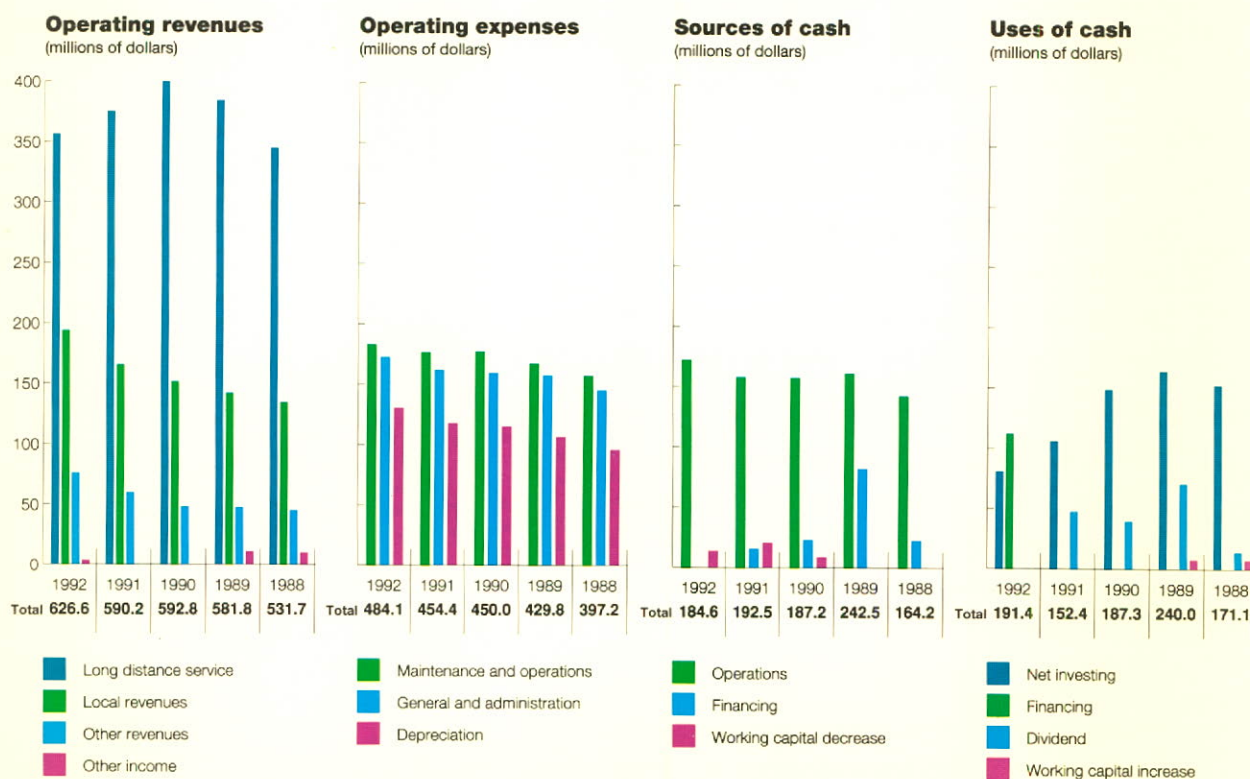
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ON THE COVER

Listening to customers is the best way of understanding their specific needs. And it's more important than ever before in today's increasingly competitive marketplace. SaskTel has initiated a teamwork approach when working with customers to find cost-effective communication solutions that work. The photos in this year's report reflect this partnership between SaskTel employees and the customers they serve. On the cover, Tim Almas, an Account Executive at CKCK-TV, talks to SaskTel Mobility Sales Associate Cary Marie Snelling about the Regina station's trial of micro-cellular service.

FINANCIAL HIGHLIGHTS



CORPORATE PROFILE

SaskTel is a provincial crown corporation that provides local and long distance voice, data, image and text services throughout Saskatchewan. As a member of Stentor, an alliance of Canada's major telecommunications companies, SaskTel provides a full range of national and world-wide long distance communications services.

SaskTel, an acknowledged leader in the telecommunications industry, develops and delivers advanced telecommunications products and services to more than 444,000 residential and business customers. Through the application of the latest technological advances, the corporation continues to provide a growing number of superior-quality, affordable services to expand communications options — for people at work, at home or in transit.

The corporation also pursues diversification opportunities in world-wide markets through SaskTel International. In addition to management consulting and software services, SaskTel International expands its international operations through strategic partnerships, joint ventures and equity investment projects.

SaskTel's assets exceed \$1.1 billion and it employs 3,900 people, the majority located in Regina and Saskatoon. Employees are also located in more than 60 other communities throughout the province.

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SaskTel expands its international operations through strategic partnerships, joint ventures and equity investment projects. SaskTel's international operations include consulting and software services, international wide markets through SaskTel International. In addition to managing the corporation also pursues diversification opportunities in world-

options — for people at work, at home or in transit. superior-quality, affordable services to expand communications advances, the corporation continues to provide a growing number of customers. Through the application of the latest technological and services to more than 44,000 residential and business

they develop and deliver advanced telecommunications products. SaskTel, an acknowledged leader in the telecommunications industry,

of national and world-wide long distance communications services. major telecommunications companies, SaskTel provides a full range Saskatchewan. As a member of Stentor, an affiliate of Canada's long distance voice, data, image and text services throughout SaskTel is a provincial crown corporation that provides local and

CORPORATE PROFILE

MOVING AHEAD IN A CHANGING MARKETPLACE



Honourable Ned Shillington (left), Chairman of SaskTel, with Fred Van Parys, President and Chief Executive Officer of SaskTel, at the corporation's Provincial Network Operations Centre in Regina where SaskTel employees keep a watchful eye on the status of network facilities throughout Saskatchewan.

Over the last few years we've seen the pace of advancements in telecommunications accelerate, customer demand for new products and services mushroom, and competition expand into almost every facet of our business. SaskTel's strategy is to successfully manage these changes by leveraging our strengths in communications technology and by providing our employees with the skills and tools they need to do everything possible to serve and satisfy the needs of every customer.

SaskTel, throughout its 85-year history, has developed from a small, prairie telephone company to an acknowledged leader in the telecommunications industry — both within Canada and, through SaskTel International, in world-wide markets. The corporation takes pride in the fact that over the years it has been able to provide Saskatchewan residents with access to the latest high quality services while maintaining affordable rates for basic telephone service.

Historically, all major Canadian telephone companies, including SaskTel, have used profits from long distance services to offset the cost of providing local service. SaskTel's actual cost of providing basic telephone service, for example, to a rural residential customer, is as much as six times what the customer pays. By keeping rates artificially low, this cross-subsidization helped achieve the goal of providing customers with local service that is universally affordable to virtually every Saskatchewan resident.

A dramatically more competitive world dictates that significant changes will have to be made if SaskTel is to continue to provide high quality, universal service and contribute to the economic well-being of the province. Traditionally, profits from SaskTel's operations are used to help fund modernization programs with half of its net earnings returned to the province as a dividend. We are committed to being the communications leader, offering superior service, quality products and the latest technology, at competitive prices, returning a reasonable profit to the people of Saskatchewan.

During the last few years, to help customers be more competitive in the increasingly global marketplace, SaskTel has implemented a series of toll rate decreases. Since 1987 for example, the cost of out-of-province long distance has dropped by an average of 46%. Further decreases are also being planned, not only for out-of-province toll rates, but for in-province long distance calling as well.

While our net earnings for 1992 of \$79.9 million reflect a profitable financial performance, despite a relatively weak economy, the fact remains that the corporation's revenue base is declining. In addition, approximately one third of our net earnings resulted from a one-time gain of \$27.7 million on the disposition of ISM Information Systems Management shares. The realities of a more competitive world mean that SaskTel must design and implement new strategies to counter its revenue losses. This includes restructuring rates to more accurately reflect the actual cost of providing service.

SaskTel is a well managed company with strong technical resources and an enviable record of service to the people of Saskatchewan. Thanks to Marcel Bernard and Roy Lloyd, who led the corporation through 1992, and the resourcefulness and dedication of many employees, much of the groundwork has already been laid for us to continue to operate successfully in the years ahead. For their efforts, and the leadership shown by SaskTel's Board of Directors, we are most appreciative.

During the year, a significant event took place that fundamentally changed the nature and structure of the Canadian telecommunications industry. On June 12, 1992, the Canadian Radio-television and Telecommunications Commission (CRTC) announced its decision to approve Unitel's and BC Rail/Lightel's applications to provide competitive long distance telephone service in Canada. The landmark decision allows companies, such as Unitel and other telecommunica-

tions suppliers, to compete directly with telephone companies in providing long distance services in provinces where the CRTC has jurisdiction.

Although the CRTC decision does not currently apply in Saskatchewan because SaskTel is a provincially owned crown corporation, it will still exert considerable new pressures on our company. For example, a significant amount of the corporation's revenues are derived from a revenue settlement plan with other Stentor-member companies for toll calls that pass through, or terminate in Saskatchewan. A significant portion of this revenue is used by SaskTel each year to subsidize local service costs.

