



**2500 MHz MULTIPOINT COMMUNICATIONS  
SYSTEMS SPECTRUM LICENSE APPLICATION**  
For Saskatchewan



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Director General  
2500 MHz MCS  
Radiocommunications and Broadcasting Regulatory Branch  
Industry Canada  
Room 1514 A -- Jean Edmonds Tower North  
300 Slater Street  
Ottawa, Ontario  
K1A 0C8

Dear Sir:

Please allow this letter and supporting documentation to stand as SaskTel's formal detailed submission for an application to implement a Multipoint Communications System (MCS) in the Saskatchewan service area.

SaskTel's business priorities and goals as a corporation align well with Industry Canada's emphasis on using communication technologies to keep Canadians connected to one another and to the world. The affordable and broadly available high speed Internet access that our application envisions would help ensure that the Saskatchewan public is able to take advantage of the lifelong learning opportunities presented by such connectivity. We hope that this application will demonstrate to Industry Canada our intentions and the nature of our commitment to the people and places of this province.

SaskTel is proud of its record of bringing world-class telecommunications to rural areas. We were the first telephone service provider in Canada to eliminate party lines, we are involved in several educational initiatives that use technology to deliver learning opportunities to people across the province, and we have in recent years made great strides in bringing modern telecommunications to Saskatchewan's First Nations communities.

Every effort was made to provide all requested information as outlined in the "2500 MHz Multipoint Communications Systems Policy and Licensing Procedures" document issued in June 1999. If there are any further questions or clarifications required, please direct your correspondence and requests to Mr. Bob Turner, Director, Strategic Business Development. Mr. Turner can be reached by telephone at (306) 777-3511 or fax at (306) 359-0359.

Sincerely,

A handwritten signature in black ink, appearing to read "Donald R. Ching", written over the typed name and title.

Donald R. Ching  
President and Chief Executive Officer



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## 1. Executive Summary

SaskTel is applying for the 2500 MHz Multipoint Communications Systems (MCS) spectrum license in Saskatchewan.

SaskTel intends to provide Saskatchewan residents with high quality, competitively priced data and voice services, and support the learning needs of Saskatchewan. SaskTel will be able to integrate the MCS technology with its existing infrastructure, which will result in SaskTel making effective use of the MCS technology.

To meet the objective of providing service to as many households, learning institutions and other users as possible, SaskTel's proposed MCS network will cover most of the inhabited areas of Saskatchewan, allowing delivery to over 95 per cent of the province's population. The network would be implemented over a three year period.

SaskTel installs, operates and maintains extensive wireline and wireless networks providing voice and data telecommunications services across the province of Saskatchewan. SaskTel has a very large pool of technical resources and trained manpower to install and maintain these networks. SaskTel's expertise lies in the areas of network development, planning, engineering, and installation and operations.

SaskTel has the financial resources to implement and manage services using the MCS spectrum. SaskTel expects that capital expenditures required for the introduction of MCS services will be funded primarily within the existing capital budget and forecasted MCS subscriber revenues. If required, additional funds will be borrowed from the Province of Saskatchewan.

In implementing services using the MCS spectrum, SaskTel will grow its business, reduce costs, remain competitive and act in a socially responsible manner.

SaskTel resources will be used as much as possible for all MCS network installation and maintenance work. Procedures are in place for hiring external contractors where required.

## **1. Executive Summary** (continued)

SaskTel already has experience with two-way MCS technology. Since acquiring a developmental license in 1997, SaskTel has been working with WaveCom Electronics of Saskatoon. An ongoing field trial has allowed SaskTel to gain valuable experience and knowledge.

SaskTel will use existing towers, buildings and fiber facilities in order to reduce the overall network cost. SaskTel will begin implementing service the most populated serving areas. The learning institutions, along with most of the population, are in and around these more densely populated areas. As a result, installing the MCS network in these areas first will allow the greatest number of households and schools to receive high speed Internet service as soon as possible.

SaskTel has been serving the people of Saskatchewan for ninety-one years and has consistently demonstrated its commitment to the rural and remote residents of the province. Implementing services throughout Saskatchewan using the MCS spectrum will be of great value to rural residents. SaskTel will demonstrate it has the vision, experience, skills and financial resources to maximize the use of MCS technology.

Awarding the 2500 MHz MCS spectrum license to SaskTel will benefit Industry Canada's goal of Connecting Canadians, Saskatchewan residents and the Saskatchewan education community.

## 2. Introduction

### **2.1 Goals and Principles**

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SaskTel is the leading full service communications company in Saskatchewan, providing voice, data, Internet, text and messaging services over a fiber optic-based, 100 per cent digital network, as well as cellular, paging, wireless data and province-wide trunked mobile radio services through its SaskTel Mobility division.

SaskTel is applying for the 2500 MHz MCS spectrum license in Saskatchewan.

SaskTel's goals are to provide Saskatchewan residents living in urban and rural areas with high quality, competitively priced data and voice services, and to support the learning needs of Saskatchewan residents.

One of SaskTel's guiding principles is that rural and remote residents should have access to quality, advanced services at rates reasonably comparable to urban residents. This principle aligns with the direction set by the federal government in the following statement:

The Liberal government believes that rural Canada needs a strong information technology infrastructure. People living in rural Canada should have access to the same enabling tools and information resources as their urban counterparts.<sup>1</sup>

In relation to the Information Highway, the Government of Canada stated that, "all Canadians must have affordable access to the Information Highway, no matter where they live."<sup>2</sup>

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<sup>1</sup> Liberal Party of Canada, *Securing Our Future Together: Preparing Canada for the 21<sup>st</sup> Century*, 1997, p. 45.

<sup>2</sup> Government of Canada. *Building the Information Society: Moving Canada into the 21<sup>st</sup> Century*. (Industry Canada: Distribution Services, 1996), p. 2.

### **2.1 Goals and Principles** (continued)

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Saskatchewan is one of the most rural of all Canadian provinces, with 28 per cent of its residents residing on farms and in small towns and villages of less than 1,000 residents, and 58 per cent of its residents living in communities of fewer than 100,000 people. The province's population, just under one million, is dispersed widely over a geographic area of 652,000 square kilometres. This dispersal has created a telecommunications market where there are fewer than four households per kilometre of telecommunications infrastructure.<sup>3</sup>

SaskTel agrees with and has followed the principles and direction of the provincial and federal governments, and will continue to do so into the future. Although SaskTel has enabled access to the Information Highway for rural residents, those residents do not have access to the high bandwidth services that their urban counterparts do. Obtaining the MCS spectrum in Saskatchewan will allow SaskTel to provide Saskatchewan residents in rural regions with access to services that are comparable to those in urban areas.

### **2.2 Benefits of a Regional License**

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SaskTel believes that awarding the MCS spectrum in Saskatchewan to an entity pursuing the spectrum nationally will not result in a focused approach to the market. If a licensee were successful in many territories, Saskatchewan would be considered a secondary market where deployment would be given a lower priority than deployment in more populated territories. Deployment of systems in Saskatchewan should happen as quickly as in other regions of Canada.

SaskTel expressed a similar concern during the consideration for awarding the Local Multipoint Communications Systems (LMCS) spectrum. SaskTel was concerned that awarding the spectrum to a national entity would not result in a focused approach to the Canadian market and, unfortunately, this has proven true. The nationally awarded LMCS spectrum has been utilized in only a small number of areas, none of which are in Saskatchewan. As a result, Saskatchewan has not benefited.

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<sup>3</sup> Statistics Canada, 1996 Census of Canada.

**2.2 Benefits of a Regional License** (continued)

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SaskTel also believes that awarding the spectrum to an entity pursuing it nationally will not provide for a broad array of services specific to the regional market needs across Canada. In addition, the high cost of deploying MCS technology nationally will severely challenge any single Canadian entity, regardless of financial strength.

An organization pursuing a national network will likely use Saskatchewan as a backbone connection only and offer services to only the larger centres of Regina and Saskatoon. The spectrum would remain underutilized in other areas of Saskatchewan. In addition, profits generated would leave the province.

SaskTel will serve Saskatchewan as its market, which will serve the public interest much better in terms of both the speed and scope of deployment. In addition, SaskTel will be able to integrate the MCS technology with its existing infrastructure, which will result in SaskTel making more effective use of the MCS technology than other organizations.

This application will demonstrate that SaskTel has the experience, skills, resources and plan to develop a wide range of services in the MCS spectrum.

## 3. Ownership Structure

### **3.1 Shareholders**

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Saskatchewan Telecommunications (SaskTel) is 100 per cent owned by Saskatchewan Telecommunications Holding Company, which is 100 per cent owned by the Crown Investments Corporation (CIC). The CIC is 100 per cent owned by the Province of Saskatchewan.

### **3.2 Board of Directors**

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**Tom Kehoe, Chair**—Tom Kehoe held several executive positions with the Spar Group Inc. between 1985 to 1993. In 1991, he assumed the position of President, Canadian Operations for Spar Group. In 1994, Spar Group was sold to the National Manufacturing Company of Stirling, Illinois, and Mr. Kehoe became the Executive Vice President and Chief Operating Officer of Spar Group's successor company, National - Spar Inc., a position he held until 1996.

**Jim Scharfstein, Vice-chair**—Jim Scharfstein is a partner with Goldstein, Jackson, Scharfstein, Gibbings law firm in Saskatoon. In addition to extensive involvement in B'nai B'rith, Mr. Scharfstein is a member of the Saskatoon Chamber of Commerce and Chairman of the Board of Directors of the Saskatchewan Chapter of Children's Wish Foundation of Canada.

**Allan Blakeney**—The Honourable Allan E. Blakeney, a former Saskatchewan premier, is President and Director of a small holding company, Glamorgan Holdings Inc., of Saskatoon, Saskatchewan. He is also President of World Federalists of Canada and serves as a Director of a number of corporations and non-governmental organizations including: Algoma Steel Inc., and Cameco Corporation.

**Delores Burkart**--Delores is the owner of her own public relations consulting firm in Saskatoon. She is also President of the Board of Directors for the Saskatoon Chamber of Commerce, and a member and former president of the Canadian Club of Saskatoon.

**Don Ching**—Don Ching has been President and Chief Executive Officer of SaskTel since April 15, 1996.

## **3. Ownership Structure** (continued)

### **3.2 Board of Directors** (continued)

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**Richard Gladue**—Richard Gladue is the Grand Chief of the Meadow Lake Tribal Council, representing nine member First Nations.

**Karen Leir**—Karen Leir began her career at SaskTel in 1981 and is currently a business analyst in SaskTel's head office in Regina.

**Donald Lowry**—Donald James Lowry is currently President and Chief Executive Officer of Edmonton-based EPCOR Utilities Inc. Prior to joining EPCOR, Mr. Lowry was President and Chief Operating Officer of Telus Communications Inc. - formerly AGT Ltd. - in Alberta. Mr. Lowry was also a director with Telecom Canada, and has served on numerous telecommunications boards as well.

**John MacDonald**—John A. MacDonald was most recently President and Chief Operating Officer of Bell Canada. Prior to joining Bell Canada, he was President and Chief Executive Officer of NB Tel. Mr. MacDonald has served on a wide variety of telecommunications and engineering boards.

**Alison Renny**—Alison Renny is the Assistant Dean of the College of Commerce at the University of Saskatchewan. Ms. Renny has worked in the past as an auditor, a consultant, and a banker.

**Garf Stevenson**—Garf Stevenson is currently Chairperson of the Regina District Health Board. Between 1953 and 1993, Mr. Stevenson was an active member of the Saskatchewan Wheat Pool, serving on the Executive of the Board of Directors from 1971 to 1981, when he became Vice-President of the Wheat Pool. Latterly, he served as President of the Wheat Pool from 1987 until his retirement in 1993.

**Gord Young**—Gord Young has worked at SaskTel for almost 25 years in a variety of positions. Currently, he is a Sales Associate in the Advantage Business Market in the Moose Jaw area. Gord has had extensive union involvement at a local, provincial, national and international level.

**All board members are Canadian Citizens.**

## **3. Ownership Structure** (continued)

### **3.3 Company Officers**

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SaskTel's corporate officers, all Canadian citizens, are as follows:

Donald Ching	President & Chief Executive Officer
Garry Simons	Group Vice President, Operations
Dan Baldwin	Senior Vice President, Marketing & Corporate Planning
Kelvin Shepherd	Senior Vice President & Chief Technology Officer
John Meldrum	Vice President, Corporate Counsel & Regulatory Affairs
Randy Stephanson	Chief Financial Officer & Acting President, SaskTel International
Diana Milenkovic	Vice President, Mobility
Sean Caragata	General Manager, Corporate Affairs
Byron Pointer	Vice President, Human Resources & Industrial Relations

### **3.4 Financial Structure**

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As of December 31, 1998, the Province of Saskatchewan has invested \$250 million in SaskTel in the form of an equity advance and \$275 million in retained earnings. The Province of Saskatchewan has also issued \$255 million in long term debt to SaskTel. The Province of Saskatchewan will fund SaskTel's capital requirements on a continuing basis.

