SaskTel

2011 *Annual Report*

at your fingertips.

Letter of Transmittal

Regina, Saskatchewan
March 31, 2012

Her Honour
The Honourable Vaughn Solomon Schofield, S.O.M., S.V.M.
Lieutenant Governor of Saskatchewan

Dear Lieutenant Governor:

I have the honour to submit herewith the annual report of SaskTel for the year ending December 31, 2011, 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,

Bill Boyd

Honourable Bill Boyd
Minister Responsible for Saskatchewan Telecommunications

Minister's Message

I am extremely pleased to present SaskTel's 2011 Annual Report. Despite operating in a rapidly transforming industry, SaskTel has once again achieved impressive financial results.

Increased competition and an aggressive marketplace in our province continued to place pressures on revenues and prices, which ultimately placed pressure on SaskTel's margins. SaskTel Management and all of its employees have successfully faced numerous challenges throughout 2011 that posed significant risks to the bottom line.

A key area of emphasis in 2011 was SaskTel's capital build and the ongoing enhancements to its 4G network. This was the second largest capital spend in the history of the company and SaskTel employees worked tremendously hard on improving the 4G network experience for its customers.

With SaskTel's ongoing commitment to capital investment in wireless and broadband technologies, the company is well positioned to ensure it can meet current customer demand and build a future-ready infrastructure. I am confident that SaskTel has a solid plan in place to succeed well into the future by keeping pace with industry change and technological advancements.

SaskTel has always had an innovative business model, and together with an innovative workforce, the company will continue to deliver solid financial results to the Province of Saskatchewan. As you will see in this report, SaskTel is financially healthy and ready to meet the challenges and opportunities of the coming years.

My sincere thank you to everyone at SaskTel for their dedication and commitment to providing better service to the people of Saskatchewan.

Bill Boyd

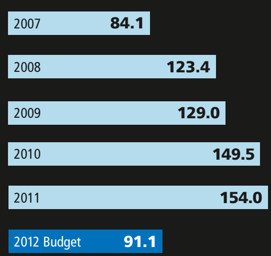
Honourable Bill Boyd

Minister Responsible for Saskatchewan Telecommunications

TABLE OF CONTENTS

Financial Highlights

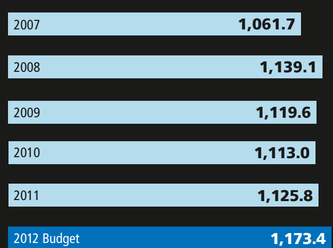
Net Income
($ millions)



NET INCOME for the year was $154.0 million, up $4.5 million (3.0%) from 2010. Return on Equity was 20.7%, up from 20.5% in 2010, and dividends declared for 2011 were $138.6 million, as SaskTel once again provided a strong return to its shareholders.

SaskTel's budgeted net income for 2012 is $91.1 million. The decrease is due to reinvestment in networks, products, services and systems and increased competitive pressure on pricing and margins. SaskTel also recognized gains on the sale of two subsidiaries in 2011, which significantly increased net income in that year.

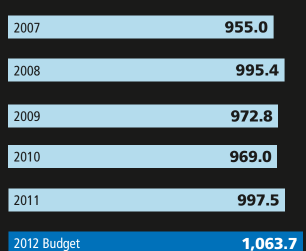
Revenues
($ millions)



REVENUES for the year were $1,125.8 million, up $12.8 million (1.2%) from 2010, primarily driven by *Max*™ revenues due to increased number of customers and increased revenue per customer, and wireless revenues due to increased number of customers, increased smartphone sales and increased data usage. In addition, data and Internet revenues increased due to increased average revenue per unit from customers moving to more expensive plans.

SaskTel is budgeting $1,173.4 million in revenue in 2012. The increase is primarily due to planned growth in wireless services, as well as *Max*, Internet and data services.

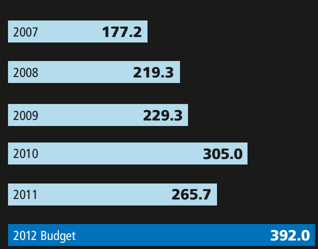
Expenses
($ millions)



EXPENSES for the year were $997.5 million, up $28.5 million from 2010. This increase was due to increased goods and services purchased to support revenue growth in wireless, *Max*, data and Internet revenues. In addition, depreciation and amortization increased $5.7 million due to increased plant in service. These increases were partially offset by decreased salaries, wages and benefit expenses.

SaskTel is budgeting expenses of $1,063.7 million for 2012. The increase is mainly to support planned revenue growth in wireless and *Max* Entertainment Services as well as continued reinvestment in SaskTel's networks.

Capital Expenditures
($ millions)



CAPITAL EXPENDITURES for the year were $265.7 million, down $39.3 million from 2010. 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 2011 capital program was spent on the Rural Infrastructure Program, cellular network expansion, the 4G wireless network, customer service delivery enhancement, and on expanding *Max* Entertainment Services to eight additional locations in 2011.

In 2012, SaskTel is forecasting to invest $392.0 million in property, plant and equipment and intangible assets. Capital expenditures in 2012 will focus on further investment in business opportunity and 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 4G, a cellular network upgrade to Long Term Evolution (LTE), network growth and refurbishment, further investment in *Max* Entertainment Services, and improved high speed Internet quality.

"Today's most advanced tools will be improved upon tomorrow."

President's Message *FINDING SIMPLICITY IN A COMPLEX BUSINESS*

In recent years, SaskTel has deftly threaded its path through rapidly evolving technologies and market forces by understanding the importance of networks—by understanding that in the long run our networks, and not so much the particular services they carry, form our core business.

The telecom services that we once thought of as our bread and butter are becoming apps you download on the device of your choice. We still deliver voice, video, music, web browsing, photos, and e-mail over an array of personal technology devices, some of which people carry with them wherever they go. But our stock in trade today is not so much the services themselves as it is our reliability, our customer relationships, and our unsurpassed network.

Those core qualities demand that we manage complexity and keep things simple for our customers. The simplicity of a touch-screen hides a great deal of complexity that makes it all work: engineering, programming, marketing, customer service, and accounting are necessary to design, build, maintain and manage our networks, customer interface, billing systems, human resources, and information technology (IT). That is what we do and when we do it well, all of the complexity is completely transparent to the thousands we serve every day.

But there is always room for improvement. In the last two years business simplification has become a strategic priority for SaskTel. Our business simplification program objective is to set SaskTel apart from competitors by employing the kinds of practices and systems that will make the customer experience the best it can be. This year we identified dozens of opportunities for simplifying business operations and customer service. Some of these have already been addressed. For example, we have begun to standardize the customer credit check process leading to multiple business process simplifications.

There are moments, of course, when customer service along with the best planning and design are trumped by circumstances like unprecedented growth in customer demand. By October 2011 we had discovered that about 5.5% of our approximately 200,000 customers on 4G were using up to 48% of the network's capacity (at given moments). Meanwhile, smartphone penetration on our wireless network jumped from about 25%, prior to 4G, to about 50% by the end of the year (CDMA and 4G combined). Needless to say, demand for data services and data usage far exceeded our forecasts.

In response, we rapidly deployed engineering solutions including supplementing radio spectrum, increasing the number of towers and antennas, doubling our base stations to handle radio traffic, and generally enhancing all existing infrastructure. By year's end, the network capacity concerns had settled significantly.

In addition to mounting complexity and network capacity concerns, the third major challenge we and many other service providers are facing today is financial. How do we continue to grow in the face of shrinking margins from legacy services and increasing competitive pressure on revenues? As our revenue mix continues to shift, we are dedicating more resources to areas of higher growth, including wireless voice and data, broadband and video. Niche market players and emerging technologies requiring minimal capital investment are adding to the competitive mix in our market, but at the same time we are taking advantage of these realities to leverage our network and knowledge base to offer new kinds of services. The world of possibilities in "cloud computing" is one area our Strategic Business Development people worked towards in 2011.

Whether it was a changing financial picture, increasing complexity, or galloping network demand, in 2011 we rose to each challenge. As you read this year's annual report, you will hear the stories of some of the key people leading SaskTel in the midst of this complex and accelerating transformation in our industry.

My confidence in our leadership is borne out in the many designations and honours that we received in 2011. We are doing some things right when J.D. Power ranks us highest in overall customer satisfaction in the West region. In J.D. Power and Associates 2011 Canadian Wireless Customer Satisfaction Study℠, SaskTel also ranked first in the West in four categories: network quality, account management, customer service, and offerings and promotions.

For the twelfth consecutive year, SaskTel was also recognized as one of Canada's Top 100 Employers by Mediacorp Canada Inc. SaskTel has in fact been a part of this prestigious group of employers since the awards were introduced. In addition, SaskTel was recognized in 2011 as one of Canada's Best Diversity Employers (for employers who demonstrate exceptional diversity and inclusiveness programs), as one of Saskatchewan's Top Employers (fifth consecutive year), and as one of Canada's 50 Greenest Employers (third consecutive year).

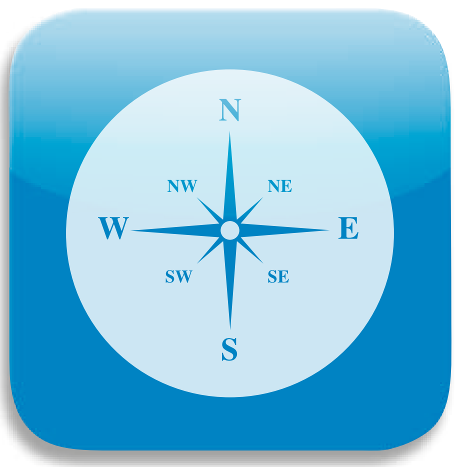
Finally, in 2011 the Association of Professional Engineers and Geoscientists of Saskatchewan (APEGS) honoured SaskTel with an Exceptional Engineering / Geoscience Project Award for the work involved in our 4G network.

By this time next year, I expect to be discussing entirely new developments, devices and network capabilities in our industry and marketplace that today we can only speculate upon. Come what may, I am sure our employees and management will rise to the occasion as they have this year and every year. My confidence in our ability grows every time I visit employees at work sites around the province; every time I see them responding with integrity and pride as they did during the flooding our province experienced this spring and summer. Our people care about our customers, and they care about this company and where it is headed. I always appreciate having the chance to hear their experiences and thoughts whenever I am on tour. With that, on behalf of the SaskTel Board of Directors and Executive team, I extend our thanks for all of the hard work, creativity, and adaptability shown by our staff in 2011. With your support, SaskTel will remain the best in our industry at taking rapidly evolving and complex services and making them into simple but powerful connections available at the tap of a screen or the click of a mouse.

Ron Styles

SaskTel President & CEO

FUTURE DIRECTIONS:
INNOVATION IN THE MARKETPLACE AND IN STAFFING



“We take a customer-focused view of innovation, not a technology-led view.”

INTERVIEW WITH JOHN BODEN, VICE PRESIDENT—PRODUCT INNOVATION AND CARRIER RELATIONS AND DOUG BURNETT, VICE PRESIDENT—HUMAN RESOURCES AND CORPORATE SERVICES

The newest addition to SaskTel's executive, John Boden, admits the reason he is here is because of the corporation's new focus on innovation. "If innovation didn't excite me I wouldn't be here," John says. "My family made the decision to move here because of SaskTel's commitment to innovation. It's a big part of where the company is headed."

But innovation and planning for the future are also human resources issues, and that means SaskTel's head of HR, Doug Burnett, also keeps an eye on the horizon. "To adapt to rapidly changing marketplace realities—whether it's our evolving network or new offerings like cloud services—we have to have the right employees with the best resources, tools and practices to ensure our people have every opportunity to help us succeed."