The Province of Saskatchewan successfully negotiated a five-year moratorium over telecommunications regulation with the federal government. A positive development for Saskatchewan telephone users, the August agreement gives the province an opportunity to examine a regulatory framework that will function effectively and be in the best interests of the people we serve. The alternatives being examined will also address the unique needs of the Saskatchewan marketplace with its relatively small population, scattered over a large geographical area. These demographics make the cost of serving customers higher in Saskatchewan than in most other parts of Canada.

In response to the challenges of a more competitive marketplace, SaskTel will continue to build on its strategic advantages — a knowledgeable and dedicated workforce and one of the world's most technically advanced networks — in order to continue to meet the ever-changing needs of its customers. SaskTel also enjoys a unique advantage that's often overlooked — as a provincial crown corporation, its customers are also the company's stakeholders. Together, we will work hard to transform these challenges into new opportunities that benefit our customers and the company that serves them.

At the end of 1992, SaskTel was putting a new organizational structure in place. The goals of the reorganization are three-fold: to find new ways to improve operating efficiency at all levels while finding innovative ways to increase revenues; to build more autonomy into the corporation's workforce and place a renewed emphasis on teamwork; and, most important of all, to ensure that increasing customer satisfaction is at the core of everything we do. By staying constantly focused on the marketplace, we will provide customers with competitively priced products and services that add real value, whether to enhance personal productivity at home or to increase business profitability in the workplace.

A 15-month voluntary Enhanced Retirement Program, which was part of an overall plan to reduce operating costs, concluded at year end. The response was very favourable with 210 employees out of the 239 eligible deciding to take advantage of the incentive package. While the program was successful, revenue projections show that additional cost-reduction measures are necessary. For this reason, SaskTel has decided to offer another Enhanced Retirement Program. In addition, the corporation has recommended that the provincial government make legislative changes to The Saskatchewan Telecommunications Superannuation Act to permit SaskTel to offer an early retirement program consistent with Revenue Canada's eligibility criteria. Under these two new programs approximately 360 employees will be eligible to retire by the end of 1994.

With a leaner team, SaskTel's executive and managers, along with union employees, will work together to effectively manage the unprecedented changes that continue to reshape

the industry. We will help to maximize the contribution of every employee by providing opportunities for them to grow both personally and professionally. By empowering employees and creating a corporate culture that fosters a team spirit beyond traditional boundaries, we will be able to respond more quickly to meet the needs of the dynamic marketplace and aggressively pursue emerging business opportunities.

Another change to our organizational structure was concluded at year end following proclamation of provincial legislation allowing the creation of a holding company. The change, which became effective January 1, 1993, although transparent to customers and employees, holds a number of important benefits for SaskTel. By separating the company into integral and non-integral business segments, the change will simplify the regulation of SaskTel once the current moratorium expires, while allowing the corporation more flexibility to operate and expand the unregulated portion of its business.

The winds of change that continue to sweep through the telecommunications industry are strong and persistent. Today, for a company to remain successful, it must capitalize on its strengths and have a commitment to doing a job better than anyone else. SaskTel has distinguished itself as a world-class player in building and maintaining communications networks. During 1993 and beyond, with a shared vision of purpose and a new organizational structure to get the most out of our human and technical resources, we will do more than simply meet customer expectations. We will make every possible effort to exceed them — with quality products and services that add value, personal service and dependability.



Hon. Ned Shillington
Chairman of the Board



Fred Van Parys
President and Chief Executive Officer

Increasing the value of communications services

During 1992 SaskTel continued to invest in its telecommunications infrastructure, including its wireline and wireless networks, in order to provide the high quality, sophisticated services its customers have come to expect. SaskTel's on-going network modernization programs reflect a strong commitment to provide its customers with access to the leading-edge communications services they need to operate more effectively and efficiently.

Investing in new technologies also demonstrates SaskTel's commitment to remain the leader in delivering the benefits of the information age to all customers throughout the province, no matter where they live, including the sparsely populated and remote northern areas that are far more costly to serve. As SaskTel continues its transformation from a telephone company to a communications company, both its residential and business customers are benefiting from a growing number of new products and services that enhance their personal and professional lives.

Building partnerships

Business customers today want more than functional improvements. They want new capabilities that can increase revenues, boost productivity, tighten expense control and improve their ability to compete in an increasingly global marketplace. In response, SaskTel has initiated an innovative partnership approach when dealing with many of its business customers. By understanding a specific company's needs, and the factors that drive those needs, new technologies can be custom-tailored to provide cost-effective solutions that work.

In the past a telecommunications product or service was sold mainly on features and cost. Today, however,

building strong partnerships with customers helps to anticipate needs rather than simply meeting them. Helping business customers to win with the right communications solutions and solid after-sale support adds real value to a sale and builds customer loyalty. This team approach often provides SaskTel with additional business opportunities that eventually help to expand the corporation's revenue base.

Transforming the network

Throughout 1992 SaskTel continued upgrading its analog switching and transmission equipment to digital operation under two long-term programs — the Digital Network Modernization Program and the Switching Equipment Modernization Program. A total of 40 analog switching offices, located mainly in smaller centres, were converted to digital bringing the latest in custom calling services to these communities and their surrounding rural areas. As a result of these capital-intensive modernization programs, at year end 94% of SaskTel's network access lines were served by software-controlled switching systems and 97% of the province's transmission networks were digital.

In the latter part of the year, SaskTel's Board approved a capital expenditure of nearly \$30 million to replace obsolete transmission and switching equipment in northern Saskatchewan. This major project involves upgrading network facilities from LaRonge to Uranium City, Molanosa to Pinehouse and Molanosa to Sandy Bay and will dramatically improve the reliability and quality of telecommunications services. The computer-controlled digital equipment being installed during the three-year program will provide residents and businesses north

*Al Kennerley,
Telecommunications Services
Officer, Canadian Forces Base
Moose Jaw (right), with
SaskTel Communications
Consultant Jim Stewart*

When the Canadian Forces Base Moose Jaw needed to expand and upgrade its SL-1E switchboard, it opted for Meridian 1, Option 61. In a military setting where personnel and equipment are often pushed to the limit, it's crucial to have a telecommunications system in place that can meet tough performance standards. The base said that the workmanship and coordination provided by SaskTel for the project were exceptional.



of LaRonge with advanced voice and data telecommunications services already available to the vast majority of customers elsewhere in the province.

The end of the North Saskatchewan Modernization Program will coincide with the completion of the other two major modernization programs. This means that by the end of 1995, SaskTel will be one of the first companies in North America to have a 100% digital network in place.

As a member company of Stentor, SaskTel completed its portion of a second nationwide fiber optic transmission system. The 652-kilometre Saskatchewan section was completed at a cost of \$14 million and provides additional capacity and enhanced reliability. When the new route is completed from coast-to-coast in 1993, it will provide a 100% restoration capability on all Stentor traffic should a failure occur on either route and be capable of carrying 129,000 equivalent voice circuits simultaneously.

Stentor: The Power of Telecommunications

A rejuvenation of the 60-year old alliance of Canada's nine major telecommunications companies was announced early in 1992. Under the reorganization, Telecom Canada was given a revised mandate and renamed Stentor Canadian Network Management.

Two new jointly owned companies were also created as a result of the restructured alliance. The first, Stentor Resource Centre Inc., will consolidate a large part of the engineering, research and development activities of its member companies at the national and international level and continue the development of national technical standards. This new partnership arrangement will substantially expedite

advanced product development time. As a result of this innovative approach, new products and services, especially those intended for the fiercely competitive and rapidly changing major business market, will take less time to deliver and be available at a lower cost to customers. Stentor will also establish strategic alliances with other telecommunications organizations like the one it forged in September with MCI, a U.S.-based long distance carrier, to provide customers with ready access to some of the world's most sophisticated intelligent network services.


Stentor Resource Centre will also play a major role in serving the needs of interprovincial and multinational companies. For example, a new national service known as Signature Service provides important services such as account planning, and sales and service for large business customers. Stentor Resource Centre, drawing on the talents and resources of its partner companies, is centred in Ottawa with operational groups in other parts of the country including Saskatchewan. A second new company, Stentor Telecom Policy Inc., will act as a government advisory arm for member companies and will focus on national issues and policies.



Applying technology to serve customer needs

Throughout 1992 SaskTel worked hard to improve the quality and reliability of its more traditional services. At the same time, the corporation continued to introduce and expand new applications that help business customers to operate more efficiently and provide consumers with new services and products that accommodate busy lifestyles and an increasingly mobile society.

