Isaskatchewan Telecommunications C Holding Corporation 2010 ANNUAL REPORT

INNOVATION









### LETTER OF TRANSMITTAL

Regina, Saskatchewan March 31, 2011

To His Honour

The Honourable Dr. Gordon L. Barnhart Lieutenant Governor of the Province of Saskatchewan

Dear Lieutenant Governor:

I have the honour to submit herewith the annual report of SaskTel for the year ending December 31, 2010, including the financial statements, duly certified by auditors for the Corporation, and in the form approved by the Treasury Board, all in accordance with The Saskatchewan Telecommunications Holding Corporation Act.

Respectfully submitted,

Bin Boyd.
Honourable Bill Boyd

Minister Responsible for Saskatchewan Telecommunications



#### MINISTER'S MESSAGE

I am extremely pleased to present SaskTel's 2010 Annual Report.

Reflecting on SaskTel's year, we see impressive financial results in an industry that continues to see constant transformation as consumers seek and embrace new technologies. In the face of increasingly aggressive competition, SaskTel has found a way to succeed. Its continued focus on providing outstanding customer service while creating long-term value for the shareholder has allowed SaskTel to achieve positive financial results while improving the efficiency and effectiveness of their operations. This is not an easy feat and everyone at SaskTel should be congratulated for meeting the challenges they have faced to reach this accomplishment.

As a Crown corporation, SaskTel has a social responsibility to fulfill the public policy mandate of the Crown sector. In 2010, SaskTel again demonstrated its commitment to Saskatchewan businesses and communities through its contribution of over \$678 million to the Saskatchewan economy, including spending with vendors for goods and services, salaries, grants in lieu of taxes, dealer commissions and community involvement.

However, the clearest indicator of the economic and social benefits that SaskTel provides as a Crown corporation is the investment in providing world-class communications to the province at affordable rates. In 2010, SaskTel launched its new 3G+ wireless network, expanded Max<sup>TM</sup> Entertainment Services to six additional communities and continued enhancing high speed Internet service, now delivering it to 100% of the province. SaskTel's investment in its network ensures more business owners, more children in school, and more seniors wanting to improve their education have access to the best communications technologies, which supports our government's plan for a stronger Saskatchewan and a better life for Saskatchewan people.

Continued innovation, which appropriately is the theme of this year's Annual Report, will ensure SaskTel is financially healthy and well positioned to embrace the multitude of opportunities ahead. In closing, I would like to congratulate and thank all SaskTel employees, management and the Board of Directors for making 2010 its best operating year ever.

Bin Boyl.

Honourable Bill Boyd

Minister Responsible for Saskatchewan Telecommunications

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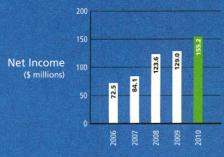


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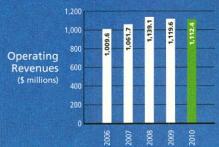
This is a Quick Response code. You can scan it with any smartphone using SCANLIFE software, which is a free download. Most newer smartphones are already equipped with this software. Simply scan the code to see video of the messages and stories in this Annual Report.

#### FINANCIAL HIGHLIGHTS

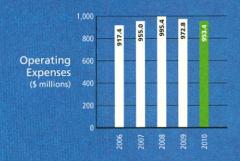
### SaskTel had its best operating year ever



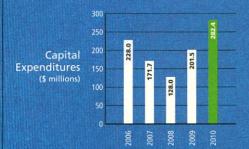
**NET INCOME** for the year was \$155.2 million, up \$26.2 million (20.3%) from 2009. Return on Equity was 18.9%, up from 16.2% in 2009 and dividends declared for 2010 were \$139.7 million, as SaskTel once again provided a strong return to its shareholders.



OPERATING REVENUES for the year were \$1,112.4 million, down \$7.2 million from 2009 due to out-of-province revenue reductions resulting from the divestiture of selected out-of-province assets in 2009. If you normalize 2009 revenues to exclude these out-of-province revenues, revenues in 2010 increased by \$33.7 million (3.1%), primarily due to continued strong customer growth in cellular,  $Max^{TM}$  Entertainment and Internet services.



OPERATING EXPENSES for the year were \$953.4 million, down \$19.4 million from 2009 due to reduced out-of-province expenses resulting from the divestiture of selected out-of-province assets in late 2009. If you normalize 2009 operating expenses to exclude these out-of-province expenses, operating expenses in 2010 increased by \$23.2 million, primarily due to increased expenses to support growth in cellular, Max Entertainment and Internet revenues. These increases were partially offset by reductions in depreciation and restructuring charges.



CAPITAL EXPENDITURES for the year were \$282.4 million, up \$80.9 million from 2009. SaskTel continued to focus its capital expenditures on growth initiatives, including cellular network upgrades and expansion, *Max* Entertainment enhancements and high speed Internet coverage. A significant portion of SaskTel's 2010 capital program was spent on the new 3G+ wireless network, which was launched on August 16, 2010 and on expanding *Max* Entertainment Services to six additional locations in 2010.



#### PRESIDENT'S MESSAGE I A NEW WAY: TOWARD A CULTURE OF INNOVATION



"today's most advanced tool will be improved upon tomorrow"

Innovation, the art of the new, is an appropriate theme for the year SaskTel gathered all of its creative energies to bring an entirely new generation of wireless technology to the province of Saskatchewan.

In 2010, SaskTel saw 3G+ and many other new things come its way, and I was privileged to be one of them. Having lived most of my life in Saskatchewan, I am familiar with the tradition of pride that accompanies SaskTel employees as they serve customers and support one another. Even so, on my visits throughout the province in my first few months, I was impressed by the quality of our people, the way they work to provide the best infrastructure, products, and customer experience possible. As happy as I was to learn that we are once again one of Canada's Top 100 Employers (2010 was our 11th consecutive year), it has been equally gratifying to discover that we have some of the country's best employees.

Innovation is the communication industry's stock in trade. The very way we name new releases of technology—as 2.0, 3.0, 3G, 4G, and so on—assumes that today's most advanced tool will be improved upon tomorrow. New ideas, methods, and devices have driven every leap forward in communication technology, beginning with "Mr. Watson, come here." and rolling onward from multiparty-line to single-line service, dial to touchtone, cable transmission to microwave, microwave to fiber, wireline to wireless, telephony to Internet, analogue to digital, and cell phone to smartphone.

Those are a few of the major innovations on the primary theme of communication, but each year there are countless small ones as well, in the continuous invention of new ways to design, install, maintain, market, and support our products and services to satisfy our customers. For SaskTel in 2010, we worked on new customer satisfaction initiatives, rolled out an upgrade of *Max* service, advanced our position at CRTC (Canadian Radio-television and Telecommunications Commission) hearings, and implemented some innovative IT solutions including a Customer Relations Management System (CRM) and a state-of-the-art resource trouble management system for telecom infrastructure.

But the big innovation story of the year, of course, was our new 3G+ network, the largest in Saskatchewan, available in all of our major urban centres, and scheduled to be available to 98% of the province by the end of 2011. With 3G+, we are providing customers with network access speeds four times faster than before, offering them a better mobile browsing experience via an array of smartphones and other devices. Making all of this happen within some challenging time frames and under a great deal of pressure, our employees more than proved their mettle. Every part of the company was involved at one time or another, but our Engineering and Construction staff, together with our Information Technology and our Sales and Marketing staff,

deserve special mention. Your unfailing commitment to quality, your ability to adapt and create workaround solutions on the fly, and your straight out hard work day after day carried 3G+ through to its launch.

With the 3G+ experience, I think we have proven once and for all that innovation is not merely something we add to whatever we think of as our work; innovation is our work. SaskTel is in the business of giving people new ways to connect with one another, new ways to share information, new ways to conduct business, and new ways to access entertainment.

This report follows some traditional categories to tell our 2010 story of innovation—customer, employee, community, and technology—but when you read the sections you will see that the culture of innovation has a way of making any change flow across the boundaries between these four areas of focus. When employees adapt a new idea or technology in ways that make their jobs simpler, they benefit, but customers and the larger community benefit too. Take a look at the story of a new program our Human Resources folks have been working on in partnership with the Saskatchewan Abilities Council and our employee union, the Communication, Energy, and Paperworkers Union of Canada (CEP). It's a story about an employee, to be sure, but the innovation it reveals has positive implications for our customers and the interests of an important community organization, the Saskatchewan Abilities Council.

I believe that our continued success and growth as a company depends on our capacity to innovate within our financial, technical and policy environments. We are a company that builds networks and does it very well. However, we need to become a company that also fills those networks with content if we are to be more than just a pipe through which other companies work.

For the year to come, I look forward to meeting more of our employees and customers, and I also feel excited about doing what I can to continue fostering the culture of innovation at SaskTel. A big part of that is leadership, working with the executive, our directors and staff to learn how we can encourage people to go out on a limb, instead of always staying with the safety of the status quo. And it's identifying the roadblocks to innovation, while implementing processes for finding, selecting and funding new ideas that are not in themselves obstacles to innovation.

It might be fair to say that we are not quite there yet, but I believe we can get there. And with innovation, as with many things, getting there is half the fun.

Ron Styles

SaskTel President and CEO





#### **INNOVATION IN SERVING CUSTOMERS I CONEXUS CREDIT UNION**

IN EARLY 2010, Conexus Credit Union approached SaskTel looking for a way to connect their two Regina Data Centres with a high bandwidth, scalable service that could accommodate significant increases in bandwidth.

Kevin Harris, Account Executive — Financial Services, saw it as an opportunity to try something new.

"We didn't have an existing service that met Conexus' requirements," said Kevin, "so we talked things over with our Marketing and Engineering departments to review the request. After a few meetings, we designed a new service. We had it approved by the CRTC (Canadian Radio-television and Telecommunication Commission) and we call it 'Optical Wavelength Connectivity Service'."

The service provides a 10-gigabit ethernet connection and a 10-gigabit fiber channel connection that together provide a highly available and stable end-to-end service maintained by SaskTel. In addition, this service allows Conexus to easily scale up the bandwidth as their business needs change.

Murray Wall, Conexus' Vice President of Information Technology, has become a firm advocate of the service: "SaskTel's team took our idea and put it into a real world perspective that works for us, a managed fiber solution that they look after end-to-end. It's real nice because I can plug in my storage area network, my routers and my switches, using wavelengths of light to spin up services. One of its great advantages is that it is scalable. I can easily add more cards with only the cost of the cards, no more line installs or re-checking. I just add a couple more cards and instantly I get another 10 gigs of fully redundant ethernet or fiber channel. I look at it as a long-term multi-year solution. As far as I can see today, it should be cutting edge for a while to come."

Kevin Harris believes that SaskTel kept an important customer by thinking creatively about their needs.

"From our point of view it was a great innovation. The customer was originally considering a dark fiber solution. Rather than walk away from the opportunity, all the right SaskTel departments teamed together and worked on a solution to meet Conexus' requirements. And now other customers are considering the new service for their environments."



#### INNOVATION IN TECHNOLOGY I A PROJECT OF INNOVATION: 3G+

OUR MOST IMPORTANT INNOVATION OF THE YEAR, WITHOUT A DOUBT, WAS THE LAUNCH OF OUR OWN 3G+ WIRELESS NETWORK. There is no way to undertake a project of this scale and complexity and get it from announcement to launch in little more than one year, without a lot of creative, energetic people solving problems and finding better ways to get the work done. There are hundreds of examples we could use to show the kind of innovative spirit that worked every day in bringing this important new technology to our customers.

When Kevin Shatkowski, Engineering Manager – Wireless Network, and his staff looked at the options for distribution boxes (containing both fiber and power equipment) they could procure to use on the 3G+ towers, they didn't like what they found. "The boxes that were available were large and would have added a lot of weight and wind loading, not to mention extra costs just to provide the necessary structural support," said Kevin. "We needed something more suited to our design and cost-effective so we proposed our own solution to potential suppliers. We eventually found one willing to make them to our specs."

As with any new product, there is a certain amount of risk with being first. SaskTel soon discovered a water ingress issue with the new power cables. "We needed to figure out what the problem was," said Kevin, "so I put a couple in my yard, turned the sprinkler on overnight and ran my own tests at home. Turned out all we had to do was retrofit them with the right kind of gland and that fixed the problem."

Now, Kevin gets calls from companies around North America who are looking at deploying the same technology on their towers. "They are interested in the solution we came up with because we were able to save considerable costs both in construction and improvements, and in the contractor labour costs to install the boxes," Kevin said. "We believe the technical solutions we used were the first of their kind in the world. We estimate they saved us one-third of the costs of the contract labour to install the equipment on the towers. We know that by avoiding the use of power and fiber distribution boxes SaskTel saved tower reinforcement costs too, and though we haven't tried to estimate exactly how much, we know it was significant."

3G+ is a sophisticated technology, but some of the innovative thinking it took to get it up and running on schedule required the simplest of tools and materials. Dave Ash, Trunking and Switching Technician, works in a group called Central Install that was given the task of getting together equipment orders for the contractors engaged to do the tower work on the project. "The job was so big it just wouldn't fit in the provincial warehouse, so we were warehousing all of the tower equipment. Early on we found out that the fiber-optic feeder cables we received from the manufacturer came in coils instead of on spools. That just wasn't going to work, because the contractors have to get that cable from ground level up a tower—sometimes 160 metres high. A hand coil would get tangled, knotted and kinked. We had little time to lose so we knew we would have to improvise.

"We contacted the supplier and had them send some cardboard spools. Then we had to set up our own system to assemble the spools and spool the fiber onto them before shipping them off to the contractors. The next problem was discovering that we were short of the cardboard spool parts. Again, we had to think on our feet, so it was arts and crafts time. We traced out dimensions and cut new parts out of cardboard that we had lying around. If we had said, 'no, sorry, we've run out of spools', the tower work would've ground to a halt."





#### **EMPLOYEE INNOVATION I EMPLOYEE TRAINING ON 3G+**

WHEN SASKTEL DECIDED to build and deploy an entire new generation wireless network like 3G+ in little more than a year, one of the most important tasks was getting employees who deal with customers up to speed in time for launch date.

Hundreds of people working in customer-facing units all over the company, not to mention those working for our network of independent dealers, had to receive training in the new wireless service so they would be ready on launch date to support our customers. "The logistical and scheduling challenges were significant," said Tricia Goffin, Senior Project Manager. "When the launch date was moved up to August, we knew we had our work cut out for us." As the project manager in charge of IT infrastructure and process for 3G+, training customer-facing staff was but one of Tricia's responsibilities on the project.

"In sixteen weeks, from the end of April to the day before launch, August 6, we had to train approximately 1,000 people, and take them from knowing virtually nothing about 3G+ to a knowledge level that would let them sell and support the service to every kind of customer," said Tricia. "The thing is, you can't take everyone off-line all at once. The training had to be scheduled in a way that would keep enough staff serving customers at any given moment."

Tricia believes SaskTel's success in training its staff—and by extension in bringing 3G+ to customers—arose from at least three important elements. "First, we let learners choose from an array of learning methods, from face-to-face with a live facilitator, to live or recorded webcasts, to PowerPoint courses with or without voice, to a paper manual. Secondly, we involved representatives from each customer-facing work group right from the development stage through to delivery. We had an outstanding core user-group training team and that made all the difference. The third element, which was so crucial, was the support we received from our Employee Development Centre. The people at the EDC went out of their way to ensure that employees would be supported in learning what they needed to learn the way they wanted to learn it."

Tricia has been invited by both the Project Management Institute and the Canadian Information Processing Society to share her experiences of working with employees on the 3G+ project.





#### **INNOVATION FOR COMMUNITY I BACK TO BATOCHE DAYS**

SASKTEL SPONSORS MANY CULTURAL EVENTS AROUND THE PROVINCE EVERY YEAR, but one in particular stood out in the summer of 2010 for its historic and cultural significance. July's 125th Anniversary commemoration of the Métis resistance at Batoche placed the annual Back to Batoche Days onto the national stage.

SaskTel played a part in this celebration by providing a corporate sponsorship, but we also deployed some innovative technologies to enhance mobile services at the event site, helping organizers and visitors with their wireless communications. Colleen Cameron, Account Executive — Aboriginal Market, worked with Back to Batoche's event managers to transform the site into a communications hotspot.

"We set things up so that they would have the facilities in place for approximately one month," said Colleen. "But it was more than just enhanced mobile services. We also provided private and public Internet access using SaskTel's satellite Internet service."

For Back to Batoche event planner, Claire Belanger-Parker, SaskTel's creative solution to the site's communication challenges made a big difference. "SaskTel staff were simply amazing as we set up the Back to Batoche 125th Anniversary Celebrations," said Claire. "We needed to accommodate live radio shows, live television feeds, bloggers, point of sales for exhibitors and cell phone users—all in the middle of nowhere. Isolated between Prince Albert and Saskatoon, the Back to Batoche site has very little cellular access. SaskTel rose to the challenge, though, and gave Back to Batoche's 125th Anniversary Celebration a chance to shine around the world. We have received outstanding reports and evaluations regarding our services at the site and we thank SaskTel for making that possible."

#### CITY OF SASKATOON





One of the information technology challenges for large businesses and organizations today is finding affordable, secure, and monitored storage for data facilities. When the City of Saskatoon's Chief Information Officer, Kevin Peacock, began looking for space to create a backup data centre, he remembered a tour he took of the SaskTel data centre in Saskatoon.

"I called Ken, our SaskTel rep, and said 'what's the chance of renting some space in your data centre?'." Ken Yick, Account Executive — Business Sales and Solutions, looked into it and determined that the SaskTel data centre indeed had enough space to allow the City to create a backup data centre there. "We had the space and for the City, the cost of building their own secondary data centre was prohibitive. So a co-location model seem like a good fit for all parties involved," said Ken. "We signed a ten-year co-location agreement with the City, allowing them to locate and operate their equipment in our facility, providing them with a secure, monitored location and a reliable electrical/environmental infrastructure."

From Kevin Peacock's point of view, it was a natural partnership.
"SaskTel was already a trusted partner of the City so we didn't have
to establish a relationship with a new vendor. We were able to come
up with an agreement that made business sense for both of us."

And now, Ken says, SaskTel is hoping this innovative use of data centre space will lead to more co-location partnerships. "We see this creative solution to the City's problem as an important step in establishing ourselves in the co-location and data centre market."

## CONTINUOUS IMPROVEMENT OF CUSTOMER SERVICE





Today's customers increasingly judge a service provider on its capacity to install a new service or repair an existing one quickly and at the customer's convenience. For a customer service group facing this reality in the form of rising volumes of work and tighter due dates, the only way to improve customer service without incurring significant costs is to look for innovative ways to establish effective and consistent processes that help everyone perform at their best.

In 2010, SaskTel's Customer Service Operations team began working with Cam Tennent, Business Consulting Manager — Continuous Improvement, to identify any roadblocks and other problems that irritate customers and the employees trying to meet their needs.

"We started by talking to employees in Operations to look for those roadblocks and areas we could improve," said Cam. "We decided pretty quickly that we needed a consistent process across Operations to forecast, plan, execute, and report on work by all of the various groups, giving us a way to measure success and challenges against objectives."

Once that process was in place, the entire Customer Service
Operations team began holding bi-weekly meetings where they
receive feedback from all levels of the corporation. "At these
meetings," said Cam, "they measure their performance against
common business objectives they established themselves. It's given
them the focus they need to make decisions very quickly and then
monitor them to ensure the changes are working for everyone: our
customers, employees and partners."

For SaskTel's Director of Operations for Customer Service, Duane Hayunga, the benefits were visible all around the province. "For one, it helped our front line Managers better understand the daily volume of work our technicians were completing," said Duane. "The Management Operating system engaged the Service Managers in a closer partnership with the Dispatchers and Schedulers, and that means we now have fully loaded technicians out there as well as increased movement of technicians to where the demand is. And, because managers were involved in all steps of developing the new system, it makes sense to them and they support it. But these things are all about results and I can tell you we have already seen improved customer wait times, lower costs and a lot more employee involvement in identifying opportunities to keep improving."

## SOCIAL MEDIA FOR CUSTOMER COMMUNICATIONS





Innovative ways to connect with customers are emerging all the time, offering technology and media that can enrich communication between a company providing services and the people using them. The Quick Response codes in this Annual Report are but one example of the tools businesses are adapting to build relationships with customers. Meanwhile, SaskTel, like many corporations, has begun to use social media to keep in touch with customers who enjoy online networks such as Facebook and Twitter. Merilee Tulloch, Director — Market Strategy, believes we have just begun to discover the benefits of social media.

"The big advantage over conventional communications is that social media can work in real time," Merilee said. "Last fall we had a cable cut. Well, right away we posted the news on Twitter. Customers who follow our feed were able to learn about the cut and find out when it was repaired, without having to bother calling our help desk. And it's been great for getting the news out about a new wireless device becoming available in our stores. When SaskTel was one of the first to offer the BlackBerry Torch this year, our Twitter followers found out about It right away."

Meanwhile, Facebook has been a way for Merilee's team to offer more detailed, customized information and help to customers, but one of the nice surprises has been that SaskTei's online presence is allowing our customers to help one another, too. And when a customer asks a follow-up question, the answer is available for anyone who wants to see it. "It's the sharing of information that makes social media so powerful," said Merilee. "Customers so often have similar issues and concerns and if we can address some of them this way, it will not only build rapport, we think it will also reduce the amount of one-to-one problem solving our help desk has to do:"

### DIRECTORY ASSISTANCE VIA TEXT





Chris McDougall, Manager – Consumer Sales (Operator Services), has noticed customers appreciating an innovation that came with a technology advance in SaskTel's Operator Services. Operator Services has experienced a lot of automation, including the shift to automated Directory Assistance 411. "One cool feature that came with this change," said Chris, "is the SMS 411 feature. If you call 411 from your cell phone, you will get a text sent to you of the phone number you were requesting. Customers are telling us they like this feature because it means they won't have to call in again for the same number if they need it later. For example, people who are going out for a night on the town and have to use a taxi service a few times throughout the night only have to call 411 once because they have a text of the taxi service's number after their first call."

#### **INNOVATIVE LEADERSHIP**



Innovative companies are led by innovative thinkers. In 2010, SaskTel's Corporate Information Officer, John Hill, was recognized by receiving one of the 2010 CATAAlliance Innovation Awards. Every year, the Canadian Advanced Technology Alliance, the largest high-tech association in Canada, gives out the awards to recognize innovation, expertise and leadership in Canada's advanced technology community.

As the 2010 winner of the CATAAlliance KPMG CIO Leadership Award, John was recognized for his contribution in supporting CATA's activities as one of SaskTel's key leaders of innovation.

#### **NEW MAX PLATFORM**



In the world of information, communication, and entertainment, some of the most innovative advances have been focused on the delivery of television programming. SaskTel's Max Entertainment Services celebrated its eighth anniversary in 2010 and one of SaskTel's greatest innovation accomplishments of the year was to take the features and services developed during those eight years and refresh them in a totally new platform.

Rhonda Carsten, Director — Marketing Operations (*Max* & Internet), praised the collective effort of employees around the company who brought the *Max* upgrade to life. According to Rhonda, the result is a dramatically improved customer interface with a number of powerful innovations that enrich the viewer's experience. "There's the transparent interactive channel guide, for starters, with fourteen days of programming. There's picture-in-picture browsing allowing you to see what's on another channel without having to leave the channel you're watching. There's a new multi-room DTVR (Digital TV Recorder) letting you record a show on one set-top and watch it later in another room with a different set-top. Better parental controls, letting you delete certain channels from the channel guide; a faster-scrolling guide overall, which you can customize to your own preferences; new games and applications.

"This is a very powerful platform for home entertainment and we know we can continue to build upon it. And we are proud that we were able to do it with minimal disturbance to our customers. In fact, SaskTel had the very first commercial launch of a remote customer migration system for the new platform, making the change very easy for Max customers."

With the 2010 Max expansion to six new Saskatchewan communities being met by more than double the anticipated customer subscription, the new platform is winning viewers over in unprecedented numbers.

### INNOVATION FOR REPRESENTATION

EMPLOYEE INNOVATION



Within SaskTel's larger effort to foster a workforce that more accurately reflects the full diversity of the public we serve, we have begun to see that there is great benefit in recruiting within a broader spectrum of abilities and skills. With that in mind, in 2010, SaskTel began working with its employee union, the Communications, Energy, and Paperworkers Union of Canada (CEP), and the Saskatchewan Abilities Council to introduce a new program that integrates individuals with cognitive disabilities into the workplace. The first employee recruited and hired under this supportive employment program, called 'Career Launch', was Nick Popowich. Kevan McBeth, Human Resources Manager — Corporate Social Responsibility, who has been involved with Career Launch, says, "The way it works is that we negotiate with CEP to create a job description—one that matches the abilities of the individual, and one that the company and the union can both support."

"We wanted to give Nick a meaningful opportunity to work in the SaskTel Store and utilize his talents as a Store Assistant," said Kevan. "He helps greet SaskTel customers and ensures that they are headed in the right direction to receive services; he stocks shelves and receives new products; and he assists customers with any accessories they may need for their cellular phones. He has already received some commendations from customers and has made an impact on the staff as well. More importantly, he is demonstrating the capabilities that people with cognitive disabilities have in contributing to SaskTel in a meaningful way."

For Nick, the experience of working in a SaskTel Store has been positive from the start. "I like my job," he said. "I like the people I work with and the customers I help. There have been a few bumps in the road, but nothing that will come back and cause me problems. I know that SaskTel is the future for me, and someday I hope to be an Assistant Store Manager."