For John Boden, who comes to SaskTel with years of experience in technology and corporate development, the future will see us innovating more and more as our network evolves in response to demands placed upon it by customers. "From a network perspective there are some interesting things coming up," John says. "With our Fibre to the Premises (FTTP) build we are putting ourselves in very good shape for the increased adoption of video content. People are now making video from the content of their daily lives, moving away from simple text blogging or tweeting. That uses a lot of bandwidth so our long-term evolution will help our customers on that front."

John believes we will soon be seeing a transition from the current challenge of bandwidth demand from video to a new source of demand. "As the Vice President of Innovation, one interesting issue is how we juxtapose the huge bandwidth usage required for video, where that demand comes from relatively few devices, with a world where there are going to be a whole lot more devices talking to one another." Here, John is referring to what is coming to be known as "the Internet of things," machines communicating with other machines to provide more timely and effective monitoring and security.

"Machine to machine and telemetry from your house and its appliances and from your car may not be a lot of data for each message but it is a very large number of devices. I've seen predictions of 15 billion devices by 2015—device to device communication is expected to exceed the number of people communicating. How do we navigate that evolution in an innovative and effective way here in Saskatchewan?"

Real people looking for solutions to everyday problems, says John, is what drives innovation, rather than the technology itself. "We don't start with 'hey, here's a cool piece of technology, how do we work it into our business?' The way we go about it is to talk to our customers and find out what solutions they need. If those things fit into what SaskTel can provide, and there is a market, we will figure out how to do it in collaboration with our customers. So we are taking a customer-focused view of innovation, not a technology-led view."

Innovation, though, is about change and John understands that change can be scary. "There are always risks and challenges doing this, but if we stay focused on what our customers need and how to make services and products very usable and simple then we will make the right decisions. I hear people look at a product and say 'that's not new, that was around ten years ago.' Well maybe it was but there is a difference between when something first comes out and when it first takes off—and the difference is usually about simplicity. Has it become simple enough that customers can use it to add value to their lives? Is it ubiquitous enough that most people can use it and broad enough that it has everything people need? As we develop and bring new services out I think the challenge in innovation is to be focused on making sure that those offers are still current and usable and as ubiquitous as they possibly can be."

John is enthusiastic about SaskTel's new cloud services being developed for data storage, hosted application accesses and managed services. "Our focus is making it simple and intuitive to use," says John, "so you can get your services online right away and get the info you want in a simple format. One of the key areas we look at here is usability. If we can do that well for our customers it will be a great differentiator—whether our competitors are here in Canada or Google, Microsoft and Apple. As we move ahead we will increasingly be competing and partnering with innovators from around the globe—we will have to work with them as partners and suppliers, but at the same time keep up with them, remain in close competition with them as they bring new services and products to the world."

From the human resources side of the business, Doug Burnett's preparations for the future involve a rigorous planning process. "We have an embedded workforce planning process in the company facilitated by HR. We work with every department to answer: what are your future requirements? What skill sets do you need? How many people will you need? Then we help them build their HR plan, translating skill sets into appropriate job descriptions, compensation, hiring and training."

Doug says that while it can be simpler to understand what a department needs today, the trick is to be able to train and recruit to meet what they will need tomorrow. "Succession planning is part of that—as people leave, we develop strategies around recruiting new employees. We ask: are the right skill sets out there? Do we need to be sure that the proper skill sets are being developed outside of SaskTel ahead of our needs? Do we need to be designing programs to meet those skill sets inside SaskTel?

"We work with elementary schools, high schools, technical schools and universities to ensure they understand what our future requirements are going to be and make sure they are building a workforce that meets those needs. In cases where we can't get them interested in a very specific area we look at ways to bring that development into SaskTel."

Doug believes that the task of looking into the future and predicting the skill sets SaskTel will need is a vital one for the corporation's leadership. "Our current workforce is loyal and capable and more than willing to adapt their skill sets to our requirements. As leaders, though, we need to define where we are going and understand the skill sets required to take us there. I think we are doing that and I am confident that the current employee base, supplemented with some new employees as required, will be more than adequate to ensure that we get there."

In closing, Doug compared corporate customer-focus and employee-focus. "It's self-evident that we need to be extremely focused on the customer, but from my perspective it is equally important that we be employee-focused. We need to ensure that we are competitive in every aspect in terms of how we treat our employees. We have to not only implement best practices; we have to lead by establishing best practices.

"As proud as I am that we have been recognized as one of Canada's top employers for 12 years in a row, it's not so much the recognition, which is nice, but the way it affirms that we are on the right track in terms of our HR practices. That we are doing the right things and finding ways to ensure that we are equally employee-focused."

NETWORKS: MANAGING COMPLEXITY AND DELIVERING SIMPLICITY

“Wireline has its steady growth of demand for bandwidth, but on the wireless side it’s exponential.”

INTERVIEW WITH JOHN MELDRUM, VICE PRESIDENT—CORPORATE COUNSEL & REGULATORY AFFAIRS, ACTING CHIEF TECHNOLOGY OFFICER AND CHIEF PRIVACY OFFICER

John Meldrum has been with SaskTel for 35 years, but it doesn't take long in this industry to catch on to the cycle driving network evolution. "It is the defining challenge for everyone in this business these days," John says. "It's all about bandwidth—meeting our customers' growing demands for bandwidth." Over his career at SaskTel, John has seen the spiral of demand and capacity become an axiom of communication networks: the greater a network's capacity, the more demands are placed upon it, eventually ensuring the need for even greater capacity down the road.

"You are only as good as your latest network upgrade. Not too long ago everyone's wireless systems were carrying mostly voice and text messages. Today, there is an order of magnitude difference in the bandwidth used by a two-minute YouTube video compared to a two-minute phone call. If your network can't handle that increase in bandwidth demand, customers go elsewhere. It's that simple.

"Customers have increasing demands for bandwidth on the fly, at their convenience, and that requires significant wireless bandwidth to be able to provide those services, whether they are Facebook, video clips or newsclips. Wireline has its steady growth of demand for bandwidth, but on the wireless side it's exponential."

While he sees SaskTel's move to 4G in 2010 as a critical advancement taking us from a voice-centric wireless network to a powerful data and voice-centric network, like most of the corporation's leadership team, he has his eyes on the next network build. "We are already working on the next generation of wireless technology, Long Term Evolution (LTE). It will allow us to double the download and upload speeds from our current environment. Like 4G it is standards-based, but it will help us to offload some of the demands being put on our 4G network and provide our customers with a faster network."

The next step of network evolution on the wireline side is a real game changer, according to John. "In the next seven years we will be replacing our copper wire with fibre optics direct to the customer premises in Saskatchewan's major centres, providing almost unlimited capacity to increase bandwidth as demands increase. There is nothing better than fibre to the home and there is not likely to be anything better than fibre to the home in a long, long time."

John is the first to admit the challenging realities that go along with trying to stay ahead of customer demand for bandwidth, particularly on the wireless side. "It's easy to forget that wireless is always a shared network. When you download that highlight reel from Euro Cup soccer onto your smartphone, you are doing it over facilities that are shared among everyone tied into that cell site. You don't have a dedicated line like you do with wireline, so the capacity of that cell site is divided among many other users.

"The dropped calls and congestion we experienced in our first year of 4G were not unique to SaskTel. But Canada does seem to be a world leader in the adoption of smartphones and the use of new services, which means we are a bit of a guinea pig for the world. Because we were early to market and our customers really took to the new services with unprecedented enthusiasm, carriers like SaskTel were first to feel all of the challenges. The good news is that our customers are really enjoying the new network and what it can do. You can imagine building a new network and having nobody come. That would be a bridge to nowhere, but we have lots of cars on the bridge."

As that bridge rapidly reached its capacity and began to see some congestion, John says, SaskTel responded aggressively to add more facilities. "We had plans in the works to add more cell sites and improve capacity, but when the congestion hit we moved those plans ahead as fast as we could. Our employees did an outstanding job of installing additional capacity, grooming the network, and installing new software. Everyone pitched in to get sites turned up and to get portable cellular trailers in place in areas where it was going to take too long to put in a tower. There were places where we put up what we call a 'stealth pole' (facilities on a pole that blends in with its surroundings) in a shopping area just in time to be ready for the Christmas shopping rush."

As SaskTel's Acting Chief Technology Officer, John understands that although the capacity and congestion challenge means constant network improvement, there are some key tradeoffs to be considered between the costs of acquiring more spectrum capacity and simply maximizing our use of existing spectrum.

"With 4G, as more and more customers draw more and more services from the tower the actual coverage and footprint of that tower starts to shrink. That's what ultimately drives you to install more towers, but you run up against significant costs. If you had more spectrum you wouldn't have to break it up into smaller cell sites. It becomes a trade-off between the cost of acquiring more spectrum and the cost of building more cell sites to use the spectrum you have to its fullest, cutting it up to into smaller and smaller pieces." John is particularly concerned about acquiring the kind of spectrum needed to deliver the next generation of wireless services to rural Saskatchewan.

"The only way to affordably deliver to rural areas the same high-bandwidth wireless services we enjoy in our cities is to use spectrum with the kind of transmission characteristics that will span the great distances, penetrate buildings, and eliminate the need for too many towers. That means the 700 MHz radio spectrum being freed up from the TV broadcasters. Without SaskTel getting that spectrum, no one will be able to bring the next generation of wireless services to this province's high cost serving areas. We did a study to see what the costs would be to create a next generation rural network without 700 MHz spectrum and it shows that building the additional towers could cost up to one billion dollars. There is simply no business case that would allow us or anyone else to build and pay for a wireless network in rural Saskatchewan costing that much money."

Looking ahead, John warns that there is no reason to think the demand for capacity is going to plateau any time soon. "We are currently on top of capacity issues, but there is no opportunity to declare victory because existing customers are using more and more bandwidth and new customers that are coming on the network will do the same. The key is to get ahead of it as best we can, work closely with our suppliers, our engineers, and our planning forecasters and then make sure we put as much capital as is necessary into the network to deliver the level of service our customers are looking for."

CUSTOMER SERVICE: SIMPLE SOLUTIONS FOR BUSY PEOPLE

"Our approach to meeting customer expectations will change with technology, but our tradition of excellence and commitment to customer service will not change."

INTERVIEW WITH STACEY SANDISON, CHIEF MARKETING OFFICER AND KEN KEESEY, VICE PRESIDENT, CUSTOMER SERVICES—SALES

In her long career at SaskTel, Stacey Sandison has seen every side of sales, marketing and customer service. Today as the head of our marketing team, she works closely with Ken Keesey who has led SaskTel's Customer Services for several years. While they come at the question of how we serve the customer from slightly different directions, they are focused on the same goal of offering simple solutions to the complex demands of modern life.

"People are incredibly busy these days," Ken indicated. "More than ever they want to do business with organizations that make things simpler in two ways: first by offering products and services that make their lives simpler, and second, by being easy to do business with."

Stacey Sandison sees the same imperative for simplicity but always from the perspective of how we present that proposition to the consumer. "Simplifying their lives is a way for us to differentiate ourselves from competitors. Our new tag line, 'Your Life. Connected', makes that promise to customers. That means our products and rate plans have to be easy to understand. The customer will move towards that service provider who will meet their needs with the least amount of difficulty and the greatest amount of ease. We want to be good at all elements of simplifying our customers' lives so that the first choice that comes to mind is always SaskTel."

Ken's focus on listening to our customers has allowed Customer Services to respond in ways that keep things as simple as possible. "We talk to our customers a great deal in surveys and focus groups and we continually get information from them on what they like and don't like. We know that in the stores or in install and repair or when you phone into our 1-800 SaskTel number, receiving timely service is critical." Recalling the flooding in the spring of 2011, Ken says that customers let us know that they did not like the longer wait times for install and repair. "We got to work and made sure we did everything we could to manage that crisis and minimize the install and repair times as much as possible."