*Dale Fieber, Systems Analyst
at the Estevan Credit Union
(left), with SaskTel Installer
Garnet Wilhelm*

 **he advanced
Norstar modular
telephone system is
available with a host
of sophisticated
features that help
make businesses more
productive and
efficient. Its open
architecture design
virtually eliminates
obsolescence by
allowing new software
programs to be easily
added or expanded to
accommodate future
customer needs. This
digital system can be
linked to personal
computers to provide
convenient call
management features
such as Call
Accounting, Call Detail
Recording, and Dial-
by-Name used by the
Estevan Credit Union.**



The on-going installation of advanced digital switching equipment, for example, enables SaskTel to provide the latest information services to the important residential market. More and more consumers are beginning to realize that their telephone is quickly evolving into a powerful terminal that provides easy and affordable access to new services that enhance convenience, security and choice.

SaskTel's portfolio of custom calling features, which has gradually been extended throughout Saskatchewan over the last few years, is now available to nearly 90% of all residential and single-line business customers. Call Display, which allows a customer to see the calling number before the phone is answered, and Call Waiting, which tells a person on the phone that someone is trying to call, have proven to be the favourite optional features. Other custom calling services available, listed in order of popularity, are Call Forwarding, Call Return, Speed Calling, Three-Way Calling, Ident-A-Call, Intercom and Call Trace.

A number of promotional campaigns conducted across the province in 1992 to promote the latest of these new services were embraced with enthusiasm and resulted in sales that exceeded all expectations. Over the last three years the number of custom calling services has virtually doubled every year. By the end of 1992, approximately one third of all single-line business and residential customers were making use of these advanced new services.

Helping businesses grow

Another new network-based service that has found widespread acceptance, with both business and residential customers, is MessageManager. First available in 1991, this voice mail service provides an

economical and flexible alternative to answering machines and can even answer calls when the phone is busy. Messages can be retrieved, erased or saved by voice mail users from any touch-tone telephone after entering an access code. In addition, there is no equipment, maintenance or warranty to worry about.

One popular feature, particularly for businesses that have branch offices, is the ability to be able to simultaneously send the same voice message to virtually any number of locations. Although MessageManager is used by a growing number of larger and medium-sized businesses, it is particularly popular with small business customers who have Centrex service.

MessageManager is also gaining acceptance with residential customers and during the year the service was promoted by offering free trials in selected consumer markets. The service that helps eliminate telephone tag is now available in most cities with expansion to the remainder of the province scheduled to take place by the end of 1993.

With the continuing recessionary climate, an increasing number of small business customers are finding that Centrex service is a powerful and cost-effective tool. An impressive array of sophisticated features, previously available to only larger organizations, are available without having to invest in on-premises switchboard equipment that may be less versatile and more costly to maintain and upgrade. Being central-office based, Centrex gives small companies more flexibility in controlling and changing their services to fit the fluctuations and particular needs of their businesses.

Another service that small and medium-sized businesses use to compete more effectively and serve

Terri Lee, Weyburn Medi Mart Drugs (left), with SaskTel Installer Mel Rowat

With hundreds of lottery terminals found at malls, service stations and convenience stores all across the province, Western Canada Lotteries depends on SaskTel's DataRoute to process number transactions quickly and reliably. Besides providing the digital data network to link the ticket-dispensing machines to a centralized computer, SaskTel's knowledgeable and experienced technicians are responsible for looking after the installation and maintenance of lottery terminals like the one located at Medi Mart Drugs in Weyburn.



their customers better is 800 Service. It's helping a growing number of businesses to economically increase their volume of incoming long distance calls by offering established and potential customers toll-free access. For small businesses considering expansion, Remote Call Forwarding is another service that is cost-effective. It allows a customer to have a local telephone number in another community without incurring all of the expenses normally associated with setting up a branch office.

Staying on the leading edge

In 1992 two new sophisticated communications services, Megalink and Microlink, were introduced to meet the ever-changing needs of businesses, organizations and institutions. Available at year end to customers in Regina and Saskatoon, both services employ a network architecture known as Integrated Services Digital Network (ISDN) that is capable of seamlessly handling video, voice and data transmission simultaneously.

During the year SaskTel became the first Stentor-member company to offer commercial ISDN Microlink service. Among the early users of this advanced technology are the University of Saskatchewan, Kelsey Campus (SIAS) and the chartered accounting and consulting firm of Ernst & Young. It is expected that the benefits of Microlink will also be applied by companies in the small retail business sector, for example, as a more efficient way of speeding up credit card authorization.

Megalink, on the other hand, is designed to meet the needs of larger organizations that require high-value solutions in data transmission, software and system

integration. Megalink can be used by businesses to create integrated networks that link host computers, telephone systems, personal work stations, data terminals and telephone sets far more cost-effectively than less advanced alternatives.


Integrating computer systems so they can easily share information between local or remote sites is a growing competitive market, fuelled by major customers who need to economically transport and share high-speed, high-capacity amounts of vital information between office locations.

To meet the needs of other Saskatchewan business customers who don't require such advanced applications, SaskTel provides a broad range of high quality equipment and services. These include audio and videoconferencing, facsimile equipment, data communications equipment and services, cellular telephones, paging units and a wide selection of on-premises communications equipment, such as private branch exchanges and key systems, designed to help companies grow and operate more profitably.

SaskTel Mobility expands wireless network

The division between wireless and wireline networks is beginning to blur. Contemporary business customers and consumers now expect to be able to use their car phones or portable cellular units, complete with convenient calling features, with the same ease as their office and home telephones. As cellular markets broaden to include a wider range of customers, and applications such as cellular data and facsimile become more commonplace, SaskTel continues to increase the value of its wireless net-

Gordon Wicijowski, Managing Partner (right) and James Goliath, Principal (centre) of Ernst & Young, with SaskTel Account Representative Bruce Boynton

 **In 1992 SaskTel became the first telecommunications company in Canada to introduce Microlink, an advanced digital communications service. Microlink allows business customers to economically transmit data at high speeds using existing telephone facilities. The chartered accounting and consulting firm of Ernst & Young, one of the first customers to use the new service, has significantly reduced travel and communications costs by using Microlink to transfer data files electronically between their Saskatoon and Regina offices.**



work by extending service to previously unserved areas. And for customers who require a more economical way to stay in touch, SaskTel will soon be introducing the latest wireless communications service known as Personal Cordless Telephone Services.

The installation of a cell site at Wynyard early in 1992 completed plans to provide border-to-border cellular service coverage along the Yellowhead route. Cell sites were also activated at Alsask, Burstall, Delisle, Kerrobert, Kindersley, Macklin, Rosetown and Wilkie as part of an expansion program to complete coverage in the province's western oil patch.

In addition, four cell sites serving the Regina area and four cell sites surrounding Saskatoon were upgraded to digital-ready as part of SaskTel's commitment to Mobility Canada. Digital cellular systems will offer a number of new benefits for customers including improved transmission quality and reliability, increased capacity and a greater degree of privacy.

In November the creation of SaskTel Mobility brought cellular, paging and FleetNet 800, an advanced mobile-radio service that provides a cost-effective way to dispatch voice or data communications to fleet vehicles, under one business identity. The change will improve customer service, raise awareness of SaskTel's mobile services and better position the corporation for technical developments. The Mobility banner was adopted by Canada's major telephone companies to create a consistent, more powerful presence in this highly competitive market.

SaskTel Mobility continues to offer the most comprehensive and dependable cellular coverage in Saskatchewan, and through its membership in Mobility Canada, the best coverage nationwide and across the United States. SaskTel cellular service includes a number of convenient options, such as Call Waiting, Call Transfer and Call Forwarding, as standard features. A number of flexible calling plans are available that can be tailored to meet virtually any need.

In partnership with its extensive dealer network of more than 200 authorized agents, SaskTel offers a wide variety of cellular phones — from fixed units and transportable models to the ever-popular portable models. This strong cellular dealer network, backed by SaskTel's considerable technical resources and skilled technicians, ensures that customers receive superior after-sale service and support.

The corporation's cellular service expansion plans for 1993 call for the installation of cell sites at Humboldt, Melfort, Nipawin, Tisdale, Wakaw and Shaunavon to serve these six communities and their surrounding areas. When cellular service is activated in these communities, it will mean that approximately 85% of the province's residents live in SaskTel Mobility's service area.

At the end of 1992, SaskTel, as a member of Mobility Canada, was awarded a licence to provide the newest wireless communications service known as Personal Cordless Telephone Services by the federal Department of Communications. During the next few years, the new service will be made available in 26 Canadian cities, including Regina and Saskatoon. Personal Cordless Telephones are wireless units, similar to cordless phones, but lighter and smaller.

Shirley and Rick Worth of Sound and Cellular Plus (left), with SaskTel Administration Assistant Gloria Kardash

The demands of today's fast-paced world are not confined to the walls of offices and homes. Realizing this, a growing number of busy Saskatchewan people are finding that cellular service saves time, increases productivity and adds convenience to both their professional and personal lives. In addition to the province's most comprehensive cellular network, SaskTel Mobility provides superior customer service through an extensive province-wide dealer network, including Sound and Cellular Plus in Saskatoon.