#### INNOVATION FOR COMMUNITY

#### **WORKFORCE DEVELOPMENT**





SaskTel's YOUTHnetwork program and Mount Royal Collegiate (a
SaskTel Partnership School) joined forces to develop an innovative
electronics curriculum in one of Saskatchewan's most unique
secondary school facilities, Mount Royal Collegiate. One day a week,
over a fourteen-week curriculum, SaskTel Customer Service Technician
(CST) employees and trainers teach students in the 20/30 Electronics
class. The students learn basic telephony electronic principles,
including how to install telephone lines and high speed Internet
connections in business and residential locations. Students complete a
full installation of SaskTel Max right in the classroom. They also
complete tours of SaskTel facilities and receive ride-along work
experiences with CSTs in the field. In 2010, SaskTel hired three
graduating students from the program as temporary CST's on
eight-month terms.

#### **FIBER FOR SCHOOLS**





The entire Saskatchewan Infrastructure Improvement Project (SIIP) has been an innovative means of bringing the latest communications, information and entertainment services to smaller Saskatchewan communities that otherwise would not have the opportunities available through high speed access. Through SIIP, SaskTel is running fiber-optic cable to approximately 800 schools, health care facilities, and government offices located around the province.

By bringing these high capacity communication facilities right down Main Street, Saskatchewan, SIIP is connecting hundreds of communities to the world in a way that allows them to benefit and profit by attaching to the Internet or private intranets as a knowledge base and economic engine. Within this larger story of innovation, however, there are many examples of creative solutions to the day-to-day issues that inevitably arise in such a large undertaking.

One of those stories comes from SaskTel's Building Industry

Consulting Service (BICS). Doug Hilderman, Solutions Manager —

Design, explained how his BICS group became involved in solving a problem that was slowing things down for Saskatchewan's schools.

"The way SIIP works is that SaskTel is responsible for getting the fiber right up to the building, but the customer—in most cases, it's a department of the provincial government—is responsible for all the inside cabling," said Doug. "The Saskatchewan Department of Education was having trouble securing contractors to complete the inside work in their schools. In fact, it was so bad, they were missing cutover dates and disappointing everyone who was waiting for the higher bandwidth services."

The BICS group then created a model that would be more cost effective and remove the need to treat every location as an individual project. "We investigated the five most common scenarios," said Doug. "Then we analyzed the probabilities and came up with a proposal for a Provincial Plan for the Department of Education. They liked it, so BICS created a plan to get the inside work done, using our own installers to complete the majority of the work and hiring local contractors when needed."

Net Income		
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Return on Equity		
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Operational Risks		
		Adoption of International Financial Reporting Standards
	Operational Risks	Five Year Record of Service

#### **SASKTEL OVERVIEW**

Saskatchewan Telecommunications Holding Corporation (SaskTel) is a Saskatchewan Crown corporation. SaskTel is the leading full-service communications provider in Saskatchewan, with \$1.112 billion in annual revenue and over 1.4 million customer connections including 568,904 wireless accesses, 528,546 wireline network accesses, 230,996 Internet accesses and 85,537 Max<sup>TM</sup> Service (TV) subscribers. SaskTel offers a wide range of communications products and services including competitive voice, data, Internet, entertainment, national security, messaging, cellular, wireless data and directory services. In addition, SaskTel International offers software solutions and project consulting in countries around the world. In 2010, SaskTel contributed \$678.4 million to the Saskatchewan economy through dollars spent with Saskatchewan-based suppliers and sponsorships to non-profit organizations. SaskTel and its wholly-owned subsidiaries have a workforce of 4,328 full time equivalent employees (FTE). For more, visit SaskTel at www.sasktel.com.

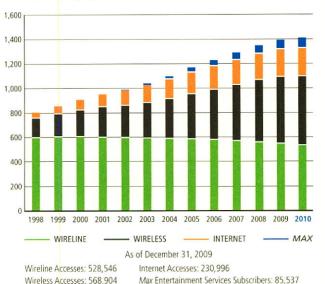
#### Saskatchewan Telecommunications (Telco)

#### www.sasktel.com

Our key growth areas are within our largest subsidiary, Saskatchewan Telecommunications (Telco), a wholly-owned operating company. Providing traditional services such as local access and long distance, Telco has evolved over time and currently offers services that have contributed significantly to our growth over the past several years, including digital cellular voice and data, text messaging, *Max* Entertainment Services, data, high speed Internet, data storage and enhanced voice services. Telco provides communication services to more than 425,000 Saskatchewan business and residential customers living in 15 cities and 535 smaller communities and their surrounding rural areas, including about 49,000 farms. Telco's head office is located in Regina and is one of the largest employers in Saskatchewan with 3,923 FTEs.

The following graph illustrates the areas of growth by type of access since 1998.

#### Access Growth by Type



### DirectWest Corporation (DirectWest)

#### www.directwest.com

DirectWest, a wholly-owned subsidiary of SaskTel, is the exclusive provider of the print, online and mobile SaskTel Phonebooks. For more than 50 years, DirectWest has been bringing buyers and sellers together with the most complete, used and preferred phonebooks in Saskatchewan. Fuelled by the success of the SaskTel Phonebook in print, and the power of the online phonebook at mysask411.com, DirectWest is making it easier for consumers on the go to find local business information with a BlackBerry app, an iPhone app, a desktop gadget for Windows and a desktop widget for Macs. The company continues to help connect buyers and sellers with new and innovative products and services, including mysaskdeals.com, Saskatchewan's first online group buying service. With a head office in Regina and a second office in Saskatoon, DirectWest employs 95 FTEs.

## Hospitality Network Canada Inc. (Hospitality Network) www.hospitalitynetwork.ca

Hospitality Network was a wholly-owned subsidiary of SaskTel, and is the preferred provider of managed communication and entertainment solutions for the Canadian healthcare market. Hospitality Network provides service to more than 380 healthcare locations nationwide, including Canada's largest hospitals and seniors' care homes. Originally founded with private Saskatchewan business interests in 1993 to provide entertainment services to the hospitality industry, Hospitality Network acquired a major Canadian player in 2000 (Telehealth) and became a wholly-owned subsidiary of SaskTel in 2005. Their head office is in Regina and they employ 168 FTEs. SaskTel divested of Hospitality Network in January 2011.

## Saskatchewan Telecommunications International Inc. (SaskTel International)

#### www.sasktel-international.com

SaskTel International, a wholly-owned subsidiary of SaskTel, offers innovative software solutions that provide a modular approach to managing every aspect of a communications network and a variety of consulting services to help their clients in countries around the world develop, improve and expand their telecommunications systems. SaskTel International's experience spans more than 30 countries across six continents. SaskTel International currently has strategic initiatives underway in the United States, and in African and Latin American markets, which continue to facilitate new revenue generating opportunities and strategic partnerships. SaskTel International employs 22 FTEs.

# SecurTek Monitoring Solutions Inc. (SecurTek) www.securtek.com

SecurTek, a wholly-owned subsidiary of SaskTel, provides commercial and residential security and video monitoring service to customers in Saskatchewan, Alberta, Manitoba, British Columbia, Ontario and Nova Scotia from their monitoring centres in Yorkton, Saskatchewan; Winnipeg, Manitoba; and Aurora, Ontario. Operating monitoring centres leverages SaskTel's call centre, network management and process expertise to provide value-added services. Through their dealer program, SecurTek partners with 139 independently owned firms including retail, wholesale and servicing dealers who provide security sales and service expertise to their customers. Twenty-three of SecurTek's dealers are Saskatchewan-based firms. SecurTek employs 120 FTEs.

## Saskatoon 2 Properties Limited Partnership (Saskatoon Square)

Saskatoon Square is one of Saskatoon's two premier office towers. SaskTel had a 70% interest in this property with three other partners each holding a 10% interest. SaskTel divested of Saskatoon Square in January 2011.

#### INDUSTRY OVERVIEW

The telecommunications industry is being disrupted and transformed as consumers seek and embrace new ways of interacting with and consuming information, communications and entertainment. As mobile connections become increasingly embedded into everything we touch, traditional products and services are taking a backseat to the new and emerging technologies, services and applications. Though the industry continues to expand, growth rates have slowed and margins have shrunk in the face of increasingly aggressive competition. Continued investment in technology and infrastructure is crucial if service providers want to remain relevant in the market and manage rising operating costs.

Access to media and communications anytime, anywhere is quickly becoming the new standard. As consumers continue to push this trend forward, the boundaries between work and home become increasingly blurred and wireless data networks are stretched to keep up with demand. Wireless networks are being upgraded to 3G and 4G in order to meet expected minimum performance standards. The demand for an everchanging assortment of products and services is reflective of the need to invest in networks and keep pace with bandwidth requirements. Building fiber networks will enable providers to be effective at capitalizing on the opportunities presented.

Competition continues to increase from traditional and non-traditional players, disruptive new technologies and new wireless entrants offering customers alternatives. Broadcast and Internet companies are seeking to become communications providers while traditional communications companies seek to gain a piece of the broadcast pie. On a different scale, new smaller players who seek to develop niche applications and services for select markets are able to use evolving technologies that minimize their capital investment requirements.

#### STRATEGIC DIRECTION

SaskTel has a long history of delivering strong financial results that come from following sound strategic objectives. We continually monitor key economic indicators, the state of the economy and our business environment to assess the potential impacts of these trends on our business. To ensure we achieve our strategic objectives, SaskTel identifies critical issues in our operating environment that must be addressed. The critical issues we identified for 2010 were industry transformation, strategies for growth and managing for tomorrow (employees and customers, productivity and processes, partnerships and alliances).

As discussed in the Industry Overview, the telecommunications industry is transforming more rapidly than ever. These changes affect SaskTel, shaping our strategic direction and pace of innovation. As our revenue mix has shifted, we have dedicated resources to areas of higher growth such as wireless voice and data, broadband and video markets. Aggressive competition combined with rising operating costs has resulted in reduced margins. SaskTel and other industry players face the challenge of

balancing this dynamic while continuing to meet market and consumer demands for products and services.

Another critical issue for SaskTel is the need to develop effective strategies for growth in the face of such transformation. Though our revenue continues to grow, top line revenue is becoming increasingly difficult to achieve as a result of competitive pressures. Striking the balance between maintaining existing revenues and identifying new sources is a key focus for SaskTel. As in previous years, our number one priority is growing our core business within the province as we focus on serving Saskatchewan first. SaskTel maintains its commitment through continual investment in our Saskatchewan network, providing residential and business customers and communities with improved and expanded SaskTel services. In 2010, SaskTel launched its new 3G+ (High Speed Packet Access) network with coverage throughout the province. This next generation of wireless technology allows customers to enjoy increased download speeds, improved international roaming and a wider selection of devices. SaskTel expanded Max service to include six more locations throughout the province in 2010. In addition, improvements to the Max service user interface improved ease of use and additional functionality for the customer. This year also saw the Rural Infrastructure Program upgrade 260 communities with faster Internet service, 350 locations with digital subscriber line (DSL) or fixed wireless Internet and 462 CommunityNet accesses to fiber-based services.

The third critical issue SaskTel identified is effectively managing for tomorrow. Our employees and customers are of prime consideration when we look to the future business of SaskTel. We continue to face a number of employee challenges that may impact our business operations. A labour shortage, changing workforce demographics, increased competition for skilled workers and rising demands for workforce flexibility are some of the trends that require precise management and adjustment of our workforce for the future. Though not unique issues to SaskTel, the reality we face is that the average age of our employee base is 44 years and approximately half our employees are eligible for retirement over the next five years. Our customers have always been one of our highest priorities, and their demands and expectations are changing. The importance of providing our customers with a positive experience in every contact with SaskTel is evident in our aggressive customer targets, and we believe this will ensure growth and sustainment of our customer base. Corporate productivity initiatives continue, with goals to improve systems and processes, enable business simplification and define clear performance indicators. Productivity and process teams continue to identify and implement initiatives that will serve to improve corporate productivity, increase cost savings and effectively balance work with capacity throughout the organization. The development of partnerships and alliances is a priority for SaskTel to enable timely pursuit of business opportunities, stimulate the provincial economy and meet the challenges of limited organizational capacity.

#### **CORE STRATEGIES AND PERFORMANCE MANAGEMENT**

In 1999, Crown Investments Corporation (CIC) and their subsidiaries developed a Crown Sector Strategic Plan to provide long-term direction to the Crown sector and facilitate long-term planning. The plan includes a consistent vision statement for the Crown sector, their primary business purposes, common business values and strategic business objectives. We have developed our corporate strategic plan to support CIC's strategic objectives and priorities.

#### 2010 Strategies and Performance Results

#### People

SaskTel will differentiate on customer experience in order to sustain and expand our customer base.

SaskTel will attract and retain the best people by creating an engaged workforce that embraces diversity.

Objective	Measure	2010 Target	2010 Actual	Results
Differentiate on	Customer Perception	76	75	0
Customer Experience	# of Customers In-Province (thousands)	1,360	1,373	•
Engaged Workforce	Employee Engagement	At or above the Hay engagement norm	5% above the Hay management engagement norm	•
	Representative Workforce: Women (# of women hired or promoted into management positions as a % of all hiring into management positions)	46%	35%	0
	Aboriginal People (Permanent Hires)	25% of hiring	26.5%	•
	People with Disabilities (Permanent Hires)	10% of hiring	2.9%	0

Throughout 2010, we maintained our focus on providing outstanding customer service, implementing many initiatives to increase customer satisfaction and loyalty within SaskTel, such as improving upon *Max* Service repairs, expanding *Max* Service to additional Saskatchewan communities and launching our 3G+ network. Despite these initiatives, we were one point below our Customer Perception target of 76 for 2010, as a result of severe weather in the summer of 2010 causing outages and repair work at levels beyond our expectations and control, significant increased demand for our services and aggressive competition. While we fell short of our Customer Perception target, we exceeded our target for number of in-province customers. The Saskatchewan economy and population continue to grow, resulting in greater customer growth than anticipated.

SaskTel measures employee engagement through an annual employee survey. The employee engagement measure gauges an employee's commitment to the organization and willingness to go above and beyond formal job requirements. SaskTel was only able to distribute the employee survey to management employees due to ongoing bargaining with the CEP (Communication, Energy, and Paperworkers Union of Canada), so results were based on the Hay management engagement norm rather than the Hay engagement norm. Employee engagement for managers at SaskTel was 5% above the Hay Group management norm.

We continue to implement strategies to recruit and retain a representative workforce. As a result of continued focus and effort building and maintaining relationships with Aboriginal organizations to increase the pool of qualified applicants, we were able to exceed the target of 25% of hiring within this equity group. We did not meet our targets for women hired into management positions because the number of male applicants for management positions far exceeded the number of female applicants and the majority of the hires for management positions in 2010 required a technical or operations background, areas typically under-represented by women. The low number of qualified female applicants resulted in an inability to achieve this target. We did not meet our targets for people with disabilities hired because the pool of qualified applicants within this equity group is extremely small. We continue to connect with disability groups and organizations regularly and encourage qualified candidates to apply.

#### Management's Discussion and Analysis

#### **Financial**

SaskTel will create long-term value for our shareholders by achieving positive financial results and focusing on productivity gains.

Objective	Measure	2010 Target	2010 Actual	Results
Positive Results	Revenue Growth (Gross Revenues)	\$1,140.7M	\$1,146.6M	•
	Net income	\$118.3M	\$155.2M	•
	ROE (after restructuring)	14.5%	18.9%	•
	Debt Ratio	36.1%	33.4%	•
Productivity Gains	Productivity Savings (Cumulative Savings)	\$46.1M	\$49.0M	•

SaskTel had another successful year financially in 2010. While our audited financial statements indicate that our 2010 revenue was \$1,112.4 million, this excludes revenue from discontinued operations that was included in the 2010 target. When we include revenue from discontinued operations, our 2010 revenue is \$1,146.6 million, which exceeds our revenue growth target by \$5.9 million. SaskTel exceeded our Net Income target of \$118.3 million by 31.2% and net income for 2009 by 20.3%. Our ROE of 18.9% far exceeds our target of 14.5% and we maintained a debt ratio of 33.4%, below our target of 36.1%.

While revenue growth is important to SaskTel, so is managing costs. We continue our focus on productivity improvement and cost reduction, and in 2010 exceeded our productivity savings target of \$46.1 million by \$2.9 million.

#### Innovation

SaskTel will focus on innovation through our approach to people, services, partnerships and technology, in conjunction with our economic, environmental and social responsibility.

Objective	Measure	2010 Target	2010 Actual	Results
Solutions	Broadband Subscriber Growth	51,128	92,966	•
	Services (Revenue from Growth Initiatives)	\$710.9M	\$718.3M	•
Social Responsibility	\$ Spent in SK Economy	\$661.6M	\$678.4M	•
	Environmental Stewardship (Greenhouse Gas Emission Reduction)	Reduce greenhouse gas emissions by 2.2% of 2007 levels	2.2% below 2007 levels	•

We are committed to ensuring SaskTel continues to be an innovative company into the future. For the past century, we have been a leader, offering and maintaining some of the most innovative and best-valued communications services in Canada for Saskatchewan people and customers.

SaskTel remains committed to providing a world-class communications network for Saskatchewan. Since 1987, we have invested more than \$3.5 billion in our Saskatchewan network. In 2010, SaskTel invested \$240 million to build and launch our new 3G+ wireless network, which is the next evolution of GSM technology; provide faster high speed Internet service and deliver 100% high speed Internet coverage; enhance *Max* Entertainment Service and offer it in additional Saskatchewan communities; and grow and enhance our basic network.

We exceeded our target for broadband subscriber growth by 81.8%, primarily as a result of higher-than-expected smartphone sales. Increasing competitive forces and declining legacy revenues have led SaskTel to focus on our growth strategy. We fell short of our revenue from growth initiatives target in 2010 only because it excluded revenue from discontinued operations of Hospitality Network and Saskatoon Square. When revenue from discontinued operations is included, we exceed our target.

As a Crown corporation, SaskTel has a social responsibility to fulfill the public policy mandate of the Crown sector. In 2010, we continued to make a significant contribution to the Saskatchewan economy. SaskTel demonstrated its commitment to Saskatchewan businesses and communities through its contribution of \$678.4 million to the Saskatchewan economy, including spending with vendors for goods and services, salaries, grants in lieu of taxes, dealer commissions and community involvement.

SaskTel's Eco(logical) Strategy includes a number of environmental initiatives, including a Greenhouse Gas Management Plan focused on stabilizing and then reducing our greenhouse gas emissions. Through the purchase of green power, SaskTel met its greenhouse gas emission reduction target in 2010.

#### Looking Ahead to 2011

As we set our sights on 2011 and beyond, SaskTel is well positioned to embrace the multitude of opportunities ahead. We will be innovative in our approach to capitalize on the explosion of smart devices, multimedia applications and machine-to-machine communications. Mobile communications are increasingly being embedded in everything we touch as wireless data traffic continues to more than double each year. Strong demand for increased bandwidth with the evolution to a visual medium will create a tremendous explosion of growth in Internet traffic over the next five years. Intense competition will prevail throughout the telecommunications industry as service providers transform and multiply. A clear focus on our strategy paired with disciplined management will allow SaskTel to maintain its proven financial strength, capacity for accelerated growth and ability to adapt to a rapidly changing environment.

Heading into the new year, we have established new Vision and Mission statements that clearly reflect the direction of our business. Our Vision beginning in 2011: "Be the best at connecting people to their world." Our Mission: "To provide the best customer experience through our superior networks, exceptional service, advanced solutions and applications."

Our four strategic objectives looking forward—Customer, People, Operational Excellence and Financial—are positioned to address the critical issues we have identified. Through the use of a Balanced Scorecard, the organization focuses and reports on the measures relevant to each objective in an effort to achieve long-term sustainability.

The following provides an overview of our performance management targets for 2011.

#### Customer

SaskTel will differentiate on customer experience in order to sustain and expand our customer base.

Measure	2011 Target
Customer Perception	76
# of Customers In-Province (thousands)	1,415

Our customers have always been and continue to be a high priority. We are focused on providing a positive customer experience, not just meeting but exceeding our customers' expectations. We have set aggressive customer targets to ensure we differentiate on our customer experience and sustain and grow our customer base.

Maintaining our superior product offerings and continually improving our customer service experiences will be a key competitive differentiator. Aggressive focus in this area will be a catalyst to growing our revenues and market share.

#### People

SaskTel will attract and retain the best people by engaging and developing our workforce.

Measure	2011 Target
Employee Engagement	At or above the Hay engagement norm
Diversity	
Women (# of women hired or promoted into management positions as a % of all hiring into management positions)	48%
Aboriginal People (Permanent Hires)	25% of hiring
People with Disabilities (Permanent Hires)	10% of hiring

SaskTel is focused on having an engaged workforce, remaining an employer of choice and maintaining a workforce that ensures representation from all equity groups across SaskTel. Labour market challenges, such as a labour shortage, changing workforce demographics, increased competition for skilled workers and increasing demands for workforce flexibility are impacting our business. To address these challenges, we review, identify and match workforce requirements to business objectives. At SaskTel, we want to ensure we have the resources available to address our business requirements and priorities.

#### **Management's Discussion and Analysis**

#### **Operational Excellence**

SaskTel will be innovative in our approach to people, services, partnerships and technology, in conjunction with our economic, environmental and social responsibility.

Measure	2011 Target
Broadband Subscriber Growth	107,799
Services (Revenue from Growth Initiatives)	\$712.1M
Environmental Stewardship (Greenhouse Gas Emission Reduction)	Reduce greenhouse gas emissions by 2.2% of 2007 levels

To remain competitive, we need to ensure that we are innovative in our approach to all facets of our business: in the technology we deploy, the products and services we offer our customers, the way we develop our workforce team, and how we develop our environmental and public policy initiatives.

As broadband becomes engrained in the lives of our customers, we remain committed to improving and expanding these growth products and services. This also creates a potential for our networks to assist in addressing social and economic issues and to ensure access to quality education and efficient healthcare—critical components to the wellness of communities throughout the province.

#### **Financial**

SaskTel will sustain long-term value for all stakeholders by achieving positive financial results.

Measure	2011 Target
Revenue Growth (Gross Revenues)	\$1,137.7M
Net Income	\$161.0M
ROE	21.7%
Debt Ratio	39.4%
Efficiency Measure (EBITDA Margin)	26.3%

Our financial measures are focused on growing revenues and achieving productivity gains across SaskTel. We expect intense competition to continue and must capitalize on revenue growth opportunities. These opportunities include sustaining and maximizing in-province growth with existing and new customers, organic growth from our subsidiaries and developing partnerships and investment opportunities.

Building smart networks is a platform for growth. Improving and expanding our network throughout the province will enable the continued delivery of innovative products and services, and enhance the customer experience. Network investment also leads to operating expense savings as a more reliable infrastructure results in lower maintenance and repair costs. Productivity gains will continue to be identified and achieved through our corporate productivity program and will be measured by EBITDA margin. In 2011, we will continue to lower expenses through such means as technology-assisted productivity improvements including self-service initiatives.

#### RISK ASSESSMENT

SaskTel takes an enterprise-wide approach to risk management, assessing and reporting key business risks based on four key risk quadrants: Market and Social, Financial, Legal Liability and Operational. As depicted in the diagram below, the model centres on control of risks through the identification, mitigation, assumption and transfer of key risks.



An internal risk management team conducts quarterly risk reviews focusing on one of the key risk quadrants. This team includes SaskTel's Corporate Risk Management department, the Director of Corporate Security, a director prime for each of the four quadrants, and other key personnel as required. Quadrant primes are subject matter experts in their respective areas. The team uses a variety of techniques to complete the reviews including interviewing key personnel throughout the organization, conducting site inspections of key facilities and reviewing audits completed by the Internal Audit department. Quarterly reports highlighting the significant risks are completed, presented to SaskTel's Executive and Audit Committee of the Board of Directors and provided to the Crown Investments Corporation of Saskatchewan.

The quarterly risk reviews are an important component of risk management at SaskTel. These reviews allow management to identify key risks and assess their likelihood and consequence using a corporate risk matrix that is approved by SaskTel's Executive. Complementing these reviews are the ongoing activities undertaken to mitigate risk as well as the corporate insurance program and other methods to transfer risk where appropriate.

The following sections detail the significant risks that may have a material effect on SaskTel's business, and include our associated plans and activities to mitigate these risks. Additional risks and uncertainties deemed to be lower-level risks or risks not currently known to us may also have a material effect on our business.

#### Market and Social Risks

#### Technology

The telecommunications industry continues to be disruptive and the rapid pace of technological change is contributing to this trend. Fiber and Long Term Evolution (LTE) are examples of these emerging technologies that are driving new business models, enabling next generation services and applications and increasing competition. The ability to react to such technological change is a risk to SaskTel given aggressive competition.

The trend of converged networks continues, with consumers demanding any service be available on any device in all places. Supporting this trend is the evolution of cellular technologies. Providers across the industry are changing out their existing cellular networks to third and fourth generation. SaskTel is within the fold and in 2010 launched our 3G+wireless network, which provides a distinct advantage for more consumers and businesses to adopt mobile broadband, applications and devices. The next evolution of cellular technology on the horizon is LTE, which is fourth generation (4G) and provides higher bandwidth than the new 3G+ as well as Code Division Multiple Access (CDMA) networks. LTE boasts faster speeds and increased network capacity, allowing providers to serve more customers and offer more advanced video and multimedia services.

SaskTel has a strategy in place to evolve from our current cellular network to LTE in the coming years.

The installation of fiber-optic networks to connect home and businesses with increasing amounts of bandwidth is another advancing technology. The demand for bandwidth-intensive services (high definition television, personal video recorders, video on demand) continues to grow and represents why this technology has become relevant and necessary. In addition, providers looking to replace old copper networks are using fiber as they benefit from low maintenance, reliability and ease of use. To remain competitive, SaskTel is planning to begin deployment of Fiber to the Premises (FTTP) in 2011.

Competitors will continue to upgrade their infrastructure to keep pace with technological changes. To keep stride, SaskTel must ensure its network can deliver competitive services in a timely manner, otherwise there is a risk of losing customers and revenues.

#### Competitors

SaskTel is a full service communications provider and as such faces a variety of competitors in every facet of our business including traditional Incumbent Local Exchange Carriers (ILECs), cablecos (Shaw, Access) and non-traditional players (Google, Apple, Microsoft, Cisco).