The re-design of SaskTel stores in 2011, Ken says, was a major step in improving an important sales channel. "We now have redesigned stores in Regina, Saskatoon, and Swift Current, and we are working on Prince Albert. Customers tell us they love the look of them—they are clean, they are bright, and inviting for people to come into. We have a lot more interactive solutions for customers. They can go to our displays with the touchscreen technology and search out the products and services on their own or they can choose to come to one of our agents to be served directly. The store layout is customer friendly, and we have tried to avoid long lineups; we've placed desks and pedestals around the stores with inventory closer to hand and easier to get to. We're hoping that the whole experience from the time they come in the store to the time they leave has been pleasing for them, that it provides them choice and options on how they learn about our services and ultimately speeds up the flow for everyone."

Both Ken and Stacey are hearing from many customers that they want to be able to manage their SaskTel services themselves from home or on the move. Ken believes that the self-serve option SaskTel is aggressively developing will become an important channel for customer service. "As we know," Ken said, "people are spending a lot more time on their computer or with their phone. Shopping online is becoming more popular all the time. For us to have an excellent self-serve channel is really important for our long-term success and we are working hard to deliver a channel that's appealing, effective and something customers want to use to do business with us. We will continually look for ways to improve it, to offer more solutions for customers that they can access on their own. Down the road we hope to have a way for customers to go in and change their *Max* selections—either from their cell phone or on the Internet."

With customers wanting to access new services or make changes to their services 7 days a week, 24 hours a day, self-serve is becoming a priority for SaskTel, says Stacey. "Customers want to have more choices in how they interact with us as their supplier. They want to be able to log trouble and track its resolution. Self-serve is important because it is the way customers are going in every industry out there. It becomes a complementary strategy for SaskTel. Our goal is to identify areas of the highest need for the largest portion of our customers right now and very aggressively put that functionality in place so that they can take advantage of that as an alternative to calling us or coming in to see us."

Stacey is excited that SaskTel is also giving customers the opportunity to interact with each other. "Social media is becoming an important way for us to learn more about customer needs and concerns, as well as for us to provide more information and help people make choices. It's important that we participate."

This is an industry where technology is often highlighted in the marketing to customers. Stacey believes that while it is important to be a leader in technology and to let our customers know we are on the cutting edge, that in itself is not enough. "We have to be able to translate that for the customer who wants to know, ok but what does that mean for me? If you say you are building an LTE network that may not mean a lot, but if you can say here are the kinds of benefits it provides for you, the kinds of problems it will solve, the opportunities it will provide, *then* customers will listen."

There is no mistaking Stacey's enthusiasm for her job as she looks ahead. "These are exciting times in this industry and SaskTel is embracing the changes that are coming—the increasing demand for quality and for more capacity, for more choice; the challenges from competitors of every size and variety; the pressures on traditional revenues and the advent of new revenue. I'm excited because I know this is a company with a reputation for working hard to understand the customers' needs. We are going to continue to work hard and to listen. Our approach to meeting customer expectations will change with technology, but our tradition of excellence and commitment to customer service will not change."

Ken shares that excitement because he believes his Customer Services staff has what it takes to keep providing the experiences that have always made SaskTel customers loyal. "Ultimately, the customer is boss. They call the shots and they pay our salaries. I have every reason to believe our people will continue listening to our customers, to really hear what they are saying, and to continue making the improvements that are necessary to ensure those great experiences continue. Whether it's offering more choice, or simplifying the business, or being more timely and responsive —all those things are very important and as an organization we have to balance that off with the development of our network and improving processes. But we can't take our eye off the ball in customer service. We know that it is critical. The market in Saskatchewan is very appealing for competitors of all shapes and sizes, and the bar will continue to be raised. But we will be there raising the bar as well."

“We saw our fiercest competition in almost every line of business, and yet we continued to do well in market share.”

In his sixth year as SaskTel's Chief Financial Officer, Mike Anderson is another of the corporation's long-standing executive members. We asked Mike to break down the highlights of SaskTel's financial story for 2011.

"We had some major achievements to celebrate," Mike says. "One I particularly like is that we were ahead on all of our major access indicators: Wireless postpaid customers were 17,000 ahead of target, while wireless data customers were 62,000 ahead of target. SaskTel's revenues for the year reached the second-highest in company history—$1,125.8 million. Wireless data growth resulted in revenues $18.8 million higher year over year as customer usage on the new 4G network far exceeded our expectations. *Max* also exceeded its customer targets and saw revenues grow $16.9 million over 2010. Another highlight was our significant gain of $30.8 million from the sales of two subsidiaries: Hospitality Network and Saskatoon Square."

What about the line on the bottom of the Income Statement that gets everyone's attention? "Our net income was strong," says Mike, "even if you exclude those one-time gains, but they were lower than we had forecast, for a number of reasons."

With the kind of methodical precision you expect from an accountant, Mike lists all of the factors that affected SaskTel's bottom line. "We did not reach four of our financial targets: revenues, net income, ROE (return on equity) and EBITDA margin (earnings before interest, tax, depreciation and amortization, divided by total revenue). The biggest hit to our revenues was in *Max* services. Aggressive price competition for video services in the province led us to drop some of the prices on our promotions to stay competitive. We hit all of our *Max* access targets, but that re-pricing meant that our revenue from *Max* came in under forecast.

"Net income was also impacted by the aggressive capital spending program we launched in 2010 to build our 4G network. It was so popular with our customers that we ended up having to put more assets into production much earlier than we had forecasted. That meant a significant increase in depreciation and interest expenses for the year. Add that to the revenue impact from competition for *Max* and you get the main reasons for missing our net income target. And of course if you miss your revenue and net income targets you are going to miss on EBITDA margin too."

Mike was quick to point out, however, that the larger picture beyond those targets shows a strong performance in a very competitive market. "I think this year we saw our fiercest competition in almost every line of business, and yet we continued to do well in market share. We gained customers and held onto more than we thought we would be able to, despite some intense price competition. But to do that we paid the price in terms of revenues and margins. The wireless wholesale line of business experienced significant competition that resulted in reduced prices to the competitors that roam on SaskTel's network. Meanwhile, costs for wireless devices are growing at a higher rate relative to revenues than in the past as a result of significant customer uptake of new, more costly smartphone devices on SaskTel's 4G network."

SaskTel has seen this coming, Mike said, and is looking for new forms of profitable revenue growth as well as new ways to manage costs. "We've got the product development group working on innovation and looking for new products and services, new lines of business. You will probably see an increasing focus on cloud-based services. In fact we are working on a number of initiatives in that area, and some are already early to market. Meanwhile, we are also investing more heavily than ever in our network. For the coming years, with Long Term Evolution and Fibre to the Premises on the horizon, we have the most aggressive network improvement plans that the company has ever seen."

Behind the network, though, there is another network—the systems that support our network and customer service, from billing to signing up for new services and features. Mike sees opportunities in these back office systems to both provide new forms of customer service and reduce operating costs in the long run. "We need to be able to streamline those systems to provide service much better and faster, and to do business with customers in the way they prefer," he says. "A lot of people today prefer to shop online and we need to invest heavily to improve our online presence so customers can look after their needs how they want to and when they want to."

From a cost-reduction perspective, Mike is confident that the programs SaskTel has in place for productivity improvement will do the trick. "A lot of those initiatives are based on our systems, so if we can improve and streamline our systems and process, we not only improve service for our customers; we also take costs out of the organization."

When he talks about investing for the future of SaskTel, though, Mike recognizes that it will put pressure on the company's financials for the next three to five years. "These are major investments and we expect to see net income drop into the $90 to $100 million range. All that investment will increase depreciation and interest expense and that leads to lower net income. SaskTel's debt ratio will increase too as SaskTel takes on additional debt to fund its capital programs. SaskTel's balance sheet is strong and can support the necessary investment to keep SaskTel's network, products and services competitive and preferably best in class. Our view is that we are investing for the future of the corporation and the investments we are going to make now will pay dividends in the future. When we get the capacity we need and the systems in place to allow customers to do business the way they want to do business with us, that investment will result in increased revenues, new products and services and growth for the future."

Management's Discussion and Analysis

SASKTEL OVERVIEW

Saskatchewan Telecommunications Holding Corporation (SaskTel) is a Saskatchewan Crown corporation. SaskTel is the leading full service communications provider in Saskatchewan, with $1.126 billion in annual revenue and over 1.4 million customer connections including 594,405 wireless accesses, 514,351 wireline network accesses, 234,676 Internet accesses and 93,960 *Max*™ 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. SaskTel and its wholly-owned subsidiaries have a workforce of 4,053 full-time equivalent employees (FTEs). For more, visit SaskTel at www.sasktel.com.

CONTENTS

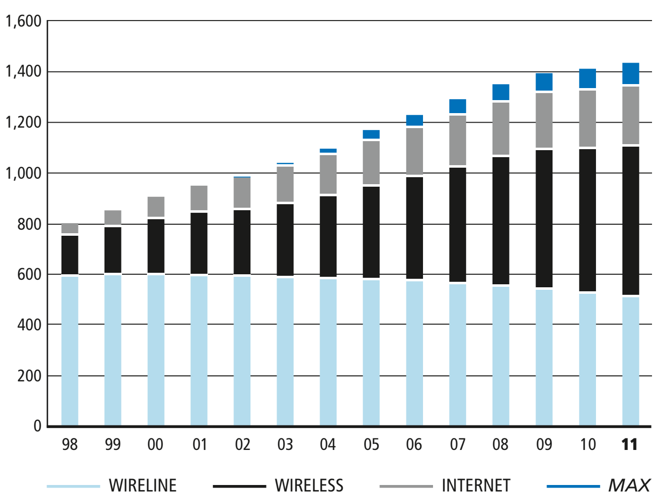
Saskatchewan Telecommunications (Telco)

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 centre services and enhanced voice services. Telco provides communication services to Saskatchewan business and residential customers living in 15 cities, 428 smaller communities and their surrounding rural areas, including approximately 44,000 farms. Telco's head office is located in Regina and is one of the largest employers in Saskatchewan with 3,815 FTEs.

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

Access Growth by Type (thousands of accesses)



As of December 31, 2011

Wireline Accesses: 514,351 Internet Accesses: 234,676
Wireless Accesses: 594,405 *Max* Entertainment Services Subscribers: 93,960

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. Since pioneering Local Search over 50 years ago, DirectWest continues to connect buyers and sellers 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 also makes it easier for mobile consumers on the go to find complete and accurate local business and residential information through the mysask411 BlackBerry and iPhone apps.

Offering a wide range of products and services that help businesses connect with buyers more than one million times each month, DirectWest continues to launch innovative, consumer driven products and services. Recent initiatives include mobile friendly business pages, mysaskdeals.com (Saskatchewan's first online group buying service), and an enhanced mysask411 that now provides business profiles, photos, videos and consumer recommendations.

With a head office in Regina and a second office in Saskatoon, DirectWest employs 97 FTEs.

Saskatchewan Telecommunications International Inc. (SaskTel International)

www.sasktel-international.com

SaskTel International, a wholly-owned subsidiary of SaskTel, offers innovative software solutions and professional consulting services, enabling businesses globally to achieve their strategic business goals and objectives. Recognized as a global innovator and experience-backed solution provider for over 25 years, SaskTel International has successfully enabled clients to develop, enhance and expand their business operations. With the completion of over 60 different projects spanning 40 countries and six continents, and a regional presence throughout North America, Latin America and Africa, SaskTel International is truly a local organization with a global reach. An emphasis on innovation and the proven experience of SaskTel ensures SaskTel International's software and service offering remains at the forefront of the highly competitive and dynamic communications industry.

A consistently evolving and growing organization, SaskTel International currently employs over 120 individuals, 23 of which are FTEs.