SaskTel

Mobility

Centre



The phones, which use radio signals to communicate with either one or a series of small base stations, have a number of applications. The lightweight phones can be used in the home or office or in public zones such as hotels, shopping malls, airports and public buildings, or wherever there is a need to stay in constant touch.

Rate changes reflect service delivery costs

Staying focused on leading-edge technologies, while providing new and improved services for customers, also allows SaskTel to gain efficiencies on the cost side. The new digital switching facilities, for example, are far less costly to operate and maintain than the outdated equipment being replaced. In recent years these savings have been passed along to customers in the form of long distance rate decreases. Rates for out-of-province toll calls have steadily dropped following rate decreases in 1987, 1989, 1990 and 1991. As a result, calls to Canadian destinations are now dramatically lower than they were only a few years ago — having dropped by an average of 46%. The significant cumulative decrease has helped many Saskatchewan businesses reduce costs and stay competitive.

On March 1, 1992 SaskTel restructured its rates to more accurately reflect the actual cost of providing service. While the costs of some services, such as installation and monthly rentals increased, in-province long distance rates for calls greater than 100 miles decreased from 10 to 18%. As a result of these changes, the net effect on an average residential customer's bill was a 5% increase with a typical business customer's monthly bill rising by only 4%.


Even with the monthly service rate increase, the rates now paid by customers for local service represent only a small portion of the actual cost. For example, the average per month SaskTel subsidy of local service for urban telephone customers is \$22. In rural areas, the subsidy for local service is even greater, averaging \$49 per month. As well, SaskTel is still the only telecommunications company in Canada to include the innovative 40/40 long distance savings plan as part of its basic service package.

A new distance-sensitive installation rate structure introduced in March, applicable to first-time customers in rural and resort areas, was replaced with a flat-rate fee schedule later in the year. While the change is more acceptable for most individual line customers in these areas, the amount of subsidization is considerable since the cost of providing service averages about \$5,700 where construction is required.

Historically, to achieve the corporation's goal of universal service at affordable rates, revenues from long distance services have been used to keep installation and local service rates artificially low, particularly in the high-cost rural and more remote areas of the province. However, the continuing decline of long distance revenues in a much more competitive marketplace will hamper the corporation's ability to continue to subsidize these rates at traditional levels.

To address the financial reality of a declining revenue base, SaskTel was reviewing a number of alternatives at year end. It is expected these initiatives will better prepare the corporation for a more competitive operating environment, especially in the important long distance segment of its business, and

John and Sharon Lothman, Lothman Insurance Services (right), with SaskTel Sales Associate Wayne Hansen

 **John and Sharon Lothman found that working out of their Prince Albert home was easy if you've got the right telecommunications tools. When the couple decided early in 1992 to relocate their insurance business into their home to decrease office overhead costs they came to SaskTel. After going over the various options, they decided on Centrex lines, 800 Service, a fax line, Message-Manager, cellular service, three telephones and Teleplus. And it's been business as usual ever since.**



move toward a more equitable cost-based pricing policy for service delivery. Also being reviewed at year end were ways to improve and enhance a number of existing long distance savings plans.



A more responsive organization

Meeting the needs of today's customers is more important than ever before. Many of SaskTel's business customers are operating in environments that are becoming more complex and increasingly competitive with each passing year. Customers today are demanding excellence and superior value in every product and service they receive.

To stay ahead of these changing needs, SaskTel is following a comprehensive business plan developed during 1992 and designed to guide the company over the next few years. This strategic plan is a blueprint for continued success in a telecommunications environment where competitive pressures are increasing, specifically in the areas of terminal attachment and network interconnection. The five-year plan sets company-wide goals and the progress of each department in achieving these objectives is measured to ensure that employees stay focused on customer needs by constantly improving the delivery of products and services.

New structure sharpens customer focus

As part of this strategic plan, at year end SaskTel was putting a new organizational structure in place. The changes will help meet the unique telecommunications requirements of the diverse Saskatchewan marketplace and make SaskTel a stronger, more effective competitor in the information network and

services market. One of the most significant changes in the new structure is an increased emphasis on SaskTel's businesses — Customer Services and Diversified Operations.

The realignment was driven by three guiding principles: increase customer satisfaction; eliminate duplication, improve efficiency, and seek new revenue sources; and increase employee autonomy to improve service delivery.

Quality is the key to customer satisfaction. The new structure was designed to give employees the tools and support they need to truly understand and meet customer needs, to prevent rather than correct errors and to continually improve products and services. Focusing on quality improvements in virtually every activity or process that involves service delivery and the specific needs of the marketplace will help ensure that SaskTel continues to be the communications supplier of choice in Saskatchewan.

To improve efficiency, internal quality efforts are being teamed with highly-sophisticated mechanized systems to standardize and simplify work procedures. The increasingly competitive marketplace requires an efficient balance of human, capital and technical resources. To contain and reduce costs and increase productivity, SaskTel will continue to incorporate new technologies that improve operating efficiencies while delivering products and services to markets faster and more efficiently. With reduced staff levels, due mainly to enhanced retirement programs, the streamlining and integration of certain business processes and the consolidation of similar work functions will make it possible to meet customer needs and expectations in the most cost-effective manner.

*Al Dennis, Manager
Technical Support Services,
Saskatchewan Wheat Pool
(right), with SaskTel
Communications Consultant
Shane Taylor*

 **It's a fact that business relationships are built on co-operation. In meeting the communications needs of the Saskatchewan Wheat Pool over the years, SaskTel and the Wheat Pool have developed a teamwork approach to solving problems. As the province's largest business, the Wheat Pool depends on SaskTel to provide cost-effective solutions that work. In 1992 SaskTel launched LANspan, an innovative fiber optic based service that has the flexibility and capacity to meet the Wheat Pool's specific data requirements.**



The new structure has also been designed to encourage employees to be more involved and accountable for customer satisfaction. Employees will be provided with the necessary authority and resources that will enable them to meet or even exceed customer expectations. Empowered, accountable employees, working together with a commitment to improve customer service, will provide SaskTel with the competitive edge it needs to succeed.

Preparing employees for the challenges ahead

Since the level of quality that a company can deliver to its customers is only as good as the quality of its employees, SaskTel is committed to equipping its workforce with the skills and knowledge needed to get the job done. SaskTel's on-going investment in education and training programs — whether it's technical skills, management seminars, or career development courses — allows employees to grow with the corporation, meet new challenges and be more responsive to customer needs.

During 1992, more than 17,167 person-days of training and staff development took place as employees attended one or more of the 2,268 courses provided.

In addition to in-house training programs, 266 SaskTel employees participated in the corporation's out-of-hour educational assistance program which reimburses employees for tuition and books when they successfully complete approved courses outside of regular working hours.

SaskTel Holding Corporation created

At year end it was announced that SaskTel's corporate structure will change as a result of the proclamation of

legislation providing for the creation of The Saskatchewan Telecommunications Holding Corporation.

Under the new legislation, effective January 1, 1993, SaskTel's non-integral assets will be transferred to the new Holding Corporation. These unregulated assets include SaskTel Mobility, SaskTel International, DirectWest Publishing Ltd., shares in a subsidiary of Regional Cablesystems and SaskTel's remaining shares in ISM. SaskTel's core business, representing about 80% of its assets, will remain with SaskTel. These assets consist primarily of local and long distance services and associated facilities and equipment.

The establishment of a parent holding company as a crown corporation with business units under the parent company, although transparent to both customers and employees, has a number of important benefits for SaskTel. Separating SaskTel's assets in this manner will simplify regulation of the corporation if the current federal moratorium expires. A second major benefit is that the change will permit the Holding Corporation to operate and expand the unregulated portion of its business.



Building on international successes

Since 1986 SaskTel International has carefully pursued numerous diversification opportunities in selected world-wide markets. The company's mandate is to profitably market modern, cost-effective telecommunications software, systems and services around the world. This includes technical consulting, network planning and all phases of project management from planning through construction, operation and maintenance.

Dave Radford, Sears General Manager for catalogue sales in Western Canada (right), with SaskTel Communications Consultant Scott Hubic

In the latter part of the year, Sears Canada announced its plan to establish a major catalogue shopping and telemarketing centre for Western Canada in Regina. For its new centre, which will ultimately provide 700 to 900 part-time jobs, Sears chose a Meridian ACD Max system from SaskTel. The corporation was the successful bidder on the Sears project, which also involves a significant network sale, over several other telecommunications companies.



In a number of global ventures, SaskTel International has formed strategic alliances that minimize risks and create working relationships that have the potential to develop into long-term business opportunities. As new foreign markets open to competition, SaskTel International will continue to look for new investment opportunities, through strategic partnerships and joint ventures, that require its technical expertise and operating experience in the building and management of advanced communications systems.