MANAGEMENT'S

#### Management's Discussion and Analysis

The cablecos are SaskTel's most aggressive competitors as they are well positioned in our core markets and focus on the key portfolios that we operate in: voice, video, data and broadband. The ILECs are primarily focused on expanding their growth services including wireless, broadband and video while stabilizing voice services and gaining a piece of the broadcast pie. Non-traditional competitors continue to emerge within the telecom space seeking to become communications providers. As new competitors entering the market, they have advantages of lower cost delivery methods, speed to market and the ability to niche market to particular customer segments. The wireless entrants are a new competitive group that are also proving to be a disruptive discount provider, offering consumers no-contract, low-priced wireless plans.

Increased competition and competitive activities throughout the industry will continue to impact SaskTel's revenue, customer and profitability growth targets. SaskTel is especially wary of the non-traditional players as they have the capability to erode legacy revenues faster than they can be replaced through evolutionary service development. SaskTel continually monitors competitive activity and undertakes risk mitigation through repricing of services, providing superior customer service, offering a broad product/service offering, and continually investing in our state-of-the-art network to provide leading-edge services to our customers.

#### Growth

The telecommunications industry is forecast to continue growing despite increasing competition, customer demands and changing behaviours. Revenue shifts and the ongoing decline of margins are expected to continue. However, increasing demand and adoption rates of consumers for new technology and services will continue to allow the industry to expand.

SaskTel has identified Strategies for Growth as a critical issue and one of the top priorities. We will continue to invest in our core business and infrastructure within the province, enhance our growth portfolios, be innovative and explore partnerships to help meet our growth targets.

A number of risk parameters and governance structures are in place to mitigate this risk, including parameters to reflect country risk, currency risk, investment size, investment focus, rate of return expectations and overall business risk. We believe that SaskTel's growth strategy creates and increases value, and does not unduly increase our overall risk profile.

#### Economy

Saskatchewan continues to experience positive economic conditions through the global economic recovery. Even though limited growth is forecast for 2010 (0.5% Real GDP - Conference Board of Canada), a strong rebound is expected for Saskatchewan's economy into 2011 - 2012, averaging above 4% for the next couple of years.

The telecommunications industry has not been as adversely affected by the global recession as other industries. Customers have come to view telecommunications products and services as a necessity rather than a luxury and spending will continue to increase as a result of customer demand.

SaskTel mitigates this risk by continually monitoring the economic implications on a global, national and provincial basis. SaskTel adjusts plans to address economic changes that affect our revenue growth and customer targets.

#### Regulatory

The telecommunications and broadcast industries in which SaskTel operates are governed by The Telecommunications Act and The Broadcasting Act, both of which are administered by the Canadian Radio-television and Telecommunications Commission (CRTC). SaskTel also operates in the wireless industry, over which the CRTC exercises a much lighter regulatory hand. The right to use spectrum in the wireless industry is granted by Industry Canada, which imposes conditions of license upon this spectrum. As a result, SaskTel is affected by changes in policies and regulations coming from both the CRTC and Industry Canada.

SaskTel mitigates risks of negative regulatory rulings through a proactive and multifaceted approach. This involves attempting to achieve favourable regulatory reform while participating in the current CRTC processes with a view to obtaining the best possible result for SaskTel.

#### High Cost Serving Area Subsidy

The CRTC completed its review of the High Cost Serving Area subsidy regime, which helps service providers provide local telephone service in areas where it is not economical otherwise. A decision on potential changes is expected in the first half of 2011. SaskTel participated fully in this proceeding in an effort to ensure that a regime remains in place to enable the company to provide quality service to customers throughout Saskatchewan at affordable rates. There remains a risk of a ruling which is unfavourable to SaskTel's customers that would result in substantive increases in local rates (up to \$17 more per month). SaskTel will be analyzing the CRTC's determinations carefully and if these determinations are detrimental, will pursue other avenues of appeal.

#### **Human Resources**

Changing workforce demographics, increasing competition for skilled resources and rising demands for workforce flexibility all pose human resource challenges for SaskTel and the industry as a whole. These factors may impair SaskTel's ability to deliver products and services in a timely manner, increase operating costs or reduce employee morale and productivity. Although the global recession and positive economic climate

in Saskatchewan have temporarily eased the labour situation in the province, a long-term labour shortage is still predicted. Saskatchewan's economy is forecast to remain positive in the coming years and the province will continue to experience population growth as a result of increasing interprovincial and international immigration. However, as economic conditions outside the province improve, competition for skilled labour is expected to intensify. SaskTel mitigates these risks through its People Core Strategy, which focuses on strategic workforce planning, employee retention and employee attraction.

SaskTel continues to facilitate its strategic workforce planning process. Key workforce data is monitored, verified and updated regularly. The five-year SaskTel People Plan is evaluated and revised annually to ensure it addresses emerging workforce trends and remains aligned with corporate business strategy. The People Plan identifies SaskTel's key workforce issues, summarizes future workforce projections, and outlines a series of strategies and actions that identify how the organization will recruit, support, develop and retain the employees it needs for future success. As SaskTel continues to implement the corporate action plan, several initiatives are in progress to address critical human resource challenges and key areas of focus.

#### **Financial Risks**

#### Cost Management

SaskTel remains focused on improving its operating efficiency and removing costs from the business. Revenue re-price and market share losses, driven by competition, combined with the transition to lower margin Internet protocol-based services continually reinforces the need to focus on initiatives that will maintain and improve SaskTel's financial return to its shareholders.

To date, SaskTel has been very successful in managing costs throughout the company, and will remain focused on achieving further efficiencies. SaskTel has dedicated resources throughout the company to measure productivity and implement integrated and efficient solutions to achieve the required cost reductions while ensuring both customer and employee needs continue to be met.

#### **Pension Plan**

Although capital markets have improved, continued low discount rates have caused the SaskTel Pension Plan (defined benefit) to remain in a significant deficit position. SaskTel is monitoring the risks of a stall or reversal of the market recovery and/or a further decrease in the discount rate used to value pension liabilities. Should these situations occur, significantly increased employer contributions would be required to maintain the financial health of the plan and meet regulatory funding requirements. This would have a material negative effect on cash and, ultimately, on net earnings.

SaskTel continues to mitigate pension plan risk by contributing to the plan as required by existing legislation and managing the asset mix to the optimal proportion of equities, real estate and bonds. Additionally, the Saskatchewan Financial Services Commission has introduced solvency relief measures that provide for three-year relief from funding any new solvency deficits (established in a valuation between December 31, 2008 and January 1, 2011). This would allow further time for the financial markets to recover and may allow SaskTel to avoid increased solvency funding. SaskTel will closely analyze this option and will determine the appropriateness of making this election upon filing of the December 31, 2010 actuarial valuation.

SaskTel will continue to monitor market rates of return, interest rates, and other factors to determine further impacts on plan funding and solvency status and will be positioned to take further action including but not limited to valuations and increased funding, if necessary.

These actions will ensure the plan deficit is managed and ultimately eliminated as required by existing legislation.

#### Legal Risks

SaskTel, like all businesses, faces the risk of being sued. Our employees interact with thousands of people daily and our assets are numerous and visible. We are exposed to various aspects of legal risk, including contractual, professional, statutory, and third party liability, which could negatively impact our results and reputation.

Although the legal risk environment that we operate in is reasonably stable, we dedicate significant effort to managing our legal exposures. Central to our legal risk mitigation is the expertise and active business involvement of our Corporate Counsel division, a corporate structure that uses separate legal entities (subsidiaries) to limit liability, a focus on contractual assignment of risk or limitation of liability, and sound operating procedures at the core of our business. Additionally, our corporate insurance program provides a degree of financial protection from specific third party legal liabilities.

At year end, SaskTel is named in the following major lawsuits. SaskTel believes it has strong defenses in all cases.

#### **Cellular Class Action Suit**

On August 9, 2004, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications. Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning system administration fees. The Plaintiffs seek unquantified damages from the defendant wireless

communications service providers. Similar proceedings have been filed by, or on behalf of, Plaintiffs' counsel in other provincial jurisdictions. On July 18, 2006, the Saskatchewan court declined to certify the action as a class action, but granted the Plaintiffs leave to renew their application in order to further address certain statutory requirements respecting class actions. The Plaintiffs renewed their application for certification and the renewed application was heard in June of 2007. On September 17, 2007, the Saskatchewan court certified the Plaintiff's proceeding as a class action with respect to an allegation of unjust enrichment only. SaskTel continues to believe that it has strong defenses to the allegations and that legal errors were made by the court in the certification proceeding. SaskTel was granted leave to appeal the certification decision in this matter to the Court of Appeal on March 15, 2010. The appeal itself was heard on December 13 and 14, 2010 with the decision still pending.

#### Second Cellular Class Action Suit

On July 24, 2009, a second proceeding under the Class Actions Act (Saskatchewan) was issued against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. SaskTel believes this second claim involves substantially the same allegations as the 2004 claim that was heard before the Saskatchewan Court of Appeal in December 2010. On December 7 and 8, 2009, the Court of Queen's Bench heard motions by the Defendants, including SaskTel, that the second action commenced by the Plaintiffs in July 2009 should be permanently stayed (prevented from proceeding in any manner) as an abuse of the process of the Court, given the existence of the 2004 action. A decision by the Court of Queen's Bench on the Defendant's abuse of process motion was issued December 23, 2009. This second action has been conditionally stayed as an abuse of process without prejudice to the Plaintiffs to pursue their claims in the future if circumstances change. SaskTel believes that it has strong defenses to the allegations contained in the most recent 2009 claim.

#### 911 Fee Class Action Suit

On June 26, 2008, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireline, wireless and cellular service providers, including Saskatchewan Telecommunications. Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireline and wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning fees and charges paid for 911 service. The Plaintiffs seek unquantified damages from the defendant communications service providers. A case management judge has now been appointed for the proposed class action. SaskTel believes that it has strong defenses to the allegations that are made by the Plaintiffs in the claim and will be strongly defending and opposing the claims that have been made. External legal counsel has been retained by SaskTel to handle this matter.

#### Operational Risks

#### System and Information Security

System security involves the protection of information and associated systems and networks. These system and network assets are used to process, manage and store customer, employee, operational and competitive information.

Risks associated with the security of information systems are complex due to the rate of change in technology, the growth of IP services, the regulatory environment and the continued risks associated with conducting business in this changing environment.

SaskTel has undergone a security business-level threat and risk assessment to understand the current risks that the organization faces. The objective of this project was to use the risk assessment to develop a roadmap for the information security program and architecture within SaskTel, to manage these risks and enable the organization to achieve its objectives. A multi-year Information Security Program has been approved and SaskTel is implementing and enhancing security controls to address the risks identified through the risk assessment.

#### Change Management

SaskTel is affected by constant technological change, changing customer needs, frequent introduction of new products and services and short product life cycles. The ability to launch timely, effective solutions is critical to our success.

A risk exists that projects may be deferred or cancelled, resulting in expected benefits being delayed or unrealized. SaskTel strives to select and ensure projects will be completed at the right time, aligning with corporate strategies. Our focus on project management processes helps ensure their effectiveness and efficiency.

#### **Business Interruption**

With more than 1,400 locations of property, plant and equipment throughout the province, SaskTel has a substantial investment in physical property. All of it is exposed to damage from natural hazards, vandalism and other forms of accidental loss. Damage or destruction of assets could reduce revenues, increase expenses and impair asset values.

A stringent preventative maintenance program, regular inspections by independent loss prevention engineers, strict procedures on housekeeping practices, and appropriate physical security controls reduce and prevent losses. Major switching centres are designed to limit loss exposures by utilizing departmentalization, zoned environmental systems, smoke barriers, automatic sprinklers and very early fire detection systems. As well, a comprehensive insurance program is in place to transfer any physical loss and resultant business interruption experienced.

SaskTel's extensive network has evolved over the years to provide a variety of services from traditional voice services to leading edge Internet, entertainment and data services. The confidence level in the network is high. However, SaskTel's network infrastructure is complex and the possibility of a hardware or software failure impairing the ability to provide service to customers cannot be ruled out.

In addition to building high levels of redundancy into the network infrastructure, SaskTel uses a number of other strategies to mitigate these risks, including regular operational reviews, business continuity plans, prearranged disaster recovery support from vendors, stringent testing procedures for new software, preventative maintenance programs and site hardening of critical locations.

SaskTel has business continuity and disaster recovery plans that evolve through the Business Continuity Management (BCM) program. The BCM program is the unifying, integrated process that aids business units with the development and ongoing management of advance arrangements and procedures which enable SaskTel to respond to an event where critical business functions and processes have been disrupted. This program includes recovery of critical applications and data, employee health and safety, and alternate work arrangements. Planning for an infectious disease outbreak such as a pandemic has been completed by all business units.

#### **Vendor Viability**

SaskTel uses a number of external vendors for professional and support services to maintain and deliver solutions to our customers. SaskTel performs regular reviews of major vendors to assess our exposure in the event a vendor is unable to deliver these services.

Should a vendor be unable to deliver on its contracted services, it may impair SaskTel's ability to remain current with technology. This could also limit SaskTel's ability to deliver new services and remain competitive. To address this, SaskTel manages the life cycle evolution of our technology and services, preparing the company to address any issues that arise in case a vendor restructures. Specifically, the network has been purposely built as a diverse, multi-vendor environment. SaskTel's proactive evolution planning of technology and services not only defines transitional steps for current and future goals, but also defines mitigation actions where necessary.

#### **OPERATING RESULTS**

#### Net Income

#### Consolidated Net Income

(\$ millions)	2010	2009	Change	%
Operating Revenues	\$1,112.4	\$1,119.6	\$(7.2)	(0.6)
Operating Expenses	953.4	972.8	(19.4)	(2.0)
Income from operations	159.0	146.8	12.2	8.3
Other items	12.3	8.2	4.1	50.0
Interest and related items	(20.2)	(22.1)	1.9	8.6
Income before the following	151.1	132.9	18.2	13.7
Gain on disposal of intangible assets	-	3.1	(3.1)	(100.0)
Loss on disposal of assets held for sale	e –	(9.0)	9.0	(100.0)
Income from continuing operations	151.1	127.0	24.1	19.0
Income from discontinued operations	4.1	2.0	2.1	105.0
Net income	\$155.2	\$129.0	\$26.2	20.3

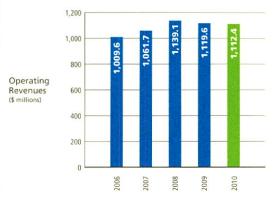
SaskTel had its best operating year ever. Net income for the year was \$155.2 million, up \$26.2 million (20.3%) from 2009. Return on equity was 18.9%, up from 16.2% in 2009, and dividends declared for 2010 were \$139.7 million as SaskTel once again provided a strong return to its shareholders.

During the second quarter of 2010, SaskTel approved plans whereby the operations of Hospitality Network and Saskatoon Square would be divested and the criteria for classification as discontinued operations were met. In addition, SaskTel had previously classified the operations of DirectWest Canada, Inc. as discontinued operations.

The results of the operations of these entities have been presented as discontinued operations in the Consolidated Statements of Operations and Cash Flows and the related assets and liabilities have been reported as assets of discontinued operations and liabilities of discontinued operations in the Consolidated Statement of Financial Position for all periods presented. Additional details can be found in notes 6 and 23 of the consolidated financial statements.

#### **Operating Revenues**

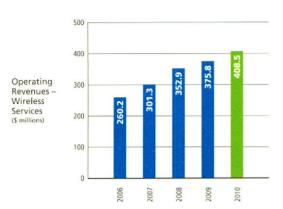
Total operating revenues decreased to \$1,112.4 million in 2010, down \$7.2 million (0.6%) from 2009 primarily due to out-of-province revenue reductions resulting from the divestiture of selected out-of-province assets in 2009. If you normalize 2009 revenues to exclude these out-of-province revenues, revenues in 2010 increased by \$33.7 million (3.1%), reflecting continued strong customer growth in wireless, *Max* Entertainment and Internet services. In order to provide better comparatives, the out-of-province revenues for 2009 were reclassified as other services in the table below.



#### **Consolidated Operating Revenues**

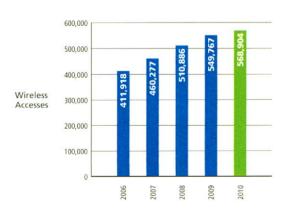
2010	2009	Change	%
\$408.5	\$375.8	\$32.7	8.7
282.5	291.6	(9.1)	(3.1)
232.2	214.2	18.0	8.4
66.0	71.7	(5.7)	(7.9)
43.6	42.3	1.3	3.1
19.0	18.8	0.2	1.1
12.9	11.7	1.2	10.3
47.7	93.5	(45.8)	(49.0)
\$1,112.4	\$1,119.6	\$(7.2)	(0.6)
	\$408.5 282.5 232.2 66.0 43.6 19.0 12.9 47.7	\$408.5 \$375.8 282.5 291.6 232.2 214.2 66.0 71.7 43.6 42.3 19.0 18.8 12.9 11.7 47.7 93.5	\$408.5 \$375.8 \$32.7  282.5 291.6 (9.1)  232.2 214.2 18.0  66.0 71.7 (5.7)  43.6 42.3 1.3  19.0 18.8 0.2  12.9 11.7 1.2  47.7 93.5 (45.8)

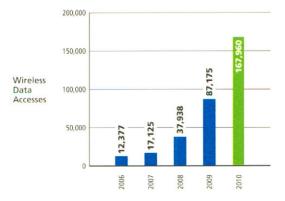
#### Wireless Services



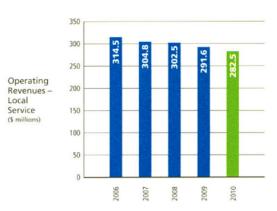
Wireless revenues increased by \$32.7 million (8.7%) to \$408.5 million in 2010. This was driven by continued strong customer growth in wireless services, as total wireless accesses increased to 568,904 at year end, up 19,137 from 2009. The average revenue per wireless subscriber increased to \$59.90, up from \$59.40 in 2009 as wireless customers continue to increase usage of services such as text messaging and other data applications. At year end, SaskTel had 167,960 data capable wireless accesses, up from 87,175 in 2009.

#### Wireless Accesses



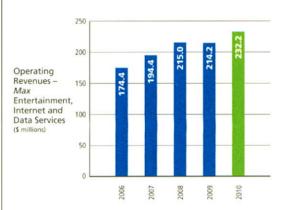


#### **Local Service**

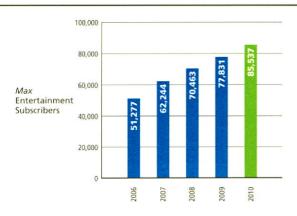


Local service revenues declined to \$282.5 million in 2010, down \$9.1 million (3.1%) from 2009. This decline is due to reduced High Cost Serving Area subsidies and the reduction in network accesses that occurred during the year as local access competitors gained market share and as customers continued to migrate to wireless services.

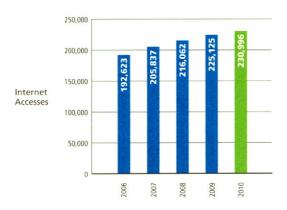
#### Max Entertainment, Internet and Data Services



Revenues from Max, Internet and data services increased to \$232.2 million in 2010, up \$18.0 million (8.4%) from 2009. Max Entertainment revenues increased by \$10.5 million from 2009, driven primarily by continued strong customer growth and rate increases. At year end, there were 85,537 Max customers compared to 77,831 at the end of 2009, an increase of 7,706 (9.9%). Max services deliver digital video signals, including high definition and specialty television channels, digital TV recorder, video on demand in partnership with Hollywood studios, local video on demand, live event pay per view and "always on" high speed Internet.

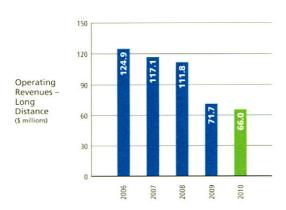


Internet revenues increased \$6.2 million in 2010, primarily due to an increase in Internet customers. At year end, there were 230,996 Internet accesses, up from 225,125 in 2009, an increase of 5,871 (2.6%). This growth was driven, in part, by our continued expansion of service to more Saskatchewan communities.



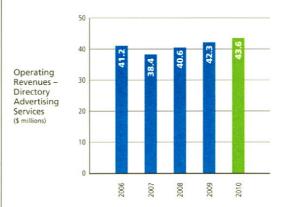
Data services revenues increased by \$1.3 million in 2010.

#### Long Distance



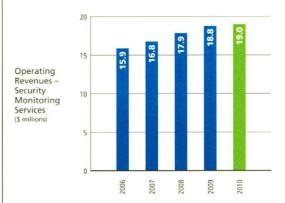
Long distance revenues declined to \$66.0 million in 2010, down \$5.7 million (7.9%) from 2009, primarily due to rate reductions. Continued migration to unlimited calling plans also continue to drive in-province long distance revenues downward.

#### **Directory Advertising Services**



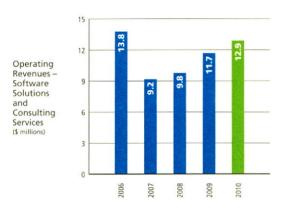
Directory advertising revenues increased to \$43.6 million in 2010, up \$1.3 million (3.1%) from 2009. This increase was due to increased sale of new online digital products and services while the traditional print product remained stable.

#### **Security Monitoring Services**



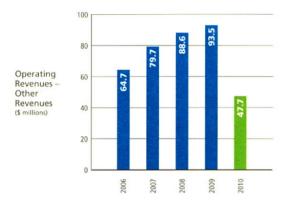
Security monitoring revenues increased to \$19.0 million in 2010, up \$0.2 million (1.1%) from 2009 due to an increase in customers.

### **Software Solutions and Consulting Services**



Software solutions and consulting services revenues increased to \$12.9 million in 2010, up \$1.2 million (10.3%) from 2009. This increase reflects increased sales of software solutions.

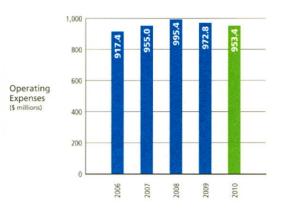
#### Other Revenues



Other revenues decreased to \$47.7 million in 2010, down \$45.8 million (49.0%) from 2009. The decrease reflects the sale of SaskTel's out-of-province assets in late 2009, and reductions in customer premise equipment sales and terminal maintenance services revenues.

#### **Operating Expenses**

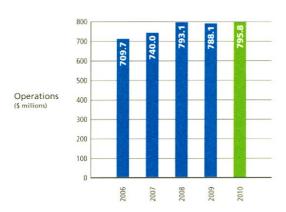
Total operating expenses were \$953.4 million, down \$19.4 million from 2009 due to reduced out-of-province expenses resulting from the divestiture of selected out-of-province assets in late 2009. If you normalize 2009 operating expenses to exclude these out-of-province expenses, operating expenses in 2010 increased by \$23.2 million, reflecting increased expenses to support growth in wireless, *Max* Entertainment and Internet revenues, increases in services expenditures, and one-time operating expense reductions recorded in 2009. These increases were partially offset by reductions in depreciation and restructuring charges.



### **Consolidated Operating Expenses**

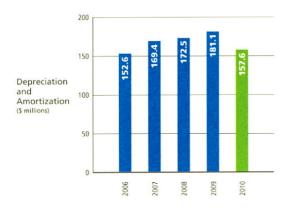
(\$ millions)	2010	2009	Change	%
Operations	\$795.8	\$788.1	\$7.7	1.0
Depreciation and amortization	157.6	181.1	(23.5)	(13.0)
Restructuring charges	_	3.6	(3.6)	(100.0)
Total	\$953.4	\$972.8	\$(19.4)	(2.0)

#### Operations



Operations expense increased to \$795.8 million in 2010, up \$7.7 million (1.0%) from 2009 reflecting increases in direct costs to support customer growth and increases in services expenditures to support product and service development and productivity improvement projects. These increases were partially offset by reduced out-of-province expenses resulting from the divestiture of selected out-of-province assets in late 2009 and by \$17.8 million in expense reductions that were achieved by initiatives under SaskTel's Productivity Improvement Program.

#### **Depreciation and Amortization**



Depreciation and amortization expense decreased to \$157.6 million in 2010, down \$23.5 million (13.0%) from 2009, primarily due to a change in depreciation rates resulting from a change in the estimated useful lives for certain classes of property, plant and equipment.

#### Other Items

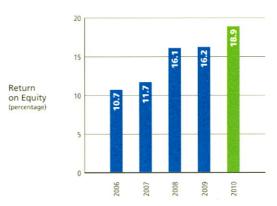
Other items increased by \$4.1 million due to Provincial Sales Tax refunds and to a gain realized on disposal of SaskTel's specialty publications assets in 2010.

#### Interest and Related Items

Interest and related items decreased by \$1.9 million in 2010 due to increases in the fair value of sinking funds and to increased sinking fund earnings.

#### Return on Equity

	2010	2009	Change	%
Return on equity	18.9	16.2	2.7	16.7



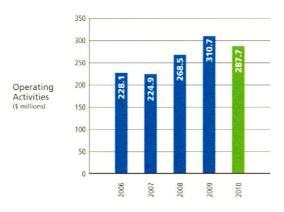
Return on equity increased to 18.9% in 2010, up from 16.2% in 2009, as SaskTel continues to provide strong returns to its shareholders.

# LIQUIDITY AND CAPITAL RESOURCES

# Cash Provided By Operating Activities

(\$ millions)	2010	2009	Change	%
Years ended December 31	\$287.7	\$310.7	\$(23.0)	(7.4)

Cash provided by operating activities was \$287.7 million, down \$23.0 million from 2009. Cash provided by operations decreased \$8.6 million compared to 2009, pension funding requirements increased by \$8.2 million and working capital changes resulted in a decrease in cash of \$6.2 million compared to 2009.