SecurTek Monitoring Solutions Inc. (SecurTek)

www.securtek.com

SecurTek, a wholly-owned subsidiary of SaskTel, provides commercial and residential security, video, access control and medical monitoring services to customers across Canada 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 150 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 118 FTEs, 99 of whom are in Saskatchewan.

Management's Discussion and Analysis

INDUSTRY OVERVIEW

The telecommunications industry is transforming rapidly with the domination of new and emerging wireless applications and services. It is a disruptive industry where mobile devices, network connectivity, social media and online gaming are driving the industry and generating new revenues. As a result of rapidly changing technology, those products and services that previously drove revenues such as long distance and local access are decreasingly doing so. Being able to adapt to change has always been important in this industry and now, more than ever, it is imperative for companies to change in order to remain sustainable. The industry continues to evolve, but aggressive competition has caused revenue growth rates to slow and margins to shrink. Maintaining growth amidst the transforming industry and fierce competition is critical. The dynamics of the industry continue to create both opportunities and challenges for telecommunication companies.

Being able to access media and communications at any time from anywhere is fast becoming the industry norm as mobile connections are being embedded into products we use on a daily basis. Consumers are seeking new ways of interacting with and consuming information, communications and entertainment. As consumers continue to push for an ever-changing selection of products and services, the demand for bandwidth and data usage continues to rise exponentially. To keep up with this demand, companies must continuously improve and expand upon their wireless and broadband networks. Upgrading wireless networks to 4G has quickly become an industry standard. Long Term Evolution (LTE) network deployments and Fibre to the Premises (FTTP) network upgrades are becoming more common and will continue to drive the new era of telecommunications.

The demand for telecommunications services continues to increase steadily, causing competition to increase from both traditional and non-traditional players. Disruptive new technologies and new wireless entrants offering customers alternatives and developing niche markets continue to increase the strong competitive nature of the market. These smaller players are entering the market with lower capital investment requirements. Broadcast and Internet companies are becoming communications providers, while traditional telecommunications companies are increasingly seeking to gain a share of the broadcast industry. Massive investment in infrastructure and equipment by the incumbent providers is required to remain relevant given the considerable increase in competition.

STRATEGIC DIRECTION

SaskTel continually monitors the state of the economy and our business environment to ensure an awareness and understanding of potential impacts on our business. SaskTel identifies critical issues in our operating environment that we must address when moving forward in the transforming and highly competitive telecommunications industry, and then defines strategic objectives that, if achieved, will address the critical issues. SaskTel identified three critical issues for 2011: Industry Transformation, Strategies for Growth and Managing for Tomorrow.

The disruption in the industry remains a critical issue that SaskTel and all companies in the industry are facing. As the telecommunications industry continues to evolve at an increasingly rapid pace, keeping up with technology and service deployment remains of high importance. SaskTel is committed to delivering a superior network, with our 4G network available to 98% of the Saskatchewan population. Our commitment continues as we take aggressive action to address challenges as a result of customer demand for data services and data use that far exceeded our forecasts, and those of other providers throughout North America. SaskTel has seen recent success in addressing the growing demand for data and bandwidth with the expansion and upgrading of our 4G network as well as beginning the multi-year deployment of our wireline FTTP network in 2011. To remain relevant amongst strong competition and keep up with customer demands, we will continue to invest in these networks. Investment in infrastructure and technology is crucial as it enables us to maintain and grow revenue and to reduce operating costs.

Strategies for Growth is another critical issue facing SaskTel as the revenue mix continues to shift from traditional to new and emerging products and services. We, in turn, have allocated resources to these areas of higher growth such as wireless voice and data and broadband. Investing in Saskatchewan first is our priority. In 2011, we continued with investment in our Saskatchewan network to provide the best products and services to both our residential and business customers. Our 4G network improvements included cellular site additions, high capacity equipment installations, software upgrades, network optimization and adding radio spectrum. These enhancements have resulted in improved performance and have significantly improved our customers' overall 4G experience. Our FTTP network deployment is well underway, with FTTP at the University of Saskatchewan College Quarter, a student housing facility, now up and running. We also expanded our *Max* Entertainment Service to eight additional communities. We expect to grow our revenue from an increase in customer demand as well as an increase in adoption rates of consumers for new technology. Cost reduction is also a major focus for SaskTel as it becomes increasingly difficult to achieve margins amid fierce competition and growing demands. There is a need for SaskTel to more aggressively innovate to identify new sources of revenue while, at the same time, taking into consideration the need to reduce costs and maintain existing revenue.

Managing for Tomorrow is our final critical issue which puts our overall strategic direction into perspective. To drive sustainability for SaskTel in such a complex industry, we must ensure we always think of our customers, engage our employees, and improve how we work and simplify our business. Our customers are our highest priority; we must take their growing demands and expectations into account to provide them with a positive experience, which is why we are investing in our systems for improved customer experience. We have aggressive customer targets to ensure growth of our customer base and a sustainable future. We are faced with growing workforce challenges. We must monitor and manage changing workforce demographics, increased competition for skilled workers and a rising demand for workforce flexibility for the future success of the business. The average age of our employee base is rising, which magnifies the importance of attracting and retaining skilled employees for the future. Improving productivity and managing the business efficiently is equally as important as growing revenues. We are identifying and implementing initiatives aimed at improving corporate productivity, reducing costs and striking a balance between workload and capacity by focusing on corporate priorities. SaskTel continues to seek new partnerships and alliances; partnerships present business opportunities, allow for stimulation of the provincial economy and enable us to meet challenges that could not otherwise be met with limited internal resources. As the business becomes increasingly complex, determining the right balance between growth, cost reduction, industry leading customer service and an engaged workforce is essential for success.

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.

2011 Strategic Objectives and Performance Results

SaskTel has four strategic objectives, one for each of the four balanced scorecard perspectives: customer, people, operational excellence and financial, which focus the organization on the areas critical to SaskTel's long-term sustainability. SaskTel uses a balanced scorecard to report performance results for the strategic objectives.

Customer

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

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

Measure	2011 Target	2011 Actual	Results
Customer Perception	76	73	○
# of Customers In-Province *(Thousands)*	1,415	1,394	○

In 2011, SaskTel remained focused on improving customer loyalty and ensuring a high level of customer satisfaction. Throughout the year, SaskTel carried through on customer impacting initiatives such as the launch of the iPhone, newly redesigned and more efficient retail stores, the launch of *Max* Entertainment Service to additional communities in Saskatchewan, and improvements to *Max* service and Internet services. Despite all efforts to ensure satisfied and loyal customers, SaskTel faced numerous challenges throughout the year which had a significant impact on the Customer Perception indicator. Severe flooding in the province resulted in numerous prolonged outages and customer affecting workload issues which were compounded by the increasing population that gave way to increased demand for SaskTel's products and services. Further, data usage on the 4G wireless network continues to grow at a rate beyond that forecast by the telecommunications industry in North America. This has resulted in network capacity issues which SaskTel continues to mitigate. Efforts to augment tower capacity and expansion of core network equipment were ongoing throughout 2011. The year-end result for Customer Perception is three points below the target.

SaskTel's customer base continued to grow in 2011, though at a rate slightly lower than anticipated. Customer growth came primarily from the increase in wireless customers and, to a lesser extent, SecurTek customers; this growth was partially offset by a decline in wireline customers.

Management's Discussion and Analysis

People

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

SaskTel is focused on having an engaged workforce and remaining an employer of choice. 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.

Measure	2011 Target	2011 Actual	Results
Employee Engagement	At or above the Hay engagement norm	11 points below the Hay engagement norm	○
Representative Workforce: Women *(# of women hired or promoted into management positions as a % of all hiring into management positions)*	48%	31%	○
Aboriginal People *(Permanent Hires)*	25% of hiring	25% of hiring	●
People with Disabilities *(Permanent Hires)*	10% of hiring	0% of hiring	○

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. Survey results indicated that SaskTel's employee engagement is 11 points below the Hay engagement norm. Prior to 2011, SaskTel's most recent survey to all employees was in 2009 as SaskTel was only able to distribute the survey to management employees in 2010 due to ongoing bargaining with the Communication, Energy, and Paperworkers Union of Canada (CEP). While SaskTel met the 2009 target of results being at or above the Hay engagement norm, the Hay engagement norm has increased by 3 points since that time. In addition, since SaskTel last surveyed the entire employee base, SaskTel has experienced many changes that are creating both opportunities and challenges. Examples include such things as the tremendous pace of technological change, resource challenges, prolonged labour negotiations and contracting out of some services. While the employee engagement result is disappointing, SaskTel has identified a number of strengths to build upon and areas for improvement, and will take action to improve.

SaskTel remains focused on recruiting and retaining a representative workforce. Hiring women into management positions continues to pose challenges for SaskTel. The majority of management positions available in 2011 required technical or operations backgrounds and the female candidate pool for these areas is much smaller than the male candidate pool. In 2011, SaskTel was able to source qualified candidates for certain positions though fell short of meeting its target for this measure.

A number of programs remain in place at SaskTel to attract and retain Aboriginal employees. Work in this area includes the development of an Aboriginal Employee Network, sponsorship of the Aboriginal Youth Awards, and focusing on Aboriginal recruitment for temporary and summer hire positions. Throughout 2011, SaskTel was able to hire several Aboriginal candidates into permanent positions and met the target for this measure.

SaskTel continues to maintain relationships with disability organizations in the province to assist in the recruitment and hiring of people with disabilities. The pool of qualified candidates in this equity pool is very small. In 2011, SaskTel was unable to source a significant number of applicants who self-declare as a person with a disability and, as a result, did not meet the target.

Operational Excellence

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

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

Measure	2011 Target	2011 Actual	Results
Broadband Subscriber Growth	107,799	119,035	●
Revenue from Growth Initiatives	$712.1M	$708.9M	○
Environmental Stewardship	Reduce greenhouse gas emissions by 2.2% of 2007 levels	N/A	N/A

In 2011, SaskTel exceeded its broadband subscriber growth target. Our commitment to enhancing the communications and entertainment infrastructure in the province has resulted in increasing numbers of broadband subscribers. SaskTel launched *Max* Entertainment Service in eight new locations throughout Saskatchewan and continued the First Nations Broadband initiative with new locations receiving digital subscriber line (DSL) high speed Internet and 4G wireless services. Throughout the province, we are constructing towers to expand and improve 4G wireless service coverage. The industry-wide increases of smartphone and tablet usage has escalated the growth of broadband at uncharted rates.

Competitive pressure continues to increase as existing providers move to lower pricing models and alternative providers edge into the market. Though SaskTel saw an increase in subscribers for wireless, Internet and *Max* Entertainment Services in 2011, average revenues per unit (ARPU) for wireless and Internet have declined and Max ARPU was lower than anticipated as a result of increasing competition. SaskTel fell just short of meeting its target for Revenue from Growth Initiatives as a result of this environment.

SaskTel has developed and implemented an Environmental Strategy to enable management of our greenhouse gas emissions. Throughout 2011, we pursued programs that include a Direct Emissions Reduction Strategy, Electrical Energy Reduction Audit, Diesel Tank Audit and Wind Turbine Trial. Unfortunately, SaskTel is unable to determine whether we met the target for this measure as we are dependent on data from a third party that is no longer able to provide the data.

Financial

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

Our financial measures are focused on growing revenue 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.

Measure	2011 Target	2011 Actual	Results
Revenue Growth *(Gross Revenues)*	$1,137.7M	$1,125.8M	○
Net Income	$161.0M	$154.0M	○
Efficiency Measure *(EBITDA Margin)*	26.3%	25.9%	○
ROE	21.7%	20.7%	○
Debt Ratio	39.4%	37.6%	●

SaskTel maintained strong financial performance through 2011, continuing to generate revenue in excess of one billion dollars and net income in excess of $150 million. However, we fell marginally short of meeting most of our financial targets for 2011.