At year end, SaskTel International was involved in a number of major projects around the world:

- Phase one of a \$42 million contract to install and integrate a telecommunications network in 20 provinces located throughout the rural and isolated islands of the Philippines was nearing completion at the end of 1992. Phase two of the project, which will provide similar services to the remaining provinces, will begin once final approval has been received. The project will provide telecommunications service to some 250 rural communities throughout the Philippines archipelago and includes the installation of microwave-radio facilities, switching and outside plant equipment along with telephone private branch exchanges and billing systems.
- During the year it was announced that Century Telephone Enterprises Inc. of Monroe, Louisiana was the fifth telecommunications company to purchase the MARTENS facilities management system. The SaskTel-developed software system, widely recognized as the best of its kind in the world, economically manages all the telecommunications facilities required to serve customers.

This latest MARTENS sale, valued at more than \$1 million, operates on IBM's latest DB2 database management system which is rapidly becoming the industry standard for all computerized databases.

- SaskTel International continues to provide engineering assistance on a communications system that is being built as part of a tunnel currently under construction beneath the English Channel. Following a contract to evaluate the communications system for the 53-kilometre tunnel, being built to accommodate electric train service, SaskTel International received a second contract, through its joint-venture company with John Laing plc of the UK, to provide a detailed system and management audit of the tunnel's Data Transmission System. In October 1992 another contract, valued at \$2 million, was secured that involves the installation of telecommunications facilities and control systems in the Channel Tunnel.
- SaskTel International is an equity partner in a consortium, that includes Fundy Cable of New Brunswick and John Laing plc, which is building a hybrid network to provide both cable TV and telecommunications services to the English cities of Leicester and Loughborough. In addition to an equity investment that has significant long-term financial benefits, SaskTel International is providing management and technical expertise during the six-year construction project. When completed the network will serve an urban community encompassing about 200,000 homes.
- Under a contract with the Canadian International Development Agency (CIDA), SaskTel

Mike Matthews (right) and Henri Golia (centre) of TransManche Link with SaskTel International's Dave Weick

 **SaskTel International was awarded a \$2 million contract by TransManche Link (TML) in late 1992. Under this latest contract with TML, SaskTel international will assist with the testing and commissioning of communications facilities, including fiber optic and advanced digital multiplexers, being installed in the 53-kilometre tunnel that runs beneath the English Channel. The multi-billion pound tunnel project, being built to handle electric train service between England and France, is slated for completion by the end of 1993.**



International completed a project that involved upgrading 1,500 kilometres of trackside telecommunications systems in Tanzania between Dar Es Salaam and Mwanza. The \$11 million joint-venture project began in 1988.

Diversification builds on expertise

Looking for new business opportunities that build on SaskTel's expertise in network services, project management and consulting is an important part of the corporation's diversification initiatives. The strategy also involves the careful screening of investment opportunities with solid alliances that have the potential to make favourable long-term contributions to the bottom line.

As part of its diversification activities in 1992, SaskTel made a \$7.3 million equity investment in a western Canadian subsidiary of Regional Cablesystems, one of North America's largest rural cable television operators. With the on-going convergence of telecommunications and cable TV technologies, this new partnership represents an excellent opportunity to move into a dynamic and growing industry.

Regional Cablesystems has approximately 142,000 cable TV customers in Canada and the United States. Its two western Canadian subsidiaries, in which SaskTel now holds a 29.9% equity investment, operate 225 cable systems serving more than 31,500 customers in small communities and rural areas in the four western provinces. As part of the agreement, SaskTel and Regional Cablesystems are negotiating the move of the cable company's head office from Alberta to Saskatchewan.

Committed to the community

SaskTel has a proud tradition of community service. It's based, in part, on the realization that the vitality of its business is dependent on the well-being of the communities it serves. For this reason, the corporation is committed to making a difference by helping to enrich the quality of life of Saskatchewan residents throughout the province. In addition to providing financial contributions to educational and research activities, the corporation supports major cultural and athletic events through its event sponsorship program. Financial support is also given to hundreds of worthwhile charitable and non-profit organizations through its corporate contributions program.

Support to educational and research activities

During 1992 SaskTel was involved in a number of programs that demonstrate its on-going support of various educational and research activities. In addition to sponsoring the Conference Board of Canada's National Awards for Excellence in Business/Education Partnership programs in Saskatchewan, SaskTel is participating in a five-year partnership accord with TR Labs in Saskatoon involving research into advanced network technologies.

At Scott Collegiate in Regina, under a Partners in Education Program, SaskTel is working with students and educators to enhance academic growth and personal development as part of the corporation's employment equity program. The multi-faceted program, by providing a bridge between education and business, also gives students an insight into the skills needed to compete in today's business world.

Holy Cross students at Prince Albert with SaskTel Combinationman Ed Glynn



As a concerned corporate citizen, SaskTel has undertaken a number of initiatives to protect the environment. In many locations throughout the province, for example, the corporation is working with DirectWest and numerous schools on a directory recycling program. In the Prince Albert district, students at a number of schools, including Holy Cross, took part in a friendly competition to collect outdated telephone directories which were then sent to a Tisdale plant to be recycled into egg cartons.



SaskTel's scholarship program, introduced in 1991, encourages Saskatchewan residents to pursue full time, post-secondary educational opportunities in the telecommunications field. Also an important part of the company's employment equity initiatives, the program encourages applications from minority group individuals and eligible candidates who demonstrate financial need and community involvement.

Employees make valuable contributions

Other activities underscore the important contributions that SaskTel employees make to communities where they live and work. For instance, besides donating their time and talent as volunteers in countless community activities, hundreds of employees continued to demonstrate their support of worthy organizations by donating generously to their local TelCare benevolent funds. These contributions, along with a corresponding 50% donation by SaskTel, exceeded \$289,000 in 1992.

Many SaskTel employees are members of the Telephone Pioneers of America. In Saskatchewan, Chapter 59 Pioneers are involved in many community-minded programs that provide valuable assistance by answering the call of those in

need. Funds raised by the organization, comprised mostly of long service and retired employees, are used to support a wide variety of activities. These include carrying out an infant hearing assessment program; purchasing equipment for hospitals; building buddy bikes, wheelchair swings, and playgrounds for people with motion impairments; building houses for bluebirds and platform nests for the ferruginous hawk, making and distributing hundreds of Hug-A-Bears that are used by emergency services personnel who work with traumatized children; and educating students about the hazards of noise pollution.

Environmental responsibility

The corporation's environmental responsibility is reflected in its partnership with a number of schools across the province where students have helped to recycle thousands of outdated telephone directories. The company has also taken steps to conserve precious resources by recycling tons of office paper and ensuring that recycled paper is used for stationery, bill inserts and virtually all its publications — including this annual report. The corporation's extensive use of electronic and voice mail also reduces the amount of paper used.

FINANCIAL REVIEW

FINANCIAL HIGHLIGHTS

In preparation for an increasingly competitive environment, SaskTel undertook to strengthen its financial position in 1992. A combination of events including a gain on the sale of its investment in ISM Information Systems Management Corporation (ISM), cost reductions and waiver of a dividend from 1991 allowed the corporation to reduce its long-term debt by \$ 107.6 million during the year. This reduction in debt, together with the announcement of an Early Retirement Program in 1993-94 and other cost savings measures will assist in ensuring SaskTel remains in solid financial position in the future.

Net earnings

Consolidated net earnings totalled \$ 79.9 million for 1992, an increase of \$ 28.9 million (56.7%) from 1991 earnings of \$ 51.0 million. This increase includes a \$ 27.7 million gain on the sale of the majority of SaskTel's investment in ISM (formerly Westbridge Computer Corporation).

Operating revenues

Operating revenues for 1992 totalled \$ 620.9 million, up \$ 26.2 million (4.4%) from 1991 revenues of \$ 594.7 million. Long distance revenues continued to decline in 1992. Inter-provincial long distance rate reductions combined with significant intra-province rate reductions in March, 1992 resulted in a \$ 19.1 million (5.1%) drop in revenues for the year to \$ 355.6 million. This was the second consecutive year in which long distance revenues declined from their peak of \$ 399.3 million in 1990. Growth in long distance messages of 8.1 % was not enough to offset the rate reductions during the year.

As part of the restructuring of rates in March, 1992 to reflect the cost of providing service, SaskTel offset the 10% to 18% reduction of in-province long distance rates through local service rate increases. These revenues, comprised primarily of charges for network access, service connection and equipment rental, totalled \$ 193.4 million for the year, an increase of \$ 28.3 million or 17.2 % over 1991.

Other revenues increased significantly in 1992 to \$ 75.0 million (27.5%) from \$ 58.9 million in 1991. This increase is attributable to significant contracts entered into by SaskTel International, growth in directory advertising revenues and sales and service of equipment. All of these other revenues have contributed to diversifying SaskTel's revenue base.