# Cash Used By Investing Activities

(\$ millions)	2010	2009	Change	%
Years ended December 31	\$294.2	\$184.3	\$109.9	59.6

Cash used in investing activities was \$294.2 million, up \$109.9 million from 2009, primarily due to increased spending for the Saskatchewan Infrastructure Improvement Program (SIIP) including migration of the wireless network to 3G+ based on Universal Mobile Telecommunications System (UMTS)/High Speed Packet Access (HSPA) technology. This increase was partially offset by reduced spending on intangible assets and proceeds from the disposal of investments.

# **Investing Activities**

### Capital Spending

SaskTel's net capital spending on property, plant and equipment in 2010 was \$282.4 million, up \$80.9 million from 2009. Spending increased to support the SIIP, enhancements to Max Entertainment Services and increased spending on buildings and equipment.

SaskTel invested approximately \$252.2 million in growth initiatives in 2010 compared to \$175.1 million in 2009. Expenditures to sustain capital assets decreased to \$42.8 million in 2010 from \$45.3 million in 2009.

Growth and diversification initiatives in 2010 included:

- \$161.6 million in additional investment on the SIIP. A portion of the SIIP, the Rural Infrastructure Program, is a SaskTel partnership with the Government of Saskatchewan to provide last-mile broadband to 100% of rural Saskatchewan, cellular expansion to 98% of the population of Saskatchewan and backbone infrastructure upgrades to increase basic Internet to five (5) megabits per second. Additional aspects of the SIIP include expansion of Fiber to the Premises (FTTP) and migration of the wireless network to 3G+ based on UMTS/HSPA technology.
- \$43.5 million in additional investment into the Access & Core Network Growth program to ensure the SaskTel wireline and wireless network continues to meet customer needs.
- \$21.9 million in capital expenditures to enhance Max Entertainment Services. Max provides customers with a full line-up of digital and HD quality television channels as well as unlimited high speed Internet on their television and personal computer.
- \$10.0 million in capital spending on state-of-the-art equipment to prepare the SaskTel network for the future growth in wireline data requirements.
- \$1.9 million in capital spending on the Wireless Cellular Network Expansion program to improve digital wireless network coverage in rural areas across Saskatchewan.

Significant investments to sustain capital assets in 2010 included:

- \$13.0 million was spent for the maintenance and construction of buildings and equipment across Saskatchewan.
- \$12.5 million in spending on the wireline and wireless networks to ensure the SaskTel network remains a leader in quality while still being able to meet growth in customer demand.
- \$6.4 million in capital spending for systems infrastructure and desktop computer provisioning initiatives. These upgrades will establish new data and communications infrastructure needed to sustain current technology and provide for future growth.

# Targets for 2011

Capital expenditures in 2011 will focus on further investment in growth initiatives while sustaining current capital assets. A large portion of the growth expenditures will see capital investment to increase bandwidth to our customers. Capital investments will include continued cellular network upgrades to UMTS/HSPA technology, network growth and refurbishment, further investment in Max Entertainment Services, and improved high speed Internet quality.

# Cash Provided By (Used In) Financing Activities

(\$ millions)	2010	2009	Change	%
Years ended December 31	\$13.4	\$(125.3)	<b>\$</b> 138.7	(110.7)

Cash provided by financing activities was \$13.4 million compared to a use of cash of \$125.3 million in 2009. During 2010, net short-term borrowings increased by \$74.2 million and long-term debt increased by a net amount of \$108.8 million. The increase in long-term debt is the result of two new debt issues with net proceeds of \$198.7 million and debt repayment of \$90.0 million. In addition, sinking fund redemptions contributed \$11.3 million. There was minimal long-term debt activity for 2009. SaskTel paid a dividend of \$154.6 million to CIC, an increase of \$55.8 million over 2009. During the last five years, SaskTel paid a total of \$386.4 million in dividends while maintaining a debt ratio below 40%.

### **Debt Ratio**

(\$ millions)	2010	2009	Change	%	
Long-term debt	\$438.7	\$330.3	\$108.4	32.8	
Short-term debt	59.9	8.7	51.2	588.5	
Less: Sinking funds Cash and short-term	64.8	68.3	(3.5)	(5.1)	
investments	19.3	9.3	10.0	107.5	
Net Debt	414.5	261.4	153.1	58.6	
Equity	827.3	811.8	15.5	1.9	
Capitalization	\$1,241.8	\$1,073.2	\$168.6	15.7	
Debt ratio	33.4%	24.4%	9.0	36.9	

The debt ratio increased to 33.4% in 2010, up from 24.4% in 2009. The overall level of net debt increased \$153.1 million primarily to fund an increase in property, plant and equipment expenditures in 2010. Retained earnings increased \$15.5 million after recording net income of \$155.2 million and declaring dividends of \$139.7 million.

### Debt Instruments

SaskTel's debt portfolio consists of short-term and long-term debt. Both are issued through and guaranteed by the Province of Saskatchewan. Short-term debt is issued at market rates in effect on the issue date. Long-term debt is at fixed interest rates.

The average interest rate on SaskTel's fixed rate debt was approximately 6.17% at December 31, 2010 and 7.52% at December 31, 2009. The average interest rate of the short-term debt outstanding at December 31, 2010 was 1.13% and 0.28% at December 31, 2009.

The interest rate on SaskTel's debt depends on the credit rating of the Province of Saskatchewan, which issues debt on SaskTel's behalf. The following table lists the credit ratings of the Province at December 31, 2010.

	S&P	DBRS	Moody's
Long-term debt	AA+ Stable	AA mid	Aa1 stable
Short-term liabilities	A-1 +	R-1 (high)	Not Rated

### Access to Capital

The primary uses of cash in 2011 will be property, plant and equipment expenditures, growth initiatives, and dividend payments.

The 2011 plan assumes that funding of capital expenditures, growth initiatives and dividend payments will be initially from operations.

Additional funding will be accessed through short-term notes and, potentially, long-term debt issued through the Province of Saskatchewan.

Credit facilities consist of up to \$500 million in combined lines of credit with financial institutions and advances from the Province of Saskatchewan. At December 31, 2010, SaskTel had accessed \$59.9 million of these facilities.

Besides these credit facilities, SaskTel has authority to issue up to \$1.3 billion in combined short-term and long-term debt. At December 31, 2010 total outstanding debt was \$498.6 million compared to \$339.0 million in 2009.

# Use of Financial Instruments

SaskTel uses derivative instruments to manage exposure to interest rate risk and foreign exchange risk. Derivative instruments are not used for speculative purposes. Because derivative instruments are related to specific financial exposures, there is no significant liquidity risk. At December 31, 2010, there were no derivative financial instruments outstanding.

### SIGNIFICANT ACCOUNTING POLICIES

SaskTel's consolidated financial statements are prepared according to Canadian Generally Accepted Accounting Principles (Canadian GAAP). Please refer to Note 2 to the consolidated financial statements for information about the accounting principles that SaskTel uses in preparing its financial statements.

# **Key Accounting Estimates and Assumptions**

In preparing the consolidated financial statements, management is required to make estimates and assumptions in determining transaction amounts and financial statement balances, and is required to constantly evaluate the estimates and assumptions used. Management bases these estimates and assumptions on past experience and other factors considered reasonable under the circumstances. Because of the judgment and uncertainty involved, the amounts currently reported in the financial statements could, in the future, prove to be inaccurate.

# **Employee Defined Benefit Plans**

SaskTel maintains defined benefit plans that provide pension, other retirement and post-employment benefits for employees. The primary plan is the SaskTel Pension Plan, which has been closed to membership since 1977. Reported financial statement amounts relating to these benefits are determined using actuarial calculations that are based on several assumptions.

SaskTel performs a valuation at least every three years to determine the actuarial present value of the accrued pension and other retirement benefits. The valuation uses management's assumptions for the discount rate, expected long-term rate of return on plan assets, rate of compensation increase and expected average remaining lives of employees. Management believes these assumptions are appropriate; however, differences in actual results or changes in assumptions could affect employee benefit obligations and future income or expense. SaskTel accounts for differences between actual and assumed results by recognizing differences in benefit obligations and plan performance over the lives of the employees who benefit from the plans.

The two most significant assumptions used to calculate the net employee benefit plan's obligation are the discount rate and the expected long-term rate of return on plan assets.

### Discount rate

The discount rate is the interest rate used to determine the present value of the future cash flows that SaskTel expects will be required to settle employee benefit obligations. It is usually based on the yield of long-term, high-quality, corporate fixed income investments with terms reflecting the profile of the plan members.

SaskTel determines the appropriate discount rate at the end of every year. SaskTel's discount rate was 5.25% at December 31, 2010, down 0.75% from 6.00% used in 2009. Changes in the discount rate could have an effect on SaskTel's earnings through an effect on the projected benefit obligation. A lower discount rate results in a higher obligation, which could at some point require additional contributions to the plan.

### Expected long-term rate of return

In 2010, SaskTel assumed an expected long-term rate of return on plan assets of 6.75%, consistent with the rate used in 2009. This rate is not currently anticipated to change in 2011.

### Allowances for Doubtful Accounts

SaskTel and its subsidiaries maintain allowances for losses expected to result from customers who do not make their required payments.

Estimates of the allowances are based on the likelihood of collecting accounts receivable based on past experience, taking into account current and expected collection trends. If economic conditions or specific industry trends become worse than anticipated, the allowances for doubtful accounts will be increased by recording an additional expense.

# **Depreciation and Amortization**

Depreciation and amortization is an estimate to allocate the cost of an asset over its estimated useful life on a systematic and rational basis. Estimating the appropriate useful lives of assets requires significant judgment and is generally based on past experience with similar assets, taking into account expected technological or other changes. If technological changes happen more quickly or in a different way than anticipated, management may have to shorten an asset's estimated useful life. This could result in a higher amortization expense in future periods or an impairment charge to reflect the write-down in value of the asset.

### **Long-lived Assets**

Long-lived assets, including property, plant and equipment, are amortized over their useful lives. SaskTel reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset, or group of assets, to be held and used when the carrying value exceeds the total undiscounted cash flows expected from use and eventual disposal. Estimating the cash flows from the use and eventual disposal of long-lived assets requires significant judgement and is generally based on current and anticipated asset potential, including future technological trends. Declines in future cash flow potential or significant unanticipated technology changes could impact the carrying value and potential impairment, in addition, SaskTel cannot predict whether an event that may trigger an impairment will occur, when it will occur or how it will affect the asset values reported.

### Goodwill

SaskTel management does not amortize goodwill but tests it for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment testing is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. The estimates of future cash flows and fair value reflect management's best estimates, but they include uncertainties that cannot be controlled. As a result, the amounts reported for these items could change if assumptions are different or if conditions vary in the future. SaskTel cannot predict whether an event that triggers impairment will occur, when it will occur or how it will affect the asset values reported.

# **Intangible Assets**

SaskTel records intangible assets at the most appropriate value depending on the method of acquisition: cost for purchased and internally developed intangible assets, and fair value for intangible assets acquired in business combinations. Intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value. Estimating the cash flows from the use and eventual disposal of intangible assets requires significant judgment and is generally based on current and anticipated asset potential, including future technological trends. Declines in future cash flow potential or significant unanticipated technology changes could impact the carrying value and potential impairment, in addition, SaskTel cannot predict whether an event that triggers an impairment will occur, when it will occur or how it will affect the asset values reported.

### Contingencies

SaskTel becomes involved in various litigation and regulatory matters as a regular part of its business. Pending litigation, regulatory initiatives or regulatory proceedings represent potential financial loss to SaskTel.

SaskTel will accrue a potential loss if it is probable and it can reasonably be estimated. This decision is based on information available at the time.

# ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Canadian public companies including Government Business Enterprises (GBEs) will be required to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), for fiscal years beginning on or after January 1, 2011. Effective January 1, 2011, SaskTel and its subsidiaries, as GBEs, will adopt IFRS as the basis for preparing consolidated financial statements. SaskTel will report financial results for the quarter ended March 31, 2011 prepared on an IFRS basis. SaskTel will also provide comparative data on an IFRS basis, including an opening balance sheet as at the date of transition, January 1, 2010.

SaskTel and its subsidiaries have finalized an IFRS conversion project including selection of accounting policies and financial statement presentation formats and determination of the most significant impacts of IFRS on processes, systems, internal controls over financial reporting and disclosures, and future financial position and results of operations. As part of the IFRS implementation, SaskTel has made changes to certain processes and systems to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes.

SaskTel has provided preliminary draft reconciliations which present the differences between Canadian GAAP and IFRS for the opening statement of financial position as at January 1, 2010, the impact on the Province of Saskatchewan's equity as at the date of transition, the statement of financial position as at December 31, 2010, net income and comprehensive income for the year ended December 31, 2010, and estimated impacts on Key Performance Indicators. While these reconciliations do not represent an official adoption of IFRS, they provide an indication of the major differences identified to date, relative to SaskTel's historical financial statements. The possibility exists that the information provided may require adjustment before constituting the comparative information in the first complete set of 2011 IFRS financial statements prepared in accordance with IFRS, because of revisions or changes to standards or interpretations on the application of a particular IFRS, or voluntary changes to IFRS 1: "First Time Adoption of Financial Reporting Standards" exemptions (mandatory exceptions and optional exemptions) or policies as selected by SaskTel.

# Reconciliation of Consolidated Statement of Financial Position at January 1, 2010

Thousands of dollars (including notes)

IFRS	ADII	ISTN	//FNTS

	Note	Note Canadian GAAP	Discontinued Operations <sup>1</sup>	Mandatory	Elective	IFRS
Assets						
Current assets	2,3,4	\$136,131	\$-	\$12,895	\$-	\$149,026
Capital assets	4,6,7,8,10	1,057,746	27,094	(25,635)	109,280	1,168,485
Goodwill		6,076	11,838	-	=	17,914
Other assets	4,5,9	216,827	(38,932)	1,523	(108,145)	71,273
		\$1,416,780	\$-	\$(11,217)	\$1,135	\$1,406,698
Liabilities and Province's equity						
Current liabilities	2,4,9,10	\$313,581	\$-	\$(3,386)	\$(15,107)	\$295,088
Long-term debt	4	233,945	5,909	(5,909)	-	233,945
Other long-term liabilities	9	57,455	(5,909)	=	100,522	152,068
Province of Saskatchewan's equity		811,799	-	(1,922)	(84,280)	725,597
		\$1,416,780	\$-	\$(11,217)	\$1,135	\$1,406,698

- 1. Under IFRS, prior years comparative figures in the statement of financial position are not restated for reclassification of discontinued operations. SaskTel has adjusted the opening statement of financial position to reclassify discontinued operations reported under Canadian GAAP to continuing operations under IFRS.
- 2. Under IFRS, SaskTel recognizes directory revenue when each directory is distributed to the public. This revenue was previously recognized in accordance with the contractual terms with advertisers on a monthly basis over the life of the print directory. As a result, current assets increased \$18,448, current liabilities decreased \$3,075 and retained earnings increased \$21,522.
- 3. In conjunction with the IFRS directory revenue recognition policy, the related publishing costs are required to be recognized when the related directory is distributed to the public. Under Canadian GAAP these expenses were deferred and amortized over the life of the related directory. As a result current assets and retained earnings decreased \$5,129.
- 4. Under IFRS, the equity method of accounting is used to account for joint ventures. SaskTel has deconsolidated its joint venture interest. While IFRS currently permits the use of proportionate consolidation, this method will not be allowed for annual periods beginning on or after July 1, 2010. As a result, current assets decreased by \$424, capital assets decreased by \$7,200, other assets increased by \$1,229, current liabilities decreased by \$85,909.
- 5. On transition to IFRS, additional property, plant and equipment components were identified which had been recorded as operating expenses under Canadian GAAP.

  As a result, other assets and retained earnings increased \$294.
- 6. Under IFRS, only directly attributable costs are capitalized to an item of property, plant and equipment. Under Canadian GAAP, SaskTel capitalized overheads attributable to construction and development activities, including general and administrative overhead costs. Removal of general and administrative overhead costs from property, plant and equipment resulted in a reduction of capital assets and retained earnings of \$44,770.
- 7. Previously SaskTel had not capitalized borrowing costs. Under IFRS, SaskTel is required to capitalize borrowing costs on qualifying assets resulting in an increase to capital assets and retained earnings of \$26,562.
- 8. SaskTel elected to use fair value as deemed cost for certain items of property, plant and equipment. On transition, the Corporation increased the carrying amount of capital assets and retained earnings by \$109,280.
- SaskTel has elected to recognize actuarial gains and losses in retained earnings upon transition to IFRS. As a result, other assets have decreased by \$108,145, current liabilities have decreased by \$15,107, other liabilities have increased by \$100,522 and retained earnings have decreased by \$193,560.
- 10. Certain capital provisions related to health care and senior care contracts are accrued at the inception of a service provision contract. Under Canadian GAAP these provisions were recorded as incurred. As a result, capital assets decreased \$227, current liabilities increased by \$174 and retained earnings decreased by \$401.

# Impact on Province of Saskatchewan's equity

Thousands of dollars	Note reference above	January 1, 2010	
Province's equity under Canadian GAAP		\$811,799	
Employee benefits expenses	9	(193,560)	
Deemed cost	8	109,280	
Directly attributable costs	6	(44,770)	
Borrowing costs	7	26,562	
Revenue recognition	2	21,522	
Prepaid publishing costs	3	(5,129)	
Componentization	5	294	
Capital provisions	10	(401)	
Province's equity under IFRS		\$725,597	

# Reconciliation of Consolidated Statement of Comprehensive Income for the Year Ended December 31, 2010

IFRS ADJUSTMENTS

Thousands of dollars (including notes)

				II 113712505TIMEITTS		
	Note Canadian GAAP	Mandatory	Elective	Other <sup>4</sup>	IFRS	
Revenues	1,2,3	\$1,112,362	\$584	\$-	\$-	\$1,112,946
Other income	5	-	(2,465)	-	11,089	8,624
Total revenue		1,112,362	(1,881)		11,089	1,121,570
Expenses						
Operations		795,759	=	_	(795,759)	=
Goods and services purchased	3,5,6		9,090	_	481,017	490,107
Salaries, wages and benefits	7		-	7,068	331,786	338,854
Depreciation and amortization	9	157,646	(610)	-	_	157,036
Internal labour capitalized				_	(17,044)	(17,044)
		953,405	8,480	7,068	-	968,953
		158,957	(10,361)	(7,068)	11,089	152,617
Other items		12,303	_	_	(12,303)	_
Interest and related items		(20,185)	_	-	20,185	
Net finance expense	8		11,032	-	(18,971)	(7,939)
Earnings from continuing operations		151,075	671	(7,068)	_	144,678
Net earnings from discontinued operations	5,10	4,127	695	: - :	_	4,822
Net earnings		155,202	1,366	(7,068)	_	149,500
Other comprehensive loss						
Defined benefit plan actuarial losses	11	-	-	(43,033)	_	(43,033)
Total comprehensive income		\$155,202	\$1,366	\$(50,101)	\$-	\$106,467

- 1. Under IFRS, most customer contributions received by SaskTel are required to be recorded as revenue. Under Canadian GAAP, these contributions were applied to the property, plant and equipment related to the service provision. The result is an increase to revenue of \$1,149.
- Under IFRS, SaskTel recognizes directory revenue when each directory is distributed to the public. This revenue was previously recognized in accordance with the
  contractual terms with advertisers on a monthly basis over the life of the print directory. This resulted in a reduction of revenue of \$247.
- SaskTel offers certain incentives to enter into service contracts. These incentives are recorded as a reduction of revenue under IFRS versus an expense under Canadian GAAP. The result is a reduction of revenue and a reduction of goods and services purchased of \$318.
- 4. IFRS requires that expenses be classified either by nature or by function for presentation. SaskTel has selected classification by nature. In addition, other reclassifications were required to conform to disclosure requirements for other income and net finance expense.
- 5. Under IFRS, only directly attributable costs are capitalized to an item of property, plant and equipment. Under Canadian GAAP, SaskTel capitalized overheads attributable to construction and development activities, including general and administrative overhead costs. Removal of general and administrative overhead costs from property, plant and equipment resulted in an increase in goods and services purchased of \$9,344, an increase in net earnings from discontinued operations of \$535 and a decrease in other income of \$2,465 as a result of losses on the disposal or retirement of assets recognized in income. The latter was previously recorded in accumulated depreciation under the group method.
- 6. In conjunction with the IFRS directory revenue recognition policy, the related publishing costs are required to be recognized when the related directory is distributed to the public. Under Canadian GAAP, these expenses were deferred and amortized over the life of the related directory. As a result goods and services purchased increased \$64.
- 7. SaskTel has chosen to charge all actuarial gains and losses to other comprehensive versus amortization of these gains and losses under Canadian GAAP, resulting in an increase in salaries, wages and benefits of \$7,068.
- 8. Previously SaskTel had not capitalized borrowing costs. Under IFRS, SaskTel is required to capitalize borrowing costs on qualifying assets resulting in a decrease to net finance expense of \$11,032.
- 9. Under IFRS, removal of general and administrative overheads, capitalization of borrowing costs, componentization and adoption of straight-line depreciation methodology has resulted in a decrease in depreciation and amortization expense by \$610.
- Componentization of noncurrent assets of discontinued operations and capital provisions have resulted in increases in net earnings from discontinued operations of \$80 and \$80 respectively.
- 11. Under IFRS, SaskTel elected to recognize current year actuarial losses related to the pension plan and other employee compensation programs in other comprehensive income resulting in a decrease to other comprehensive income of \$43,033.

### Reconciliation of Consolidated Statement of Financial Position at December 31, 2010

Thousands of dollars (including notes)

			IFRS ADJUSTMENTS				
	Note	ote Canadian GAAP	Discontinued Operations <sup>1</sup>	Mandatory	Elective	IFRS	
Assets							
Current assets	2,3,4,5,10,12	\$128,974	\$38,878	\$6,796	<b>S</b> -	\$174,648	
Capital assets	6,7,8,11,12	1,200,454	. —	(16,415)	109,280	1,293,319	
Goodwill		5,976	1 -	-	-	5,976	
Other assets	9	245,032	(38,878)		(132,694)	73,460	
		\$1,580,436	\$-	\$(9,619)	\$(23,414)	\$1,547,403	
Liabilities and Province's equity	,						
Current liabilities	2,4,9,10	\$264,790	\$5,607	\$(8,950)	\$(15,080)	\$246,367	
Long-term debt		432,756	-	-	-	432,756	
Other long-term liabilities	9,12	55,571	(5,607)	(110)	126,047	175,901	
Province of Saskatchewan's equity		827,319	-	(559)	(134,381)	692,379	

Under IFRS, noncurrent assets and liabilities of discontinued operations are classified as current assets and liabilities respectively. Under Canadian GAAP, these items
are classified as noncurrent assets and liabilities respectively. The result is an increase in current assets and a decrease in other assets of \$38,878, as well as an
increase in current liabilities and a decrease in other liabilities of \$5,607.

\$-

\$(9,619)

\$(23,414)

\$1,547,403

\$1,580,436

- Under IFRS, SaskTel recognizes directory revenue when each directory is distributed to the public. This revenue was previously recognized in accordance with the
  contractual terms with advertisers on a monthly basis over the life of the print directory. As a result, current assets increased \$18,333, current liabilities decreased
  \$2,942 and retained earnings increased \$21,275.
- 3. In conjunction with the IFRS directory revenue recognition policy, the related publishing costs are required to be recognized when the related directory is distributed to the public. These expenses were deferred and amortized over the life of the related directory. As a result, current assets and retained earnings decreased \$5,193.
- 4. Under IFRS, the equity method of accounting is used to account for joint ventures. SaskTel has deconsolidated its joint venture interest. While IFRS currently permits the use of proportionate consolidation, this method will not be allowed for annual periods beginning on or after July 1, 2010. In addition, the investment has been classified as discontinued operations. The net result is to reclassify the investment as a current asset resulting in a decrease of \$6,103 to current assets and current liabilities.
- 5. On transition to IFRS additional property, plant and equipment components were identified which had been recorded as operating expenses under Canadian GAAP.

  These components pertained to a discontinued operation, which is classified as current assets. As a result, current assets and retained earnings increased \$374.
- 6. Under IFRS, only directly attributable costs are capitalized to an item of property plant and equipment. Under Canadian GAAP, SaskTel capitalized overheads attributable to construction and development activities, including general and administrative overhead costs. Removal of general and administrative overhead costs from property, plant and equipment resulted in a reduction of capital assets and retained earnings of \$53,192.
- 7. Previously, SaskTel had not capitalized borrowing costs. Under IFRS, the Corporation is required to capitalize borrowing costs on qualifying assets resulting in an increase to capital assets and retained earnings of \$37,594.
- 8. SaskTel elected to use fair value as deemed cost for certain items of property, plant and equipment. On transition, SaskTel increased the carrying amount of capital assets and retained earnings by \$109,280.
- SaskTel has elected to recognize actuarial gains and losses in retained earnings upon transition to IFRS. As a result, other assets have decreased by \$132,694, current liabilities have decreased by \$15,080, other liabilities have increased by \$126,047 and retained earnings have decreased by \$243,661.
- 10. Certain capital provisions related to health care and senior care contracts are accrued at the inception of a service provision contract. Under Canadian GAAP, these provisions were recorded as incurred. As a result, current assets decreased \$227, current liabilities increased by \$95 and retained earnings decreased by \$322.
- 11. Under IFRS, most customer contributions received by SaskTel are required to be recorded as revenue. Under Canadian GAAP, these contributions were applied to the property, plant and equipment related to the service provision. The result is an increase to capital assets and retained earnings of \$1,149.
- 12. Under IFRS, removal of general and administrative overheads, capitalization of borrowing costs, and componentization combined with the adoption of straight-line depreciation methodology has resulted in a decrease in current assets of \$388, a decrease in capital assets of \$1,966, a decrease in other long-term liabilities of \$110, and a decrease in retained earnings of \$2,244.