The corporation's capital structure remains one of the strongest in the industry. SaskTel ensures its strong financial position into the future by focusing on the key operating indicators of debt ratio and self-financing of capital spending and dividend requirements.

### **3.5 Incorporation Documents**

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As a Saskatchewan provincial Crown Corporation, Saskatchewan Telecommunications Holding Company was incorporated by an act of the Saskatchewan legislature, *The Saskatchewan Telecommunications Act*, Chapter S-34, Revised Statutes of Saskatchewan, 1978 as amended from time to time. In 1991, *The Saskatchewan Telecommunications Amendment Act*, SS 1991, c. 11 and *The Saskatchewan Telecommunications Holding Corporation Act*, SS 1991, c. S-34.1 were passed to provide for the reorganization of SaskTel in anticipation that changes to the federal Telecommunications Act would make SaskTel subject to regulation by the Canadian Radio-television and Telecommunications Commission (CRTC). Copies of any of this legislation can be supplied upon request.

### **3.6 Eligibility**

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SaskTel meets the ownership and control requirements of a radiocommunication carrier as outlined in Section 10 of the Radiocommunications Regulations and is, therefore, eligible to hold licenses. SaskTel has provided information on its ownership and control structure as outlined in Appendix C of the 2500 MHz Multipoint Communications Systems Policy and Licensing Procedures.

## 4. Experience

### **4.1 Telecommunications Systems**

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SaskTel, a full-service telecommunications company, provides voice, data, Internet, text and messaging services over a fiber optic-based, 100 per cent digital network. The corporation also offers cellular, paging, wireless data and province-wide trunked mobile radio services through its SaskTel Mobility division. SaskTel has ninety-one years of experience in building, installing, and operating telecommunications systems across terrain that varies from sub-arctic forest in the northern reaches of the province to arid grassland in the south.

SaskTel was established in 1908 to ensure the provision of all essential telecommunication services to Saskatchewan's relatively small, widely scattered population. SaskTel's impressive track record speaks for itself:

- 1919 - SaskTel was the first telecommunications company in Canada to provide dial service to rural customers.
- 1984 - SaskTel was one of the first telephone companies to deploy a commercial fiber optic network.
- 1989 - SaskTel was the first telecommunications company in Canada to complete its rural individual line service program, eliminating party lines throughout Saskatchewan.
- 1990 - SaskTel International was at the forefront of a group of global companies awarded contracts to provide complete turnkey rural telecommunications services featuring point to multipoint microwave radio equipment in the most isolated regions of the Philippines. The high excellence of SaskTel International's work in Phase I resulted in additional contracts for Phases II and III. The total project provided high quality, reliable telecommunications services to over 550 municipalities in 28 provinces scattered throughout the Philippines.
- 1994 - SaskTel is a world leader in fiber optics, made evident by SaskTel's key role in the largest construction project of the 20<sup>th</sup> Century - helping install and test the communications system in the Channel Tunnel linking England and France.
- 1994 - SaskTel was one of the first telecommunication companies to have an all-digital switching network.

### 4.1 Telecommunications Systems (continued)

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- 1996 - SaskTel was at the Canadian forefront in offering universal Internet access to both urban and rural residents at the same rate.
- 1996 - SaskTel was the first telecommunications company in North America to offer commercial high speed Internet service using digital subscriber line (DSL) technology.
- 1997 - SaskTel launched the First Nations Local Service Improvement Program, which will more than double the number of households in First Nations areas with telephone service and enable provision of Internet access. The First Nations people of Saskatchewan will have one of the highest levels of available telecommunications service in Canada.
- SaskTel provides extensive cellular coverage to 92 per cent of Saskatchewan's population.
- SaskTel covers 97 per cent of the Saskatchewan population with a fully integrated trunked mobile radio communications network.
- 1998 - SaskTel introduced digital Personal Communications Services to its customers.

SaskTel's completely digital network uses world-class trunking and switching facilities to link Saskatchewan's twelve cities with more than 670 towns and villages, and approximately 60,000 farms. Presently, the network connects over 600,000 access lines and more than 160,000 cellular access lines throughout the province. SaskTel's fiber optic cable covers 13,500 kilometres across the province of Saskatchewan. Through an interconnection agreement with other telephone companies in Canada, SaskTel also provides a fully integrated, coast-to-coast network which transmits voice, data and image telecommunications traffic across the country and around the world.

### 4.2 Employees

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SaskTel installs, operates and maintains very extensive networks providing voice and data telecommunications services across the province of Saskatchewan. These networks include both wireline and wireless networks. The wireline networks use such technologies as fiber optics, microwave radio, satellite links, telephone switching equipment, and data switches and routers. The wireline data networks include an Asynchronous Transfer Mode (ATM) backbone network to every major location in Saskatchewan. The ATM network is also used to carry Internet traffic across the province.

Through SaskTel Mobility, SaskTel also installs, operates and maintains analog and code division multiple access (CDMA) digital cellular phone networks covering a large area of the province, as well as a very extensive trunked radio network providing dispatch type voice radio services across the entire province.

In order to accomplish these tasks, SaskTel has a very large pool of technical resources and trained manpower. SaskTel Network Services has extensive experience in installing and maintaining both wireline and wireless networks.

SaskTel's network construction and project management expertise has also been demonstrated by the work of its global subsidiary, SaskTel International. SaskTel International played a major role in the Channel Tunnel project, which constructed a link between England and France. SaskTel designed the data transmission system, which controls the entire Channel Tunnel complex, and provided project management, consultation, installation, and commissioning services for the telecommunications and control systems.

SaskTel's expertise in telecommunications lies in the areas of network development, planning, engineering, installation and operations, as well as its proven record in pioneering applications of new technology. For ninety-one years, SaskTel has met the challenge of providing modern telecommunications services at reasonable rates to a population of approximately one million people widely scattered across a serving territory of over 652,000 square kilometers.

### 4.2 Employees (continued)

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SaskTel employs 4,987 people in 56 communities throughout Saskatchewan, including 786 management employees and 4,201 non-management employees. On average, SaskTel employees have 16 years of experience with the company. The breakdown of employees by area is as follows:

• Executive Office	15
• Advanced Interactive Solutions	109
• Corporate Counsel and Regulatory Affairs	34
• Corporate Affairs	36
• Customer Services	2,540
• Finance	482
• Human Resources and Industrial Relations	110
• Marketing	123
• Network Services	1,125
• Strategic Business Development	16
• Stentor Canadian Network Management	27
• SaskTel Mobility	320
• SaskTel International	50

## 5. Alliances

### **5.1 Alliance with TRILabs**

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SaskTel is a major industrial sponsor of TRILabs. TRILabs, with offices in both Regina and Saskatoon, is Canada's leading research consortium in information and communications technology. Based on industry, university and government collaboration, TRILabs operates five laboratories in Western Canada where university professors, graduate students, industrial sponsors and staff researchers work together to conduct applied research. Kelvin Shepherd, SaskTel Senior Vice President and Chief Technology Officer, is currently the Chairman of the TRILabs Board of Directors.

Through its relationship with TRILabs, SaskTel has influence on and access to the most current developments in several fields of telecommunications research and development. One specific research thrust of TRILabs is wireless technology. SaskTel is currently participating in two related research projects involving development of low cost broadband wireless technology in the 3.5 GHz band and development of a data security system for wireless radio. SaskTel will apply the practical benefits of this research in its network whenever possible.

### **5.2 Alliances with Equipment Manufacturers**

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SaskTel has established strategic partnership agreements with key North American equipment manufacturers including Nortel, Newbridge and Cisco. These partnerships provide SaskTel with the opportunity to evaluate and trial equipment very early in the development cycle and, in many cases, to be the first telecommunications company to deploy new technology in a commercial environment. They also provide SaskTel with the opportunity to provide feedback to the vendor regarding experiences and trial results. SaskTel's participation with these vendors in joint technology development discussions allows it some influence during early product development. SaskTel will use these existing partnership agreements and/or enter into new partnership agreements with selected MCS vendors in order to maintain a key role in the development of the MCS products.

***5.3 Alliance with Netscape Communications***

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In the first quarter of 1999, SaskTel entered into an agreement with Netscape Communications Corporation. The three year agreement focuses on developing and delivering Internet-based solutions for businesses and consumers. SaskTel entered into a strategic alliance with Netscape because of its industry leading solutions, which are based on open standards and are fully scaleable. The alliance will enable SaskTel to rapidly develop and deploy customer solutions. As part of the agreement, SaskTel gains a license to the complete suite of Netscape enterprise software, Netscape training, an onsite Netscape Account Manager, ongoing software support, a preferred rate for Netscape professional services, and a partner agreement with Netscape's Canadian portal. Netcentre is one of the top five Internet portals in the world, receiving millions of visitors daily, and Netcenter Canada attracts two million Canadian visitors daily. SaskTel is the premier sponsor of the Saskatchewan Channel of Netcenter Canada and has first right of refusal for Netcentre Canada.

## 6.0 Financial Capabilities

### **6.1 Financial Summary**

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The financial summary shown below summarizes results for Saskatchewan Telecommunication over the past three years. Refer to Appendix 2 for complete audited financial statements.

#### 3 Year Financial Summary (000s)

	1998	1997	1996
Operating revenues	\$626,099	\$607,771	\$569,764
Operating expenses	531,402	511,183	471,611
Other items	9,907	29	1,333
Interest and related costs	<u>33,179</u>	<u>29,428</u>	<u>33,432</u>
Net income before the following	\$71,425	\$67,189	\$66,054
Provision for local service	-	<u>\$55,665</u>	-
Net income	<u>71,425</u>	<u>11,524</u>	<u>66,054</u>
Construction expenditures - net	<u>\$137,624</u>	<u>\$137,918</u>	<u>\$151,605</u>
Property, plant and equipment	<u>\$812,069</u>	<u>\$798,411</u>	<u>\$846,753</u>
Long term debt	<u>\$259,900</u>	<u>\$292,300</u>	<u>\$292,016</u>

### **6.2 Interim Financial Statements**

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Current interim financial statements are not publicly available at the time of this application because the CIC has not authorized SaskTel to release interim financial results.

### **6.3 SaskTel Corporate Five Year Financial Plan**

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At the time of this application, SaskTel was in the process of finalizing its corporate long term financial plan. As a result, a current financial plan is not available.

**6.4 Financing**

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SaskTel finances its capital program and projects internally from operational cash flows and, when required, borrows additional capital from the Province of Saskatchewan.

During 1998, SaskTel invested \$138 million in capital expenditures. The capital expenditure program is primarily for network system upgrading and modernization, and the introduction of new services. The 1998 capital expenditure program was funded entirely by internally generated funds.

It is expected that capital expenditures required for the introduction of 2500 MHz MCS services will be funded primarily within the existing SaskTel capital budget and MCS subscriber revenues. If required, additional funds will be borrowed from the Province of Saskatchewan.



## 7.0 Service Area

SaskTel is applying for a spectrum license for the Saskatchewan service area, which, as per the 1996 Census, has 371,500 households. The proposed network would allow SaskTel to deliver the services throughout the province's urban and rural areas, including over 95 per cent of the Saskatchewan population.

## 8. Industry Overview

### **8.1 Market**

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Until recently, wireline voice services have been the key growth area in the Canadian telecommunications industry. Over the last few years, however, this growth has flattened and even declined in some service areas such as voice long distance calling. One area in the communications industry that is now showing strong growth potential is the data market. The data market is currently being bolstered mainly by new technology introductions such as DSL and demand from consumer and business customers for high bandwidth access to the Internet, e-commerce and other new evolving multimedia applications. Users want high speed access to the ever-growing wealth of Internet information and Internet Protocol (IP) based applications.

As well as enabling delivery of new multimedia and Internet access services, MCS technology can also lead to ways of providing traditional telecommunication services more efficiently. Basic telephone services can be delivered utilizing IP Telephony technologies. These IP Telephony services can be delivered to the end user via wireline, cable or wireless networks. Provisioning basic telephone service into rural and remote areas can be a very costly undertaking. Replacement and maintenance of old wireline facilities can also be very costly. In prior cost studies comparing wireless and wireline technologies for supplying growth of telephony services, SaskTel did not see significant cost savings in using wireless technology. Using the MCS spectrum, telephony and other services would be supplied on a common infrastructure. Costs would be shared by a number of services, resulting in cost savings. Wireless technologies utilizing IP Telephony or other methods can provide a least cost way of providing telecommunications services into these high cost areas.