Operating expenses

Total operating expenses of \$ 484.1 million increased by

\$ 29.6 million or 6.5 % from 1991. This increase included non-recurring expenses that will benefit the corporation in the future as revenues decline. These expenses included an Early Retirement Program announced in December, 1992. Operating expenses include a \$ 12.3 million provision for this program (\$ 6.9 million in 1991). Savings of salaries and benefits stemming from the 1991 Enhanced Retirement Program and other reductions in manpower from 3,981 to 3,861 were partially offset by a contract settlement in 1992.

Other increases in operating expenses included a \$ 12.6 million increase in depreciation expense from 1991. The increase reflects net capital spending for the year of \$ 101.3 million and the implementation of new depreciation rates for changes to the estimated useful lives of property, plant and equipment. Cost of sales increased by \$ 15.2 million over 1991 which corresponds to the significant increase in other revenues from SaskTel International and sales of terminal equipment. Offsetting these increases in operating expenses were savings in maintenance expenses of \$ 10.8 million and operator services of \$ 1.3 million.

Other income and interest expense

Other income increased by \$ 11.0 million from 1991 due mainly to the improved financial results of ISM for the first quarter of the year in comparison to significant losses in the prior year. Overall, interest and related costs increased \$ 6.4 million or 7.9 % from 1991. A decrease in interest on long-term debt of \$ 11.3 million and an increase in sinking fund earnings of \$ 3.6 million were offset by the premium and foreign exchange adjustments required on the repayment of net long-term debt of \$ 107.6 million.

Cash flows

Cash on hand at year end decreased from \$ 37.1 million in 1991 to \$ 30.3 million in 1992. Cash provided from operations increased to \$ 184.6 million from \$ 177.6 million in 1991, an increase of \$ 7.0 million or 3.9 %. Of the cash generated by operations, \$ 111.4 million was used in financing activities, specifically the repayment of long-term debt. A dividend of \$ 51.7 million for the 1992 fiscal year has been declared. No dividend was declared or paid for 1991. Further, \$ 101.3 million was invested in the corporation's capital program and \$ 15.2 million in long-term investments. Offsetting this was cash received of \$ 36.4 million upon the disposal of shares held in ISM.

FIVE-YEAR RECORD OF SERVICE

For the year ended December 31

	1992	1991	1990	1989	1988
Network access services**	573,464	569,785	562,179	553,137	540,884
Originated long distance messages (In thousands)					
Telephone	145,488	134,845	123,053	113,496	106,000
Data, and other voice services	29,669	27,198	24,490	21,951	19,763
Total messages	175,157	162,043	147,543	135,447	125,763
Finance (In thousands of dollars)					
Operating revenues	\$620,882	\$594,698	\$593,764	\$568,960	\$519,212
Operating expenses	484,065	454,445	449,974	429,755	397,170
Other income (losses)	2,615	(8,414)	(4,911)	9,775	8,874
Interest and related costs	87,250	80,822	86,946	75,072	67,626
Net earnings	79,916	51,017	46,873	77,760	70,113
Dividend	51,700	0	46,873	38,880	70,113
Gross construction expenditures	114,039	106,520	155,960	177,906	163,355
Property, plant and equipment*	1,729,728	1,673,228	1,628,206	1,530,393	1,448,032
Long-term debt-gross*	751,318	887,077	847,658	854,777	759,195
Financial ratios					
Return on net assets	15.9%	12.3%	12.5%	15.5%	15.2%
Debt as a percent of year-end capital	63.1%	68.3%	72.2%	69.0%	67.5%
Internally generated funds as a percent of net construction expenditures	182.3%	131.3%	84.9%	51.3%	73.0%
Employees and payroll					
Number of employees (excluding part-time)*	3,861	3,981	4,216	4,373	4,525
Salaries earned (thousands of dollars)	\$166,021	\$168,991	\$172,346	\$169,053	\$166,893

** 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 for the year ended December 31, 1992, are the responsibility of the 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.

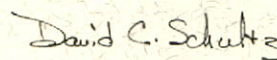
The Board of Directors fulfills its responsibilities with regard to the financial statements principally through its Audit Committee, consisting solely of outside directors, which meets periodically with management as well as the internal and external auditors. The Audit Committee is responsible for 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. Their report to the Members of the Legislative Assembly, stating the scope of their examination and opinion on the consolidated financial statements, appears below.



Fred Van Parys
President & Chief Executive Officer

Regina, Saskatchewan
March 4, 1993



David C. Schultz
Vice President Finance

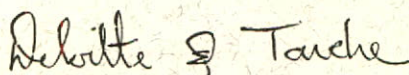
AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Telecommunications as at December 31, 1992 and the consolidated statements of earnings, 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, 1992 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
March 4, 1993

CONSOLIDATED STATEMENT OF EARNINGS*For the year ended December 31*

	1992	1991
	(Thousands of dollars)	
Operating revenues		
Long distance service	\$ 355,568	\$ 374,677
Local service	193,391	165,043
Other	75,020	58,862
Uncollectible operating revenues	(3,097)	(3,884)
	<u>620,882</u>	<u>594,698</u>
Operating expenses		
Maintenance and operations	182,526	176,234
General and administrative	171,897	161,161
Depreciation (Note 2)	129,642	117,050
	<u>484,065</u>	<u>454,445</u>
Net operating revenue	136,817	140,253
Other income (Note 3)	2,615	(8,414)
	<u>139,432</u>	<u>131,839</u>
Interest and related costs (Note 4)	87,250	80,822
Net earnings, before non-recurring items	52,182	51,017
Gain on sale of investment (Note 7)	27,734	—
Net earnings	<u>\$ 79,916</u>	<u>\$ 51,017</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS*For the year ended December 31*

	1992	1991
	(Thousands of dollars)	
Retained earnings at beginning of year	\$ 89,897	\$ 38,880
Net earnings	79,916	51,017
	<u>169,813</u>	<u>89,897</u>
Dividend	51,700	—
Retained earnings at end of year	<u>\$ 118,113</u>	<u>\$ 89,897</u>

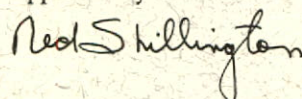
See accompanying notes

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31

	1992	1991
	(Thousands of dollars)	
Assets		
Property, plant and equipment (Note 5)	\$ 964,145	\$ 985,300
Other assets (Note 6)	23,585	9,578
Investments (Note 7)	18,788	15,514
Investment in leases (Note 8)	8,208	9,426
Notes receivable (Note 9)	3,604	8,383
	<u>1,018,330</u>	<u>1,028,201</u>
Current assets		
Short-term investments, at cost (market value \$30,935)	30,795	40,492
Accounts receivable	75,998	74,569
Inventories	6,915	9,375
Prepayments	13,352	12,355
	<u>127,060</u>	<u>136,791</u>
	<u>\$ 1,145,390</u>	<u>\$ 1,164,992</u>
Liabilities and Province's equity		
Long-term debt		
Province of Saskatchewan (Note 10)	\$ 512,911	\$ 619,002
Other long-term debt (Note 11)	103,271	104,795
	<u>616,182</u>	<u>723,797</u>
Province of Saskatchewan's equity		
Equity advance (Note 12)	250,000	250,000
Retained earnings	118,113	89,897
	<u>368,113</u>	<u>339,897</u>
Current liabilities		
Bank overdraft	509	3,389
Accounts payable	64,953	56,210
Accrued interest	16,876	18,878
Dividend payable	51,700	-
Service billed in advance	13,388	7,263
Current portion of long-term debt (Notes 10, 11)	13,669	15,558
	<u>161,095</u>	<u>101,298</u>
	<u>\$ 1,145,390</u>	<u>\$ 1,164,992</u>

Approved by the Board



Honourable Ned Shillington

See accompanying notes



Betty-Jane Thomas

CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION*For the year ended December 31*

	1992	1991
	(Thousands of dollars)	
Operating activities		
Net earnings	\$ 79,916	\$ 51,017
Add: Items not affecting cash (Note 13)	91,759	106,636
	171,675	157,653
Net change in working capital (Note 14)	12,900	19,913
Cash provided by operating activities	184,575	177,566
Financing activities		
Proceeds from notes receivable	4,194	11,191
Repayment of long-term debt	(120,296)	(67,332)
Proceeds from long-term debt	4,732	115,360
Repayment of notes payable	-	(44,305)
Dividend payment	-	(46,873)
Cash used in financing activities	(111,370)	(31,959)
Investing activities		
Capital expenditures - net	(101,265)	(99,537)
Long-term investments	(15,170)	(5,995)
Proceeds from sale of investments	36,413	-
Cash used in investing activities	(80,022)	(105,532)
Increase (decrease) in cash	(6,817)	40,075
Cash (bank overdraft) at beginning of year	37,103	(2,972)
Cash at end of year	\$ 30,286	\$ 37,103
Comprised of:		
Short-term investments	\$ 30,795	\$ 40,492
Bank overdraft	(509)	(3,389)
	\$ 30,286	\$ 37,103

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Saskatchewan Telecommunications
December 31, 1992

Note 1 The corporation

Saskatchewan Telecommunications (SaskTel), a provincially owned Crown Corporation, markets and supplies a range of voice, data, text and image products, systems and services. Its membership in Stentor Canadian Network Management (formerly Telecom Canada) enables it to extend its services throughout Canada and to connect its customers to the rest of the world.