# Key performance indicators

The indicators most impacted by SaskTel's adoption of IFRS are related to financial results and include revenue growth, net income, return on equity and the debt ratio.

Based on estimated results for the year ended December 31, 2010, the annual impact on revenue is not anticipated to significantly impact targets.

Net income will be impacted by:

- · interest and overhead capitalization policies;
- · accounting for actuarial gains and losses; and,
- changes in depreciation methodologies and estimated useful lives of certain assets.

Based on results for the year ended December 31, 2010, the estimated annual impact on net income is a reduction of approximately \$6 million.

Return on equity and the debt ratio will be impacted by the equity adjustments at the date of transition to IFRS. Based on results to the year ended December 31, 2010, the estimated impact on the debt ratio is an increase of approximately four percentage points and the estimated impact on return on equity is an increase of approximately two percentage points. The changes are due to the reduction of equity upon transition, equity adjustments related to operations and the impact of charges to other comprehensive income.

The IASB plans to make revisions to or replace existing IFRS standards that may impact these areas as well as other accounting issues. Some of the anticipated changes may be in effect prior to the Corporation's transition date, such that IFRS may differ at transition date from its current form. However, it is likely that the majority of the changes will be in effect subsequent to the date of transition, with the result that the impact to SaskTel of adopting IFRS will extend beyond its transitional year.

# **FIVE YEAR RECORD OF SERVICE**

# CONSOLIDATED STATEMENT OF OPERATIONS

(\$ millions)	2010	2009	2008	2007	2006
Operating revenues	\$1,112.4	\$1,119.6	\$1,139.1	\$1,061.7	\$1,009.6
Operations expenses	(795.8)	(788.1)	(793.0)	(740.0)	(709.7)
Restructuring charges		(3.6)	(21.5)	(45.6)	(55.1)
EBITDA	316.6	327.9	324.6	276.1	244.8
Depreciation and amortization	(157.6)	(181.1)	(172.3)	(169.0)	(152.6)
Write-down of long-lived assets	7		(8.3)		
Income from operations	159.0	146.8	144.0	107.1	92.2
Other items	12.3	8.2	4.8	5.3	5.6
Interest & related costs	(20.2)	(22.1)	(23.1)	(25.0)	(25.3)
Gain on disposal of intangible assets		3.1	-	-	_
Loss on disposal of assets held for sale	-	(9.0)	1.—1	-	_
Income from continuing operations	151.1	127.0	125.7	87.4	72.5
Gain (loss) from discontinued operations	4.1	2.0	(2.1)	(3.3)	_
Net income	\$155.2	\$129.0	\$123.6	\$84.1	\$72.5

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(\$ millions)	2010	2009	2008	2007	2006
Current assets	\$129.0	\$136.1	\$134.9	\$150.4	\$138.6
Property, plant and equipment	1,068.5	924.9	880.6	965.9	958.1
Other long-term assets	382.9	355.8	343.1	180.2	158.2
Total assets	\$1,580.4	\$1,416.8	\$1,358.6	\$1,296.5	\$1,254.9
Current liabilities	\$264.8	\$313.6	\$231.3	\$213.8	\$206.6
Long-term debt	432.8	233.9	330.6	327.8	348.9
Other long-term liabilities	55.5	57.5	10.7	12.2	11.8
Province of Saskatchewan's equity	827.3	811.8	786.0	742.7	687.6
Total liabilities & Province of Saskatchewan's equity	\$1,580.4	\$1,416.8	\$1,358.6	\$1,296.5	\$1,254.9

# CONSOLIDATED STATEMENT OF CASH FLOWS

(\$ millions)	2010	2009	2008	2007	2006
Cash and cash equivalents, beginning of year	\$9.3	\$4.9	\$12.0	\$16.1	\$97.1
Cash provided by operating activities	287.7	310.8	268.5	229.5	228.1
Cash used in investing activities	(294.2)	(184.3)	(219.3)	(175.4)	(231.1)
Cash provided by (used in) financing activities	13.4	(125.3)	(53.7)	(53.1)	(78.0)
Increase (decrease) in cash from continuing operations	6.9	1.2	(4.5)	1.0	(81.0)
Increase (decrease) in cash from discontinued operations	3.1	3.2	(2.6)	(5.1)	_
Cash and cash equivalents, end of year	\$19.3	\$9.3	\$4.9	\$12.0	\$16.1

# FINANCIAL INDICATORS

	2010	2009	2008	2007	2006
Return on equity	18.9%	16.2%	16.1%	11.8%	10.7%
Debt ratio	33.4%	24.4%	27.3%	27.7%	30.4%
Dividends declared	\$139.7	\$103.2	\$78.9	\$30.0	\$50.0

# CONSOLIDATED STATEMENT OF OPERATIONS

(\$ millions)	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Operating revenues	\$282.1	\$279.8	\$277.6	\$272.9	\$280.2	\$285.9	\$278.1	\$275.4
Operations expenses	(215.2)	(189.0)	(195.0)	(196.6)	(208.2)	(193.8)	(201.5)	(184.6)
Restructuring charges	-	-		-	0.4	0.2	(4.6)	0.4
EBITDA	66.9	90.8	82.6	76.3	72.4	92.3	72.0	91.2
Depreciation and amortization	(40.8)	(39.5)	(39.1)	(38.2)	(55.6)	(42.2)	(41.9)	(41.4)
			76.5 (20.00) (30.00)	, , ,				A 1700 a 150 a
Income from operations	26.1	51.3	43.5	38.1	16.8	50.1	30.1	49.8
Other Items	0.3	3.2	3.1	5.7	4.1	1.5	1.6	1.0
Interest & related costs	(6.8)	(4.1)	(3.3)	(6.0)	(6.6)	(4.2)	(5.5)	(5.8)
Gain on disposal of intangible assets	_		_	_	1 1-1	_	3.1	-
Loss on disposal of assets held for sale	-	_	_	-	(9.0)	_	1_	-
Income from continuing operations	19.6	50.4	43.3	37.8	5.3	47.4	29.3	45.0
Gain from discontinued operations	1.2	0.8	0.9	1.2	0.4	0.3	0.8	0.5
Net income	\$20.8	\$51.2	\$44.2	\$39.0	\$5.7	\$47.7	\$30.1	\$45.5

# ANNUAL OPERATING STATISTICS

	2010	2009	2008	2007	2006
Customer Accesses					
Wireless*	568,904	549,767	510,886	460,277	411,918
Wireline*	528,546	543,585	555,668	565,647	576,289
Internet (includes Max)	230,996	225,125	216,062	205,837	192,623
Max subscribers	85,537	77,831	70,463	62,244	51,277
Total accesses	1,413,983	1,396,308	1,353,079	1,294,005	1,232,107
Employees and payroll Total employees**	4,328	4,814	5,063	5,209	5,152
Salaries earned (000's)	\$300,929	\$303,138	\$296,494	\$292,765	\$275,679

<sup>\*</sup> Does not include SaskTel internal use
\*\* 2010 is reported as full time equivalents. All other years include all staff employed as at December 31.

# **CONSOLIDATED FINANCIAL STATEMENTS**

### MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements, included in the Annual Report of Saskatchewan Telecommunications Holding Corporation for the year ended December 31, 2010, are the responsibility of management and have been approved by the Board of Directors. Management has prepared the consolidated financial statements in accordance with generally accepted accounting principles in Canada. The financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

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

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

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

Ron Styles

President and Chief Executive Officer

March 2, 2011

Mike Anderson

Chief Financial Officer

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### REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

I, Ron Styles, the Chief Executive Officer of Saskatchewan Telecommunications Holding Corporation (SaskTel), and I, Mike Anderson, the Chief Financial Officer of SaskTel, certify the following:

- a. That we have reviewed the financial statements included in the Annual Report of SaskTel. Based on our knowledge, having exercised reasonable diligence, the financial statements included in the Annual Report, fairly present, in all material respects the financial condition, results of operations and cash flows, as of December 31, 2010, and for the periods presented in the financial statements.
- b. That based on our knowledge, having exercised reasonable diligence, the financial statements included in the Annual Report of SaskTel do not contain any untrue statements of material fact, or omit to state a material fact that is either required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made.
- c. That SaskTel is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable legislative authorities; and Saskatchewan Telecommunications Holding Corporation has designed internal controls over financial reporting that are appropriate to the circumstances of SaskTel.
- d. That SaskTel conducted its assessment of the effectiveness of the Corporation's internal controls over financial reporting and, based on the results of this assessment, SaskTel can provide reasonable assurance that internal controls over financial reporting as of December 31, 2010, were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

Ron Styles

President and Chief Executive Officer

March 2, 2011

Mike Anderson

Chief Financial Officer

### INDEPENDENT AUDITORS' REPORT

To The Members of the Legislative Assembly, Province of Saskatchewan

We have audited the accompanying consolidated financial statements of Saskatchewan Telecommunications Holding Corporation, which comprise the consolidated statement of financial position as at December 31, 2010, the consolidated statements of operations and comprehensive income, retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Saskatchewan Telecommunications Holding Corporation as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

KPMG LLP

Regina, Canada

March 2, 2011

For the year ended December 31,	2010	2009
Thousands of dollars		
Operating revenues	\$1,112,362	\$1,119,566
Operating expenses		
Operations	795,759	788,048
Depreciation and amortization	157,646	181,098
Restructuring charges	-	3,619
	953,405	972,765
Income from operations	158,957	146,801
Other items (Note 4)	12,303	8,180
Interest and related items (Note 5)	(20,185)	(22,094)
Income before the following	151,075	132,887
Gain on disposal of intangible assets		3,087
Loss on disposal of assets held for sale	_	(9,002)
Income from continuing operations	151,075	126,972
Income from discontinued operations (Note 6)	4,127	2,037
Net income	155,202	129,009
Other comprehensive income	_	_

See Accompanying Notes

Comprehensive income

# CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31, Thousands of dollars	2010	2009
Retained earnings, beginning of year	\$561,799	\$535,997
Net income	155,202	129,009
	717,001	665,006
Dividends	139,682	103,207
Retained earnings, end of year	\$577,319	\$561,799

\$155,202

\$129,009

See Accompanying Notes

As at December 31, Thousands of dollars	2010	2009
Assets		
Current assets		
Cash	\$12,886	\$2,904
Accounts receivable (Note 19a)	86,983	90,749
nventories (Note 7)	5,810	8,020
Prepaid expenses (Note 19a)	14,100	15,117
Current portion of sinking funds	_	10,519
Current assets of discontinued operations (Note 6)	9,195	8,822
	128,974	136,13
Long-lived assets of discontinued operations (Note 6)	38,878	38,932
Property, plant and equipment (Note 8)	1,068,519	924,895
ntangible assets – finite-life (Note 9)	65,954	66,870
ntangible assets – indefinite-life (Note 10)	65,981	65,981
Goodwill (Note 11)	5,976	6,076
Sinking funds (Note 12)	64,769	57,744
Deferred pension costs (Note 21)	132,693	108,145
Other assets (Note 13)	8,692	12,006
	\$1,580,436	\$1,416,780
Liabilities and Province's equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 19a)	\$128,097	\$129,310
Notes payable (Note 14)	59,900	8,700
Dividend payable	16,157	31,026
Services billed in advance (Note 19a)	58,599	51,762
Current portion of long-term debt (Note 16)		90,109
Current liabilities of discontinued operations (Note 6)	2,037	2,674
	264,790	313,58
Non-current liabilities of discontinued operations (Note 6)	5,607	5,909
Deferred revenue	8,801	9,146
Deferred revenue – government funding (Note 15)	41,163	42,400
Long-term debt (Note 16)	432,756	233,945
	753,117	604,98
Province of Saskatchewan's equity		
Province of Saskatchewall's edulty	250,000	250,000
Equity advance (Note 17) Retained earnings	577,319	561,799
Equity advance (Note 17)	577,319 827,319	561,799 811,799

See Accompanying Notes

On behalf of the Board:

Grant Kook

Blair Davidson

For the year ended December 31, Thousands of dollars	2010	2009
Operating activities		
Income from continuing operations  Adjustments to reconcile net income to cash provided	\$151,075	\$126,972
by operating activities  Depreciation and amortization	157,646	181,098
Contributions to defined benefit pension plans	(16,450)	(8,252)
Pension income of defined benefit plans	(8,099)	(8,408)
Sinking fund earnings	(4,661)	(3,487)
Amortization of government funding	(2,558)	(2,600)
Gain on disposal of intangible assets	-	(3,087)
Loss on disposal of assets held for sale	_	9,002
Other	(2,757)	(169)
Net change in non-cash working capital (Note 19b)	13,502	19,673
Cash provided by operating activities	287,698	310,742
Investing activities		
Property, plant and equipment expenditures	(282,446)	(201,530)
Intangible assets – finite-life expenditures	(18,354)	(27,773)
Redemption of preferred shares	3,733	. —
Proceeds on disposal of specialty publications division assets	1,550	_
Government funding	1,321	45,000
Cash used in investing activities	(294,196)	(184,303)
Financing activities		
Proceeds from long-term debt	198,670	_
Repayment of long-term debt	(90,000)	(123)
Proceeds from (repayment of) notes payable	51,200	(23,000)
Dividends paid	(154,551)	(98,793)
Sinking fund redemption	11,260	(2.266)
Sinking fund installments	(2,366)	(3,266)
Financing leases Capital lease obligations	(819) -	(86) (22)
Cash provided by (used in) financing activities	13,394	(125,290)
Increase in cash from continuing operations	6,896	1,149
Increase in cash from discontinued operations (Note 6)	3,079	3,222
Cash and short-term investments, beginning of year	9,313	4,942
Cash and short-term investments, end of year	\$19,288	\$9,313
Comprised of:		
Cash of continuing operations	\$12,886	\$2,004
Cash and short-term investments of discontinued operations	6,402	\$2,904 6,409
,	-	

See Accompanying Notes

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# Note 1 - The Corporation

Saskatchewan Telecommunications Holding Corporation (the Corporation) markets and supplies a range of voice, data, Internet, wireless, text, image, directory, security and entertainment products, systems and services. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of *The Saskatchewan Telecommunications Holding Corporation Act* and, as such, the Corporation and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

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.

One of the Corporation's subsidiaries, Saskatchewan Telecommunications (SaskTel) is regulated by the Canadian Radio-television and Telecommunications Commission (CRTC) under the Telecommunications Act (Canada).

### Note 2 – Summary of significant accounting policies

### Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP).

In March 2009, the Canadian Accounting Standards Board reconfirmed that Canadian GAAP for publicly accountable enterprises, including Government Business Enterprises (GBEs), will be replaced by International Financial Reporting Standards (IFRS) for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, these financial statements will be the last prepared by the Corporation as a GBE under pre-conversion Canadian GAAP, and the conversion to IFRS will be applicable to the Corporation's reporting for the first quarter of 2011, for which current and comparative information will be prepared under IFRS. The Corporation will also present an opening IFRS statement of financial position as at January 1, 2010, the Corporation's date of transition, as part of the Corporation's 2011 interim and annual financial statements.

### Subsidiaries and investments

The consolidated financial statements include the accounts of the Corporation and its subsidiaries with all significant inter-company transactions and balances being eliminated. Investments in companies in which the Corporation has significant influence are accounted for by the equity method. Other investments are accounted for by the cost method.

Declines in value below cost, of investments accounted for using the equity or cost method, are recognized as a charge to income when such declines are considered to be other than temporary.

The following is a summary of the operating entities in which the Corporation has an interest:

Operating entities	Percentage ownership	Basis for inclusion
Saskatchewan Telecommunications	100.0%	Consolidation
Saskatchewan Telecommunications International, Inc.	100.0%	Consolidation
DirectWest Corporation	100.0%	Consolidation
SecurTek Monitoring Solutions Inc.	100.0%	Consolidation
Hospitality Network Canada Inc.	100.0%	Consolidation
Saskatoon 2 Management Ltd.	70.0%	Proportionate consolidation
Saskatoon 2 Properties Limited Partnership	70.0%	Proportionate consolidation
NSI Global Inc.	0.1%	Cost

The following is a summary of the non-operating entities of the Corporation: Avonlea Holding, Inc., Battleford International, Inc., DirectWest Canada, Inc., Hollywood At Home, Inc., Manalta Investment Company Ltd., Nokomis Holding, Inc., Qu'Appelle Holding, Inc., Saskatchewan Telecommunications International (Tanzania) Limited, SaskTel International Consulting, Inc., SaskTel Investments Inc., Shellbrook Holding, Inc., Vanguard Holding, Inc., and Wadena Holding, Inc.

# Note 2 – Summary of significant accounting policies, continued

### Cash and short-term investments

Cash and short-term investments include investments in money market instruments, which are purchased with maturity dates of less than 90 days. Short-term investments are stated at fair value.

### Inventories

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

### Property, plant and equipment

Property, plant and equipment is recorded at cost including materials, services and direct labour.

Depreciation and amortization on property, plant and equipment is computed on the straight-line basis, using rates determined by a continuing program of engineering studies for each class of property in service.

Asset	Estimated useful life
Buildings	25 – 35 years
Plant and equipment	2 – 50 years
Office furniture, equipment and leaseholds	3 — 17 years

With respect to property, plant and equipment acquired, constructed or developed over time, the Corporation follows the policy of capitalizing related equipment, construction, development and installation costs, including direct labour, as plant under construction. These costs are then depreciated and amortized on a basis consistent with the Corporation's depreciation and amortization policy from the date the asset is substantially completed and put into productive use.

# Assets held for sale and discontinued operations

Long-lived assets are classified as held for sale when certain criteria are met, which include: the Corporation's commitment to a plan to sell the assets; the assets are available for immediate sale in their present condition; an active program to locate buyers and other actions to sell the assets have been initiated; the sale of the assets is probable and their transfer is expected to qualify for recognition as a completed sale within one year; the assets are being actively marketed at reasonable prices in relation to their fair value; and it is unlikely that significant changes will be made to the plan to sell the assets or that the plan will be withdrawn.

A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction represent a disposal group and are reflected as assets and liabilities held for sale.

The Corporation measures long-lived assets held for sale at the lower of carrying amount or fair value less cost to sell. These assets are not depreciated or amortized.

A component of the Corporation that is held for sale is reported as a discontinued operation if the operations and cash flows of the component will be eliminated from the ongoing operations as a result of a disposal transaction and the Corporation will not have a significant continuing involvement in the operations of the component after the disposal transaction.

# Impairment of long-lived assets

Long-lived assets, including property, plant and equipment, are amortized over their useful lives. The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of loss recorded is determined by deducting the asset's fair value (based on discounted cash flows from its use and disposition) from its carrying value.

# Note 2 - Summary of significant accounting policies, continued

### Asset retirement obligations

Legal obligations associated with the retirement of property, plant and equipment are initially measured at fair value and are adjusted for any changes resulting from the passage of time and any changes to the timing or amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized as part of the related asset and is amortized into earnings over the asset's useful life. There were no significant asset retirement obligations as at December 31, 2010.

### Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the tangible and intangible assets acquired less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Corporation's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination as described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statement of operations and comprehensive income.

### Intangible assets - finite-life

Finite-life intangible assets, including customer accounts, acquired individually, with a group of other assets or through the Corporation's authorized dealers are recorded at cost.

Finite-life intangible assets acquired in a business combination are recorded at their fair values.

Other finite-life intangible assets are recorded at cost of acquisition or development, and may include direct development costs, overhead costs directly attributable to development activity and betterment costs.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Asset	Estimated useful life
Software	1 – 5 years
Customer accounts	5 – 10 years

The Corporation annually reviews the amortization method and useful lives of finite-life intangible assets.

Finite-life intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

# Intangible assets - indefinite-life

Intangible assets with an indefinite life are not subject to amortization; they are tested annually for impairment to ensure that their fair value is greater than or equal to their carrying value. Any excess of carrying value over fair value is charged to income in the period in which impairment is determined.

### Deferred revenue – government funding

Government funding related to operating expenses is recognized in income when the related expenses are incurred. Government funding related to capital expenditures is deferred until the related assets are in service. The funding is amortized over the estimated useful life of the related assets, currently 11 years.

### Note 2 - Summary of significant accounting policies, continued

### Revenue recognition

Revenues are recognized in the period the services are provided when there is clear proof that an arrangement exists, amounts are determinable and the ability to collect is reasonably assured. Revenues from local telecommunications, data, Internet, entertainment and security services are recognized based on access to the Corporation's network and facilities at the rate plans in effect during the period the service is provided. Certain service connection charges and activation fees, along with corresponding direct costs are deferred and recognized over the average expected term of the customer relationship. Revenues from long distance and wireless airtime are recognized based on the usage or rate plans in the period service is provided. Revenues from equipment sales are recognized when the equipment is delivered to and accepted by the customer. Revenues for longer term contracts are recognized based on a percentage of completion. Payments received in advance are recorded as deferred revenue until the product or service is delivered.

Customer solutions may involve the delivery of multiple services and products that occur at different points and over different periods of time. The multiple services are separated into their respective accounting units and consideration is allocated among the accounting units. The relevant revenue recognition policies are applied to each accounting unit.

When the Corporation receives no identifiable, separable benefit for consideration given to a customer (e.g. discounts and rebates), the consideration is recorded as a reduction of revenue rather than as an expense.

Revenues are earned through the sale of print and electronic telephone directory advertising and online advertising. Advertising revenues are generally recognized, in accordance with the contractual terms with advertisers, on a monthly basis over the life of the print directory or electronic directory advertising commencing with the delivery or display date, respectively. Amounts billed in advance for directory advertising are deferred and recognized over the corresponding life of the directory.

Operating revenues for perpetual licenses are recognized on delivery or according to the terms of the license agreement. Revenues related to customized software contracts are recognized upon customer acceptance or when customer acceptance provisions of the contract are satisfied. Where the arrangement includes multiple elements, perpetual license revenues are recognized on delivery, provided the undelivered elements are not essential to the functionality of the license and the Corporation has evidence of fair value for all the undelivered items. If payment is subject to customer acceptance, revenue is not recognized until customer acceptance or expiration of the acceptance period. Fees for professional services, other than in the context of multiple element arrangements, are recognized as services are rendered. Support and maintenance fees are recognized over the term of the contract.

Revenues for turn-key telecommunication projects and consulting services are recognized using the percentage of completion method or the achievement of contract milestones. Amounts billed or paid in advance of services provided are recorded as deferred revenue.

The CRTC has established a National Subsidy Fund to subsidize Local Exchange Carriers (LECs), like the Corporation, that provide service to residential customers located in high cost service areas (HCSAs). The CRTC has set the rate per line and band for all LECs. The Corporation recognizes the revenue on an accrual basis by applying the rate to the number of residential network access lines served during the period in HCSAs.

### Employee future benefits

The Corporation has: a defined benefit pension plan (a), a defined contribution pension plan (b), and a service recognition defined benefit plan (c).

a) Defined benefit pension plan

The Corporation accrues its obligations under the Saskatchewan Telecommunications Pension Plan and the related costs, net of plan assets. The Corporation has adopted the following policies related to the defined benefit plan:

The cost of pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.

Pension plan assets are valued at fair value, which is determined using current market values.

# Note 2 - Summary of significant accounting policies, continued

The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date of high quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

Expected return on plan assets is calculated based on the expected rate of return on plan assets applied to a five year weighted average value of plan assets, adjusted for contributions and benefit payments made in the current year.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market related value of the plan assets is amortized over the average remaining life of retired members of the plan. The average remaining life of retired members was calculated as a weighted average of 22 years.

When the restructuring of a benefit plan results in a settlement and a curtailment of obligations, the curtailment is accounted for prior to the settlement.

- Defined contribution pension plan
   Defined contribution plan costs are recognized as employees render services during the year.
- c) Service recognition defined benefit plan The Corporation provides a service recognition defined benefit program for its employees. The cost of the plan is determined using the projected benefit method prorated on service.

# Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates.

Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

### Financial instruments

Upon initial recognition, financial instruments are measured at fair value and are classified as held-to-maturity, held-for-trading, available-for-sale, loans and receivables or other liabilities. Held-to-maturity assets are carried at amortized cost with amortized premiums or discounts and other than temporary losses due to impairment included in net income. Held-for-trading assets and liabilities are carried at fair value with any gains or losses included in net income. Available-for-sale assets are carried at fair value with revaluation gains or losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables and other liabilities are accounted for at amortized cost using the effective interest method. Transaction costs are included in the initial carrying value of the financial instrument except for held-for-trading instruments in which case they are expensed as incurred.

Derivative financial instruments are used by the Corporation in the management of its financial exposures as deemed appropriate, and based on the risk management strategy of the Corporation. The Corporation's policy is not to use derivative financial instruments for trading or speculative purposes.

The Corporation, from time to time, is party to certain derivative financial instruments, principally interest rate swap contracts (used to manage the exposure to market risks from changing interest rates) and forward foreign exchange contracts (used to manage foreign currency exposures). The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

For fair value hedges, changes in the fair value of the derivatives and corresponding changes in fair value of the hedged items attributed to the risk being hedged will be recognized in net income. For cash flow hedges, the effective portion of the changes in the fair values of the derivative instruments will be recorded in other comprehensive income until the hedged items are recognized in net income.

# VOTES TO CONSOLIDATED FINANCIAL STATEMENTS

# Note 2 - Summary of significant accounting policies, continued

### Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of property, plant and equipment and underlying estimations of useful lives of depreciable assets and capitalization of labour and overhead, the carrying amount of goodwill and intangible assets and underlying estimates of future cash flow, the carrying amounts of accounts receivable and underlying provision for bad debts and the carrying amounts of deferred pension costs and underlying actuarial assumptions. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

### Note 3 - Rate regulation

The Corporation's telecommunications and broadcast services are regulated by the CRTC. However, the CRTC only regulates rates for specific telecommunications services and only in locations where the CRTC believes that the level of competition in that service is not high enough that market forces can be relied on to protect the interests of customers. For these 'non-forborne' services, the rate which the Corporation may charge must receive CRTC approval prior to being implemented and may not be set below the long-run incremental cost of the service, calculated according to CRTC costing rules. The CRTC also regulates the rates for most services that are designed for use by competitors. The CRTC requires rates for many of these services to be based on long-run incremental costs plus approved mark-ups.