Revenue fell short of our target by $11.9M as a result of lower than anticipated revenue from *Max* Service, customer premise equipment, Internet and SecurTek, which was partially offset by favourable revenue from SaskTel International, DirectWest, data, wireless and long distance portfolios. While we fell short of our target, we did grow revenue by 1.2%, or $12.8M, over 2010. SaskTel's net income increased by 3.0%, or $4.5M, over 2010, but was $7.0M below target. SaskTel's EBITDA margin was slightly below the 2011 target, falling 0.4% short. With the pressures on net income, SaskTel's ROE is 1.0% below the 2011 target. SaskTel did achieve the debt ratio target; our debt ratio of 37.6% was 1.8% lower than expected as SaskTel continues to provide strong returns to its shareholders and successfully completed the $266.0M capital program.

Looking Ahead to 2012

Looking at 2012 and beyond, the telecommunications industry will continue to be intensely competitive and rapidly changing due to increasing customer demand for the latest technologies and devices. SaskTel is laying the foundation to be able to capitalize on opportunities, bring our customers the best products and services, and remain a competitive force within the industry. Innovation within our organization, from the leadership team to the front-line staff, will enable us to leverage opportunities to meet our customers' expectations. We are in a great position to meet future demand for our products and services, in part due to projects like deploying fibre to customers' homes and rolling out the LTE network. The explosion of wireless data traffic due to smart devices, multimedia applications, social media and online gaming has been a strain on our 4G network this past year, and increasing traffic will continue in the future: it is expected that global wireless traffic will surge 26-fold by 2015. SaskTel's LTE and fibre networks will be key to meeting additional demand; among the many benefits, customers can expect a better end user experience with greatly increased speeds and improved stability. SaskTel will continue to face intense competitive pressures; however, with our strong foundation, we will be able to remain flexible and adapt to a rapidly changing environment.

Management's Discussion and Analysis

Part of that strong foundation is our Vision and Mission statements that were adopted in 2011. Our Vision is to *"Be the best at connecting people to their world"* and our Mission is *"To provide the best customer experience through our superior networks, exceptional service, advanced solutions and applications"*. Our Vision and Mission statements remain a strong reflection of the direction of our business in a fast moving industry.

Our four strategic objectives focus on Customer, People, Operational Excellence and Financial. We use a balanced scorecard to monitor and measure our success in achieving each objective. The following provides an overview of our performance management targets for 2012.

Customer

SaskTel will have satisfied and loyal customers that want to do business with us, resulting in a growing customer base.

Measure	2012 Target
Customer Perception	74
# of Customers In-Province *(Thousands)*	1,410

At SaskTel, our customers are our highest priority. Our goal is to create the best customer experience by exceeding expectations. Our targets are set to ensure we continually improve this experience so our customers remain loyal and satisfied with our service and recommend SaskTel to friends and family.

We differentiate ourselves from competitors by offering the best products and services available to our customers while striving to make every customer interaction a positive one. By strongly focusing on our customers' needs, we will continue to grow our business and generate sustainable value and market share.

People

SaskTel will have a skilled, engaged and enabled workforce that is aligned with business needs.

Measure	2012 Target
Employee Engagement	At or above the Hay engagement norm
Diversity	
Women *(% of women hired or promoted into designated groups classified as underrepresented by the Saskatchewan Human Rights Commission)*	31%
Aboriginal People *(Permanent Hires)*	25% of hiring
People with Disabilities *(Permanent Hires)*	5% of hiring
Training *(Average Learning and Development)*	20 hours per employee

SaskTel is dedicated to supporting our workforce, remaining an employer of choice, and maintaining a workforce that is diverse and represents the population of Saskatchewan equitably. Having a diverse workforce strengthens our company and encourages innovation. There are many labour market challenges facing SaskTel, including labour shortage, changing demographics and increased competition for skilled workers. By identifying and matching workforce requirements to business objectives, we address these challenges in a strategic manner. Providing training to employees is a priority to maintain work skill sets so we can meet labour and customer demands in the future. Attraction and retention of employees is a strategic priority of SaskTel; we want to ensure our workforce is engaged and enabled so we can address our business priorities.

Operational Excellence

SaskTel will continuously improve on operational excellence.

Measure	2012 Target
Broadband Subscriber Growth	101,953
Environmental Stewardship	Maintain direct greenhouse gas emissions at or below 2011 level, adjusted for weather

The future telecommunications industry will be highly competitive and complex, which requires SaskTel to be innovative in everything we do: in the technology we deploy, the products and services we offer, within our workforce, as well as how we approach environmental stewardship.

We are committed to improving and expanding our broadband services, which will lead to an increase in revenue. Our FTTP network implementation is an exciting opportunity for SaskTel to continue to deliver quality services to our customers; we will develop a measure in 2012 to enable us to monitor and determine our success related to this network. We recognize that being environmentally aware and proactive is crucial to preserving the world we live in as we know it today. SaskTel is committed to reducing our impact on the environment.

Financial

SaskTel will have sustained long-term value for our stakeholders.

Measure	2012 Target
Revenue Growth *(Gross Revenue)*	$1,173.4M
Net Income	$91.1M
Efficiency Measure *(EBITDA Margin)*	24.8%
ROE	11.9%
Capital Intensity	33.9%
Debt Ratio	47.9%

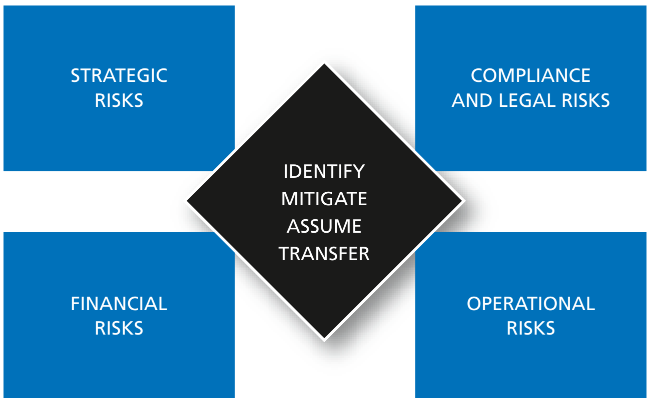
The financial measures that SaskTel includes in the scorecard are focused on growing revenue, profitability and achieving productivity gains across the company. Revenue growth is a priority as increased competition requires us to capitalize on growth opportunities. SaskTel will continue to grow our customer base within the province, benefit from organic growth from our subsidiaries, and focus on developing partnerships and investment opportunities.

Growth in the future will come from building smart networks, something SaskTel excels at. Continuing to improve and expand our networks throughout Saskatchewan will enable us to deliver innovative products and services and a positive end user experience. This is a financially viable strategy as network investment leads to more reliable infrastructure and lower maintenance and repair costs.

SaskTel is embarking on our largest planned capital expenditure program in the company's history. Reinvesting in networks, products, services and systems, as well as increased competitive pressure on pricing and margins will result in lower net income and return on equity, and a higher debt ratio for the next few years.

RISK MANAGEMENT

Businesses are subjected to uncertainty and numerous risks that may affect their success in achieving strategic business objectives. SaskTel takes an enterprise-wide approach to risk management which includes assessing and reporting key business risks based on four key risk quadrants: Strategic, Financial, Compliance and Legal, and Operational. As depicted in the diagram below, the model centres on control of risks through the identification, mitigation, transfer and assumption 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. Director 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 the Audit and Risk Management 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 which is approved by SaskTel's Executive and the Audit and Risk Management Committee of the Board of Directors. Complementing these reviews are the ongoing activities and plans to mitigate risk as well as the corporate insurance program and other methods to transfer risk where appropriate.

The following sections summarize the significant risks by risk quadrant that may have a material effect on SaskTel's business. Associated mitigation activities to address these risks are included. Additional risks and uncertainties deemed to be lower risks based on the current assessment of likelihood and consequence or risks not currently known to us may also have a material effect on our business.

Strategic Risks

The Strategic risk quadrant review focuses on SaskTel's risks associated with our strategic goals and the related business strategies. The types of risks reviewed in this quadrant include market forces, reputation, market demographics, growth, competitors, business alliances, human resources, economy and technology. Any identified strategic risks considered high are discussed below.

Growth

Increasing consumer demand for and adoption of new technology and services means demand for telecom services will continue to increase steadily for the next few years. Revenue will continue to shift from traditional (e.g. local access and long distance) to new and emerging products and services (e.g. wireless data and applications). However, the increasingly competitive environment has led to an erosion of margins from existing services, which were once a significant contributor to growth, and lower margins from new products and services. Increasing competition from traditional, new and non-traditional providers and continued investment in infrastructure and technology to stay relevant have translated into highly pressured margins. Simply put, the increase in costs will be greater than the increase in revenues, which will result in lower margins.

SaskTel faces a risk that increased industry disruption or competition negatively impacts corporate revenue growth and profitability targets. While this risk is not new, the level of risk has elevated because in the past revenue or margins were declining for legacy services; today, they are declining for wireless and data services as well. SaskTel mitigates this risk through a focus on growth. SaskTel is taking advantage of Saskatchewan's economic growth by focusing resources and effort on growing the core business and maximizing opportunities. SaskTel is also exploring partnerships and alliances to drive new opportunities and organic growth from subsidiaries.

Competitors

SaskTel is a full service communications provider and, as such, faces a variety of competitors in every facet of our business. Competition in the telecommunications industry continues to intensify with continued pressure from traditional competitors, including Incumbent Local Exchange Carriers (ILECs) and cablecos (i.e. Shaw, Access Communications), and additional competition from new wireless entrants and non-traditional competitors (e.g. Google, Apple, Microsoft). Traditional and non-traditional competitors are seeking market opportunities outside their core businesses; cable companies have become communication providers and vice versa.

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. With TELUS already offering wireless services in the Saskatchewan market, SaskTel faced another competitor in 2011 as Bell began offering wireless service in the Saskatchewan market in 2011 and continued to increase its retail presence throughout the year with Bell stores and dealers. The cablecos are 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. Shaw and Access Communications continue to offer aggressive promotions; customer churn is a significant challenge. Although not materially impacting financial performance at this time, non-traditional, over the top video providers are strengthening their presence in this product segment. Non-traditional competitors wanting to become communications providers continue to emerge within the telecom space. A recent example of this is Google building a fibre network in select US cities. 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.

Increased competition and competitive activity 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 mitigates this risk by continuously monitoring competitive activity, which enables informed and effective decisions, and adjusting strategies accordingly.

Human Resources

SaskTel faces a number of human resource challenges that impact business operations, including changing workforce demographics, increasing competition for skilled resources and rising demands for workforce flexibility. These factors may impair SaskTel's ability to deliver products and services in a timely manner, increase operating costs, and reduce employee morale and productivity. Although the unstable global economic climate and positive provincial economic climate have temporarily eased the labour situation in the province, a long-term labour shortage is predicted. Saskatchewan's economy is forecasted to remain positive in the coming years and the province will continue to experience population growth as a result of international immigration. However, as economic conditions outside the province improve, competition for skilled labour is expected to intensify. SaskTel faces the risk of not having the workforce it requires to meet current and future business requirements.

SaskTel mitigates this risk through its corporate workforce planning process, which focuses on strategic workforce planning, employee retention and employee attraction. SaskTel regularly monitors and updates key workforce data, and evaluates and revises plans to ensure it is addressing emerging workforce trends and aligning with corporate business strategy. SaskTel identifies 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.

Economy

The global economy continues to recover slowly from the crash of 2008. There are several factors at play and economists agree that there is an exceptional degree of risk in any global economic forecast.