The financial results of the corporation are included in the consolidated financial statements of the Crown Investments Corporation of Saskatchewan. As a Crown Corporation, SaskTel is not subject to Federal or Provincial income tax.

In December, 1992, legislation was proclaimed establishing the Saskatchewan Telecommunications Holding Corporation effective January 1, 1993.

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

The consolidated financial statements include the accounts of the corporation's wholly-owned subsidiaries, Saskatchewan Telecommunications International, Inc. and Nu-Net Communications Ltd. 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, which are readily quantifiable and identifiable with the construction activity. 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 and TeleBonds 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 twenty years.

Investments

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

The corporation's portfolio investments are carried at cost and dividend income is recognized when received.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

over the estimated average remaining service lives of the employees who are members of the defined benefit plan.

Foreign currency translations

Monetary assets and liabilities denominated in foreign currencies are stated in Canadian dollars at the foreign exchange rates prevailing at December 31. Foreign exchange gains or losses arising on translation are included in other assets and amortized on a straight-line basis over the remaining life of the related assets and liabilities. Revenues and expenses are translated at rates prevailing at the respective transaction dates.

Note 3 Other income

	1992 (Thousands of dollars)	1991 (Thousands of dollars)
Interest income	\$ 2,237	\$ 2,859
Share of earnings of equity accounted for investments	469	(12,434)
Other	(91)	1,161
	<u>\$ 2,615</u>	<u>\$(8,414)</u>

Note 4 Interest and related costs

	1992 (Thousands of dollars)	1991 (Thousands of dollars)
Interest expense	\$ 92,868	\$ 104,189
Premium and foreign exchange adjustment on repayment of long-term debt	19,792	-
Amortization of unrealized net foreign exchange losses	665	(514)
Amortization of discount	1,488	1,198
	<u>114,813</u>	<u>104,873</u>
Less:		
Sinking fund earnings	21,593	18,003
Interest on temporary cash investments	5,528	5,089
Interest charged to construction	442	959
	<u>\$ 87,250</u>	<u>\$ 80,822</u>

Note 5 Property, plant and equipment

	1992 (Thousands of dollars)	1991 (Thousands of dollars)
Buildings, plant and equipment	\$ 1,653,254	\$ 1,602,978
Land	8,826	8,879
Plant under construction	33,429	19,028
Materials and supplies	9,927	11,506
Assets under capital leases	24,292	30,837
	<u>1,729,728</u>	<u>1,673,228</u>
Less: Accumulated depreciation	765,583	687,928
	<u>\$ 964,145</u>	<u>\$ 985,300</u>

The composite depreciation rate on the average depreciable telecommunications property in service was 7.80% in 1992 (7.43% - 1991).

As at December 31, 1992, the ratio of accumulated depreciation to depreciable telecommunications property was 45.6% (42.1% - 1991).

Note 6 Other assets

	1992 (Thousands of dollars)	1991 (Thousands of dollars)
Unrealized net foreign currency losses	\$ 15,307	\$ 2,523
Goodwill	3,674	963
Discount on long-term debt	3,806	4,611
TeleBond issue costs	798	1,481
	<u>\$ 23,585</u>	<u>\$ 9,578</u>

Note 7 Investments

	1992 (Thousands of dollars)	1991 (Thousands of dollars)
Accounted for by the equity method:		
Investment in Leicester Communications Limited (Leicester)	\$ 5,438	\$ 5,302
Investment in 2793091 Canada Inc.	3,536	-
Investment in ISM Information Systems Management Corporation (ISM)	-	8,960
Other	203	253
Portfolio investments at cost:		
Alouette Telecommunications Inc. (Alouette)	7,431	999
Investment in ISM (Market Value \$7,798)	2,180	-
	<u>\$ 18,788</u>	<u>\$ 15,514</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Included in the investment in Leicester are loans to Leicester in the form of Zero Coupon Subordinated Unsecured Bonds (\$3,824,000) due in December, 1996. As at December 31, 1992 the corporation has a 30.9% interest in Leicester (30.7% - 1991).

During 1992, the corporation acquired a 29.9% interest in 2793091 Canada Inc., a subsidiary of Regional Cablesystems Inc., for \$7,300,000. Goodwill of \$3,769,000, representing the purchase price less net identifiable assets acquired, is included in other assets and is being amortized on a straight-line basis over twenty years.

During 1992, the corporation acquired a 3.9% interest in Alouette in exchange for its 99,900 shares in Telesat Canada and cash consideration of \$6,432,000. Alouette was formed in 1992 by the Stentor group of companies and others for purposes of holding its increased investment in Telesat Canada.

On April 30, 1992, the corporation sold 3,522,127 ISM shares to IBM Canada Limited for a gain of \$27,734,000. This sale reduced SaskTel's ownership to 4.4% as at December 31, 1992 (26.2% - 1991). Accordingly, SaskTel ceased accounting for its investment in ISM by the equity method and effective May 1, 1992, the remaining carrying value of the investment has been recorded using the cost basis of accounting.

Note 8 Investment in leases

	1992	1991
	(Thousands of dollars)	
Total minimum lease payments receivable	\$ 15,618	\$ 17,951
Less: Unearned finance income	4,608	5,077
Investment in leases	11,010	12,874
Less: Current portion included in accounts receivable	2,802	3,448
	<u>\$ 8,208</u>	<u>\$ 9,426</u>

Finance income earned during the year amounted to \$1,707,000 (\$2,204,000 - 1991).

Note 9 Notes receivable

	1992	1991
	(Thousands of dollars)	
11% ISM debenture, due January 1, 1995	\$ 1,800	\$ 1,800
Cable operators, primarily due in 1996	1,262	6,633
11% DirectWest Publishers Ltd., due April, 1996	1,148	1,420
	<u>4,210</u>	<u>9,853</u>
Less: Current portion included in accounts receivable	606	1,470
	<u>\$ 3,604</u>	<u>\$ 8,383</u>

Note 10 Long-term debt, Province of Saskatchewan

Rate (%)	Issue date	Due date	1992	1991
(Thousands of dollars)				
7.403	1972	1992	\$ -	\$ 15,093
7.563	1973	1993	8,644 (b)	8,644
13.375	1981	1996	48,955	73,955
7.750	1973	1998	5,000	5,000
8.250	1973	1998	15,000	15,000
10.000	1974	1999	25,000	25,000
11.750	1980	2000	25,000	25,000
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	75,000	75,000
12.250	1983	2003	25,000	25,000
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	40,000	40,000
9.583	1986	2006	32,598 (b)	32,598
8.700	1976	2006	-	57,440
10.241	1987	2007	13,597 (b)	13,597
8.625	1977	2007	-	53,316
9.250	1978	2008	58,444 (a)	53,137
10.092	1988	2008	20,779 (b)	20,779
9.375	1991	2020	127,090 (a)	115,550
			<u>639,467</u>	<u>773,469</u>
Less: Equity in sinking funds			121,467 (c)	147,721
Due within one year			5,089	6,746
			<u>\$ 512,911</u>	<u>\$ 619,002</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (a) Represents long-term debt repayable in U.S. dollars having a U.S. face value of \$145,986,000 converted to \$167,683,000 Canadian at the time of issue. It is recorded in Canadian dollar equivalent of \$185,534,000 based on the foreign exchange rate as at December 31, 1992 of 1.2709 (1.1555 - 1991).
- (b) Long-term debt totalling \$112,756,000 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 long-term debt, the corporation is required to pay annually into sinking funds administered by the Province of Saskatchewan, amounts ranging from 1% to 1.5% of the original value of long-term debt received. The equity shown includes investments denominated in U.S. dollars held in the fund having a U.S. dollar value of \$4,203,000 recorded at \$5,341,000 Canadian dollar equivalent based on the foreign exchange rate as at December 31, 1992.
- (d) 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:
- | | | |
|------|---|------------|
| 1993 | — | \$ 13,669 |
| 1994 | — | \$ 107,459 |
| 1995 | — | \$ 4,997 |
| 1996 | — | \$ 53,766 |
| 1997 | — | \$ 4,716 |

Note 11 Other long-term debt

	Rate %	Issue date	Maturity date	1992 (Thousands of dollars)	1991
TeleBonds					
Interest Bond	11.0	1989	1994	\$ 62,645	\$ 62,577
Credit Bond	14.0	1989	1994	32,070	33,038
Capital Leases	12.3 - 14.4	1989-1992	1993-1997	12,404	17,992
Letter of Credit	-	1992	1994-1997	4,732	-
				111,851	113,607
Due within one year				(8,580)	(8,812)
				<u>\$ 103,271</u>	<u>\$ 104,795</u>

Interest TeleBonds pay interest annually on March 1st until maturity. Credit TeleBonds pay interest monthly by way of credit to the designated customer's telephone account.