In addition, the CRTC has implemented a price cap framework which: limits the Corporation's flexibility in the pricing of some rate regulated retail services; subjects certain competitor service rates to potential annual decreases; and prohibits the Corporation from increasing basic residential access rates in areas deemed to be Low Cost Serving Areas. The CRTC has established a subsidy mechanism aimed at keeping basic residential access affordable in areas deemed by the CRTC to be High Cost Serving Areas (HCSAs). In these areas the Corporation receives a subsidy from the National Contribution Fund equal to the difference between long-run incremental costs in these areas and the rates charged to subscribers. Therefore the revenue received by the Corporation in these areas is effectively the rate charged to subscribers plus the subsidy per line. The cost component of the subsidy calculation amount is adjusted annually based on assumed productivity gains less inflation. The rate component is also adjusted annually as the CRTC has given the Corporation the ability to make annual rate increases equal to the rate of inflation in HCSAs, however, even if the Corporation does not raise rates in these areas, the increase is assumed to have been applied and the subsidy per line is decreased.

In September of 2009, the CRTC issued Notice of Consultation 2009-575 Call for comments - Identification, scope, and prioritization of issues regarding obligation to serve, basic service objective, and local service subsidy regime. This consultation culminated in a public hearing in the fall of 2010. The CRTC decision, expected in the spring of 2011, could significantly impact future subsidy mechanisms.

Approximately 16% (2009 – 17%) of the Corporation's operating revenues are currently subject to CRTC rate regulation. Rate regulation does not result in the Corporation selecting accounting policies that would differ from Canadian GAAP.

### Note 4 - Other items

Thousands of dollars	2010	2009
Amortization of government funding	\$2,558	\$2,600
Provincial Sales Tax refunds	2,686	_
Interest income	1,214	1,320
Gain on disposal of specialty publications division assets	1,437	-
Other	4,408	4,260
	\$12,303	\$8,180

### Note 5 - Interest and related items

Thousands of dollars	2010	2009
Interest on long-term debt	\$25,656	\$24,601
Sinking fund earnings	(4,661)	(3,487)
Change in fair value of sinking funds	(739)	1,030
Interest on short-term investments	(71)	(50)
	\$20,185	\$22,094

# Note 6 - Discontinued operations

During the second quarter of 2010, the Corporation approved plans whereby the operations of Hospitality Network Canada, Inc. (Hospitality Network) and Saskatoon 2 Properties Limited Partnership (Saskatoon Square) will be divested, and the criteria for classification as discontinued operations have been met. In addition, the Corporation had previously classified the operations of DirectWest Canada, Inc. (DirectWest Canada) as discontinued operations.

The results of the operations of these entities have been presented as discontinued operations in the consolidated statements of operations and cash flows and the related assets and liabilities have been reported as assets of discontinued operations and liabilities of discontinued operations in the consolidated statement of financial position for all periods presented.

The results of discontinued operations are as follows:

Thousands of dollars	2010	2009
Revenues		
Hospitality Network	\$31,432	\$30,575
Saskatoon Square	2,834	2,649
DirectWest Canada	<b>—</b>	2,630
Total revenues	\$34,266	\$ 35,854
Net earnings		
Hospitality Network	\$3,854	\$3,595
Saskatoon Square	273	416
DirectWest Canada	-	(1,974)
Income from discontinued operations	\$4,127	\$2,037

The assets and liabilities of discontinued operations are as follows:

	2010		2009				
Thousands of dollars	Hospitality Network	Saskatoon Square	Total	Hospitality Network	Saskatoon Square	DirectWest Canada	Total
Assets							
Cash and short-term investments	\$6,027	\$375	\$6,402	\$5,693	\$316	\$400	\$6,409
Accounts receivable	2,334	18	2,352	1,968	76	43	2,087
Prepaid expenses	310	131	441	295	31	_	326
Current assets of discontinued operations	\$8,671	\$524	\$9,195	\$7,956	\$423	\$443	\$8,822
Property, plant and equipment	\$17,631	\$5,968	\$23,599	\$16,978	\$6,139	<b>S</b> -	\$23,117
Intangible assets	2,498	943	3,441	2,916	1,061	-	3,977
Goodwill	11,838	-	11,838	11,838	=	· —	11,838
Long-lived assets of discontinued operations	\$31,967	\$6,911	\$38,878	\$31,732	\$7,200	\$-	\$38,932

Total

\$2,368 12 294

\$2,674

\$5,909

\$5,909

# Note 6 – Discontinued operations, continued

		2010			2009	9
Thousands of dollars	Hospitality Network	Saskatoon Square	Total	Hospitality Network	Saskatoon Square	DirectWest Canada
Liabilities						
Accounts payable and accrued liabilities	\$1,541	\$171	\$1,712	\$1,927	\$179	\$262
Services billed in advance	-	12	12	-	12	-
Current portion of long-term debt	_	313	313	_	294	-
Current liabilities of discontinued operations	\$1,541	\$496	\$2,037	\$1,927	\$485	\$262
Long-term debt	\$-	\$5,607	\$5,607	\$-	\$5,909	\$-
Long-term liabilities of discontinued operations	\$-	\$5,607	\$5,607	\$-	\$5,909	\$-
cash flows from discontinued operations are as	follows:					
Thousands of dollars			2010		2009	
Operating activities						
Hospitality Network			\$6,420	\$	6,802	
Saskatoon Square			1,431		1,553	
DirectWest Canada			_		(565)	
Total cash provided by operating activities			7,851	2	7,790	
Investing activities						
Hospitality Network			(4,200)	(4	4,396)	
Saskatoon Square			(248)		(731)	
DirectWest Canada			_		982	
Total cash used in investing activities			(4,448)	(4	4,145)	
Financing activities						
Hospitality Network			(41)		(158)	
Saskatoon Square			(283)		(265)	
DirectWest Canada			_			
Total cash used in financing activities			(324)		(423)	
Increase in cash from discontinued operations			\$3,079	\$.	3,222	
te 7 – Inventories						
Thousands of dollars			2010		2009	
Inventories for resale			\$4,354	\$(	5,106	
Work in progress			1,194		1,642	
Raw materials			262		272	

During the year, \$22,690,920 of inventories for resale (2009 – \$24,466,891) was recognized as cost of goods sold. Inventory write-downs amounted to \$3,741,012 (2009 - \$538,905). There were no reversals of any prior period write-downs during 2010.

\$5,810

\$8,020

# Note 8 - Property, plant and equipment

	Cost	Accumulated Depreciation and Amortization	Net Bo	ok Value
Thousands of dollars			2010	2009
Buildings	\$338,389	\$166,045	\$172,344	\$121,118
Plant and equipment	2,578,083	1,904,935	673,148	559,439
Office furniture, equipment and leaseholds	95,406	45,694	49,712	34,987
Plant under construction	135,114	11 <del>-</del> 1	135,114	178,073
Materials and supplies	27,760		27,760	21,480
Land	10,441	e— -	10,441	9,798
	\$3,185,193	\$2,116,674	\$1,068,519	\$924,895

Depreciation and amortization for the year totaled \$135,151,331 (2009 - \$142,952,722).

# Note 9 - Intangible assets - finite-life

	Cost	Accumulated Amortization	Net Boo	ok Value
Thousands of dollars			2010	2009
Software	\$122,605	\$81,976	\$40,629	\$40,670
Customer accounts	58,612	33,287	25,325	26,200
	\$181,217	\$115,263	\$65,954	\$66,870

Amortization during the year totaled \$22,361,717 (2009 – \$38,071,441).

# Note 10 – Intangible assets – indefinite-life

Indefinite-life intangible assets consist of spectrum licenses in Saskatchewan in the amount of \$65,980,507. The licenses have been determined to have an indefinite life and as such are not amortized.

# Note 11 - Goodwill

Thousands of dollars	2010	2009
Balance, beginning of year	\$6,076	\$18,079
Reclassified to assets of discontinued operations	_	(11,838)
Disposals	(100)	(165)
Balance, end of year	\$5,976	\$6,076

# Note 12 - Sinking funds

Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds, administered by the Saskatchewan Ministry of Finance, amounts representing 1.0% to 2.0% of the debt outstanding. The fund includes the Corporation's required contributions, its proportional share of earnings and its proportional share of revaluation gains or losses.

The changes in the carrying amount of sinking funds are as follows:

Thousands of dollars	2010	2009
Sinking funds, beginning of year	\$68,263	\$62,540
Installments	2,366	3,266
Earnings	4,661	3,487
Redemptions	(11,260)	-
Valuation adjustments	739	(1,030)
Total sinking funds	64,769	68,263
Less current portion	_	10,519
	\$64,769	\$57,744

As at December 31, 2010, scheduled sinking fund installments for the next five years are as follows:

Thousands of dollars	
2011	\$5,866
2012	5,866
2013	5,866
2014	5,866
2015	5,866

### Note 13 - Other assets

Thousands of dollars	2010	2009
Deferred service connection charges	\$5,798	\$6,562
Financing leases	2,782	2,553
Other	112	2,891
	\$8,692	\$12,006

Amortization for the year totaled 74,022 (2009 – 74,022).

### Note 14 - Notes payable

The balance represents interim financing arranged under established lines of credit totaling \$500,000,000 (2009 - \$125,000,000). As at December 31, 2010, there were \$59,900,000 (2009 - \$8,700,000) of outstanding unsecured notes payable to the Province of Saskatchewan bearing interest at a rate of 1.13% (2009 - 0.28%) due March 31, 2011.

# Note 15 - Deferred revenue - government funding

During 2009, the Corporation received \$45,000,000 in funding from the Province of Saskatchewan through CIC as partial funding of the 2009 portion of the Rural Infrastructure Program (RIP). The funded expenditures have been completed and the funding has been applied as follows; \$40,891,160 to capital expenditures and \$4,108,840 to operating expenditures.

In addition, as part of the transfer of the satellite distribution and communication assets of Saskatchewan Communications Network Corporation (SCN) to the Corporation, the Province of Saskatchewan through the Ministry of Education has provided \$1,321,230 in funding for distance education hardware upgrades. To date \$66,912 has been applied to capital expenditures.

Funding related to operating expenditures has been included in the determination of net income for the relevant period. Funding related to capital expenditures has been deferred and is being amortized over the estimated useful life of the related assets.

2010			
RIP	SCN	Total	Total
\$42,400	\$-	\$42,400	\$-
-	1,321	1,321	45,000
42,400	1,321	43,721	45,000
2,557	1	2,558	2,600
\$39,843	\$1,320	\$41,163	\$42,400
	\$42,400 - 42,400 2,557	RIP SCN  \$42,400 \$-  - 1,321  42,400 1,321  2,557 1	RIP SCN Total  \$42,400 \$- \$42,400  - 1,321 1,321  42,400 1,321 43,721  2,557 1 2,558

### Note 16 - Long-term debt

Thousands of dollars	Years to Maturity	Weighted Average Interest Rate (%)	2010	2009
Province of Saskatchewan				
Canadian dollar issues	1 – 5	5.96	\$-	\$90,109
Canadian dollar issues	10	6.73	274,548	125,790
Canadian dollar issues	15	4.15	50,000	_
Canadian dollar issues	19	5.70	108,208	108,155
Total long-term debt			432,756	324,054
Less current portion			-	90,109
			\$432,756	\$233,945

As at December 31, 2010, the Corporation has no scheduled debt principal retirement requirements in the next five years.

### Note 17 - Equity advance and additional capital disclosures

### a) Equity advance

As a Saskatchewan Provincial Crown corporation, the Corporation's equity financing is in the form of equity advances of \$250,000,000 (2009 – \$250,000,000) from CIC.

# b) Additional capital disclosures

The Corporation's objectives when managing capital are to ensure adequate capital to support the operations and growth strategies of the Corporation, and to ensure adequate returns to the shareholder.

The capital structure is determined in conjunction with the shareholder based on the approved business plans.

# Note 17 - Equity advance and additional capital disclosures, continued

The Corporation monitors capital on the basis of the debt ratio. The ratio is calculated as net debt divided by end of period capitalization. Net debt is defined as total debt, including long-term debt, notes payable and the current portion of long-term debt, less sinking funds, and cash and short-term investments. Capitalization includes net debt, equity advances and retained earnings at the period end.

The Corporation's strategy, which is unchanged from 2009, is to maintain a debt to equity ratio below 45%.

The debt ratio is as follows:

Thousands of dollars	2010	2009
Total debt	\$498,576	\$338,957
Less: Sinking funds	64,769	68,263
Cash and short-term investments	19,288	9,313
Net debt	414,519	261,381
Equity	827,319	811,799
Capitalization	\$1,241,838	\$1,073,180
Debt ratio	33.4%	24.4%

The Corporation is not subject to any externally imposed capital requirements.

### Note 18 - Commitments and contingencies

### Commitments

The future minimum payments under operating leases and contractual obligations for services in each of the next five years are as follows:

Inousands of dollars	
2011	\$87,664
2012	75,350
2013	60,627
2014	11,156
2015	9,790

The above payments include \$6,997,217 for leases and contractual obligations with related parties.

### Contingencies

On August 9, 2004, a proceeding under the Class Actions Act (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning system administration fees. The Plaintiffs seek unquantified damages from the defendant wireless communications service providers. Similar proceedings have been filed by, or on behalf of, Plaintiffs' counsel in other provincial jurisdictions. On September 17, 2007, the Saskatchewan court certified the Plaintiffs' proceeding as a class action with respect to an allegation of unjust enrichment only. The appeal from this decision by the Corporation, together with all other Defendants, was heard by the Court of Appeal on December 13 and 14, 2010, and a decision was reserved by the Court. The Corporation awaits receipt of the decision of the Court of Appeal. On July 24, 2009, a second proceeding under the Class Actions Act (Saskatchewan) was issued against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The Corporation believes this second action involves substantially the same allegations as the 2004 claim and on December 23, 2009, the second action was conditionally stayed as an abuse of process by the Court of Queen's Bench. The Plaintiffs have applied to obtain leave of the Court of Appeal to appeal the stay of the second action. The Plaintiff's application to obtain leave is adjourned indefinitely on the condition that it cannot be dealt with until after the Court of Appeal has issued its decision in the 2004 claim. The Corporation continues to believe that it has strong defenses to the allegations and that legal errors were made by the Court in the certification proceeding of the 2004 claim and that it has strong defenses to the allegations contained in the 2009 action.

# Note 18 - Commitments and contingencies, continued

On June 26, 2008, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireline, wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireline and wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning fees and charges paid for 911 service. The Plaintiffs seek unquantified damages from the defendant communications service providers. Thus far the claim has simply been issued by the Plaintiffs. The Corporation is not aware whether all the named defendant carriers have been served with the claim yet. The Corporation believes that it has strong defenses to the allegations that are made by the Plaintiffs in the claim and will be strongly defending and opposing the claims that have been made. On September 27, 2010, the Corporation was advised that a case management judge has been appointed in this matter. The Corporation is not aware that any other step or action has been taken in this action.

Should the ultimate resolution of these actions differ from management's assessments and assumptions, a material adjustment to the financial position or results of operations of the Corporation could result.

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2010, cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's consolidated financial position or results of operations.

### Note 19 - Additional financial information

### a) Balance sheet

Thousands of dollars	2010	2009
Accounts receivable		
Customer accounts receivable	\$68,905	\$77,839
Accrued receivables – customer	4,728	4,704
Allowance for doubtful accounts	(2,840)	(3,600)
	70,793	78,943
High cost serving area subsidy	5,343	5,446
Other	10,847	6,360
	\$86,983	\$90,749
Prepaid expenses		
Prepaid expenses	\$9,061	\$9,394
Deferred service connection charges	5,039	5,723
	\$14,100	\$15,117
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	\$70,337	\$72,014
Payroll and other employee-related liabilities	47,744	47,499
Taxes payable	5,299	4,970
Interest payable	4,534	4,311
Other	183	516
	\$128,097	\$129,310
Services billed in advance		
Advance billings	\$46,248	\$38,874
Deferred customer activation and connection fees	7,229	7,967
Customer deposits	5,122	4,921
	\$58,599	\$51,762

### Note 19 - Additional financial information, continued

# b) Supplementary cash flow information

Thousands of dollars	2010	2009
Net change in non-cash working capital		
Accounts receivable	\$4,371	\$5,645
Inventories	2,210	501
Prepaid expenses	1,781	2,131
Accounts payable and accrued liabilities	(1,352)	13,695
Services billed in advance	6,837	(194)
Deferred revenues	(345)	(2,105)
	\$13,502	\$19,673
Interest paid	\$25,162	\$24,569

### Note 20 - Financial instruments

The Corporation's financial instruments include cash and short-term investments, accounts receivable, sinking funds, accounts payable and accrued liabilities, notes payable, dividend payable and long-term debt, which by their nature are subject to risks.

### a) Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-oriented information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The following table represents the carrying amounts and fair values of financial assets and liabilities measured at fair value or amortized cost:

Thousands of dollars		20	010	2009		
Financial Instruments	Classification <sup>1</sup>	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
Financial assets						
Cash	HFT	\$12,886	\$12,886	\$2,904	\$2,904	
Cash and short-term investments –						
discontinued operations	HFT	6,402	6,402	6,409	6,409	
Accounts receivable	LAR	86,983	86,983	90,749	90,749	
Accounts receivable –						
discontinued operations	LAR	2,352	2,352	2,087	2,087	
Sinking funds	HFT	64,769	64,769	68,263	68,263	
Financial liabilities						
Accounts payable and accrued liabilities	OL	\$128,097	\$128,097	\$129,310	\$129,310	
Accounts payable and accrued liabilities –						
discontinued operations	OL	1,712	1,712	2,368	2,368	
Notes payable	OL	59,900	59,900	8,700	8,700	
Dividend payable	OL	16,157	16,157	31,026	31,026	
Long-term debt	OL	432,756	528,145	324,054	401,877	
Long-term debt —						
discontinued operations	OL	5,920	6,161	6,203	6,624	

<sup>&</sup>lt;sup>1</sup> Classification details are: HFT – held-for-trading LAR – loans and receivables OL – other liabilities

### Note 20 - Financial instruments, continued

### Determination of fair value

When the carrying amount of a financial instrument is the most reasonable approximation of fair value, reference to market quotations and estimation techniques is not required. The carrying values of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities, dividend payable and notes payable approximate their fair values due to the short-term maturity of these financial instruments.

For financial instruments listed below, fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. Accordingly, the determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

Level 1 – Where quoted prices are readily available from an active market.

Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.

Thousands of dollars	2010			2009			
	Level 1	Level 2	Total	Level 1	Level 2	Total	
Sinking funds	i — i	\$64,769	\$64,769	-	\$68,263	\$68,263	
Long-term debt	-	\$528,145	\$528,145	-	\$401,877	\$401,877	
Long-term debt –							
discontinued operations	-	6,161	6,161	-	6,624	6,624	
Total liabilities	-	\$534,306	\$534,306	_	\$408,501	\$408,501	

# b) Currency risk

The Corporation is exposed to currency risk, primarily US dollars, through transactions with foreign suppliers, foreign currency denominated revenues and short-term foreign commitments. Assuming all other variables remained constant at December 31, 2010, currency fluctuations in excess of 15% would have a material impact on net income. Specifically, a 15% weakening in the Canadian dollar versus US dollar exchange rate would have a 4.5% unfavourable effect on net income while a 15% strengthening would have a 4.5% favourable effect on net income. The Corporation uses a combination of derivative financial instruments to manage these exposures when deemed appropriate. The Corporation does not actively trade derivative financial instruments.

# c) Interest rate risk

The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on short-term investments, sinking funds, short-term obligations and long-term debt. The most significant of these is interest rate risk related to issuance of long-term debt. However, assuming all other variables remained constant at December 31, 2010, a 15% (71 basis point) increase or decrease in interest rates would not have a material impact on net income.

Interest rate risk on short and long-term liabilities are managed based on the refinancing needs of the Corporation using derivative financial instruments when deemed appropriate.

The average effective interest rate on the Corporation's long-term debt was 6.25% (2009 - 7.52%) while the average actual interest rate on long-term debt was 6.17% (2009 - 7.52%).

### Note 20 - Financial instruments, continued

### d) Market risk

The Corporation is exposed to market risk primarily through the sinking funds. Fair value adjustments will fluctuate based on changes in market prices. The sinking funds consist of mostly Provincial government and Federal government bonds with varying maturities to coincide with related debt maturities, and are managed based on this maturity profile and market conditions. Fair value adjustments similar to those experienced up to December 31, 2010, would not have a material impact on net income.

### e) Credit risk

The Corporation is exposed to credit risk through its cash and short-term investments, accounts receivable and sinking fund assets. Credit risk related to short-term investments and sinking fund assets is minimized by dealing with institutions that have strong credit ratings. Credit risk related to customer accounts receivable is minimized because of the large and diverse customer base covering many consumer and business sectors. The Corporation evaluates customer credit risk and limits credit availability when necessary.

The carrying amount of financial assets represents the maximum credit exposure as follows:

Thousands of dollars	2010	2009
Cash	\$12,886	\$2,904
Cash and short-term investments – discontinued operations	6,402	6,409
Accounts receivable	86,983	90,749
Accounts receivable – discontinued operations	2,352	2,087
Sinking funds	64,769	68,263
	\$173,392	\$170,412

The aging of customer receivables, which indicates potential impairment losses, is as follows:

# Continuing operations

Thousands of dollars	2010	2009
Current	\$52,482	\$57,524
30 – 60 days past billing date	13,327	12,853
61 – 90 days past billing date	2,315	4,346
Greater than 90 days past billing date	781	3,116
Total	\$68,905	\$77,839

### Discontinued operations

Thousands of dollars	2010	2009	
Current	\$1,895	\$1,222	
30 – 60 days past billing date	132	191	
61 – 90 days past billing date	52	141	
Greater than 90 days past billing date	132	2,023	
Total	\$2,211	\$3,577	

# Note 20 - Financial instruments, continued

Provisions for credit losses are maintained and regularly reviewed by the Corporation based on an analysis of the aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance account are as follows:

# Continuing operations

Thousands of dollars	2010	2009
Allowance for doubtful accounts, opening balance	\$3,600	\$12,114
Transfer from discontinued operations	1,783	_
Accounts written off	(13,093)	(13,344)
Recoveries	2,882	4,118
Provision for losses	7,668	712
Allowance for doubtful accounts, closing balance	\$2,840	\$3,600

Thousands of dollars	2010	2009
Allowance for doubtful accounts, opening balance	\$1,806	\$1,105
Transfer to continuing operations	(1,783)	-
Accounts written off	-	(139)
Recoveries	20	5
Provision for losses	(16)	835
Allowance for doubtful accounts, closing balance	\$27	\$1,806

# Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments:

# December 31, 2010

Thousands of dollars	Carrying amount	Contractual cash flows	6 mths or less	7 – 12 mths	2 years	3 – 5 years	More than 5 years
Long-term debt							
Province of Saskatchewan	\$432,756	\$769,878	\$13,479	\$13,479	\$26,959	\$80,876	\$635,085
discontinued operations	5,920	6,989	336	336	673	5,644	1-
Notes payable	59,900	59,900	59,900	-	-	_	-
Dividend payable	16,157	16,157	16,157	-		-	1-
Accounts payable and							
accrued liabilities							
continuing operations	128,097	128,097	128,097	2. <del></del> .2	, — n	7-	-
discontinued operations	1,712	1,712	1,712	-	-	-	1-
	\$644,542	\$982,733	\$219,681	\$13,815	\$27,632	\$86,520	\$635,085

### Note 20 - Financial instruments, continued

December 3	31, 2009	
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Thousands of dollars	Carrying amount	Contractual cash flows	6 mths or less	7 – 12 mths	2 years	3 – 5 years	More than 5 years
Long-term debt							
Province of Saskatchewan	\$324,054	\$594,822	\$12,284	\$102,284	\$19,034	\$57,101	\$404,119
discontinued operations	6,203	7,661	336	336	673	6,316	-
Notes payable	8,700	8,700	8,700	-	-	-	-
Dividend payable	31,026	31,026	31,026	-	-	-	-
Accounts payable and							
accrued liabilities							
continuing operations	129,310	129,310	129,310	_	_	-	-
discontinued operations	2,368	2,368	2,368	-	-	=	_
	\$501,661	\$773,887	\$184,024	\$102,620	\$19,707	\$63,417	\$404,119

Sufficient operating cash flows are expected to be generated to fund these short-term contractual obligations and the Corporation anticipates it will be able to refinance long-term debt upon maturity.

# Note 21 - Employee future benefits

The Corporation has: a defined benefit pension plan (a), a defined contribution pension plan (b), and a service recognition defined benefit plan (c).

### a) Defined benefit pension plan

The defined benefit pension plan, which is governed by Saskatchewan Telecommunications (SaskTel), has been closed to new membership since 1977. The SaskTel defined benefit pension plan is registered under *The Pension and Benefit Act*, 1992, Saskatchewan, the *Income Tax Act*, Canada and regulated by the Saskatchewan Financial Services Commission – Pension Division. The Corporation is responsible for adequately funding the defined benefit pension plan. Contributions are determined by actuarial valuations. The contributions reflect actuarial assumptions about future investment returns, salary projections and future service benefits. A valuation is performed at least every 3 years to determine the actuarial present value of the accrued pension benefit. An actuarial valuation for accounting purposes was performed at November 30, 2009. The latest valuation for funding purposes was performed as of December 31, 2007.