The data network services market can generally be defined as products that deliver private line digital services, packet shared services (e.g. Datapac, ATM and frame), circuit switched services (Integrated Services Digital Network-ISDN) and IP services. The telephone companies have traditionally served the data market. The growth in consumer and business demand for data related services has recently attracted several new players into the market. Many small Internet service providers (ISPs) have entered the market recently to serve the demand for delivery of Internet access services. At the same time, many larger players have



also entered to deliver Internet access, and to position and develop for the evolution of many other new multimedia applications.

### **8.1 Market** (continued)

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The data market as served by the traditional telephone companies was treated mainly as data transport business. With the growth of data-related applications and the convergence of services in the transport network, data capability and service delivery is now seen as a strategic element in the delivery of fully integrated communication services packages. Basic service packages demanded by customers will need the ability to deliver not only voice, but data, video and multimedia applications as well. Service providers will be forced by market dynamics to meet these evolving customer demands. While satisfying the growing demands of customers in urban environments will not be easy, doing the same in rural or remote environments will be even more challenging.

#### **8.1.1 Current and Potential Market**

The Canadian data market can be broken up into four service areas<sup>4</sup>:

1. Private Line (greater than DS-1)
  - approximately 27 per cent of the market
  - experiencing a growth rate of approximately 12 per cent per year
  - Private line services at speeds greater than DS-1 (1.5 Mbps) are usually used for point to point carriage of private corporate voice and data communications.
2. Public Data Network (Frame ATM)
  - approximately 12 per cent of the market
  - experiencing a growth rate of approximately 33 per cent per year
  - Public network services generally provide broadband carriage of inter-network data combining communications for many users.
3. Legacy (less than DS-1, X.25, Analog)
  - approximately 27 per cent of the market
  - declining at a rate of approximately 12 per cent per year
  - Legacy systems represent many smaller public carriage services, such as Datapac X.25 protocol packet services, that have been utilized for many years and continue to be utilized for certain applications.

### 8.1 Market (continued)

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#### 8.1.1 Current and Potential Market (Continued)

##### 4. Internet (IP)

- approximately 34 per cent of the market
- experiencing the strongest growth rate at 45 per cent per year

In Canada, the current data market is estimated to be approximately \$3 billion and growing at a rate of approximately 20 per cent per year<sup>5</sup>. In Saskatchewan, the current data market is estimated to be about \$80 million. Future growth in Saskatchewan is expected to parallel national rates.

Provisioning of basic telecommunication services into rural and remote areas is an important market opportunity for wireless MCS technology. In Saskatchewan, SaskTel's customers are spread across a serving territory of 652,000 square kilometres, with more than 50 per cent of its customer base considered as rural. In its 1998 study, The Dominion Bond Rating Service noted the following statistics regarding telecommunications in Saskatchewan<sup>6</sup>:

- average network access service lines (NAS), both residential and business, density of 2.5 lines per square mile, the lowest in Canada; and
- average rural density of 1.3 lines per square mile, along with MTS and NewTel, the lowest in Canada

It is the geographic dispersion of its rural customer base that makes SaskTel's serving territory uniquely challenging. Unlike rural serving areas served by most other Canadian telephone companies, the rural density in Saskatchewan is relatively uniform over roughly half the area of the province and not concentrated in pockets, communities, or along linear routes. This means there

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<sup>4</sup> Convergence Consulting Group "The North American Bandwidth Boom and the Market for Data Services in Canada" May 1999.

<sup>5</sup> *Ibid*

<sup>6</sup> Holman, Paul, et al, "The Telephone Industry in Canada" an Industry Study by Dominion Bond Rating Service (DBRS) Nov. 1998



are far lower NAS counts per cable-kilometer, and fewer lines per employee than any other telephone company<sup>7</sup>.

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<sup>7</sup> Statistics Canada "Telephone Statistics 1995 #56-203-XPB" and DBRS Nov. 1998

### **8.1 Market** (continued)

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#### **8.1.1 Current and Potential Market** (Continued)

The current Saskatchewan population is approximately 1 million people and is expected to remain basically static over the next few years. 1996 Statistics Canada data shows that approximately 42 per cent of the Saskatchewan population lives in metropolitan areas of 100,000 residents or more, 30 per cent live in towns of more than 1000 residents, and 28 per cent live in towns of fewer than 1000 residents or on farms. The number of people living in rural Saskatchewan locations is currently declining at a rate of about 2 per cent per year. While this decline is caused mainly by migration to more urban locations and an aging rural population, projections suggest the decline will slow with growth in the Aboriginal population of rural Saskatchewan. Saskatchewan currently has approximately 370,000 households and 35,000 businesses.

### **8.2 Business Applications of the Web**

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Businesses are adopting Web-based applications as a necessary marketplace tool. A recent survey conducted by the Yankee Group indicated the following current business uses of the Web in order of importance<sup>8</sup>:

- basic company information
- marketing material
- reducing operating costs
- training and education
- selling products online
- customer support
- promotions or special deals

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<sup>8</sup> Yankee Group "Trends in Small and Medium Business: Computers, Networking, and the Internet" July 1998

### **8.3 New IP Services**

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Some of the new services that high speed, advanced IP networks can deliver include the following<sup>9</sup>:

- telephony, video telephony and multi-participant videoconferencing
- on-demand, video-enhanced entertainment, news, education and other information services
- highly interactive file sharing that supports multi-player games, online software “stores”, online war groups and other applications
- transactional services and online gathering points employing IP telecommunications, multimedia and virtual reality components
- Local Area Network (LAN) extension/telecommuting support
- Internet access through the television.

### **8.4 Market Trends**

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The large growth in the data services market is attracting more players into the industry in Canada and the United States. The new entrants are focusing their efforts on building large data centric networks. In the near term, data transport capacity is expected to outpace demand. This will cause prices for data network services to decline. However, data revenues will continue to increase overall as demand for services will increase at a greater rate than price decreases.

The large predicted growth in data services and bandwidth demand is driven by several key applications. The key customer applications include:

- general corporate computer-to-computer data interchanges,
- telephony,
- messaging, including e-mail, voice mail and video mail,
- videoconferencing,
- Internet web browsing,
- electronic commerce, and
- new media applications.

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<sup>9</sup> Decision Resources Inc., “High speed Data Services” June 1998.

### **8.4 Market Trends**(continued)

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The North American IP telephony market could reach \$8 billion by the year 2003.<sup>10</sup>

In the residential market, leisure and entertainment elements dominate applications currently being served. A profitable growth sub-market that is evolving is in home businesses and telework applications. These two areas are expected to form a significant portion of the future residential data services market.

In the past, the traditional telephone companies were able to deliver affordable basic telephone services into rural and remote areas through cross-subsidization of business and urban services. As more competition enters into the industry, the ability to cross-subsidize services quickly disappears. The challenge in markets such as Saskatchewan will be to provide basic services into these areas and meet these customers' demands for access to new multimedia and Internet services. New cost-effective methods will have to be applied.

### **8.5 Competition**

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On a province by province basis, the data market leaders tend to be the traditional telephone companies. On a national basis, the largest provider of data services is Bell Canada, followed by AT&T Canada and then Telus. In Saskatchewan, SaskTel is the market leader in the provisioning of data services.

In the United States, several new high-capacity, IP-based networks are being developed by companies such as QWest, Frontier, IXC and Level 3. These companies have been using new technology to build their networks. These new networks are expected to significantly challenge the incumbent carriers, which use a mix of new and older technologies. This additional network capacity in the industry has led to a reduction in prices and an increase in available bandwidth. Entry of these new companies from the United States into Canada is currently constrained to some extent by the current foreign ownership restrictions. This has provided Canadian carriers such as AT&T Canada, Telus and Sprint Canada

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<sup>10</sup> Wireless Review "Pipe Dream" June 1999



an opportunity to build up bandwidth capacity of their own. However, it is expected that eventually the

**8.5 Competition** (continued)

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foreign ownership restrictions will be lifted and the United States carriers will enter in the next few years, likely by establishing large switching centers in Eastern Canada and offering data services at cut-rate prices. Some of these companies, such as Level 3, are already building their capabilities in Canada. Level 3 is currently laying fiber to Montreal and Toronto.

Some of the other major players expected in the Canadian data communications industry are the larger cable companies and wireless carriers. Shaw and Videotron currently own extensive fiber networks in key urban markets. Cable companies have been developing their capabilities to offer business data services and have taken a strong position in the Internet access services market, including dial-up Internet access services and high speed Internet access services via cable modems. The cable industry's plans to pursue high speed data access are driven by the potential of IP telephony and video-enhanced telecommunications applications.<sup>11</sup> Cable companies are currently leading the telephone companies in delivering high speed Internet access services to residential customers. Videotron, the largest cable provider in Quebec, is currently registered as a competitive local exchange carrier (CLEC) and is trialing the delivery of basic telephone services over cable utilizing IP technologies.

The entry into data services from wireless providers will evolve from two avenues. Current wireless voice carriers are seeing slow growth and pressure on existing margins. As a result they want to find ways to diversify their revenue streams. They are looking at developing wireless data services on existing networks and at new fixed wireless technologies that are evolving, such as LMCS and MCS. Other new entrants, such as Maxlink, are focusing exclusively on these new technologies as a way to deliver wireless voice, data and multimedia applications as an alternate to fiber or wireline facilities.

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<sup>11</sup> Decision Resources Inc., "High speed Data Services" June 1998.

### **8.5 Competition** (continued)

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The Saskatchewan market will not be a prime target for the very high-capacity carriers, but will be affected by the fact that Saskatchewan lies between the major Alberta, British Columbia and Ontario markets. As well, many of the larger corporate customers targeted by the large carriers will have branch locations in Saskatchewan. These branch locations will be served either directly by the large carriers or services will be provided to the end users in partnership with more local service providers. Saskatchewan will see aggressive competition from established carriers, cable companies and wireless service providers. All competitors will be focusing on the delivery of a full line of data services.

#### **8.5.1 Competitors in Saskatchewan**

Some of the competitors in the Saskatchewan marketplace are:

- **AT&T Canada**  
AT&T Canada is a facility-based network provider, the third largest carrier in Canada. On May 31, 1999, AT&T Canada sold its residential long distance and Internet customers to Primus Canada. AT&T will continue as the underlying carrier, wholesaling network time to Primus. On March 3, 1999, AT&T Canada Corp. and MetroNet Communications Corp., Canada's largest facilities-based CLEC, announced that they have executed a definitive agreement to merge the companies in a transaction valued at approximately \$7 billion. The merged company will be the first national, network-based company to meet all of the telecom needs of Canadian business customers with one-stop shopping for local and long distance voice, data, Internet and electronic commerce solutions, as well as wireless services through Cantel AT&T.

### **8.5 Competition** (continued)

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#### **8.5.1 Competitors in Saskatchewan** (Continued)

- **Cable Regina**  
Cable Regina offers cable and entertainment services, including basic and premium cable television services, in Regina, White City, Regina Beach, Yorkton, Estevan and Weyburn. Cable Regina is a dealer for StarChoice Direct to Home Satellite cable services. Cable Regina retail outlets also provide video movie rentals. Cable Regina offers various Internet services, including dial-up and high speed Internet services. Data services are also available such as LAN to LAN connectivity through cable modems at 10 Mbps.
- **Shaw Cable**  
Shaw Cable offers cable and entertainment services, including basic and premium cable television services, in Saskatoon, Prince Albert, Swift Current, Moose Jaw, Rockglen, Central Butte, Bengough, Assiniboia and LaFleche. Shaw provides StarChoice Direct to Home Satellite cable services. Shaw offers various Internet services, including dial-up and high speed Internet services. On the telecommunications side, Shaw FiberLink provides data, video, voice and Internet services to business on dedicated fiber optic links. They also provide a bandwidth on demand service, which is an ATM-based service for customers with non-regular data traffic.
- **Microcell and Telemetrix Inc.**  
Microcell and Telemetrix plan to enter the Saskatchewan and Manitoba markets. On July 13, 1999, Microcell Telecommunications, which is marketed under the brand name Fido, and Telemetrix Inc. announced the signing of a letter of intent to build a Global System for Mobile Communications (GSM) network for Personal Communications Service (PCS) in Saskatchewan and Manitoba.