Canada's economy has slowed due to greater caution among households and cautious government spending. The Saskatchewan economy was among the leading economies in Canada in 2011, with the strongest economic growth and the lowest unemployment rate in the nation. Saskatchewan's strong economy is expected to continue; Saskatchewan is expected to be among the provinces with highest economic growth and the lowest unemployment rate in 2012 and 2013. This growth in Saskatchewan will provide SaskTel the opportunity to increase revenue from customers.

The telecommunications industry has not been as adversely affected by the global recession as other industries. Despite reductions in consumer spending, customers have come to view their telecommunications products and services as a necessity rather than a luxury. Consumer demand for new and improved telecommunications products and services will continue to drive spending.

There is a risk that the global economic recovery will continue to be slower than expected; this may impact consumer spending, growth and profitability over the planning period. SaskTel mitigates this risk by continually monitoring the economic implications on a global, national and provincial basis, and adjusting plans to address economic changes that affect our customer and revenue growth targets.

Technology

The rapid pace of technological change continues, with new and emerging technologies such as LTE and fibre taking centre stage in the industry. 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 wireless technologies. Wireless providers across the country and throughout the world are evolving their existing cellular technologies to LTE. LTE is expected to be the dominant wireless technology globally by 2020. It will enable providers to offer more advanced video and multimedia services, improve customer experience and serve more customers as it offers faster speeds and increased network capacity. With this in mind, SaskTel has a plan to evolve from the current wireless network to LTE technology beginning in 2012.

The other major advancing technology is FTTP. This requires the installation of fibre optic networks to connect homes and businesses with increasing amounts of bandwidth. The ever increasing demand for increased speeds and enhanced consumer and business applications are the major reasons this technology has become relevant and necessary. In addition, providers who are looking to replace old copper networks are using fibre as they benefit from its low maintenance, reliability and ease of use. SaskTel is commencing commercial deployment of FTTP in 2012.

Management's Discussion and Analysis

For SaskTel to remain competitive, we must keep up with technological change. SaskTel will continue to upgrade our infrastructure, monitor industry trends and competitive activity, and adjust deployment strategies as necessary.

Financial Risks

Most risks include a financial component and are reviewed in the most appropriate risk quadrant. However a variety of risks related to SaskTel's financial structure and business transactions are reviewed in the Financial risk quadrant. The types of risks reviewed in this quadrant include interest, foreign exchange, credit, financial misstatement, cost management, pension plan, investments, public reporting, revenue assurance, fraud and cash flow. Any identified financial risks considered high are discussed below.

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 reinforce 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 income.

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 3-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. Based on the December 31, 2010, valuation SaskTel elected to take the solvency relief for the period from January 1, 2011, ending December 31, 2013.

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.

Compliance and Legal Risks

The Compliance and Legal risk quadrant review focuses on SaskTel's risks associated with our need to comply with laws and regulations. The types of risks reviewed in this quadrant include contractual, professional, 3rd party, statutory, environmental, governance, intellectual property, litigation, regulatory and privacy. Any identified compliance and legal risks considered high are discussed below.

Litigation

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 2007. On September 17, 2007, the Saskatchewan court certified the Plaintiffs' proceeding as a class action with respect to an allegation of unjust enrichment only for wireless customers during the period of April 1, 1987, and the date of the certification order being February 13, 2008. 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. On November 15, 2011, the Court of Appeal released its decision dismissing the appeal of SaskTel from the certification order. SaskTel is seeking Leave to Appeal to the Supreme Court of Canada.

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 plaintiff 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.

9-1-1 Fee Class Action Suit

On June 26th, 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 9-1-1 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.

In September 2011, SaskTel was served with a second 9-1-1 Class Actions claim substantially the same as the 2008 Saskatchewan action noted above. This second claim was issued in Alberta in August 2008 but not served on SaskTel until more than 3 years later. 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. Currently, SaskTel is not aware of any further proceedings being taken in this second action beyond service of the claim.

RIM Fee Class Action Suit

In November 2011, SaskTel was served with two proposed Class Action claims, one issued in Saskatchewan and one issued in Alberta. The claims substantially overlap and name the major wireless carriers in Canada, including SaskTel, and Research in Motion as defendants. The proposed claims seek compensation related to BlackBerry service issues alleged to have occurred in October 2011. SaskTel has retained external counsel for these matters. 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. Currently, SaskTel is not aware of any further proceedings being taken in this second action beyond service of the claim.

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.

Management's Discussion and Analysis

Operational Risks

The Operational risk quadrant review focuses on SaskTel's risks associated with the execution of SaskTel's business functions. The types of risks reviewed in this quadrant include business continuity, security, disaster recovery, infrastructure, supply chain, change enablers, fulfillment and assurance. Any identified operational risks considered high are discussed below.

System and Information Security

Systems security involves the protection of information and associated systems and networks. These systems 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. 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 has business continuity and disaster recovery plans which evolve through the Business Continuity Management (BCM) program. The BCM program is the unifying, integrated process which 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.

Infrastructure

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, pre-arranged disaster recovery support from vendors, stringent testing procedures for new software, preventative maintenance programs and site hardening of critical locations.

Throughout the year SaskTel experienced unprecedented demand for wireless connectivity and data services. At times this resulted in reduced wireless service which impacted customer satisfaction. This demand is expected to continue throughout 2012 and beyond as the demand for connectivity, the penetration of smartphones and new services such as machine to machine increases. SaskTel is using multiple mitigation strategies to resolve the risk and provide acceptable customer experience. These strategies proved successful in 2011.

Supply Chain

SaskTel uses a number of external vendors for professional and support services to maintain and deliver solutions to our customers. All contracts require due diligence to ensure appropriate controls are in place. 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 lifecycle evolution of our technology and services preparing the company to address any issues that arise in case a vendor restructures. SaskTel's 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.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Effective January 1, 2011, SaskTel has adopted IFRS as the basis for preparing consolidated financial statements. As this is SaskTel's first year of reporting under IFRS, resulting in the first IFRS annual financial statements, IFRS 1: "First-time Adoption of International Financial Reporting Standards" has been applied in preparing these consolidated financial statements. When preparing this financial report SaskTel has amended certain accounting and valuation methods applied in previous Canadian Generally Accepted Accounting Principles (Canadian GAAP) financial statements to comply with IFRS as discussed in Note 27 – Transition to IFRS, which contains a detailed description of SaskTel's conversion to IFRS, including reconciliations of the financial statements previously prepared under Canadian GAAP to those prepared under IFRS for the year ended December 31, 2010 as well as reconciliations of opening equity and the statement of financial position as of the date of transition, January 1, 2010.

Except for first time adoption exemptions and elections taken to transition to IFRS, all accounting policies are applied consistently throughout all periods presented in the financial statements. The comparative figures for 2010 have been restated to reflect these adjustments. Amounts for other years presented in the following discussion are based on Canadian GAAP and have not been restated for the effects of the transition to IFRS.

Management's Discussion and Analysis

OPERATING RESULTS

Net Income

Consolidated Net Income

($ millions)	2011	2010	Change	%
Revenues	**$1,125.8**	**$1,113.0**	$12.8	1.2
Other income	**5.1**	**8.6**	(3.5)	(40.7)
	1,130.9	**1,121.6**	9.3	0.8
Expenses				
Goods and services purchased	**519.0**	**490.1**	28.9	5.9
Salaries, wages and benefits	**331.9**	**338.9**	(7.0)	(2.1)
Depreciation	**142.3**	**136.0**	6.3	4.6
Amortization	**20.4**	**21.0**	(0.6)	(2.9)
Internal labour capitalized	**(16.1)**	**(17.0)**	0.9	(5.3)
	997.5	**969.0**	28.5	2.9
Results from operating activities	**133.4**	**152.6**	(19.2)	(12.6)
Net finance expense	**(10.2)**	**(7.9)**	(2.3)	29.1
Income from continuing operations	**123.2**	**144.7**	(21.5)	(14.9)
Net income from discontinued operations	**30.8**	**4.8**	26.0	*nmf*[1]
Net income	**$154.0**	**$149.5**	$4.5	3.0

[1] *nmf* - no meaningful figure

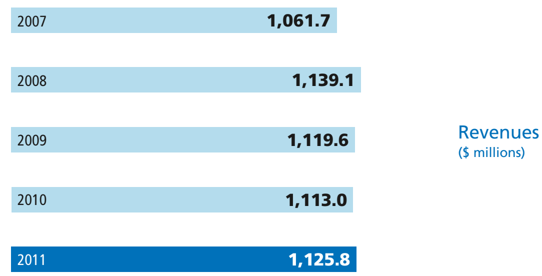
Net income for the year was $154.0 million, up $4.5 million (3.0%) from 2010. Return on Equity was 20.7%, up from 20.5% in 2010 and dividends declared for 2011 were $138.6 million, as SaskTel once again provided a strong return to its shareholders.

On January 4, 2011, the Corporation sold its interest in the property known as Saskatoon Square for cash consideration of $34.4 million resulting in a gain of $27.0 million, which has been included in net income from discontinued operations in the Consolidated Statement of Income and Other Comprehensive Income.

In addition, on January 31, 2011, the Corporation disposed of the net assets of Hospitality Network for cash consideration of $36.0 million resulting in a gain of $3.7 million, which has been included in net income from discontinued operations in the Consolidated Statement of Income and Other Comprehensive Income. Active operations of Hospitality Network have ceased as of that date. Additional details can be found in Note 6 of the consolidated financial statements.

Revenues

Total revenues increased to $1,125.8 million in 2011, up $12.8 million (1.2%) from 2010 primarily driven by *Max* revenues due to increased number of customers and increased revenue per customer and wireless revenues due to increased number of customers, increased smartphone sales and increased data usage. In addition, data and Internet revenues increased due to increased average revenue per unit from customers moving to more expensive plans.

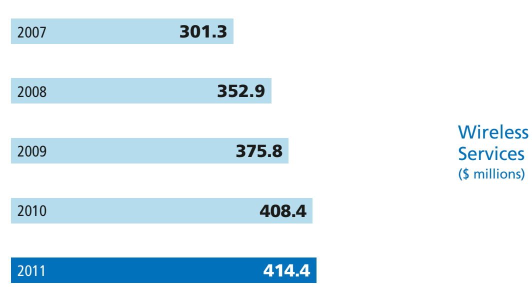


Consolidated Revenues

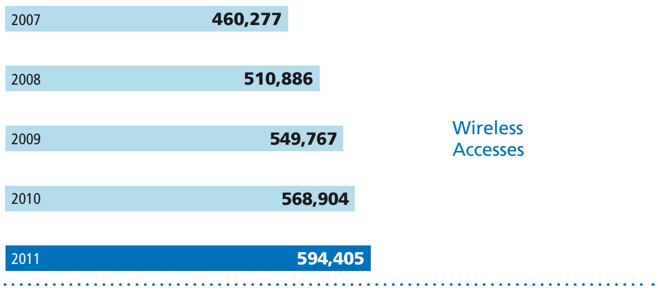
($ millions)	2011	2010	Change	%
Wireless services	**$414.4**	**$408.4**	$6.0	1.5
Local services	**273.6**	**282.5**	(8.9)	(3.2)
Max, Internet and data services	**253.9**	**232.2**	21.7	9.3
Long distance services	**63.7**	**66.0**	(2.3)	(3.5)
Advertising and directory services	**43.4**	**43.3**	0.1	0.2
Security monitoring services	**19.8**	**18.7**	1.1	5.9
Software solutions and consulting services	**11.6**	**12.9**	(1.3)	(10.1)
Other services	**45.4**	**49.0**	(3.6)	(7.3)
	$1,125.8	**$1,113.0**	$12.8	1.2

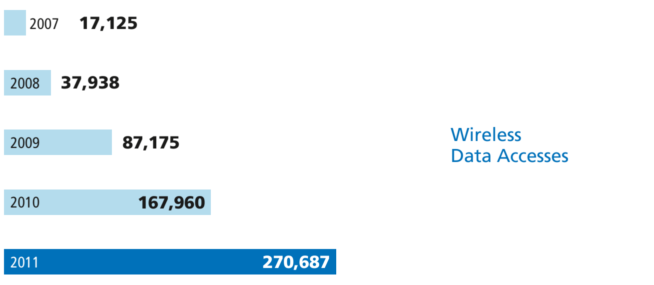
Wireless Services

Wireless revenues increased by $6.0 million (1.5%) to $414.4 million in 2011. This was driven by continued strong customer growth in wireless services, as total wireless accesses increased to 594,405 at year end, up 25,501 from 2010. Even though the average revenue per wireless subscriber decreased to $59.40, down from $59.90 in 2010 due to customer migration to unlimited wireless plans, wireless accesses continue to grow, resulting in increased usage of services such as text messaging and other data applications. At year end, SaskTel had 270,687 data capable wireless accesses, up from 167,960 in 2010.