The SaskTel defined benefit pension plan provides a full pension at age 65, at age 60 with at least 20 years of service or upon completion of 35 years of service. The pension is calculated to be 2% times the average of the highest three years of pensionable earnings times the number of years of service up to a maximum of 35 years of service. A reduced pension may be opted for if certain age and years of service criteria are met. For employees that retire before the age of 65, but meet other age plus service requirements, either a reduced or unreduced pension may be payable. Pensions are subject to annual indexing with the Consumer Price Index (CPI) up to a maximum of 2% per year.

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Key assumptions used as inputs to the actuarial calculations are:

2010	2009
5.25%	6.00%
6.75%	6.75%
2.50%	2.50%
3.00%	3.00%
100% of CPI	100% of CPI
	5.25% 6.75% 2.50% 3.00%

# Note 21 - Employee future benefits, continued

The table below shows the allocation of pension plan assets:

Asset category	2010	2009
Equity securities	57.8%	58.1%
Bonds	25.0%	26.0%
Short-term investments (treasury bills, notes and commercial paper)	8.0%	6.9%
Real estate	9.2%	9.0%
	100.0%	100.0%
Thousands of dollars	2010	2009
Thousands of dollars	2010	2009
Current service cost – defined benefit plan	¢4 222	
	\$1,332	\$1,261
Interest cost	56,731	\$1,261 59,670
Interest cost Expected return on pension plan assets		
	56,731	59,670
Expected return on pension plan assets	56,731	59,670 (66,551)

The accrued benefit obligation, plan assets and deferred pension cost tables below show the change in the defined benefit pension plan and the change in the fair value of the plan's assets during the year and the status of the plan as at December 31.

# Accrued benefit obligation

Thousands of dollars	2010	2009
Accrued benefit obligation, beginning of year	\$976,755	\$826,771
Current service cost	1,693	1,789
Curtailment gain	_	(239)
Interest cost	56,731	59,669
Benefits paid	(65,849)	(65,427)
Impact due to change in assumptions	81,374	154,192
Accrued benefit obligation, end of year	\$1,050,704	\$976,755
Plan assets Thousands of dollars	2010	2009
Fair value of plan assets, beginning of year	\$896,306	\$844,548
Actual return on plan assets	98,401	108,405
Employer contributions	16,450	8,252
Employee contributions	360	528
Benefits paid	(65,849)	(65,427)
Fair value of plan assets, end of year	\$945,668	\$896,306

# Note 21 - Employee future benefits, continued

## Deferred pension costs

Thousands of dollars	2010	2009
Funded status deficit	\$(105,036)	\$(80,449)
Unamortized net actuarial losses	237,729	188,594
Deferred pension costs	\$132,693	\$108,145

## b) Defined contribution pension plan

The defined contribution pension plan requires the Corporation to contribute 7% of employees' pensionable earnings and employees to contribute a minimum of 4% of pensionable earnings. The total cost for the defined contribution plan is equal to the Corporation's required contribution. The Corporation's 2010 pension cost and employer contributions for the Public Employees Pension Plan are \$18,098,341 (2009 – \$17,636,867).

# c) Service recognition defined benefit plan

The service recognition defined benefit plan provided a retiring allowance of two days salary per year of service which is payable on retirement. Based on the Collective Agreement between the Corporation and the Communications, Electrical and Paperworkers Union of Canada, ratified April 22, 2005, the service recognition defined benefit program was curtailed effective March 19, 2005.

Employees will no longer earn two days pay per year of service; however, they will continue to earn incremental pay increases for the earned service at March 19, 2005, until retirement. Key assumptions used as inputs to the actuarial calculations are:

	2010	2009
Discount rate	5.40%	5.40%
Expected salary increase	3.00%	3.00%
Estimated average remaining employee service life	11.8 years	14.1 years
Accrued benefit obligation  Thousands of dollars	2010	2009
Accrued benefit liability, beginning of year	\$15,271	\$16,320
Defined benefit service cost	1,061	1,199
Benefit payments	(1,252)	(2,248)
Accrued benefit liability, end of year	\$15,080	\$15,271

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## Note 22 - Related party transactions

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

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year end are as follows:

Thousands of dollars	2010	2009
Operating revenues	\$71,125	\$70,230
Operating expenses	77,704	76,995
Other items	1,174	94
Accounts receivable	4,773	4,232
Property, plant and equipment expenditures	3,539	2,920
Accounts payable and accrued liabilities	2,302	5,455

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

A director of the Corporation has an indirect minor interest in a related party from which the Corporation recorded operating revenues of \$216,216 (2009 – \$252,706), operating expenses of \$24,210,986 (2009 – \$26,183,060) for services provided to the Corporation, accounts receivable of \$22,449 (2009 – \$14,538) and accounts payable and accrued liabilities of \$2,008,388 (2009 – \$1,737,117).

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 23 - Subsequent events

On January 4, 2011, the Corporation, through its subsidiaries, Saskatoon 2 Management Ltd. and Saskatoon 2 Properties Limited Partnership, sold its interest in the property known as Saskatoon Square for proceeds of approximately \$34 million resulting in an estimated gain of \$27 million.

On January 31, 2011, the Corporation, through its subsidiary, Hospitality Network, disposed of the net assets of Hospitality Network for cash consideration of approximately \$36 million, resulting in an estimated gain of \$3 million. Active operations of Hospitality Network have ceased as of that date.

## Note 24 - Comparative figures

Certain of the 2009 figures have been reclassified to conform to the current year's presentation.



Grant Kook - Chair

- Founder, past Chairman and current President and CEO of Golden Opportunities Fund Inc.
- President and CEO of private equity and venture capital portfolio manager, Westcap Mgt. Ltd.
- Fund manager of Golden Opportunities Fund Inc., First Nations and Métis Fund, Business Ready Investment Development Gateway (BRIDG) and First Nations Business Development Fund.
- · President and CEO of Cheung On Investments Group Ltd.
- Owner, President and CEO of the Ramada Hotels in Saskatchewan since 1992.
- Serves on the boards of numerous private and publicly traded companies and is active in many community organizations as follows: Vice President of the Canadian Venture Capital and Private Equity Association (CVCA), member of the World Entrepreneurs Association, Trustee for First Nation Trust Funds, Voluntary Chair of the Children's Hospital Foundation of Saskatchewan, Executive Committee Member of the Mike Weir Miracle Golf Drive for Kids, Sponsorship Chair for the 2006 PotashCorp Vanier Cup and 2004 Canadian Nokia Brier, Vice President of Sponsorship for 2010 Canadian World Junior Hockey Championship, Director of 2012 Tim Hortons Brier, Chair of 2013 and 2014 CIS University Cup, and board member of the new Saskatchewan Hockey Hall of Fame.
- Recipient of the Commemorative Medal for the Centennial of Saskatchewan, B'nai Brith – We are Proud of You Award, Ernst & Young nominee for Entrepreneur of the Year in 1998 and 2003, and in 2008 was recognized as one of the "Province's Most Influential Men" by Saskatchewan Business magazine.



Darcy Bear - Vice Chair

- Chief of the Whitecap Dakota First Nation since 1994.
- Initiated a governance and administration program to improve accountability and fiscal responsibility on the Whitecap Reserve.
- Developed Dakota Dunes Golf Links, awarded the Best New Canadian Course, 2005 by Golf Digest magazine.
- · Serves on numerous boards and commissions.
- Named one of the "Ten Most Influential People in Saskatchewan" by Saskatchewan Business magazine.



**Blair Davidson** 

- Chartered Accountant and partner in the accounting firm of Hergott Duval Stack LLP since 1989.
- Active on several committees with the Institute of Chartered
  Accountants of Saskatchewan, chair of the discipline committee,
  former representative for Saskatchewan on the Public Liability
  Committee of the Canadian Institute of Chartered Accountants
  and board member of AICA Inc., the administrator of the public
  liability insurance program for the Canadian Institute of
  Chartered Accountants.
- Has served on several Saskatoon area boards including the Saskatoon Golf & Country Club, the Board of Directors of Saskatoon City Hospital, Saskatoon City Hospital Foundation, the Board of Directors of the Saskatoon Airport Authority, the Saskatoon Zoo Foundation, the Saskatchewan Hockey Hall of Fame and the Royal University Hospital Foundation.
- · Member of the Institute of Corporate Directors.



**Terry Dennis** 

- Member of Canora Town Council since 1997, and has served as the town's mayor since 2000.
- An owner and operator of Dennis Foods, a family enterprise that has been a fixture in the Canora business community since 1947.
- Active supporter of the sports community, serving as a player, coach and volunteer in hockey, baseball and curling.



**Dave Doepker** 

- Executive Chairman of the Board and Vice President of International Business for Doepker Industries Ltd., a family business founded in 1948.
- Previously, spent 12 years in the education field and 5 years in sales and management of an agricultural equipment business.
- At Doepker Industries, held positions of Director of Personnel, VP of Marketing, as well as President from 1997 to 2005 before assuming his current responsibilities.
- Served as a Director on the Saskatchewan Chamber of Commerce.
- A founding member of Action Humboldt, an economic development think tank for the Humboldt region.
- Sits on the advisory board for another Saskatchewan manufacturing company.
- Served on fundraising committees for St. Elizabeth Hospital Foundation and the Humboldt Jaycees.



**Reg Howard** 

- · Senior Vice President, The Phoenix Group.
- Prior to joining The Phoenix Group, was the Regional Manager for Saskatchewan and Manitoba with The Co-operators Insurance Company for 19 years.
- Serves on the boards of The Regina Exhibition Association, Regina Crime Stoppers and The Chris Knox Foundation.
- Is involved with North Central Family Centre, and has served as Co-Chair of the 1966 Grey Cup Anniversary Celebration for the Saskatchewan Roughriders.



Randy Kachur

- Graduate of the University of Saskatchewan, Bachelor of Law Degree in 1978.
- · Partner with the Yorkton law firm of Rusnak Balacko Kachur Rusnak.
- Has appeared as counsel in all levels of court in Saskatchewan and the Supreme Court of Canada.
- Received QC (Queen's Counsel) designation in 2010.
- Current chair of the Mental Health Review Panel for the Sunrise Health Region.
- Serves as director on boards for various private corporations involved with residential and commercial property holdings.
- Past executive member of Yorkton and District Chamber of Commerce, Yorkton Curling Club, Yorkton Sunrise Lions Club, Yorkton Minor Sports Association and Yorkton Cardinals Baseball Club.



**Pamela Lothian** 

- Graduated from the University of Saskatchewan, obtaining a BA Political Science in 1982 and Law degree in 1985.
- First female partner of McDougall Ready in the firm's 100-plus year history.
- Practiced law for 13 years before electing to concentrate on her second "career" as a homemaker, raising two daughters.
- Past president of the Regina Bar Association and a director of Regina Community Basketball Association and the Arthritis Society of Saskatchewan.
- Currently a director of Lex Capital Corp., a private investment holding company, and Lex Capital Management Inc., a private equity management firm.
- Co-chaired the Volunteer Committee for the CIS Women's National Basketball Championships hosted by the University of Regina in March 2009.

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**Gayle MacDonald** 

- President & CEO of G-Mac's AgTeam Inc., an Agricultural Retail Business in West Central Saskatchewan.
- · Full-time mother of three.
- · Serves on the board of Canterra Seeds.
- · Former community representative on the board of Sun West School Division.
- · Graduate of Quantum Shift Ivy School of Business, Western University, London, Ontario.
- Member of Kindersley Business Focus Group.
- · Active member in the community, has coached and/or participated in speed-swimming, fastball and hockey, curling, volleyball and golf, as well as participated in and promoted community programs and fundraising events.
- · Enjoys playing in a band, entertaining crowds in numerous communities.
- · Formerly an orthoptic technician at the Orthoptic Clinic in Regina's Pasqua Hospital.



**Garry Reichert** 

- Retired from SaskTel in 2005 after 38 years of service, during which he held progressively senior positions including General Manager Technology Performance and Operations.
- · Worked with SaskTel International on projects including Manager for the Jilin Power Microwave and Fiber Project in northern China and Director of Engineering for the Leicester Communications Limited Project in the United Kingdom.
- · Graduate in Electronic Technologies from SIAST.

Dale Bloom, Secretary to the Board of Directors



John Ritchie

- First Vice President, Branch Manager and Investment Advisor CIBC for Wood Gundy.
- Served as Chair for the Investment Dealers Association of Saskatchewan.
- Former Division Chair for the Regina United Way.
- · Vice Chair of Skate Canada, Regina.
- · Co-founder and Chair of the Saskatchewan Open Squash Championships.
- · Former board member Potash Corporation of Saskatchewan.



**Glenys Sylvestre** 

- Chartered Accountant.
- · Associate Dean (Undergraduate), Paul J. Hill School of Business at the University of Regina.
- · Formerly an audit and assurance manager at Deloitte & Touche.
- · Served for six years as a Councillor with the Institute of Chartered Accountants of Saskatchewan, including service as President and Chair. Also active on several committees and ad hoc committees with the Institute including past service on the Practice Appraisal and Education committees.
- · Canadian Institute of Chartered Accountants, Provincial Board of Examiners, Saskatchewan representative.
- Facilitates board and executive training and development sessions for numerous organizations on topics such as fundamentals of accounting, risk management, interpretation of financial information and monitoring financial performance.
- · Serves on several Regina community boards including Queen City Kinsmen Gymnastics Club, Arcola East Community Association and was a past volunteer for the 2005 Canada Summer Games.

#### **BOARD COMMITTEES**

#### **Audit Committee**

Blair Davidson - Chair

Terry Dennis

Reg Howard

John Ritchie

Glenys Sylvestre

## **Environment and Human Resources Committee**

Glenys Sylvestre - Chair

Dave Doepker

Reg Howard Pamela Lothian

Garry Reichert

Randy Kachur

#### **Governance Committee**

Pamela Lothian - Chair

Darcy Bear

Terry Dennis

Gayle MacDonald

Randy Kachur

## Corporate Growth and **Technology Committee**

John Ritchie - Chair

Blair Davidson

Dave Doepker

Gayle MacDonald

Garry Reichert

# Ron Styles - President and Chief Executive Officer

- Prior to joining SaskTel in August of 2010, served as President and Chief Executive Officer of Crown Investments Corporation of Saskatchewan from 2006 onward.
- Before CIC, served in many other senior roles with the Government of Saskatchewan Deputy Minister of Finance and Secretary to Treasury Board, Deputy Minister of Highways and Transportation, President of SaskWater, President of Housing Corporation and Associate Deputy Minister for Municipal Government and Community Services.
- Has held positions on a number of boards and associations, including Phenomenome Discoveries Inc., AgWest-Bio,
   SaskFerco, Transportation Association of Canada, New Careers
   Corporation, Saskatchewan Grain Car Corporation, Saskatchewan
   Government Growth Fund and Saskatchewan Credit Union
   Guarantee Corporation.
- Has served as an ex-officio board member for the Port of Vancouver Authority, Director for the Regina Chapter of the Institute of Public Administration of Canada and Vice Chair of the International Performance Test Centre for CO2 Sequestration (IPAC-CO2).
- Currently a board member for The Conference Board of Canada, a Governor for Saskatchewan Junior Achievement and a Member of the CEO's Advisory Circle, University of Regina's Paul Hill School of Business.
- BA, Honours; MA (Economics), University of Regina, and Diploma of Associate in Administration.

## Mike Anderson - Chief Financial Officer

- 31 years with SaskTel in a variety of positions in Marketing, Operations, Customer Services, Digital Interactive Video and Corporate Development.
- Previously served on the boards of DirectWest Publishing Partnership and Navigata Communications Partnership.
- Currently sits on the boards of SaskFilm, SaskTel International, SaskTel Pension Board and DirectWest.
- B.Admin., University of Regina, Certified Management Accountant (CMA); member of the Society of Management Accountants.

# Doug Burnett – Vice President, Human Resources & Corporate Services

- 22 years with SaskTel, initially as Corporate Counsel and subsequently promoted to his current role.
- Serves on the boards of Wicihitowin Foundation, SecurTek
   Monitoring Solutions Inc., DirectWest Publishing Partnership, SaskTel
   International, Junior Achievement, INROADS, Inc. and West Wind
   Aviation Limited Partnership.
- Member of the Conference Board of Canada's Human Resource Executives Council (West) and the National Industrial Relations Executive Council.
- Prior to SaskTel, practiced law in Regina.
- BA, University of Regina; LLB, University of Saskatchewan; and a Certified Human Resources Professional (CHRP) designation.
- Member of both the Canadian Bar Association and the Law Society of Saskatchewan.

# John Hill - Chief Information Officer

- 22 years with SaskTel, beginning his career as a summer student apprentice lineman and later working in a variety of positions.
- Has held various senior management roles within Network Systems,
   Information Technology, Mobility and SaskTel's Expansion Division.
- Provides direction in all technology related issues in support of Information Operations.
- Leads the Corporate Project Management Office and is Chair of the CDC.
- Serves as president on the board of the Regina Optimist Dolphin Swim Club.
- Serves on Committees of Crown Chief Information Officer Council sits on the Advisory Committee of the Council of Chief Information Officers' for the Conference Board of Canada.
- · B.ScEE, P.Eng., University of Saskatchewan.

# Ken Keesey – Vice President, Customer Services – Sales

- 30 years with SaskTel in a variety of positions in both branches of Customer Services — Sales and Operations.
- Serves on numerous boards including Saskatchewan Crime Stoppers, the Saskatoon City Hospital Foundation, and the Canadian and International Telecom Pioneers Advisory Boards.
- One of the founding members of the SaskTel Helping Our Own People (HOOP) organization.
- · Governor for Junior Achievement of Northern Saskatchewan.
- B.Admin., University of Regina.

# Greg Meister – Vice President, Customer Services – Operations

- 17 years with SaskTel in a variety of positions within Marketing,
   Sales and most recently Operations. Previously held director
   positions with the Battlefords United Way, the Saskatchewan Skeet
   Shooting Corp, and the Prince Albert Pistol & Rifle Club.
- · B.Comm., University of Saskatchewan.

# John Meldrum – Vice President, Corporate Counsel and Regulatory Affairs & Chief Privacy Officer

- 34 years with SaskTel, first as a solicitor and later as General Counsel and Corporate Secretary.
- Serves on the boards of DirectWest Corporation, SecurTek Monitoring Solutions Inc. and the Regina Soccer Association.
- Member of The Canadian Bar Association and The Law Society of Saskatchewan.
- · LLB, University of Saskatchewan.
- Received QC (Queen's Counsel) designation in 2000.

# Stacey Sandison – Vice President, Holdco Marketing

- 28 years with SaskTel including positions in Marketing, Sales, Mobility, Customer Services and Operations.
- Previously served on the SaskTel Superannuation Board, SecurTek and The Canadian Wireless Telecom Association.
- Currently serves on the board of Canadian Women in Communications.
- Division Chair for Crowns, Regina United Way.
- B.Admin., University of Regina; MBA, Ellis College, New York.

# W. Kym Wittal - Chief Technology Officer

- 28 years with SaskTel including positions as General Manager —
   Technology Performance & Operations and positions in Engineering,
   Information Technology, Customer Service and Human Resources.
- · Previously served on the board of Navigata.
- Serves on the board of directors of TRLabs and is the past Chair.
   Member of the Salveo (a SaskTel Alcatel-Lucent joint venture)
   Steering Committee.
- B.ScEE, P.Eng., University of Saskatchewan; member of Association of Professional Engineers and GeoScientists of Saskatchewan (APEGS).

# **CORPORATE DIRECTORY**

## **SaskTel Subsidiaries Executive Officers**

Gord Farmer

President, DirectWest

Barry Rogers

President and Chief Executive Officer,

SecurTek

# SaskTel Senior Operating Managers

(As of December 31, 2010)

Dale Baron

Senior Director - Finance (Controller)

Bill Beckman

Senior Director – Strategical

**Business Development** 

Gail Lefebvre

Senior Director - Sales Operations

Darcee MacFarlane

Senior Director - Corporate Communications

Barry Ziegler

Senior Director - Productivity

# **SaskTel International Senior Operating Managers**

Steve Sousa

President and Chief Operating Officer

Scott Fedec

Vice President, Finance

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#### CORPORATE GOVERNANCE STATEMENT

#### **AUTHORITY**

SaskTel is a Crown corporation governed by *The Saskatchewan Telecommunications Holding Corporation Act*, and subject to the provisions of *The Crown Investments Corporation Act*, 1993. The Crown Investments Corporation of Saskatchewan (CIC), as the holding company for Saskatchewan's commercial Crown corporations, has authority to establish direction for SaskTel related to certain matters set out in legislation.

Through the Chair, who is an independent director, the Board of Directors is accountable to the Minister Responsible for SaskTel. The Minister Responsible is a key communications link among the Corporation, CIC, Cabinet, the Legislature and the public.

## **BOARD APPOINTMENTS**

The Lieutenant Governor in Council appoints members of the Board, and designates the Chair and Vice Chair. Subject to applicable legislation, directors are appointed for a fixed term and their appointments can be renewed at expiry. There are twelve (12) members on the Board.

#### KEY ACCOUNTABILITIES

The Board of Directors is responsible for supervising the management and affairs of the Corporation. While focusing on the strategic leadership of the Corporation, the Board delegates day-to-day operations to management and holds them accountable for the Corporation's performance.

The Board discharges its responsibilities directly, by delegation to management and through Committees of the Board. There are four Committees of the Board: the Audit Committee, the Corporate Growth and Technology Committee, the Environment & Human Resources Committee, and the Governance Committee.

#### CORPORATE GOVERNANCE PRACTICES

The SaskTel Board has implemented a comprehensive set of governance practices and is committed to clear disclosure of its governance practices in accordance with current best practice disclosure standards.

On June 30, 2005, the Canadian Securities Administrators (CSA)

National Policy 58-201 on Corporate Governance Guidelines and

National Instrument 58-101 on Governance Disclosure Rules came into
effect. The CSA standards supercede the Toronto Stock Exchange

Corporate Governance Guidelines, which the Board used previously to
assess its practices. The Governance Committee has reviewed the
Guidelines with a view of adapting the Board's governance practices to
the Guidelines, where effective and beneficial. Although SaskTel is not
required to comply with the CSA Governance Guidelines, the
Corporation has used them to benchmark its corporate governance
practices in the following section.

NP 5	CORPORATE GOVERNANCE POLICY, 58-201, AND DISCLOSURE INSTRUMENT, 8-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
	MPOSITION OF THE BOARD 58-201, section 3.1  The board should have a majority of independent directors.	The majority of directors on the SaskTel Board (11 out of 12) are independent.	Yes
NI 5	8-101F1, sections 1(a) and (d)		
	Disclose the identity of directors who are independent; Disclose the identity of directors who are not independent and the basis for that determination; Disclose whether the majority of directors are independent; and Disclose whether a director is a director of any other issuer that is a reporting issuer.	Grant Kook, Chair: INDEPENDENT - President and CEO, Westcap Management Ltd.  Chief Darcy Bear, Vice Chair: INDEPENDENT - Chief, Whitecap Dakota First Nations  Blair Davidson: INDEPENDENT - Chartered Accountant & Partner, Hergott Duval Stack LLP  Terry Dennis: INDEPENDENT - Entrepreneur – Business Owner  Dave Doepker: INDEPENDENT - Executive Chairman & President – Doepker Industries Ltd.  Reg Howard: INDEPENDENT - Senior VP Business Development – Phoenix Group  Randy Kachur: INDEPENDENT - Partner in Rusnak Balacko Kachur Law Firm  Pamela Lothian: INDEPENDENT - Lawyer  Gayle MacDonald: INDEPENDENT - Owner & Operator of G-Mac's AgTeam Inc.  Garry Reichert: NOT INDEPENDENT* - Retired, former SaskTel employee  John Ritchie: INDEPENDENT - First Vice-President, Branch Manager and Investment Advisor, CIBC Wood Gundy  Glenys Sylvestre: INDEPENDENT - Associate Dean (Undergraduate Programs) for the Paul J. Hill School of Business at the University of Regina  The determination of independence is made by the Governance Committee and is based on an assessment of the requirements in Multilateral Instrument 52-110 Audit Committees.  *Mr. Reichert is a retired senior manager of SaskTel, and is currently a member of the SaskTel superannuation plan.  Section 1(d) does not apply to SaskTel as SaskTel does not have share capital, and is not an issuer.	Yes
NP 5	78-201, section 3.2  The chair of the board should be an independent director who is the effective leader of the board and who ensures that the board's agenda will enable it to successfully carry out its duties.	The Chair of the Board is an independent director who provides leadership in board organization, processes, effectiveness and renewal, serves as liaison between the Board and the shareholder and ensures Board agendas reflect an effective balance between the role of the Board and that of management.	Yes

NP 5	CORPORATE GOVERNANCE POLICY, 8-201, AND DISCLOSURE INSTRUMENT, 3-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
<b>NI 5</b> 8	B-101F1, sections 1(f)  Disclose whether the chair of the board is an independent director; disclose the identity of the chair and describe the role of the chair.	Grant Kook is the Chair of the Board and he is an independent director. The Chair reports to the Board and ultimately to the shareholder and is responsible for presiding over meetings of the Board and ensuring that the Board discharges its fiduciary and legal responsibilities. The Chair's primary duties include:  • chairing meetings of the Board and ensuring meetings are properly convened and business is conducted legally  • working with the CEO and the Corporate Secretary to set Board meeting schedules and establish agendas  • monitoring meeting attendance and encouraging full participation by directors at meetings  • communicating with directors between meetings  • taking a lead role in assessing and addressing any concerns related to Board, committee or director performance  • assisting directors to achieve full utilization of individual abilities  • promoting an open and constructive working relationship between senior management and the Board  • working with committee chairs to maintain effective communications and division of responsibilities  • providing advice and counsel to the CEO and senior management  • representing the shareholder's interests and perspective to management, and representing management's views to the shareholder  • in conjunction with the CEO, developing productive relationships and representing the Corporation with the shareholder and key stakeholders	Yes
	TINGS OF INDEPENDENT DIRECTORS	to the grant data date of a large Market the Greek	
NP 5	<b>8-201, section 3.3</b> The independent directors should hold regularly scheduled meetings at which non-independent directors and members of management are not present.	As a Standing Agenda item, the Board holds an in camera session without management present at each regular meeting of the Board. All directors participate in the sessions, except where a director has a conflict with an item under discussion.	Yes
NI E	8-101F1, sections 1(e)	our en la regional de la company de la compa	500
1(e)	Disclose whether the independent directors hold regularly scheduled meetings at which members of management are not present;	There were nine (9) Board meetings held in 2010, and during eight (8) regular meetings, in camera sessions without management present but including all directors were held.	Yes
	disclose the number of such meetings held in the previous 12 months; if such meetings are not held, disclose what the board does to facilitate open and candid discussion among independent directors.	Board practices that facilitate open and candid discussion among and independent judgment by directors include:  • holding in camera sessions of no fixed duration where directors are encouraged to raise any issues of concern  • having an independent director as Chair of the Board  • clearly delineating the division of responsibilities between Board and management  • providing for the Board/directors to access external advice	
		The Board is satisfied that its governance practices foster full and open discussion and debate and that it retains the independence of mind to make decisions in the best interests of the Corporation and the shareholder.	