### 8.5 Competition (continued)

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#### 8.5.1 Competitors in Saskatchewan (Continued)

- **Call-Net Enterprises Inc.**

On July 20, 1999, Call-Net Enterprises Inc. announced a strategic investment in Cybersurf Corp. with the goal of accelerating the deployment of Cybersurf's 3web™ Network across Canada. The investment will see Call-Net inject \$12 million in cash, of which Cybersurf will apply \$7 million against wholesale network services to be provided by Call-Net. Call-Net will also become the national supplier of network services to Cybersurf and will appoint two members to Cybersurf's board of directors. 3web is a proprietary software application that was developed by Cybersurf Interactive Media, a division of Cybersurf. It offers users a secure portal to anywhere on the WWW, as well as e-mail and e-commerce functionality. The 3web network is supported by commercial advertising and e-commerce, and is totally free to the user. 3web's portal operates independently of any Web browser. Call-Net is viewing this investment as "...an opportunity to bring Cybersurf's web design, web hosting, firewall and e-commerce capabilities to Sprint Canada's small and medium-sized customer base and lead the industry in e-commerce enablement in this segment." Cybersurf Corp. is a communications company in the business of developing and marketing innovative software and connectivity tools. Its goals are to enhance the use of telecommunications hardware and to develop unique software, which has substantial potential for businesses and consumers.<sup>12</sup>

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<sup>12</sup> From a news release dated July 20, 1999 on the Sprint Canada web site.

## 9. Business Strategy

In implementing services using the MCS spectrum, SaskTel will:

- 1) grow its business,
- 2) reduce costs,
- 3) remain competitive, and
- 4) act in a socially responsible manner.

### **9.1 Grow the Business**

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In March 1995, SaskTel introduced its first dial up Internet service. In November 1996, SaskTel was the first telephone company in North America to launch a commercial high speed Internet service using DSL technology. Since that time, the corporation has expanded its high speed service to offer it in ten geographic locations in Saskatchewan. In November 1998, it began offering packages bundling Internet service with long distance services. All of these initiatives support SaskTel's strategy of growing its business.

Obtaining the MCS spectrum for the Saskatchewan marketplace will allow SaskTel to offer its existing Internet and data services to new geographic locations in rural Saskatchewan. For example, the corporation currently offers high speed Internet service to ten Saskatchewan communities, which amounts to approximately 58 per cent of Saskatchewan households. Using the MCS spectrum, SaskTel could offer high speed Internet service to over 95per cent of Saskatchewan households.

In addition, obtaining the MCS spectrum will allow SaskTel to make services available to rural customers sooner than it could otherwise. In reality, SaskTel could not economically offer services such as high speed Internet in many rural areas if the MCS spectrum were not available.

**9.2 Reduce Costs**

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The costs of offering existing services should decline. Implementing services using the MCS spectrum will allow SaskTel to incur lower start up costs. In addition, it will only incur capital costs incrementally as service is introduced to various geographic areas and as customers are added, as opposed to incurring all capital costs for a complete network build prior to offering services.

SaskTel will reduce capital costs of outside plant facilities for local loop replacement, because the MCS build will displace the terrestrial build that would otherwise be required to replace existing facilities as they become unserviceable.

**9.3 Be Competitive**

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SaskTel has a long-standing reputation for being a technology leader in the telecommunications industry and will continue its efforts to maintain this reputation into the future. SaskTel is constantly exploring emerging technologies to find new answers to customers' ever-changing telecommunications needs.

SaskTel's technology leadership has been demonstrated in many ways. It was the first telephone company to deploy a commercial fiber optic network and was one of the first to have an all digital switching network. As well, the corporation demonstrated its expertise in the area of fiber optics when it completed construction of the world's longest fiber optics network in 1984. Initially, the 3,200 kilometer lightwave network connected 52 of Saskatchewan's largest communities. SaskTel has gained a wealth of expertise in the design, planning, construction and management of fiber optics telecommunications networks.

SaskTel has continually led the way in developing real world solutions, with services like voice recognition dialing, universal Internet access, teleconferencing, e-mail, telemetry and integrated LAN and Wide Area Network (WAN) systems.

### **9.3 Be Competitive (continued)**

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In addition to being a technological leader, SaskTel has shown its competitiveness in delivering services throughout the vast geographical territory of Saskatchewan. The corporation's extensive cellular coverage is as good a demonstration as any of its commitment to serving customers all across the province. SaskTel Mobility provides cellular coverage to approximately 279,000 square kilometres throughout Saskatchewan, which allows it to deliver services to 92 per cent of the population of Saskatchewan. The major competitor, Cantel, provides cellular coverage to approximately 115,000 square kilometres of the province. History has demonstrated that no competitor will cover as much geographic territory as SaskTel in offering their services.

SaskTel is facing increasing competition in the Internet and data services market, including competitors entering the marketplace with wireless broadband access services. SaskTel will continue to remain competitive.

### **9.4 Be Socially Responsible**

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SaskTel believes that universal, affordable telecommunications is a public good on which economic and community development relies. A SaskTel guiding principle is that rural and remote residents should have access to quality, advanced services at rates reasonably comparable to urban residents.

For the last ninety-one years, SaskTel has provided the people of Saskatchewan with affordable access to a modern and efficient telephone system that matches any in the world.

SaskTel has undertaken policies and programs to ensure universal service, quality telecommunications, affordable service and affordable access to the Information Highway. These initiatives align with Industry Canada's objective, "to ensure affordable access to essential Information Highway services for all Canadians, regardless of their income and geographic location."<sup>13</sup> They also contribute towards the Government of Canada's "Connecting Canadians" initiative.

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<sup>13</sup> Building the Information Society: Moving Canada into the 21<sup>st</sup> Century, Government of Canada, 1996.

### **9.4 Be Socially Responsible** (continued)

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SaskTel has also demonstrated a strong commitment to learning in Saskatchewan through initiatives such as Computers for Schools, a program that has refurbished and distributed over 3000 computers to schools throughout the Province, and Internet for Schools, a SaskTel program that offers a preferred rate package with unlimited Internet access to all elementary, secondary, and post secondary educational institutions and libraries in the province.

## 10. Human Resources Strategy

### **10.1 Human Resources—A Strategic Imperative**

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SaskTel invests about one hundred million dollars a year on improvements to a fully digital network that links Saskatchewan's twelve cities with more than 670 smaller communities and 60,000 farms. In order to remain a leading provider of local, long distance, voice, data, Internet, cellular and paging services in Saskatchewan, SaskTel is committed to its greatest resource: its people. In fact, "People" is one of five Strategic Imperatives established by the SaskTel Executive. The People Imperative states, "The continued success of the SaskTel Holding Corporation is dependent on a strategy that will foster a workplace environment that enables employees to attain personal and corporate success."

### **10.2 Some SaskTel HR Facts**

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SaskTel's commitment to its people is demonstrated in the following facts:

- The base pay for jobs in SaskTel is at or above the average for the majority of jobs in the Saskatchewan market. Benchmarking results state this is also true when compared to the rest of the Canadian telecommunications industry.
- SaskTel will implement special salary adjustments in order to protect high demand skills. A recent example of this is the current market adjustment in place for the Information Technology group.
- SaskTel believes in the importance of balancing work and family. As a result, it is amongst the top ten per cent of all companies in terms of providing additional time off.
- SaskTel provides a program entitled SaskTel Employees Personal Problem Program (STEPPP). This program provides assistance to any employee in overcoming persistent health, legal, financial or other serious problems that affect job performance.
- SaskTel reimburses employees for the cost of tuition and books for approved out-of-hours education classes.
- SaskTel offers a technical career path. Managers with technical expertise have the option to either pursue opportunities on a technical career path or traditional managerial career path. A technical career path allows managers to become experts in a technical field while continuing to increase their salary in a manner similar to the traditional managerial career path.

## **10. Human Resources Strategy** (continued)

### **10.2 Some SaskTel HR Facts** (continued)

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- SaskTel reimburses permanent employees for the cost of professional designation fees, society or association membership fees that are a qualification of the employee's position.
- SaskTel offered an Information Technology Retraining program that ran from December 1996 to June 1997. This one million dollar initiative provided necessary retraining for twenty-four SaskTel employees.

### **10.3 Customer Services Technicians**

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It is the people who are responsible for the deployment of technology, especially the highly skilled and knowledgeable team of Customer Service Technicians (CSTs). This technology brings telecommunications solutions to life, allowing Saskatchewan residents to communicate more efficiently than ever thought possible.

SaskTel has a team consisting of 467 CSTs in 56 locations throughout the province. This team is trained and armed with the skills necessary to deploy both new and existing technology. It is this team that has been responsible for the deployment of SaskTel High Speed Internet service throughout the province.

It is stated in the SaskTel Holdco People Plan, "We will create a positive learning environment within SaskTel. Our formal and experiential learning opportunities will support SaskTel's business requirements and individual growth. We will ensure continuous improvement by embracing learning opportunities every day. We believe that learning occurs whether serving a customer, working in teams, participating in training programs, partnering with mentors or reading a manual. Committed to self-directed learning, we will take responsibility for our own development." This statement and the fact that SaskTel provides excellent learning opportunities will ensure that there is a continuous supply of skilled employees.

**10. Human Resources Strategy** (continued)**10.3 Customer Services Technicians** (continued)

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On average, CSTs receive ten to twenty days of classroom training per year. The classroom training courses range in topic from Basic Transmission to Basic Data Install and Repair to specific technology training such as Digital Subscriber Line Access Multiplexer (DSLAM) training. The CST training courses are continually updated to reflect new technology and solutions. This training, along with experience, will ensure that all SaskTel CSTs are ready and able to deploy new technology, providing even greater telecommunications solution choices for the residents of Saskatchewan.

SaskTel's list of accomplishments, highly skilled employees and commitment to learning will ensure that it continues to be a leader in the telecommunications industry.

## 11. Client Service and Support

SaskTel has ninety-one years of experience serving the telecommunications needs of Saskatchewan people. Effective and highly trained service personnel are teamed with a comprehensive product portfolio to offer customers a cohesive communications system backed by the best service network.

SaskTel has a wealth of knowledge, expertise and dedication to offer customers. SaskTel's ability to provide outstanding customer service is the result of the strength and commitment of its people.

SaskTel's CSTs install hardware and software to meet all applicable building codes and manufacturers' specifications. Once the equipment has been installed, it is thoroughly tested. CSTs are trained to install, test, and repair the products SaskTel provides. SaskTel has a long-term commitment to keeping CSTs' skill levels current.

The CSTs in the Business Communications Service Centre are responsible for monitoring and testing data circuits. The network and services are monitored 24 hours a day, 7 days a week.

SaskTel's Datec personnel provide advanced technical expertise for the installation and maintenance of data transmission equipment and data services. These data communications specialists are trained in the maintenance of data services, including local, metropolitan, and wide area network systems from various manufacturers.

SaskTel can provide superior network support to its customers 24 hours a day, 7 days a week by calling SaskTel's "611" repair services. High speed Internet service problems are reported to a toll-free number where technical support is provided 24 hours a day, 7 days a week. Customer-owned equipment hardware and software problems are serviced directly by the dealer channel.

SaskTel recognizes that after-sale support is important to its customers. The corporation's experienced personnel, the best in their field, are able to transform complex technologies into services that customers can use to increase productivity and operate more efficiently.

**11. Client Service and Support** (continued)

SaskTel has over 200 skilled field CSTs and numerous other professional support and maintenance personnel in more than 56 communities throughout Saskatchewan. These CSTs are qualified professionals who have a thorough knowledge of telecommunication systems and networks. SaskTel's entire technical team stands behind the corporation's CSTs. Systems engineers, network engineers, technical support staff, product managers and network control center staff are all dedicated to providing customers with a level of service that consistently meets or exceeds their expectations. As a result of the expertise gained over the years, SaskTel is able to offer comprehensive, value-added service packages to its customers.

A combination of CSEs, Datec specialists, and Design Provisioners support all of SaskTel's service personnel. The CSEs provide an initial network evaluation, as well as consultation and design services. The Datec specialists provide technical support and expertise to service personnel. Design Provisioners coordinate the overall design of the final network configuration.

While SaskTel's investment in advanced technology will continue into the next century, it is the knowledge and commitment of SaskTel people who help make the application of these new technologies more valuable for customers. To keep pace with leading-edge products and services, SaskTel continues to place a strong emphasis on training programs. This ensures that SaskTel employees understand the technology and how it can be best applied to meet customers' diverse needs.

## 12. Supplier Management

### **12.1 Supplier Selection Criteria**

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SaskTel has maintained longstanding relationships with various vendors of telecommunications equipment throughout North America. Maintaining these various partnerships has allowed SaskTel to remain at the forefront of the technological advances made by its various allies. SaskTel prefers to use a Canadian-based supplier and, if possible, a Saskatchewan-based vendor.