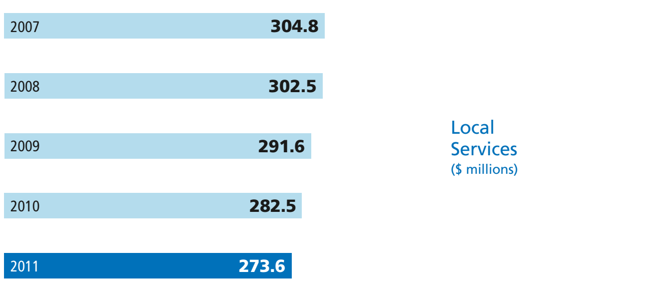
Wireless Accesses





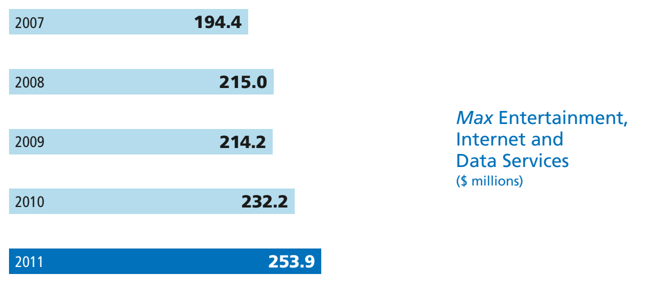
Local Services

Local service revenues declined to $273.6 million in 2011, down $8.9 million (3.2%) from 2010. 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.

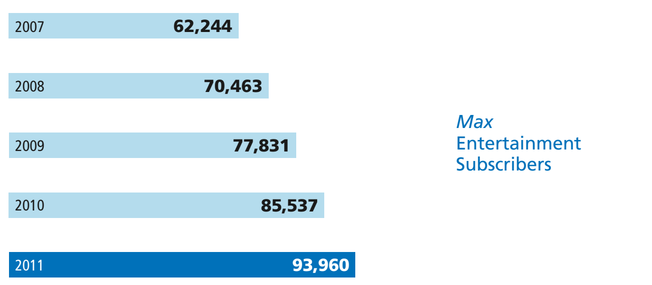


Max Entertainment, Internet and Data Services

Revenues from *Max*, Internet and data services increased to $253.9 million in 2011, up $21.7 million (9.3%) from 2010. *Max* Entertainment revenues increased by $16.9 million from 2010, driven primarily by continued strong customer growth and rate increases. At year end, there were 93,960 *Max* customers compared to 85,537 at the end of 2010, an increase of 8,423 (9.8%). *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.



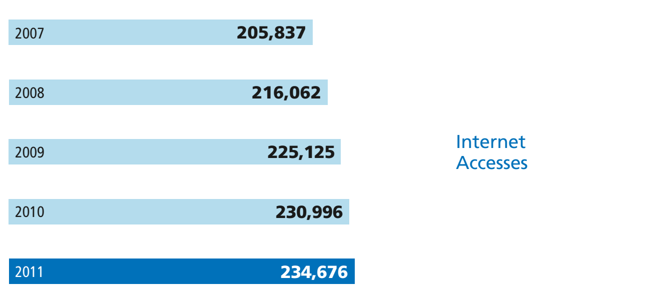
Max Entertainment Subscribers



Internet Revenues

Internet revenues increased $2.3 million in 2011, primarily due to an increase in Internet customers as well as existing customers accessing additional services. At year end there were 234,676 Internet accesses, up from 230,996 in 2010, an increase of 3,680 (1.6%). This growth was driven by our continued expansion of service to more Saskatchewan communities.

Internet Accesses

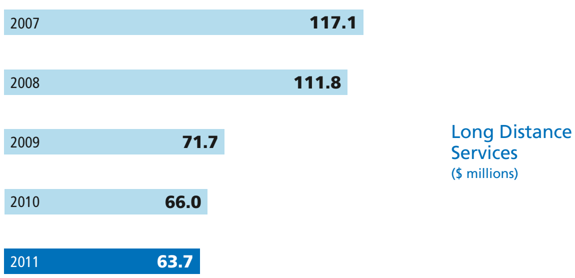


Management's Discussion and Analysis

Data services revenues increased by $2.5 million in 2011, primarily due to the full year impact and expansion of the SCN satellite network acquired in mid 2010 and increased demand for dedicated data services, partially offset by reduced digital private line services due to the full year impact of price reductions in 2010 and migration to less expensive lines.

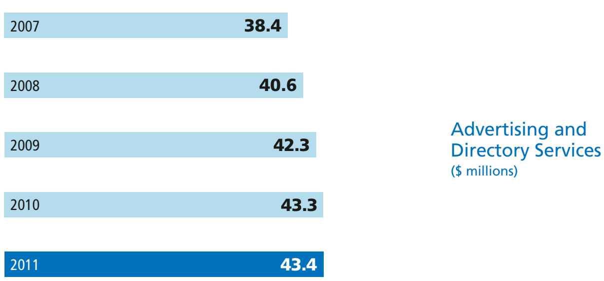
Long Distance

Long distance revenues declined to $63.7 million in 2011, down from $66.0 million in 2010, primarily due to rate reductions. Continued migration to replacement services and unlimited calling plans also continues to drive in-province long distance revenues downward.



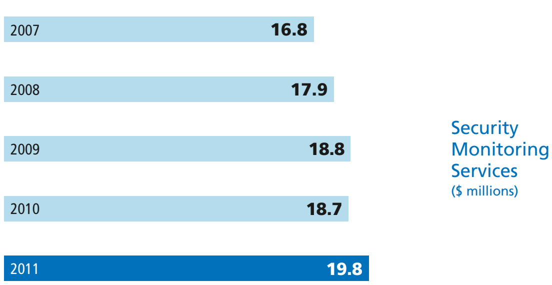
Advertising and Directory Services

Advertising and directory revenues increased to $43.4 million in 2011, up $0.1 million (0.2%) from 2010. This increase was due to increased sales of online digital products and services while the traditional print product remained stable.



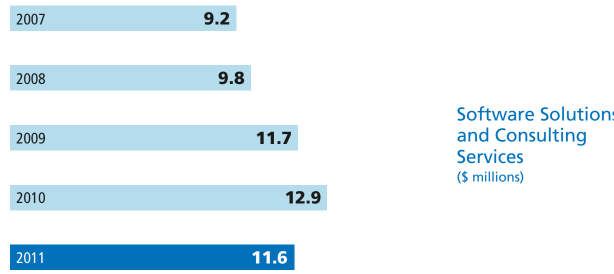
Security Monitoring Services

Security monitoring revenues increased to $19.8 million in 2011, up $1.1 million (5.9%) from 2010 due to an increase in customers.



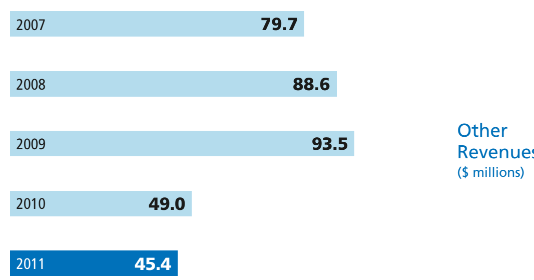
Software Solutions and Consulting

Software solutions and consulting revenues decreased to $11.6 million in 2011, down $1.3 million (10.1%) from 2010 primarily due to decreased sales of software solutions in 2011.



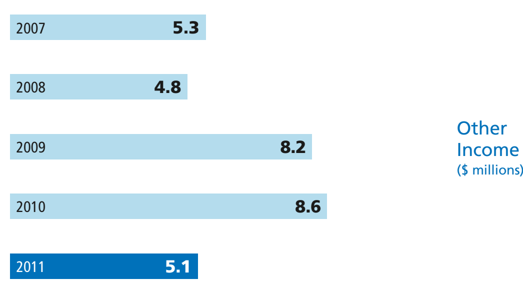
Other Revenue

Other revenue decreased to $45.4 million in 2011, down $3.6 million (7.3%) from 2010. The decrease reflects reductions in managed information services and reduced sales of customer premise equipment.



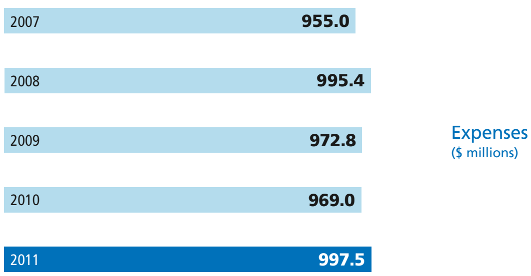
Other Income

Other income decreased to $5.1 million, down $3.5 million (40.7%) from 2010. This decrease is primarily due to PST refunds and government funding received in 2010.



Expenses

Total expenses were $997.5 million, up $28.5 million from 2010. This increase was due to increased goods and services purchased to support revenue growth in wireless, *Max* Entertainment, data and Internet revenues. In addition, depreciation and amortization increased $5.7 million due to increased plant in service. These increases were partially offset by decreased salaries, wages and benefit expenses.

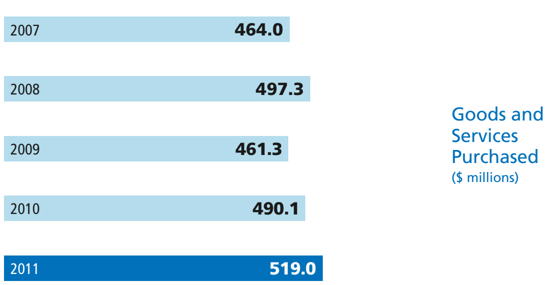


Consolidated Expenses

($ millions)	2011	2010	Change	%
Expenses				
Goods and services purchased	**$519.0**	**$490.1**	$28.9	5.9
Salaries, wages and benefits	**331.9**	**338.9**	(7.0)	(2.1)
Depreciation	**142.3**	**136.0**	6.3	4.6
Amortization	**20.4**	**21.0**	(0.6)	(2.9)
Internal labour capitalized	**(16.1)**	**(17.0)**	0.9	(5.3)
	$997.5	**$969.0**	$28.5	2.9

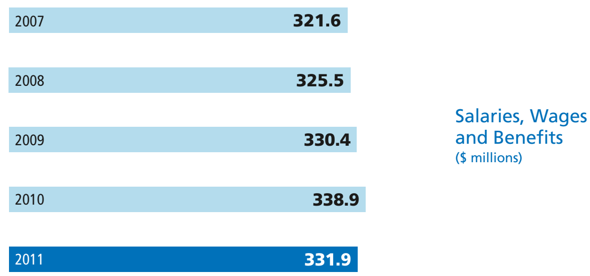
Goods and Services Purchased

Goods and services purchased increased to $519.0 million, up $28.9 million (5.9%) from 2010. This increase was due to increased hardware subsidies, *Max* content expense, commissions and fees expense, and wireless network maintenance costs and project related expense to support revenue growth in wireless, *Max* Entertainment, data and Internet revenues. These increases were partially offset by reduced roaming expense, cost of goods sold, mobile content expense and consulting expense.