CSA CORPORATE GOVERNANCE POLICY,				
NP 58-201, AND DISCLOSURE INSTRUMENT				
NI 58-101F1 (SUMMARY)				

#### COMMENTS AND DISCUSSION

Does SaskTel align?

## NI 58-101F1, sections 1(g)

1(g) Disclose the attendance record of each director for board meetings held in the most recently completed financial year. The Board held nine (9) meetings in 2010. The number of Board meetings attended by each director in 2010 is set out below.

Yes

Director	Meetings Attended*		
Grant Kook, Chair	9(9)**		
Chief Darcy Bear, Vice Chair	5(9)		
Blair Davidson	6(9)		
Terry Dennis	8(9)		
Dave Doepker	9(9)		
Reg Howard	9(9)		
Randy Kachur	7(8)		
Pamela Lothian	9(9)		
Gayle MacDonald	8(9)		
Garry Reichert	9(9)		
John Ritchie	9(9)		
Glenys Sylvestre	8(9)		

<sup>\*</sup> For the purposes of this report, members who attended meetings in part were considered to be present.

#### **BOARD MANDATE**

#### NP 58-201, section 3.4

- 3.4 The board should adopt a written mandate which explicitly acknowledges responsibility for the stewardship of the corporation and responsibility for:
- to the extent possible, satisfying itself as to the integrity of the CEO and executive and that they have created a culture of integrity throughout the organization;
- adopting a strategic planning process and approving at least annually a strategic plan which takes into account, among other things, the opportunities and risks of the business;
- identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks;
- (d) succession planning, including appointing, training and monitoring senior management;
- (e) adopting a communications policy for the corporation;
- the integrity of the corporation's internal control and management information systems; and
- (g) developing the corporation's approach to corporate governance, including a set of principles and guidelines specific to the corporation.

The written mandate should also address measures for receiving feedback from stakeholders (for example, a process for stakeholders to contact independent directors); and the expectations and responsibilities of directors, including basic duties to attend meetings and review materials in advance.

The Board has written Terms of Reference that contain the majority of the elements required by the Policy. The Terms of Reference outline the Board's principal duties and responsibilities, including responsibility to function as stewards of the Corporation and to:

- provide leadership in setting the Corporation's long-range strategic direction and annually approve the Corporation's overall strategic plan
- participate in identifying the principal risks of the business in which the Corporation is engaged and oversee the implementation of appropriate systems to manage the risks
- appoint the CEO, evaluate the performance of senior management and ensure effective succession planning processes
- adopt policies and processes to enable effective communication with the shareholder, stakeholders and the public
- monitor the integrity of the Corporation's internal control and management information systems

The Board has approved Terms of Reference for Directors where the expectations and responsibilities of individual directors are delineated.

SaskTel regularly surveys internal and external stakeholders to obtain feedback about Corporate activities. The Chair of the Board participates in a forum established by CIC, which is comprised of the chairs of all subsidiary Crown boards and senior CIC officials, where issues of mutual interest and concern are shared.

Elements of the Policy not specifically identified in the Terms of Reference for the Board include (a) and (g). Respecting (a), the Board has established practices which promote a culture of ethical business conduct (see discussion under section 3.8 of NP 58-201). With respect to (g) the Board has delegated responsibility to the Governance Committee to oversee the Corporation's approach to corporate governance.

Substantial compliance

<sup>\*\*</sup> Figures in brackets represent the maximum number of meetings for the period in which the individual was a board member.

NP 5	CORPORATE GOVERNANCE POLICY, 8-201, AND DISCLOSURE INSTRUMENT, 8-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
NI 58	8-101F1, section 2 Disclose the text of the board's written mandate.	The Board's principal responsibilities are described above. The text of the Board's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.	Yes
POSI	TION DESCRIPTIONS		
<b>NP 5</b> 3.5	8-201, section 3.5  The board should: develop clear position descriptions for the chair of the board and the chair of each board committee;	The Board has approved Terms of Reference for the Board, the Chair of the Board, the Chair of each Committee, each Committee and individual directors and has adopted a Position Description for the CEO.	Yes
	together with the CEO, develop a position description for the CEO delineating management's responsibilities; develop or approve corporate goals and objectives that the CEO is responsible to meet.	The CEO's Position Description sets out the CEO's primary accountabilities and responsibilities. The Board Terms of Reference address management duties, and a Final Authorization Policy, applicable to monetary and non-monetary matters, sets out those matters that require Board approval and delegates other matters to management.	
		The Environment & Human Resources Committee annually recommends performance indicators for the Corporation and personal goals for the CEO that are approved by the Board. The Board annually approves a business plan that includes Corporate objectives, priorities and performance indicators. The CEO is responsible to see that the Corporation achieves the business plan and to meet any other targets assigned by the Board.	
	8-101F1, sections 3(a) and (b) Disclose whether the board has developed written position descriptions for the chair of the board and the chair of each board committee and, if not, describe how the board delineates the role and responsibilities of each such position. Disclose whether the board and CEO have developed a written position description for the CEO.	The Board has developed written position descriptions for the Chair of the Board, the Chair of each Committee and the CEO.	Yes

## **ORIENTATION & CONTINUING EDUCATION**

# NP 58-201, sections 3.6 and 3.7

- 3.6 The board should ensure new directors receive comprehensive orientation and fully understand the role of the board and committees, the contribution individual directors are expected to make and the nature and operation of the business.
- 3.7 The board should provide continuing education opportunities for all directors to enhance their skills and abilities and ensure their knowledge of the corporation's business is current.

Management provides new directors with a comprehensive orientation to the business and the industry. CIC delivers a training program that focuses on the skills that directors need to do their jobs, effective board processes and best practices in corporate governance. Other development opportunities made available to directors are described below.

,			
CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?	THE RESERVED TO SHARE THE PARTY OF THE PARTY
NI 58-101F1, sections 4(a) and (b)  4(a) Describe the measures taken to orient new directors to the role of the board, committees and directors and to the nature of the corporation's business.	The Corporation provides all members appointed to the Board with a comprehensive <i>Directors' Reference Manual</i> , and new directors receive an orientation session delivered by management. The orientation session addresses key industry trends, critical business risks and challenges, the	Yes	

(b) Describe the measures taken to provide continuing education opportunities for all directors.

Strategic plan, organizational structure and responsibilities of senior staff. New directors are able to meet informally with senior managers to learn about the business. Prior to some regular Board meetings, outside experts in various aspects of the telecommunications industry are invited to speak to the Board and senior management. Management has also delivered educational sessions to directors to explain technical aspects of the business.

Each year, CIC sponsors a comprehensive education program for directors of CIC subsidiary Crown boards. The program has focused on the key roles and responsibilities of boards, committees and directors, the skills directors need to effectively discharge their responsibilities and best practices and new developments in corporate governance. Directors can participate in external development opportunities related to their duties as directors where authorized by the Corporation or the Board.

#### **CODE OF BUSINESS CONDUCT AND ETHICS**

## NP 58-201, section 3.8

- 3.8 The board should adopt a written code of business conduct and ethics applicable to directors, officers and employees of the corporation designed to promote integrity and deter wrongdoing. The code should address:
- (a) conflicts of interest, including transactions and agreements where a director or officer has a material interest;
- (b) protection and proper use of corporate assets and opportunities;
- (c) confidentiality of corporate information;
- fair dealing with the corporation's security holders, customers, suppliers, competitors and employees;
- (e) compliance with laws, rules and regulations; and
- (f) reporting of illegal or unethical behaviour.

Board members must comply with the document, which was developed by CIC and applies to the directors of all its subsidiary Crown boards. Officers and employees of the Corporation and its subsidiaries must comply with SaskTel's policy, which includes a whistle blowing policy.

Both Codes are designed to promote integrity and deter wrongdoing, address the elements of the Policy as they apply to a Crown corporation and provide a mechanism to report illegal or unethical behaviour.

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
NI 58-101F1, sections 5(a)  5(a) Disclose whether the board has adopted a written code of ethical business conduct for the directors, officers and employees of the corporation; how to obtain a copy of the code; how the board monitors compliance with the code; and reference any material change report in the most recent financial year relating to any conduct of a director or officer that constitutes a departure form the code.	A copy of the <i>Directors' Code of Conduct</i> can be obtained by contacting CIC. A copy of the Business Code of Conduct can be obtained by contacting SaskTel.  Committees of the Board monitor compliance with the <i>Directors' Code</i> and the Business Code. The Governance Committee monitors compliance with Corporate donation and sponsorship policies and is responsible to administer, monitor and enforce the <i>Directors' Code</i> . The Chair of the Committee reports to the Board at each regular meeting any such issues addressed by the Committee, and submits an annual report to the Board regarding compliance with the <i>Directors' Code</i> .	Yes
	The Audit Committee monitors the financial performance of the Corporation and assists the Board to meet its responsibilities respecting accounting and financial reporting, risk management, internal controls and accountability. The Committee interacts directly with the internal and external auditors, who report to the Committee concerning, among other things, any instances of illegal or improper treatment of Corporate assets. The Audit Committee receives quarterly risk management reports, including reports related to legal risks. The Chair of the Committee reports to the Board at each regular meeting any such issues addressed by the Committee, and all directors receive summaries of risk management reports.	
	The Environment & Human Resources Committee monitors compliance with environmental, health and safety and human resource programs, including compliance with the Business Code. The Committee receives reports from management that address, among other things, compliance with related policies, legislation and regulations. The Chair of the Committee reports any issues raised at the Committee level to the Board at each regular meeting of the Board.	
	SaskTel does not have share capital and is not an issuer. Therefore, no material change reports have been filed.	

3.9 The board should monitor compliance with the code and any waivers granted for the benefit of directors and executive officers should be granted by the board or a board committee. Any waivers for a material departure from the code for any directors or officers should disclose full details of the material change. The Board has delegated to its Committees the responsibility to monitor compliance with the Codes of Conduct. The Committees report any issues dealt with pursuant to the Codes to the full board.

No waivers from either Code have been granted to any director or officer in 2010.

NP 5	CORPORATE GOVERNANCE POLICY, 8-201, AND DISCLOSURE INSTRUMENT, 3-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
	8-101F1, sections 5(b)  Describe steps the board takes to ensure directors exercise independent judgement in considering transactions and agreements where a director or officer has	Where a director has, or may be perceived to have, a personal interest in a transaction being considered by the Corporation, the director is responsible to declare any such interest at the meeting where the matter is considered and not to participate in discussions about or vote on the matter.	Yes
	a material interest.	In 2005, the Board adopted a Disclosure form to enable directors to declare their directorships on and material interests in businesses other than SaskTel, their knowledge of the business their associates have or may transact with SaskTel and any material contracts they may have entered into with SaskTel or its subsidiaries. The required information excludes the acquisition of services available to the general public. The completed form is provided to the Governance Committee, the Corporate Secretary and their advisors to assist them in proactively addressing potential conflict of interests.	
		In 2010, the Governance Committee received from all directors disclosure information respecting which Board members and their immediate families currently hold shares in telecom companies.	
		Management monitors agenda items to identify any issues where a director may have a material interest and such items are not distributed to the director.	
NI 5	8-101F1, sections 5(c)		
	Describe other steps the board takes to encourage and promote a culture of ethical business conduct.	The Board encourages and promotes a culture of ethical business conduct by following current best practices in corporate governance. These practices are reinforced by open and honest discussion about business issues at Board meetings and at informal gatherings between the Board and senior management.	Yes
		The Board expects management to act ethically in its business dealings, in accordance with all applicable legislation, the Business Code of Conduct and any directives or policies of the Board or the shareholder. In 2005, the Business Code of Conduct was revised to incorporate a whistle blowing mechanism to facilitate reporting by employees of issues of concern. Issues arising under the Business Code of Conduct are reported to and monitored by the Environment & Human Resources Committee and management reports to the Governance Committee respecting significant issues that have arisen pursuant to the whistle blowing policy.	
NOR	UNATION OF DIRECTORS		
	IINATION OF DIRECTORS 8-201, section 3.10		
	The board should appoint a nominating	The Governance Committee functions as the nominating committee. All	Yes

3.10 The board should appoint a nominating committee composed of entirely independent directors.

The Governance Committee functions as the nominating committee. All five (5) members of the Governance Committee, including the Committee Chair, are independent directors.

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
NI 58-101F1, sections 6(a) and (b) 6(a) Describe the process by which the board identifies new candidates for board nomination. (b) Disclose whether the board has a nominating committee composed entirely of independent directors and, if not, describe the steps the board takes to encourage an objective nomination process.	The Board, through the Governance Committee, reviews the composition and skill sets of directors annually with a view to maintaining an appropriate mix of expertise, experience and diversity on the Board to support the strategic direction and operating needs of the Corporation.  The Governance Committee is responsible for identifying the skill sets needed on the Board, developing and maintaining a Skills Profile that delineates the competencies of current directors and identifies any skill gaps and seeking and recommending to the Board nominees that have the required competencies to fill any identified gaps. In addition to competencies and skills, the appointment practices encourage diversity in the composition of the Board. In seeking candidates, the Committee	Yes

The Committee believes that following best practices related to Board appointments, maintaining a skills matrix and recruiting candidates who possess the required combination of skills, background and diversity to add value to Corporate decision-making supports an objective nomination process.

receives recommendations from the directors, senior management and the shareholder. Potential candidates are interviewed to determine their overall fit with the needs of the Board, any conflicts that would preclude their effective participation and whether they have the time to devote to Board work. The Committee recommends a list of candidates for each vacant position to the Board which in turn recommends a list of

recommended candidates to the shareholder for approval. The shareholder

has the legislative authority to make Board appointments.

# NP 58-201, section 3.11

3.11 The nominating committee should have a written charter establishing the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual directors or subcommittees) and manner of reporting to the board. In addition, the nominating committee should be given authority to engage and compensate outside advisors necessary to permit it to carry out its work. Where a third party has a legal right to nominate directors, the selection and nomination of those directors need not involve the approval of an independent nominating committee.

The Governance Committee has written Terms of Reference setting out its purpose and principal responsibilities, which address the Committee's responsibility to lead the process of recruiting and nominating candidates for appointment to the Board, as well as the other elements of the Policy except member qualifications and the ability to delegate tasks. The Committee has authority to engage outside advisors to assist it in performing its duties, subject to the approval of the Board. The shareholder has the right to nominate candidates for appointment to the Board, and the candidates are assessed by the Governance Committee in the same way as other candidates.

Substantial compliance

# NI 58-101F1, sections 6(c)

6(c) If the board has a nominating committee, describe the responsibilities, powers and operation of the committee. The Governance Committee performs the functions of a nominating committee, and its Terms of Reference describe the responsibilities, powers and operation of the Committee. The Committee is appointed by the Board, serves in an advisory capacity and makes recommendations to the Board within its area of responsibility. A copy of the Committee's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
NP 58-201, section 3.12 3.12 The board should adopt a nomination process which considers the competencies and skills of the board as a whole; assesses the competencies and skills possessed by each existing director; and considers the personality and other qualities of each director. The board should also consider the appropriate size of the board, with a view to effective decision-making, and should consider the advice and input of the nominating committee.	The Board's nomination process is described above, and it meets the guidelines of the Instrument.  By legislation, the Board is comprised of a maximum of 12 directors. As the Committee responsible for the Board's approach to corporate governance, the Committee makes recommendations to promote timely and effective decision-making.	Yes
NP 58-201, section 3.13 3.13 The nominating committee should be responsible for identifying individuals qualified to become new board members and recommending to the board the new director nominees.	The Governance Committee, serving as the nominating committee, is responsible for leading the process to identify, recruit and recommend qualified candidates for appointment to the Board.	Yes
NP 58-201, section 3.14 3.14 In making its recommendations the nominating committee should consider: the competencies and skills that the board considers necessary for the board as a whole to possess; the competencies and skills of existing directors; the competencies and skills of each nominee; and whether each new nominee can devote sufficient time and resources to board work.	The process followed by the Governance Committee complies with that set out in the Policy and is described above.	Yes
COMPENSATION  NP 58-201, section 3.15  3.15 The board should appoint a compensation committee composed entirely of independent directors.	The Environment & Human Resources (EHR) Committee performs the functions of a compensation committee. Five (5) of the six (6) members of the EHR Committee, including the Committee Chair, are independent directors. One (1) Committee member, as a retired employee of SaskTel, is not independent.	Substantial compliance

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION		
NI 58-101F1, sections 7(a) and (b) 7(a) Describe the process by which the board determines compensation for the directors and officers of the corporation. (b) Disclose whether the board has a compensation committee composed entirely of independent directors and, if not, describe the steps the board takes to ensure an objective process for determining such compensation.	The majority of members of the Environment & Human Resources Committee, which serves as the compensation committee, are independent directors.  CIC has the legislative authority to fix remuneration levels and set expense guidelines for directors. The Governance Committee has authority to recommend to the Board (and the Board to CIC) adjustments to directors' compensation. The Committee receives quarterly reports respecting the remuneration received by members of the Board, and reports any anomalies to the Board.		
	Each director receives an annual retainer for acting as a Board member.  The remuneration levels established by CIC for members of the Board are set out below.		
	Director Remuneration Schedule  Board Chair retainer \$15,000.00  Board member retainer \$10,000.00  Board Chair meeting fee \$900.00  Committee Chair meeting fee \$800.00  Board member meeting fee \$700.00		
	A copy of CIC's remuneration and expense guidelines for directors can be obtained by contacting the Corporate Secretary to the Board.		
	CIC has established a framework for executive compensation, and the Board can approve compensation packages within that framework. The Board has delegated responsibility for addressing and making recommendations concerning management compensation issues to the Environment & Human Resources Committee.		
	The Environment & Human Resources Committee reviews and recommends to the Board: changes to the design of the Corporation's overall compensation and benefits plans; management compensation packages that reflect industry standards; performance compensation programs; and annual Corporate indicators, including a sub-set used to determine performance compensation for senior management. In		

#### NP 58-201, section 3.16

3.16 The compensation committee should have a written charter establishing the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure, operations (including any authority to delegate to individual directors or subcommittees) and manner of reporting to the board. In addition, the compensation committee should be given authority to engage and compensate outside advisors necessary to permit it to carry out its work. The Board has approved Terms of Reference for the EHR Committee, which addresses the Committee's responsibilities with respect to compensation, as well as the other elements of the Policy except member qualifications and the ability to delegate tasks. The Committee has authority to engage outside advisors to assist it in performing its duties, subject to the approval of the Board.

discharging this function, the Committee has the ability to retain external

advisors, subject to approval by the Board.

Substantial compliance

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)  COMM		COMMENTS AND DISCUSSION	Does SaskTel align?	
(c) If	O1F1, sections 7(c)  the board has a compensation ommittee, describe the responsibilities, owers and operation of the committee.	The Environment & Human Resources Committee serves as the compensation committee, and its Terms of Reference describe the Committee's responsibilities respecting compensation issues, as well as the powers and operation of the Committee. The Committee is appointed by the Board, serves in an advisory capacity and makes recommendations to the Board within its area of responsibility. A copy of the Committee's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.	Yes	
NP 58-201, section 3.17 3.17 The compensation committee should be responsible for: reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining the CEO's compensation level based on the evaluation; making recommendations to the board respecting non-CEO officer and		The Environment & Human Resources Committee annually recommends to the Board the CEO's performance targets, and leads the annual performance evaluation process for the CEO. The CEO's performance is assessed against the established Corporate objectives and the CEO's individual targets. The results of the CEO's performance are approved by the full Board, and are used in determining compensation.  Respecting non-CEO officer compensation, the Committee is responsible for recommending to the Board management compensation packages,		
director compensation, incentive- compensation plans and equity-based plans; and reviewing executive compensation prior to public disclosure.	performance compensation programs and annual performance targets. The Board reviews and approves the achievement of Corporate targets annually and the extent to which the targets are achieved determines management's eligibility for performance compensation.			
		Executive compensation decisions are subject to any guidelines established by CIC. As a Crown corporation, SaskTel does not have equity-based plans.		
		Director compensation is determined by CIC.		
	Executive compensation information is available to the public through publication of Crown payee reports. The Committee does not review executive compensation reports prior to public disclosure.			
(d) If	footfal, sections 7(d)  footfa	In 2010, the Corporation did retain a compensation consultant to conduct a review of the Corporation's current short term incentive plan for Executive management.	Yes	
OTHER	BOARD COMMITTEES			
8 If b	101F1, section 8 The board has standing committees of the oard, other than audit, compensation and ominating committees, identify the	In addition to the Audit, Governance and Environment & Human Resources Committees, the Board has appointed a Corporate Growth and Technology (CGT) Committee.	Yes	

committees and describe their function.

The CGT Committee: works with management to develop a growth strategy and related policies; reviews and recommends investments and divestitures; monitors and reports to the Board respecting the performance of investments; and reviews and makes recommendations concerning the evolution of technology in the Corporation, long-term technology strategies and technology investments. A copy of the Committee's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT,		Does SaskTel
NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	align?
BOARD ASSESSMENTS  NP 58-201, section 3.18  3.18 The board, its committees and each	Board, Board Chair, Committee Chair and Committee evaluations as well	Yes
individual director should be regularly assessed. An assessment should consider: with respect to the board or committees, its mandate or charter; with respect to an individual director, the applicable position	as director peer assessments are performed annually on a 2 year cycle, with comprehensive Board and Board Chair evaluations being conducted one year, and director peer, Committee Chair and Committee evaluations being conducted the following year. The evaluations take into consideration the elements of the Policy.	

## NI 58-101F1, section 9

the board.

Disclose whether the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution and, if yes, describe the process used.

description(s), as well as the competencies

and skills each individual director brings to

In 2010, Board and Board Chair Evaluations were conducted.

The Governance Committee oversees the implementation of the above evaluation processes, and uses an external consultant in the case of director peer assessments. The evaluations are survey-based, using an instrument developed by CIC in consultation with an outside consultant and with Crown board members.

Board, Chair, Committee and director performance is measured against the duties and expectations set out in their respective Terms of Reference and the specific standards outlined in the evaluation instruments. The purpose of the evaluations is to identify areas where the Board, Committee, Chair or director is managing well and to highlight areas that may benefit by additional focus and attention.

Directors complete surveys to provide feedback in writing on the effectiveness and contribution of the Board, Committees, Chairs and individual directors. The Board Chair or a third party may follow up the written responses with interviews of directors to elicit additional concerns or suggestions for improvement.

The Governance Committee prepares reports outlining the evaluation results, which are submitted to the Board for review and approval. The Committee recommends follow-up action required as a result of recommendations made in the evaluation reports, and tracks implementation of any action items.

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View this Annual Report at www.sasktel.com/about-us/company-information/financial-reports/index.html

For more information about SaskTel, our initiatives and operations, or to obtain additional copies of the 2010 SaskTel Annual Report, please contact SaskTel Corporate Communications at 1-877-337-2445 or visit our website at www.sasktel.com.

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## CORPORATE SOCIAL RESPONSIBILITY HIGHLIGHTS

Please view the SaskTel 2010 Corporate Social Responsibility Report online.

This year, we decided to reduce our ecological footprint by not printing our Corporate Social Responsibility Report.

As always, however, it is available online at sasktel.com.

(http://sasktel.com/about-us/company-information/financial-reports/attachments/10-sasktel-corporate-responsibility-report.pdf)

Here are a few of the year's CSR highlights:

 In 2010, we formed a new partnership between SaskTel, the Communications, Energy, and Paperworkers Union of Canada, and the Saskatchewan Abilities Council to create jobs for individuals with disabilities.



- Working with nearly 1,500 students, 150 SaskTel employees
  volunteered their time to send two containers of medical supplies and
  donated goods from across the province to community-based clinics in
  Haiti, and a third container to a mother-baby clinic in Arusha, Tanzania.
- We, along with many other representatives of both public and private sectors from across the province, signed Saskatchewan's first Health & Safety Leadership Charter.

At the Canadian Wireless Telecommunications Association's (CWTA)
 '25 Years of Connected to the Community' event, SaskTel paid tribute
 to the Provincial Association of Transition Houses and Services of
 Saskatchewan (PATHS), our partner in the Phones For a Fresh Start cell
 phone recycling program. Since its launch last year, more than 19,867
 phones have been recycled by the program (12,198 phones in 2010).
 Meanwhile, SaskTel has provided 150 cellular phones to transition
 houses across Saskatchewan.



- SaskTel successfully launched programs such as the Career Launch initiative, which promotes aboriginal and disability hiring through an eight-month internship program sponsored by the SaskTel Human Resources Department.
- We signed a partnership to work with Indian and Northern Affairs
   Canada (INAC) to bring high speed Internet access and cellular service
   to 26 First Nations communities in Saskatchewan. Through this
   upgrade, residents will have enhanced access to health and emergency
   services, educational and business opportunities, and overall
   entertainment benefits enjoyed by others throughout the province.

SaskTel