During the planning, engineering and implementation phases of the project, SaskTel will rely on the expertise of its vendors to develop the equipment and technology required for the MCS network. For a network of this complexity, SaskTel expects it will have to obtain components for the proposed network from a number of vendors. For example, one vendor will supply the RF electronics while other vendors provide switchers and routers. For the large MCS network proposed, it is critical that SaskTel apply proper diligence in selecting potential suppliers.

The chosen vendors must be able to provide a product that is economical for SaskTel to use. The proposed equipment must allow SaskTel to construct an MCS communications network that is robust and scaleable for future services, and that will provide a high quality of service at a cost affordable to customers.

The quality of the vendor's existing products provided to SaskTel or other users will weigh heavily in SaskTel's selection process. The reputation of the vendor in developing and delivering equipment when promised will also be an important criteria in the final decision. The selected vendor must demonstrate to SaskTel the knowledge, ability and technical resources (e.g. Research and Development expertise) to develop the new technology and manufacture and deliver the high quality components required to build the proposed province-wide MCS network in a timely manner.

## **12. Supplier Management** (continued)

### **12.1 Supplier Selection Criteria** (continued)

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SaskTel will work closely with each and every equipment vendor in order to properly engineer and integrate the individual components into a province-wide network that meets the high speed data needs of customers. The integrated network must also be scaleable to meet the future needs of customers. If past trends in required data speeds and bandwidths continue, customers will require, in the near future, data speeds that are far and above those being supplied today. Vendors will have to demonstrate to SaskTel that the proposed network can be expanded and upgraded, and will not become obsolete in a few years.

A critical demand for all customers is affordable service. The proposed network must offer a high speed data service at an affordable cost. The chosen vendors must also demonstrate to SaskTel that they have the resources and ability to mass produce the required components in large enough quantities so that the economies of scale will be achieved.

### **12.2 Supplier Selection**

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Wireless cable operators in the United States have been using the 2.5 GHz multichannel multipoint distribution system (MMDS) band for a number of years to provide one-way digital wireless cable television. There are a few wireless cable operators providing a similar service in the multipoint distribution system (MDS) band (2596 - 2682 MHz) in Canada. It is only recently that the Federal Communications Commission (FCC) allowed the wireless cable operators to provide a two-way service by allocating the 2150 - 2162 MHz band as a return channel for the MMDS wireless cable systems.

SaskTel is aware of a number of potential suppliers that either have promised to supply, or are potentially capable of supplying, the two-way MCS equipment required for this network. A number of potential suppliers of the radio frequency (RF) equipment are already producing MMDS equipment for the American and Canadian (MDS) marketplaces. The potential vendors for MCS equipment are in various stages of developing technology to implement a two-way MCS network, building upon the base of their existing one-way MMDS transmitters and receivers.

**12.2 Supplier Selection** (continued)

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SaskTel has conducted preliminary investigations of a number of potential suppliers of equipment for its proposed network. In addition, SaskTel has already requested and received proposals from a number of vendors. The information being supplied by some of the vendors is still preliminary and, in some cases, incomplete. These vendors cannot provide more firm information until they have progressed further in their development of the two-way MCS technology. SaskTel continues to investigate a number of other potential vendors, and no final decisions have yet been made regarding any of the vendors investigated.

If SaskTel is successful in obtaining an MCS spectrum license, it will initiate a formal Request for Proposal (RFP) and/or a Request for Quote (RFQ) process with a number of potential vendors. The RFQ process will define such items as equipment and network performance specifications, equipment quantities and delivery periods, equipment prices, and other normal business terms and conditions. The results of the RFQ process will form the basis of a formal contract.

SaskTel intends to work with the selected vendors to ensure that the research and development, planning, engineering, and implementation of the proposed MCS network is completed in a timely manner, using all necessary resources both from SaskTel and its vendors. Due to the complexity of this endeavor, full commitments and cooperation between SaskTel and its vendors will be essential.

**12.3 Installation and Maintenance Labour and Services**

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SaskTel presently installs, operates and maintains very extensive networks providing voice and data telecommunications services across the province of Saskatchewan. These networks include both wireline and wireless networks. The wireline networks use such technologies as fiber optics, microwave radio, satellite links, telephone switching equipment, and data switches and routers. The wireline data networks used by SaskTel include an ATM backbone network to every major location in Saskatchewan. The ATM network is also used to carry Internet traffic across the province.

**12. Supplier Management** (continued)**12.3 Installation and Maintenance Labour and Services** (continued)

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Through its SaskTel Mobility division, SaskTel also installs, operates and maintains analog and digital (CDMA) cellular phone networks covering a large area of the province, as well as a very extensive trunked radio network providing dispatch type voice radio services across the entire province.

SaskTel has a very large pool of technical resources and trained manpower. SaskTel's Network Services division already has extensive experience in installing and maintaining both wireline and wireless networks. SaskTel resources will be used as much as possible for all installation and maintenance work. Internal processes are in place to allocate the required resources when and where required to implement the MCS network.

When it is necessary to hire external contractors to perform part of the network implementation, internal procedures are already in place for contractor selection. For example, it is anticipated that external contractors will be used for any required building renovations, all tower construction work, and all antenna and transmission line installations. Because SaskTel regularly has need for this type of work, it has a list of approved contractors.

### 13. Conditions of License

SaskTel will comply with the Conditions of License as specified by Industry Canada in section 4.5.3 of the 2500 MHz Multipoint Communications Systems Policy and Licensing Procedures, dated June 1999. SaskTel will also endeavor to comply with any additional conditions that may be stipulated by Industry Canada at the time the license is awarded.

## 14. Conclusion

SaskTel has been serving the people of Saskatchewan for ninety-one years with the belief that rural and remote residents should have access to quality, advanced services at rates reasonably comparable to urban residents. SaskTel has consistently demonstrated this commitment to the rural and remote residents of Saskatchewan through such accomplishments as:

- being the first telecommunications company in Canada to provide dial service to rural customers.
- being the first telecommunications company in Canada to complete its rural individual line service program, eliminating party lines throughout Saskatchewan.
- being at the Canadian forefront in offering universal Internet access to both urban and rural residents at the same rate.
- expanding its high speed Internet service offering beyond the major centres of Regina and Saskatoon to offer service in eight additional centres.
- launching the First Nations Local Service Improvement Program, increasing the number of households in First Nations areas with telephone and Internet access.
- providing cellular coverage to 92% of the Saskatchewan population.

SaskTel has demonstrated its commitment to serving rural Saskatchewan. On the contrary, the Saskatchewan market is not a priority for companies pursuing the MCS spectrum nationally.

Implementing services in rural Saskatchewan using the MCS spectrum will be of great value to rural residents. Providing high speed Internet access to the rural Saskatchewan market is a logical extension to SaskTel's existing provincial broadband infrastructure.

SaskTel has also demonstrated its commitment to the education community through numerous education programs. Of even greater significance, SaskTel is building a network to specifically meet the specifications of the education community.

## **14. Conclusion** (continued)

SaskTel has demonstrated that it has:

- the vision and ability to maximize the use of the MCS technology,
- the experience and skills necessary to bring this technology to market, and
- the financial resources to implement the plans outlined in this application.

SaskTel believes that awarding the 2500 MHz MCS spectrum to SaskTel will directly benefit:

- Industry Canada's goal of Connecting Canadians,
- Saskatchewan residents in that they will have affordable access to high bandwidth services, and
- the Saskatchewan education community.

Awarding the 2500 MHz MCS spectrum to SaskTel will provide access to the spectrum in an economic and socially responsible manner.

## APPENDIX 1 – List of Acronyms

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ATM	Asynchronous Transfer Mode
CDMA	Code Division Multiple Access
CIC	Crown Investments Corporation
CLEC	Competitive Local Exchange Carrier
CND	Customer Network Design
CMTS	Cable Modem Termination System
CRTC	Canadian Radio-television and Telecommunications Commission
CSE	Customer Service Technician
CST	Customer Service Technician
DOCSIS	Data Over Cable Service Interface Specification
DIU	Data Interface Unit
DSL	Digital Subscriber Line
DSLAM	Digital Subscriber Line Access Multiplexer
FCC	Federal Communications Commission
GHz	Gigahertz
GSM	Global System for Mobile Communications
IP	Internet Protocol



ISDN      Integrated Services Digital Network

**List of Acronyms** (continued)

ISP	Internet Service Provider
Kbps	Kilobits per second
LAN	Local Area Network
LMCS	Local Multipoint Communications Systems
LNB	Low Noise Block Converter
MAN	Metropolitan Area Network
Mb	Megabit
Mbps	Megabit Per Second
MCS	Multipoint Communications Systems
MDS	Multipoint Distribution Systems
MHz	Megahertz
MMDS	Multichannel Multipoint Distribution System
MSS	Mobile Satellite Systems
NAS	Network Access Services
PC	Personal Computer
PCS	Personal Communication Service
PSTN	Public Switched Telephone Network
QAM	Quadrature Amplitude Modulation



RF            Radio Frequency

**List of Acronyms** (continued)

RFP	Request for Proposal
RFQ	Request for Quote
RFU	RF Unit
RG-59	Coaxial Drop Cable
SONET	Synchronous Optical Network
SS7	Signaling System 7
T1	Digital Transmission Link with 1.544 Mbps Capacity
VHF	Very High Frequency
VoIP	Voice Over Internet Protocol
WAN	Wide Area Network
X.25	Specification and protocols for public packet-switched networks

## APPENDIX 2 – Audited Financial Statements—1996 to 1998

### STATEMENT OF OPERATIONS

For the year ended December 31

	<b>1998</b>	1997
	(Thousands of dollars)	
<b>Operating revenues</b>		
Local service	<b>\$ 306,433</b>	\$ 271,829
Long distance service	<b>276,612</b>	300,261
Other	<b>43,054</b>	35,681
	<b>626,099</b>	607,771
<b>Operating expenses</b>		
Operating expenses	<b>407,321</b>	378,597
Depreciation and amortization	<b>124,081</b>	132,586
	<b>531,402</b>	511,183
<b>Net operating revenues</b>	<b>94,697</b>	96,588
<b>Other income</b>	<b>9,907</b>	29
<b>Interest and related costs</b> (Note 3)	<b>33,179</b>	29,428
<b>Net income before the following</b>	<b>71,425</b>	67,189
<b>Provision for local service assets</b> (Note 4)	-	55,665
<b>Net income</b>	<b>\$ 71,425</b>	\$ 11,524

**SASKATCHEWAN TELECOMMUNICATIONS****STATEMENT OF RETAINED EARNINGS****For the year ended December 31**

	<b>1998</b>	1997
	(Thousands of dollars)	
<b>Retained earnings, beginning of year</b>	<b>\$ 243,071</b>	\$ 237,885
<b>Net income</b>	<b>71,425</b>	11,524
	<b>314,496</b>	249,409
<b>Dividend</b>	<b>39,284</b>	6,338
<b>Retained earnings, end of year</b>	<b>\$ 275,212</b>	\$ 243,071

*See Accompanying Notes***STATEMENT OF FINANCIAL POSITION****As at December 31**


	<b>1998</b>	1997
	(Thousands of dollars)	
<b>Assets</b>		
<b>Property, plant and equipment</b> (Note 5)	<b>\$ 812,069</b>	\$ 798,411
<b>Other assets</b> (Note 6)	<b>72,717</b>	55,118
<b>Investment</b> (Note 7)	-	6,820
	<b>884,786</b>	860,349
<b>Current assets</b>		
Accounts receivable	<b>89,769</b>	88,112
Inventories	<b>6,475</b>	6,336
Prepayments	<b>11,454</b>	1,980
	<b>107,698</b>	96,428
	<b>\$ 992,484</b>	\$ 956,777
<b>Liabilities and Province's Equity</b>		
<b>Long-term debt</b>		
Province of Saskatchewan (Note 8)	<b>\$ 254,842</b>	\$ 251,886
Other long-term debt (Note 9)	<b>5,058</b>	40,414

**SASKATCHEWAN TELECOMMUNICATIONS**

	<b>259,900</b>	292,300
Due to Saskatchewan Telecommunications		
Holding Corporation (Note 10)	<b>6,370</b>	47,549
	<b>266,270</b>	339,849
<b>Province of Saskatchewan's Equity</b>		
Equity advance (Note 12)	<b>250,000</b>	250,000
Retained earnings	<b>275,212</b>	243,071
	<b>525,212</b>	493,071
<b>Current liabilities</b>		
Bank overdraft	<b>15,723</b>	13,978
Accounts payable	<b>89,482</b>	83,254
Accrued interest	<b>3,489</b>	3,446
Dividend payable	<b>39,284</b>	6,338
Service billed in advance	<b>14,826</b>	12,196
Current portion of long-term debt (Note 11)	<b>38,198</b>	4,645
	<b>201,002</b>	123,857
	<b>\$ 992,484</b>	\$ 956,777