Repayment of TeleBond principal and interest is unconditionally guaranteed by the Province of Saskatchewan. The rate of interest may be increased at the discretion of the corporation. TeleBonds are redeemable in whole or in part at the discretion of the bondholder on March 1 each year prior to maturity.

During 1992, the corporation entered into a letter of credit facility representing its portion of financing stemming from Stentor's acquisition of software from MCI Network Technologies, Inc. The letter of credit facility is not expected to be drawn upon until 1994 and accordingly, no portion has been included as due within one year.

Note 12 Equity advance

The equity advance was received from Crown Investments Corporation of Saskatchewan (CIC), representing the Province of Saskatchewan's contributed equity in SaskTel. The advance is non-interest bearing and repayable at the discretion of CIC.

Note 13 Items not affecting cash

	1992	1991
	(Thousands of dollars)	
Depreciation	\$ 129,642	\$ 117,050
Gain on sale of shares	(27,734)	-
Sinking fund earnings	(21,593)	(18,003)
Premium and foreign exchange adjustment on repayment of long-term debt	19,792	-
Foreign currency adjustments	665	(514)
Investment (earnings) losses	(469)	12,434
Interest charged to construction	(442)	(959)
Other	(8,102)	(3,372)
	<u>\$ 91,759</u>	<u>\$ 106,636</u>

Note 14 Net change in working capital

	1992	1991
	(Thousands of dollars)	
(Increase) decrease in current assets:		
Accounts receivable	\$ (1,429)	\$ 11,442
Prepayments	(997)	(1,868)
Inventories	2,460	(502)
Increase (decrease) in current liabilities:		
Accounts payable	8,743	13,124
Accrued interest	(2,002)	(2,524)
Service billed in advance	6,125	241
	<u>\$ 12,900</u>	<u>\$ 19,913</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 Pension plans

The corporation maintains 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 employees years of service and their highest five years earnings. The plan requires contributions from both employees and the corporation. The corporate contribution rate of 100 percent of employee contributions is based on the latest actuarial valuation of the plan (December 31, 1990).

	1992 (Thousands of dollars)	1991 (Thousands of dollars)
Plan assets at market related value	\$ 431,911	\$ 407,313
Present value of accrued pension benefits	421,564	393,146
Surplus	\$ 10,347	\$ 14,167

Pension expense for the year was as follows:

	1992 (Thousands of dollars)	1991 (Thousands of dollars)
Defined benefit plan	\$ 2,161	\$ 717
Defined contribution plan	4,183	4,151
	\$ 6,344	\$ 4,868

Included in operating expenses is \$12,275,000 (\$6,908,000 - 1991) for bridging costs and retirement allowances borne by the corporation pertaining to the early retirement program announced in 1992.

Note 16 Related party transactions

Included in these financial statements are income and expense amounts 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 settlements are described separately in the financial statements and notes.

Note 17 Commitments

a) Construction

As at December 31, 1992 the corporation was committed in the amount of approximately \$4,700,000 for equipment and services.

The corporation is currently negotiating with other shareholders to increase its shares in Leicester Communications Limited with a view to acquiring a majority interest (See Note 7). Leicester is engaged in constructing and operating cable television and telephone facilities in the United Kingdom.

b) 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 (Thousands of dollars)	Operating leases
1993	\$ 8,742	\$ 25,876
1994	4,714	25,048
1995	349	15,282
1996	146	5,428
1997	39	5,428
Total minimum lease payments	13,990	\$ 77,062
Less: Amount representing interest	1,586	
Current portion	7,580	
Obligations under capital leases	\$ 4,824	

Capital leases cover computer equipment leased from ISM and Telecom Leasing Canada Limited through contracts maturing at various dates from 1993 - 1997. The major portion of the operating lease commitment relates to a facilities management agreement with ISM over a seven year period ending in 1995. Other commitments are for vehicles, buildings and satellite channel leases.

c) Guarantees

The corporation has guaranteed the indebtedness of ISM to the Royal Bank of Canada to a maximum of \$5,000,000.

Note 18 Comparative financial information

Certain 1991 balances have been reclassified to conform with the current year's presentation.

Board of Directors

Hon. Ned Shillington, Chairman
Regina

Terence Dieno
Davidson

Barbara Foster
Regina

Hon. Keith Goulet
LaRonge

Edward Henderson
Montreal Lake

Thomas Kehoe
Swift Current

Hon. Murray Koskie
Muenster

Sherry Leach
Weyburn

Roy Lloyd
Saskatoon

James Scharfstein
Saskatoon

Hon. Carol Teichrob
Saskatoon

Betty-Jane Thomas
Regina

Corporate directory

Executive officers

Fred Van Parys
President and Chief Executive Officer

Gord Farmer
*Vice President
Customer Services*

Moe Hawrysh
*Acting Vice President
Engineering*

Tom Hope
*Vice President
Diversified Operations*

Bill Lambert
*Vice President
Special Projects*

John C. Meldrum
*Vice President
Corporate Counsel and
Regulatory Affairs*

Diana Milenkovic
*Vice President
Corporate Affairs
and Acting Vice President
Marketing*

Garry Simons
*Vice President
Human Resources and
Corporate Services*

David Schultz
*Vice President
Finance*

Rike Wedding
*Vice President
Network Services
(Appointed February 8, 1993)*

Senior operating managers

Dave Birnie
*General Manager
Supplies and Services*

Doug Campbell
*General Manager
Systems and Methods*

Brien Charlton
*General Manager
Marketing*

Basil Ciepliski
*General Manager
SaskTel Mobility*

Dave Harvey
*General Manager
Information Technology Management*

Betty Hoffart
*General Manager
Corporate Development*

Dave Lozinski
*General Manager
Human Resources*

Ron Luebke
*General Manager
Operations Saskatoon*

Byron Pointer
*General Manager
Industrial Relations*

Stacey Sandison
General Sales Manager

Don Savaria
*General Manager
Public Affairs
and Advertising*

Bill Wendel
*General Manager
Operations Regina*

LONG DISTANCE SAVINGS PLANS

SaskTel offers a number of savings plans designed to better meet the long distance needs of both business and residential customers. Additional information on any of these plans is available by calling your nearest Telmart or any SaskTel business office.

Teleplus™

Teleplus is a long distance savings plan for residential and business customers. This plan offers a 15% discount on all direct dialed and Calling Card long distance calls, 24 hours a day, seven days a week. Teleplus Canada covers calls made anywhere in Canada and Teleplus USA covers all calls that terminate within the United States (except Hawaii and Alaska).

Advantage™ Global

Advantage Global is a savings plan that offers discounts of between 15% to 30% on direct dialed and Calling Card long distance calls. This plan, with a minimum monthly long distance charge of \$200, applies to calls made within Canada, the United States and overseas. Advantage Global covers calls placed Monday to Saturday, 8:00 a.m. to 6:00 p.m. (excluding Christmas Day and New Year's Day) to Canada and United States. (Mexico is excluded.) Overseas calls are eligible under the plan 24 hours a day, seven days a week.

FaxCom™

FaxCom provides discounts on long distance faxes transmitted anywhere within Canada and the continental United States. FaxCom can provide savings of up to 60% for customers who spend over \$40 monthly on direct-dialed facsimile transmissions. On top of this, an additional 35% discount is applied to the regular FaxCom rates for transmissions sent during off-peak periods (6:00 p.m. to 8:00 a.m. and on weekends).

800 Service™

800 Service is an economical way for a company to provide its business customers with convenient, toll-free access. A variety of long distance plans are available with volume discounts applying. 800 Service can be customized to fit the needs of any business, whether coverage is needed within Saskatchewan, Canada, the United States or overseas.

WATS (Wide Area Telephone Service)

WATS is a long distance discount plan based on hours of usage to a particular geographical zone. It is best suited for companies whose primary long distance calling is regularly within the same geographical area. Savings of 20% to 40% on regular long distance rates can be realized with WATS.

Between Friends™

Between Friends is a long distance plan that offers convenience and savings. The Between Friends Saskatchewan Plan and the Between Friends Canada and U.S. Plan offer 30 minutes of direct-dial calling for a set monthly rate as well as an equivalent per minute rate for each additional minute. Between Friends applies 6:00 p.m. to midnight, Monday to Saturday, and Sunday from 8:00 a.m. to midnight.

40/40 plan

The 40/40 plan provides 40 minutes of free, direct-dialed calling each month to telephone exchanges within a 40-mile radius of a customer's exchange. The introductory pages of SaskTel telephone directories list the communities covered under the 40/40 plan.

(Plans and rates subject to change.)

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SaskTel Public Affairs
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