See Accompanying Notes

On behalf of the Board





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

	<b>1998</b>	1997
	(Thousands of dollars)	
<b>Operating activities</b>		
Net income	<b>\$ 71,425</b>	\$ 11,524
Items not affecting cash from operations (Note 13)	<b>118,154</b>	189,836
Net change in non-cash working capital items	<b>(12,572)</b>	(13,776)
<u>Cash provided by operating activities</u>	<u><b>177,007</b></u>	<u>187,584</u>
<b>Financing activities</b>		
Saskatchewan Telecommunications Holding Corporation	<b>(41,179)</b>	(4,372)
Repayment of long-term debt	<b>(8,071)</b>	(14,077)
Dividend payment	<b>(6,338)</b>	(36,330)
<u>Cash used in financing activities</u>	<u><b>(55,588)</b></u>	<u>(54,779)</u>
<b>Investing activities</b>		
Sale of investment (Note 7)	<b>14,460</b>	-
Capital expenditures - net	<b>(137,624)</b>	(137,918)
<u>Cash used in investing activities</u>	<u><b>(123,164)</b></u>	<u>(137,918)</u>
<b>Decrease in cash</b>	<b>(1,745)</b>	(5,113)
<b>Bank overdraft, beginning of year</b>	<b>(13,978)</b>	(8,865)
<b>Bank overdraft, end of year</b>	<b>\$ (15,723)</b>	\$ (13,978)

*See Accompanying Notes*

**Note 1 -- The Corporation**

Saskatchewan Telecommunications (the Corporation) markets and supplies a range of voice, data, Internet, text and image products, systems and services. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of The Saskatchewan Telecommunications Corporation Act. As the Corporation is a Provincial Crown corporation, it is not subject to Federal or Provincial income taxes in Canada.

Saskatchewan Telecommunications was exempted from federal regulation by the Canadian Radio-television and Telecommunications Commission (CRTC) as a result of a regulatory moratorium granted in 1993 to last until October 1998. In October 1998, the Federal Government agreed to an extension of SaskTel's moratorium from CRTC regulation until June 30, 2000. Regulation by CRTC may have a significant impact on the Corporation's future pricing, products, service development and financial performance.

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, through consolidation with Saskatchewan Telecommunications Holding Corporation (Holdco).

**Note 2 -- Summary of significant accounting policies**

The accompanying 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.

**Property, plant and equipment**

Property, plant and equipment is recorded at original cost including materials, services, and direct labour. Effective January 1, 1998, the Corporation changed the accounting policy such that construction costs no longer include the cost of funds used to finance construction. This change was made on a prospective basis.

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

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

**Revenues**

**SASKATCHEWAN TELECOMMUNICATIONS**

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

## **SASKATCHEWAN TELECOMMUNICATIONS**

### **Leases**

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

### **Inventories**

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

### **Pension costs**

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

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

### **Foreign currency translation**

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

### **Financial instruments**

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

### **Note 3 -- Interest and related costs**

**1998**                      1997  
(Thousands of dollars)

**SASKATCHEWAN TELECOMMUNICATIONS**

Interest expense	<b>\$ 34,865</b>	\$ 35,746
Amortization of unrealized net foreign currency losses and debt discounts	<b>2,262</b>	1,402
	<b>37,127</b>	37,148
Less: Sinking fund earnings	<b>3,948</b>	5,825
Interest charged to construction	-	1,895
	<b>\$ 33,179</b>	\$ 29,428

**Note 4 -- Provision for local service assets**

In 1997, the Corporation recorded a \$55.7 million non-cash adjustment to the net carrying value of the assets involved in providing local access service throughout the province. Because of regulatory changes, rapid technological developments, aggressive pricing practices, competition and increasing customer demands, the Corporation could no longer be assured of recovering the net carrying value of the existing local service plant and equipment. This reduction in the carrying value was determined by an analysis which identified asset values not fully recoverable from future cashflows.

**Note 5 -- Property, plant and equipment**

	<b>1998</b>	1997
	(Thousands of dollars)	
Buildings, plant and equipment	<b>\$ 1,862,092</b>	\$ 1,845,390
Plant under construction	<b>87,283</b>	46,638
Materials and supplies	<b>12,518</b>	11,483
Land	<b>3,184</b>	3,187
	<b>1,965,077</b>	1,906,698
Less: Accumulated depreciation	<b>1,153,008</b>	1,108,287
	<b>\$ 812,069</b>	\$ 798,411

The composite depreciation rate on the average depreciable telecommunications property in service was 6.7% in 1998 (1997 - 7.3%).

## SASKATCHEWAN TELECOMMUNICATIONS

As at December 31, 1998, the ratio of accumulated depreciation to depreciable telecommunications property was 61.9% (1997 – 60.1%).

### Note 6 -- Other assets

	<b>1998</b>	1997
	(Thousands of dollars)	
Unrealized net foreign currency losses on long-term debt	<b>\$ 31,049</b>	\$ 23,291
Deferred pension costs	<b>31,846</b>	21,258
Competition start-up costs	<b>8,158</b>	8,493
Unamortized discount on long-term debt	<b>1,478</b>	1,628
Other	<b>186</b>	448
	<b>\$ 72,717</b>	\$ 55,118

### Note 7 – Investment

On May 5, 1998, the Corporation sold its 3.8% interest in Alouette Telecommunications Inc. for \$14.5 million to the majority shareholder. A gain of \$7.6 million is included in other income.

**SASKATCHEWAN TELECOMMUNICATIONS**

**Note 8 -- Long-term debt, Province of Saskatchewan**

<u>Years to Maturity</u>	<u>Average Fixed Interest Rate</u> (%)	<b>1998</b> (Thousands of dollars)	1997
Canadian Dollar Issues			
1 - 5 years	13.00	<b>\$ 68,088</b>	\$ 68,088
6 - 10 years	10.17	<b>81,433</b>	60,654
11 - 15 years		-	20,779
		<b>149,521 (a)</b>	149,521
U.S. Dollar Issue			
22 years	9.38	<b>153,330 (b)</b>	143,050
		<b>302,851</b>	292,571
Less: Equity in sinking funds		<b>45,795 (c)</b>	38,574
Due within one year		<b>2,214</b>	2,111
		<b>\$ 254,842</b>	\$ 251,886

- (a) The fair value of this long-term debt is \$185,193,000 (1997 - \$186,913,000). Fair value reflects the estimated amount that the Corporation would pay, at current interest rates, to redeem the debt at December 31.
- (b) Represents long-term debt repayable in U.S. dollars having a U.S. dollar face value of \$100,000,000 converted to \$115,360,000 Canadian at the time of issue. The recorded amount is based on the foreign exchange rate at December 31, 1998 of 1.5333 (1997 - 1.4305). The fair value of the U.S. debt, expressed in Canadian dollars, is \$211,764,000 (1997 - \$186,959,000). Fair value reflects the estimated amount that the Corporation would pay, at current interest rates, to redeem the debt at December 31.
- (c) Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds, administered by the Province of Saskatchewan, one percent of the outstanding balance of long-term debt received. The sinking funds include investments having a U.S. dollar value of \$10,634,000 recorded at \$16,305,000 Canadian dollar equivalent. The fair value of the sinking funds is \$51,607,000 (1997 - \$44,293,000) determined as the market value of the investments held in the sinking fund as at December 31.

**SASKATCHEWAN TELECOMMUNICATIONS**

**Note 9 -- Other long-term debt**

	Fixed Interest <u>Rate</u> (%)	Maturity <u>Date</u>	<b>1998</b> (Thousands of dollars)	1997
TeleBonds - II				
Credit Bond	6.5	1999	<b>\$ 33,349</b>	\$ 33,712
Other	-	2002	<b>7,693</b>	9,236
			<b>41,042</b>	42,948
Less: Due within one year			<b>35,984</b>	2,534
			<b>\$ 5,058</b>	\$ 40,414

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

**Note 10 -- Due to Saskatchewan Telecommunications Holding Corporation**

The balance consists of funds received from the Holding Corporation bearing an interest rate of the Province of Saskatchewan ninety day borrowing rate with no fixed repayment terms. Accordingly the debt has been classified as long-term.

**Note 11 -- Current portion of long-term debt**

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

	(Thousands of dollars)
1999	\$ 38,198
2000	\$ 4,743
2001	\$ 3,901
2002	\$ 38,932
2003	\$ 1,533

**Note 12 -- Equity advance**

## **SASKATCHEWAN TELECOMMUNICATIONS**

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

**SASKATCHEWAN TELECOMMUNICATIONS**

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

	<b>1998</b>	1997
	(Thousands of dollars)	
Depreciation and amortization	<b>\$ 124,081</b>	\$ 132,586
Provision for local service assets	-	55,665
(Gain on sale) writedown of investment	<b>(7,640)</b>	1,572
Premium and foreign exchange adjustments	<b>1,462</b>	1,015
Interest charged to construction	-	(1,895)
Other	<b>251</b>	893
	<hr/> <b>\$118,154</b> <hr/>	<hr/> \$ 189,836 <hr/>

## SASKATCHEWAN TELECOMMUNICATIONS

### Note 14 -- Pension plans

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

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

A defined benefit plan is maintained for those employees hired prior to October 1, 1977 and who did not elect to transfer to the defined contribution plan. The plan was established under the Superannuation (Supplementary Provisions) Act and the Saskatchewan Telecommunications Superannuation Act. The defined benefit plan provides for pensions at retirement which are based on eligible employees' years of service and their highest five years of earnings.

Details of the defined benefit plan are as follow:

	<b>1998</b>	1997
	(Thousands of dollars)	
Plan assets at market related value	<b>\$ 713,705</b>	\$ 674,773
Present value of accrued pension benefits	<b>587,356</b>	569,098
<u>Surplus</u>	<u><b>\$ 126,349</b></u>	<u>\$ 105,675</u>

	<b>1998</b>	1997
	(Thousands of dollars)	
Pension expense (income) for the year was as follows:		
Defined contribution plan	<b>\$ 6,904</b>	\$ 5,966
Defined benefit plan	<b>(10,588)</b>	(2,863)
	<u><b>\$ (3,684)</b></u>	<u>\$ 3,103</u>

Effective January 1, 1999, the defined benefit plan is registered under The Pensions Benefits Act, 1992. The plan will be continued under the name of The Saskatchewan Telecommunications Pension Plan. No significant changes to the terms or funding of the plan have resulted.

## SASKATCHEWAN TELECOMMUNICATIONS

### Note 15 -- Related party transactions

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

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

	<b>1998</b>	1997
	(Thousands of dollars)	
Operating revenues	<b>\$ 72,290</b>	\$ 69,059
Operating expenses	<b>38,627</b>	38,816
Accounts receivable	<b>14,237</b>	16,999
Accounts payable	<b>11,844</b>	12,329

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

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

### Note 16 -- Commitments

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

	(Thousands of dollars)
1999	\$ 18,700
2000	\$ 18,900
2001	\$ 18,800
2002	\$ 18,800
2003	\$ 18,700

The above payments include \$13.3 million for leases with related parties.



**Note 17 -- Year 2000 Issue**

The Year 2000 issue arises because many computer systems use two digits rather than four to identify a year. The effects of the Year 2000 issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

**Note 18 -- Comparatives**

1997 figures have been reclassified to conform to current year's presentation.

**SASKATCHEWAN TELECOMMUNICATIONS****STATEMENT OF OPERATIONS****For the year ended December 31**

	<b>1997</b>	1996
	(Thousands of dollars)	
<b>Operating revenues</b>		
Long distance service	<b>\$ 275,157</b>	\$ 313,210
Local service	<b>253,482</b>	231,812
Other	<b>44,779</b>	24,742
	<b>573,418</b>	569,764
<b>Operating expenses</b>		
Operating expenses	<b>344,244</b>	338,363
Depreciation and amortization	<b>132,586</b>	133,248
	<b>476,830</b>	471,611
<b>Net operating revenues</b>	<b>96,588</b>	98,153
<b>Other income</b>	<b>29</b>	1,333
<b>Interest and related costs</b> (Note 3)	<b>29,428</b>	33,432
<b>Net income before the following</b>	<b>67,189</b>	66,054
<b>Provision for local service assets</b> (Note 4)	<b>55,665</b>	-
<b>Net income</b>	<b>\$ 11,524</b>	\$ 66,054

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

	<b>1997</b>	1996
	(Thousands of dollars)	
<b>Retained earnings, beginning of year</b>	<b>\$ 237,884</b>	\$ 208,160
<b>Net income</b>	<b>11,524</b>	66,054
	<b>249,408</b>	274,214
<b>Dividend</b>	<b>6,338</b>	36,330

**SASKATCHEWAN TELECOMMUNICATIONS**

<b><u>Retained earnings, end of year</u></b>	<b><u>\$ 243,070</u></b>	<b><u>\$ 237,884</u></b>
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*See Accompanying Notes*

**SASKATCHEWAN TELECOMMUNICATIONS**

**STATEMENT OF FINANCIAL POSITION**

<b>As at December 31</b>	<b>1997</b>	1996
	(Thousands of dollars)	
<b>Assets</b>		
<b>Property, plant and equipment</b> (Note 5)	<b>\$ 798,411</b>	\$ 846,753
<b>Other assets</b> (Note 6)	<b>55,118</b>	48,032
<b>Investment in Alouette Telecommunications Inc.</b>	<b>6,820</b>	8,392
	<b>860,349</b>	903,177
<b>Current assets</b>		
Accounts receivable	<b>88,112</b>	75,176
Inventories	<b>5,036</b>	4,314
Prepayments	<b>3,280</b>	5,252
	<b>96,428</b>	84,742
	<b>\$ 956,777</b>	\$ 987,919
<b>Liabilities and Province's Equity</b>		
<b>Long-term debt</b>		
Province of Saskatchewan (Note 7)	<b>\$ 251,886</b>	\$ 251,585
Other long-term debt (Note 8)	<b>40,414</b>	40,431
	<b>292,300</b>	292,016
Due to Saskatchewan Telecommunications Holding Corporation (Note 9)	<b>47,549</b>	51,921
	<b>339,849</b>	343,937

**SASKATCHEWAN TELECOMMUNICATIONS**

**Province of Saskatchewan's Equity**

Equity advance (Note 11)	<b>250,000</b>	250,000
Retained earnings	<b>243,070</b>	237,884
	<b>493,070</b>	487,884

**Current liabilities**

Bank overdraft	<b>13,978</b>	8,865
Accounts payable	<b>83,255</b>	83,179
Accrued interest	<b>3,446</b>	4,443
Dividend payable	<b>6,338</b>	36,330
Service billed in advance	<b>12,196</b>	10,123
Current portion of long-term debt (Note 10)	<b>4,645</b>	13,158
	<b>123,858</b>	156,098
	<b>\$ 956,777</b>	\$ 987,919

*See Accompanying Notes*

On behalf of the Board

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

	<b>1997</b>	1996
	(Thousands of dollars)	
<b>Operating activities</b>		
Net income	<b>\$ 11,524</b>	\$ 66,054
Items not affecting cash from operations (Note 12)	<b>189,836</b>	133,095
Net change in non-cash working capital items	<b>(13,776)</b>	10,338
Cash provided by operating activities	<b>187,584</b>	209,487
<b>Financing activities</b>		
Saskatchewan Telecommunications Holding Corporation	<b>(4,372)</b>	25,786
Repayment of long-term debt	<b>(14,077)</b>	(59,752)
Dividend payment	<b>(36,330)</b>	(30,005)
Cash used in financing activities	<b>(54,779)</b>	(63,971)
<b>Investing activities</b>		
Capital expenditures - net	<b>(137,918)</b>	(151,605)
<b>(Decrease) in cash</b>	<b>(5,113)</b>	(6,089)
<b>Cash, beginning of year</b>	<b>(8,865)</b>	(2,776)
<b>Cash, end of year</b>	<b>\$ (13,978)</b>	\$ (8,865)

*See Accompanying Notes*

**Note 1 -- The Corporation**

Saskatchewan Telecommunications (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 Corporation Act. As the Corporation is a Provincial Crown corporation, it is not subject to Federal or Provincial income taxes in Canada.

Saskatchewan Telecommunications is currently exempted from federal regulation by the Canadian Radio-television and Telecommunications Commission (CRTC) as a result of a regulatory moratorium granted in 1993 to last until October, 1998. The discontinuance of the moratorium is subject to an Order-in-Council being approved by the Federal Government. This decision may have a significant impact on the corporation's future pricing, products, service development and financial performance.

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, through consolidation with Saskatchewan Telecommunications Holding Corporation (Holdco).

**Note 2 -- Summary of significant accounting policies**

The accompanying 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.

**Property, plant and equipment**

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

**Depreciation**

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

## **SASKATCHEWAN TELECOMMUNICATIONS**

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.

### **Revenues**

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

**Investments**

Investments are carried at the lower of cost and market, 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.

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

**Pension costs**

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

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

**Foreign currency translation**

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

**Financial instruments**

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



## SASKATCHEWAN TELECOMMUNICATIONS

### Note 3 -- Interest and related costs

	<b>1997</b>	1996
	(Thousands of dollars)	
Interest expense	<b>\$ 35,756</b>	\$ 40,489
Amortization of unrealized net foreign exchange losses and debt discounts	<b>1,402</b>	1,008
	<b>37,158</b>	41,497
Less: Sinking fund earnings	<b>5,825</b>	6,082
Interest charged to construction	<b>1,895</b>	1,957
Interest on short-term investments	<b>10</b>	26
	<b>\$ 29,428</b>	\$ 33,432

### Note 4 -- Provision for local service assets

The telecommunications industry in Canada is characterized by rapid technological developments, new service offerings, aggressive pricing practices and competition for market share, regulatory and legislative changes and increasing customer demands. The combination of these factors has resulted in the Corporation facing increased market risk in a fully competitive market place for its services. Local service revenues will be impacted by the introduction of competition in 1998 and the reduced ability of the Corporation to continue to cross-subsidize this service with long distance revenues.

In such markets, the Corporation can no longer be assured that prices will be maintained at levels that will recover the net carrying value of its existing local service plant and equipment. Accordingly, the Corporation recorded a \$55.7 million non-cash adjustment to the net carrying value of the assets involved in providing local access service throughout the province. This reduction in the carrying value was determined by an analysis which identified asset values not fully recoverable from future cashflows.

**SASKATCHEWAN TELECOMMUNICATIONS****Note 5 -- Property, plant and equipment**

	<b>1997</b>	1996
	(Thousands of dollars)	
Buildings, plant and equipment	<b>\$ 1,845,390</b>	\$ 1,775,825
Plant under construction	<b>46,638</b>	42,645
Materials and supplies	<b>11,483</b>	9,443
Land	<b>3,187</b>	3,182
	<b>1,906,698</b>	1,831,095
Less: Accumulated depreciation	<b>1,108,287</b>	984,342
	<b>\$ 798,411</b>	\$ 846,753

The composite depreciation rate on the average depreciable telecommunications property in service was 7.3% in 1997 (1996 - 7.6%).

As at December 31, 1997, the ratio of accumulated depreciation to depreciable telecommunications property was 60.1% (1996 - 55.4%).

**Note 6 -- Other assets**

	<b>1997</b>	1996
	(Thousands of dollars)	
Unrealized net foreign currency losses	<b>\$ 23,291</b>	\$ 18,316
Deferred pension costs	<b>21,258</b>	18,395
Competition start-up costs	<b>8,493</b>	8,272
Unamortized discount on long-term debt	<b>1,628</b>	1,780
Other	<b>448</b>	1,269
	<b>\$ 55,118</b>	\$ 48,032

**SASKATCHEWAN TELECOMMUNICATIONS**

**Note 7 -- Long-term debt, Province of Saskatchewan**

<u>Years to Maturity</u>	<u>Average Fixed Interest Rate</u> (%)	<b>1997</b> (Thousands of dollars)	1996
Canadian Dollar Issues			
1 - 5 years	13.00	<b>\$ 68,088</b>	\$ 25,000
6 - 10 years	10.34	<b>60,654</b>	115,145
11 - 15 years	10.09	<b>20,779</b>	34,376
		<b>149,521 (a)</b>	174,521
U.S. Dollar Issue			
23 years	9.38	<b>143,050 (b)</b>	137,060
		<b>292,571</b>	311,581
Less: Equity in sinking funds		<b>38,574 (c)</b>	49,174
Due within one year		<b>2,111</b>	10,822
		<b>\$ 251,886</b>	\$ 251,585

(a) The fair value of this long-term debt is \$199,704,000 (1996 - \$212,466,000). Fair value reflects the estimated amount that the Corporation would pay, at current interest rates, to redeem the debt at December 31.

(b) Represents long-term debt repayable in U.S. dollars having a U.S. dollar face value of \$100,000,000 converted to \$115,360,000 Canadian at the time of issue. The recorded amount is based on the foreign exchange rate at December 31, 1997 of 1.4305 (1996 - 1.3706). The fair value of the U.S. debt, expressed in Canadian dollars, is \$186,962,000 (1996 - \$168,378,000). Fair value reflects the estimated amount that the Corporation would pay, at current interest rates, to redeem the debt at December 31.

(c) Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds, administered by the Province of Saskatchewan, one percent of the outstanding balance of long-term debt received. The sinking funds include investments having a U.S. dollar value of \$7,373,000 recorded at \$10,391,000 Canadian dollar equivalent. The fair value of the sinking funds is \$40,514,000 (1996 - \$56,609,000) determined as the market value of the investments held in the sinking fund as at December 31.

**SASKATCHEWAN TELECOMMUNICATIONS**

**Note 8 -- Other long-term debt**

	Fixed Interest <u>Rate</u> (%)	Maturity <u>Date</u>	<b>1997</b> (Thousands of dollars)	1996
TeleBonds - II				
Credit Bond	6.5	1999	<b>\$ 33,712</b>	\$ 34,109
Other	-	2002	<b>9,236</b>	8,658
			<b>42,948</b>	42,767
Less: Due within one year			<b>2,534</b>	2,336
			<b>\$ 40,414</b>	\$ 40,431

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

**Note 9 -- Due to Saskatchewan Telecommunications Holding Corporation**

The balance consists of funds received from the Holding Corporation bearing an interest rate of the Province of Saskatchewan ninety day borrowing rate with no fixed repayment terms. Accordingly the debt has been classified as long-term.

**Note 10 -- Current portion of long-term debt**

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

(Thousands of dollars)	
1998	\$ 4,645
1999	\$ 37,699
2000	\$ 4,450
2001	\$ 42,835
2002	\$ 2,204

**Note 11 -- Equity advance**

## **SASKATCHEWAN TELECOMMUNICATIONS**

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

## SASKATCHEWAN TELECOMMUNICATIONS

### Note 12 -- Items not affecting cash from operations

	<b>1997</b>	1996
	(Thousands of dollars)	
Depreciation and amortization	<b>\$ 132,586</b>	\$ 133,248
Provision for local service assets	<b>55,665</b>	-
Premium and foreign exchange adjustments	<b>1,015</b>	764
Interest charged to construction	<b>(1,895)</b>	(1,957)
Writedown of investment in Alouette Telecommunications Inc.	<b>1,572</b>	-
Other	<b>893</b>	1,040
	<b>\$ 189,836</b>	\$ 133,095

### Note 13 -- Pension plans

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

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

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

Details of the defined benefit plan are as follow:

	<b>1997</b>	1996
	(Thousands of dollars)	
Plan assets at market related value	<b>\$ 674,773</b>	\$ 605,578
Present value of accrued pension benefits	<b>569,098</b>	547,470
<u>Surplus</u>	<b>\$ 105,675</b>	\$ 58,108

Pension expense (income) for the year was as follows:

**SASKATCHEWAN TELECOMMUNICATIONS**

	<b>1997</b>	1996
	(Thousands of dollars)	
Defined contribution plan	<b>\$ 5,966</b>	\$ 5,244
Defined benefit plan	<b>(2,863)</b>	(1,023)
	<hr/>	<hr/>
	<b>\$ 3,103</b>	\$ 4,221
	<hr/> <hr/>	<hr/> <hr/>

## SASKATCHEWAN TELECOMMUNICATIONS

### Note 14 -- Related party transactions

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

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

	<u>1997</u>	<u>1996</u>
	(Thousands of dollars)	
Revenue	<b>\$ 69,059</b>	\$ 60,590
Expenses	<b>38,816</b>	38,337
Accounts receivable	<b>16,999</b>	3,305
Accounts payable	<b>12,329</b>	544

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

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

### Note 15 -- Commitments

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

(Thousands of dollars)

1998	\$ 16,481
1999	\$ 14,711
2000	\$ 13,611
2001	\$ 11,957
2002	\$ 11,157

### Note 16 -- Comparatives

**SASKATCHEWAN TELECOMMUNICATIONS**

1996 figures have been reclassified to conform to current year's presentation.

**SASKATCHEWAN TELECOMMUNICATIONS**

**STATEMENT OF OPERATIONS**

**For the year ended December 31**

	<b>1996</b>	1995
	(Thousands of dollars)	
<b>Operating revenues</b>		
Long distance service	<b>\$ 313,210</b>	\$ 287,777
Local service	<b>231,812</b>	218,770
Other	<b>27,623</b>	33,230
Uncollectible operating revenues	<b>(2,881)</b>	(978)
	<b>569,764</b>	538,799
<b>Operating expenses</b>		
Maintenance and operations	<b>137,141</b>	139,724
General and administrative	<b>201,222</b>	169,397
Depreciation	<b>133,248</b>	125,088
	<b>471,611</b>	434,209
<b>Net operating revenue</b>	<b>98,153</b>	104,590
<b>Other income</b>	<b>1,333</b>	1,307
	<b>99,486</b>	105,897
<b>Interest and related costs</b> (Note 3)	<b>33,432</b>	51,342
<b>Net income</b>	<b>\$ 66,054</b>	\$ 54,555

**STATEMENT OF RETAINED EARNINGS**

**For the year ended December 31**

	<b>1996</b>	1995
	(Thousands of dollars)	
<b>Retained earnings, beginning of year</b>	<b>\$ 208,160</b>	\$ 183,610
<b>Net income</b>	<b>66,054</b>	54,555
	<b>274,214</b>	238,165
<b>Dividend</b>	<b>36,330</b>	30,005

**SASKATCHEWAN TELECOMMUNICATIONS**

**Retained earnings, end of year** **\$ 237,884** \$ 208,160

See Accompanying Notes

**SASKATCHEWAN TELECOMMUNICATIONS**

**STATEMENT OF FINANCIAL POSITION**

<b>As at December 31</b>	<b>1996</b>	1995
	(Thousands of dollars)	
<b>Assets</b>		
<b>Property, plant and equipment</b> (Note 4)	<b>\$ 846,753</b>	\$ 826,439
<b>Other assets</b> (Note 5)	<b>48,032</b>	43,659
<b>Investment in Alouette Telecommunications</b>	<b>8,392</b>	8,392
	<b>903,177</b>	878,490
<b>Current assets</b>		
Accounts receivable	<b>80,839</b>	75,504
Inventories	<b>4,314</b>	3,520
Prepayments	<b>5,252</b>	2,857
	<b>90,405</b>	81,881
	<b>\$ 993,582</b>	\$ 960,371
<b>Liabilities and Province's Equity</b>		
<b>Long-term debt</b>		
Province of Saskatchewan (Note 7)	<b>\$ 251,585</b>	\$ 274,770
Other long-term debt (Note 8)	<b>40,431</b>	36,087
	<b>292,016</b>	310,857
Due to Saskatchewan Telecommunications Holding Corporation (Note 6)	<b>51,921</b>	26,135
	<b>343,937</b>	336,992

**SASKATCHEWAN TELECOMMUNICATIONS**

**Province of Saskatchewan's Equity**

Equity advance (Note 10)	<b>250,000</b>	250,000
Retained earnings	<b>237,884</b>	208,160
	<b>487,884</b>	458,160

**Current liabilities**

Bank overdraft	<b>8,865</b>	2,776
Accounts payable	<b>90,872</b>	64,663
Accrued interest	<b>4,443</b>	6,553
Dividend payable	<b>36,330</b>	30,005
Service billed in advance	<b>8,093</b>	8,070
Current portion of long-term debt (Note 9)	<b>13,158</b>	53,152
	<b>161,761</b>	165,219

	<b>\$ 993,582</b>	\$ 960,371
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*See Accompanying Notes*

On behalf of the Board

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

	<b>1996</b>	1995
	(Thousands of dollars)	
<b>Operating activities</b>		
Net income	<b>\$ 66,054</b>	\$ 54,555
Items not affecting cash from operations (Note 11)	<b>133,095</b>	133,720
Net change in working capital	<b>10,338</b>	17,251
<b>Cash provided by operating activities</b>	<b>209,487</b>	205,526
<b>Financing activities</b>		
Telecommunications Holding Corporation (Note 6)	<b>25,786</b>	53,057
Net repayment of long-term debt	<b>(59,752)</b>	(69,151)
Dividend payment	<b>(30,005)</b>	(42,990)
<b>Cash used in financing activities</b>	<b>(63,971)</b>	(59,084)
<b>Investing activities</b>		
Capital expenditures - net	<b>(151,605)</b>	(139,791)
<b>(Decrease) increase in cash</b>	<b>(6,089)</b>	6,651
<b>Cash position, beginning of year</b>	<b>(2,776)</b>	(9,427)
<b>Cash position, end of year</b>	<b>\$ (8,865)</b>	\$ (2,776)

See Accompanying Notes

## **SASKATCHEWAN TELECOMMUNICATIONS**

### **Note 1 -- The Corporation**

Saskatchewan Telecommunications (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 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, through consolidation with Saskatchewan Telecommunications Holding Corporation (Holdco).

As the Corporation is a Provincial Crown corporation, it is not subject to Federal or Provincial income taxes in Canada. The Corporation is exempted from federal regulation by the Canadian Radio-television and Telecommunications Commission (CRTC) as a result of a regulatory moratorium that was granted to the corporation for the period 1993 to 1998.

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

The accompanying 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.

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

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

#### **Depreciation**

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

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

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

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

## **SASKATCHEWAN TELECOMMUNICATIONS**

### **Revenues**

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

### **Investments**

Investments are carried at cost and dividend income is recognized when received.

## SASKATCHEWAN TELECOMMUNICATIONS

### Leases

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

### Inventories

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

### Pension costs

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

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

### Foreign currency translation

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

### Financial instruments

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

### Note 3 -- Interest and related costs

	<b>1996</b>	1995
	(Thousands of dollars)	
Interest expense	<b>\$ 40,489</b>	\$ 46,750
Amortization of unrealized net foreign		

**SASKATCHEWAN TELECOMMUNICATIONS**

exchange losses and debt discounts	<b>1,008</b>	2,225
Premium and foreign exchange adjustment	-	8,691
	<b>41,497</b>	57,666
Less: Sinking fund earnings	<b>6,082</b>	4,841
Interest charged to construction	<b>1,957</b>	1,424
Interest on short-term investments	<b>26</b>	59
	<b>\$ 33,432</b>	\$ 51,342

**Note 4 -- Property, plant and equipment**

	<b>1996</b>	1995
	(Thousands of dollars)	
Buildings, plant and equipment	<b>\$ 1,775,825</b>	\$ 1,708,600
Plant under construction	<b>42,645</b>	27,130
Materials and supplies	<b>9,443</b>	9,950
Land	<b>3,182</b>	3,172
	<b>1,831,095</b>	1,748,852
Less: Accumulated depreciation	<b>984,342</b>	922,413
	<b>\$ 846,753</b>	\$ 826,439

The composite depreciation rate on the average depreciable telecommunications property in service was 7.6% in 1996 (1995 - 7.5%).

As at December 31, 1996, the ratio of accumulated depreciation to depreciable telecommunications property was 55.4% (1995 - 54.0%).

**Note 5 -- Other assets**

	<b>1996</b>	1995
	(Thousands of dollars)	
Unrealized net foreign currency losses	<b>\$ 18,316</b>	\$ 18,420
Deferred pension costs	<b>18,395</b>	16,585
Competition start-up costs	<b>8,272</b>	4,496
Unamortized discount on long-term debt	<b>1,780</b>	1,952

**SASKATCHEWAN TELECOMMUNICATIONS**

Sales-type leases	<b>307</b>	784
Telesat prepayment	<b>811</b>	1,200
TeleBond issue costs	<b>151</b>	222
	<b>\$ 48,032</b>	\$ 43,659

**Note 6 -- Due to Saskatchewan Telecommunications Holding Corporation**

The balance consists of funds received from the Holding Corporation bearing an interest rate of the Province of Saskatchewan ninety day borrowing rate and requiring payment in full by November 23, 1997.

**Note 7 -- Long-term debt, Province of Saskatchewan**

<u>Years to Maturity</u>	<u>Average Fixed Interest Rate</u> (%)	<b>1996</b> (Thousands of dollars)	1995
Canadian Dollar Issues			
1 - 5 years	9.00	<b>\$ 25,000</b>	\$ 46,263
6 - 10 years	11.92	<b>115,145</b>	132,547
11 - 15 years	10.15	<b>34,376</b>	66,974
		<b>174,521 (a)</b>	245,784
U.S. Dollar Issue			
24 years	9.38	<b>137,060 (b)</b>	136,400
		<b>311,581</b>	382,184
Less: Equity in sinking funds		<b>49,174 (c)</b>	58,607
Due within one year		<b>10,822</b>	48,807
		<b>\$ 251,585</b>	\$ 274,770

## **SASKATCHEWAN TELECOMMUNICATIONS**

- (a) The fair value of this long-term debt is \$212,466,000 (1995 - \$280,370,000). Fair value reflects the estimated amount that the Corporation would pay, at current interest rates, to redeem the debt at December 31.
- (b) Represents long-term debt repayable in U.S. dollars having a U.S. dollar face value of \$100,000,000 converted to \$115,360,000 Canadian at the time of issue. The recorded amount is based on the foreign exchange rate at December 31, 1996 of 1.3706 (1995 - 1.3640). The fair value of the U.S. debt, expressed in Canadian dollars, is \$168,378,000 (1995 - \$177,729,000). Fair value reflects the estimated amount that the Corporation would pay, at current interest rates, to redeem the debt at December 31.
- (c) Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds, administered by the Province of Saskatchewan, one percent of the outstanding balance of long-term debt received. The sinking funds include investments having a U.S. dollar value of \$15,284,000 recorded at \$20,948,000 Canadian dollar equivalent. The fair value of the sinking funds is \$56,609,000 (1995 - \$65,616,000) determined as the market value of the investments held in the sinking fund as at December 31.

**SASKATCHEWAN TELECOMMUNICATIONS**

**Note 8 -- Other long-term debt**

	Fixed Interest <u>Rate</u> (%)	Maturity <u>Date</u>	<b>1996</b> (Thousands of Dollars)	1995
TeleBonds - II				
Credit Bond	6.5	1999	<b>\$ 34,109</b>	\$ 34,480
Other	-	1996 - 1997	<b>8,658</b>	5,952
			<b>42,767</b>	40,432
Less: Due within one year			<b>2,336</b>	4,345
			<b>\$ 40,431</b>	\$ 36,087

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

**Note 9 -- Current portion of long-term debt**

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

(Thousands of dollars)	
1997	\$ 13,158
1998	\$ 4,515
1999	\$ 37,815
2000	\$ 3,537
2001	\$ 2,793

**Note 10 -- Equity advance**

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

**Note 11 -- Items not affecting cash from operations**

**SASKATCHEWAN TELECOMMUNICATIONS**

	<b>1996</b>	1995
	(Thousands of dollars)	
Depreciation	<b>\$ 133,248</b>	\$ 125,088
Premium and foreign exchange adjustment	<b>764</b>	7,419
Interest charged to construction	<b>(1,957)</b>	(1,424)
Other	<b>1,040</b>	2,637
	<b>\$ 133,095</b>	\$ 133,720

**Note 12 -- Pension plans**

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

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

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

Details of the defined benefit plan are as follow:

	<b>1996</b>	1995
	(Thousands of dollars)	
Plan assets at market related value	<b>\$ 605,578</b>	\$ 541,832
Present value of accrued pension benefits	<b>547,470</b>	477,969
<u>Surplus</u>	<b>\$ 58,108</b>	\$ 63,863

Pension expense (income) for the year was as follows:

	<b>1996</b>	1995
	(Thousands of dollars)	
Defined contribution plan	<b>\$ 5,244</b>	\$ 4,973

**SASKATCHEWAN TELECOMMUNICATIONS**

Defined benefit plan	<b>(1,023)</b>	(466)
	<b>\$ 4,221</b>	\$ 4,507

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

## SASKATCHEWAN TELECOMMUNICATIONS

### Note 13 -- Related party transactions

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

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

	<u>1996</u>	<u>1995</u>
	(Thousands of dollars)	
Revenue	<b>\$ 61,513</b>	61,491
General administrative expenses	<b>65,741</b>	72,955
Accounts receivable	<b>3,305</b>	3,131
Accounts payable	<b>544</b>	1,084

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

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

### Note 14 - Commitments

Leases

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

(Thousands of dollars)	
1997	\$ 15,907
1998	\$ 15,362
1999	\$ 12,385
2000	\$ 12,545
2001	\$ 12,855