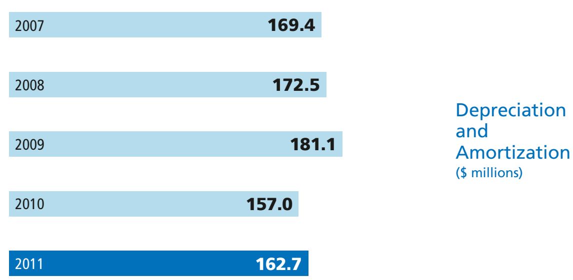
Salaries, Wages and Benefits

Salaries, wages and benefits decreased to $331.9 million, down $7.0 million (2.1%) from 2010. This decrease was primarily due to higher pension income and fewer full time equivalent employees, partially offset by the new collective agreement increases.



Depreciation and Amortization

Depreciation and amortization expense increased to $162.7 million in 2011, up $5.7 million (3.6%) from 2010, primarily due to increased plant in service partially offset by a change in estimated useful lives for certain classes of property, plant and equipment.



Internal Labour Capitalized

Internal labour capitalized decreased to $16.1 million in 2011, down $0.9 million (5.3%) from 2010. This decrease was due to lower assets under construction in 2011 compared to 2010.

Net Financing Expense

Net financing expense increased to $10.2 million in 2011, up $2.3 million (29.1%) from 2010. This is driven by increased borrowings to fund the 2010 construction program and reduced capitalized interest resulting from significantly lower plant under construction in 2011 compared to 2010, partially offset by increases in the fair value of sinking funds.

($ millions)	2011	2010	Change	%
Net Financing Expense	**$10.2**	**$7.9**	$2.3	29.1

Net Income From Discontinued Operations

Net income from discontinued operations increased to $30.8 million, up $26.0 million from 2010. In early 2010 plans were approved for the divestiture of Hospitality Network Canada Inc. and Saskatoon 2 Properties Partnership. These operations were classified as discontinued operations at that time and the operating activities were retroactively reclassified to net income from discontinued operations. During the first quarter of 2011 both entities were sold and the resulting gains reported in net income from discontinued operations as disclosed in Note 6 of the consolidated financial statements.

Other Comprehensive Loss

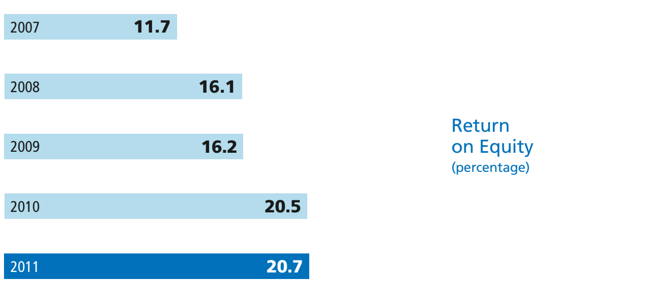
($ millions)	2011	2010	Change	%
Other comprehensive loss	**$135.9**	**$43.0**	$92.9	*nmf*

Other comprehensive loss increased to $135.9 million, up $92.9 million from 2010. The loss resulted from changes in actuarial assumptions related to the assets and liabilities of the defined benefit pension plan and the service recognition defined benefit plan, specifically the discount rate used to calculate the liabilities of the plans, and changes in the fair value of the defined benefit plan assets resulting from differences in the actual versus estimated return on these assets. The assumptions are disclosed in Note 19 of the consolidated financial statements.

Return on Equity

Return on equity increased to 20.7% in 2011, up from 20.5% in 2010, as SaskTel continues to provide strong returns to its shareholders.

Equity for the purposes of calculating the return on equity is defined as equity advances and retained earnings excluding amounts recognized in other comprehensive income.

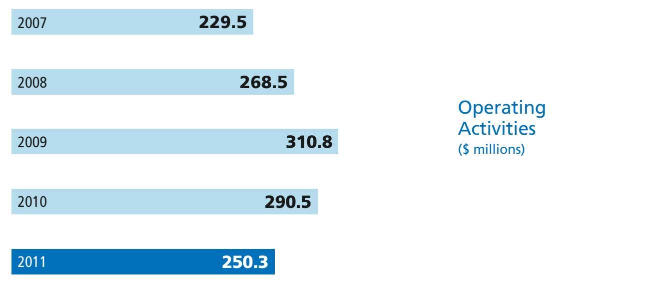


LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operating Activities

($ millions)	2011	2010	Change	%
Years ended December 31	**$250.3**	**290.5**	$(40.2)	(13.8)

Cash provided by operating activities was $250.3 million, down $40.2 million from 2010. Cash provided by operations decreased $27.9 million compared to 2010, primarily due to increased operating expenses. Working capital changes resulted in a decrease in cash of $12.3 million compared to 2010.



Cash Used by Investing Activities

($ millions)	2011	2010	Change	%
Years ended December 31	**$254.9**	**$298.4**	$(43.5)	(14.6)

Cash used in investing activities was $254.9 million, down $43.5 million from 2010, primarily due to planned capital spending reductions, partially offset by increased spending on intangible assets.

Investing Activities

Capital Spending

SaskTel's net capital spending on property, plant and equipment in 2011 was $221.8 million, down $65.3 million from 2010. Spending decreased primarily due to planned spending reductions on the cellular network upgrade to Universal Mobile Telecommunications System (UMTS)/ High Speed Packet Access (HSPA) technology and the Saskatchewan Infrastructure Improvement Program (SIIP). SaskTel's spending on intangible assets was $43.9 million, up $26.0 million from 2010.

SaskTel invested approximately $230.5 million in growth initiatives in 2011 compared to $252.2 million in 2010. Expenditures to sustain capital assets decreased to $33.5 million in 2011 from $42.8 million in 2010.

Business opportunity and growth initiatives in 2011 included:

- $98.3 million in additional investment on the SIIP. A portion of 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 SIIP include expansion of Fibre to the Premises and migration of the wireless network to 3rd generation standards based on UMTS/HSPA technology.
- $72.5 million in additional investment into the Access & Core Network Growth program to ensure the SaskTel wireline and wireless network continues to meet customer needs.
- $19.9 million in additional investment in Customer Relationship Management (CRM) program to enhance service delivery to customers.
- $7.7 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.

Significant investments to sustain capital assets in 2011 included:

- $7.1 million was spent for the maintenance and construction of buildings and equipment across Saskatchewan.
- $12.8 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.
- $4.4 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.
- $5.3 million in continued investment to upgrade the MARTENS provisioning system.

Targets for 2012

Capital expenditures in 2012 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, a cellular network upgrade to LTE, network growth and refurbishment, further investment in *Max* Entertainment Services, and improved high speed Internet quality.

Cash Provided by (used in) Financing Activities

($ millions)	2011	2010	Change	%
Years ended December 31	**$(70.7)**	**$14.2**	$(84.9)	(597.9)

Cash used in financing activities was $70.7 million compared to cash provided by financing activities of $14.2 million in 2010. During 2011, net short-term borrowings increased by $45.1 million. There was no significant long-term debt activity in 2011 as opposed to 2010, where SaskTel had an increase in long-term debt of $120.1 million due to a debt issue, partially offset by debt repayment net of sinking fund redemptions. SaskTel paid a dividend of $109.9 million to CIC, a decrease of $44.7 million from 2010. During the last five years, SaskTel paid a total of $458.0 million in dividends while maintaining a debt ratio below 40%.

($ millions)	2011	2010	Change	%
Long-term debt	**$433.0**	**$432.8**	$0.2	0.1
Short-term debt	**105.0**	**59.9**	45.1	75.3
Less: Sinking funds	**78.4**	**64.8**	13.6	21.0
Cash and short-term investments	**8.0**	**12.9**	(4.9)	(38.0)
Net Debt	**451.6**	**415.0**	36.6	8.8
Equity[1]	**750.8**	**735.4**	15.4	2.1
Capitalization	**$1,202.4**	**$1,150.4**	$52.0	4.5
Debt ratio	**37.6%**	**36.1%**	1.5	4.1

[1] Equity for the purposes of calculating the debt ratio is defined as equity advances and retained earnings excluding amounts recognized in other comprehensive income.

The debt ratio increased to 37.6% in 2011, up from 36.1% in 2010. The overall level of net debt increased $36.6 million primarily to fund continued investment in property, plant and equipment as well as intangible assets. Equity increased $15.4 million after recording net income of $154.0 million and declaring dividends of $138.6 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, 2011, and December 31, 2010. The average interest rate of the short-term debt outstanding at December 31, 2011, was 1.09% and 1.13% at December 31, 2010.

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, 2011.

	S&P	DBRS	Moody's
Long-Term Debt	AAA	AA	Aa1 stable
Short-Term Liabilities	A-1+	R-1 (high)	Not Rated

Access to Capital

The primary uses of cash in 2012 will be property, plant and equipment and intangible asset expenditures, growth initiatives, and dividend payments.

The 2012 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 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, 2011, SaskTel had accessed $105.0 million of these facilities.

Besides this credit facility, SaskTel has authority to issue up to $1.3 billion in combined short-term and long-term debt. At December 31, 2011, total outstanding debt was $538.0 million compared to $492.7 million in 2010.

Use of Financial Instruments

SaskTel uses derivative instruments to manage exposure to interest rate risk and foreign exchange risk. Derivative instruments are not used to speculate. Because derivative instruments are related to specific financial exposures, there is no significant liquidity risk. At December 31, 2011, there were no derivative financial instruments outstanding.

SIGNIFICANT ACCOUNTING POLICIES

SaskTel's consolidated financial statements are prepared according to IFRS. Please refer to Notes 2 and 3 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 judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, and is required to constantly evaluate the judgments, 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 directly in other comprehensive income in the period the differences arise.

The two most significant assumptions used to calculate the employee benefit plan's net 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 4.30% at December 31, 2011, down 0.95% from 5.25% used in 2010. 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 2011, SaskTel assumed an expected long-term rate of return on plan assets of 6.75%, consistent with the rate used in 2010. This rate is not currently anticipated to change in 2012.

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 modify an asset's estimated useful life. This could result in a change to amortization expense in future periods, an impairment charge to reflect the write down in value of the asset or reversal of a previously recorded impairment charge.

Property, Plant and Equipment

Property, plant and equipment are amortized over their useful lives. SaskTel reviews these assets for impairment as part of the relevant cash generating unit (CGU) whenever events or changes in circumstances indicate that the carrying amount of the CGU may not be recoverable. An impairment loss is recognized on an asset or CGU to be held and used when the carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Estimating the cash flows to determine estimated recoverable amounts 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 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, as part of the relevant CGU, annually or more frequently if events or changes in circumstances indicate that the CGU might be impaired. When the recoverable amount of a CGU exceeds its carrying amount, goodwill of the CGU is considered not to be impaired. When the carrying amount of a CGU exceeds its recoverable amount an impairment loss is first applied to reduce the carrying amount of the goodwill allocated to the CGU. Again, estimating the cash flows to determine the recoverable amount of the relevant CGU requires significant judgment and is generally based on current and anticipated asset potential, including future technological trends, 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 as part of the relevant CGU when events or changes in circumstances indicate that their carrying value may not be recoverable. Similar to impairment testing for property, plant and equipment, an impairment loss is recognized on an asset or CGU to be held and used when the carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Estimating the cash flows to determine estimated recoverable amounts requires significant judgment and is generally based on current and anticipated asset potential, including future technological trends. 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.

Management's Discussion and Analysis

FIVE YEAR RECORD OF SERVICE

Consolidated Statement of Income

($ millions)	IFRS 2011	IFRS 2010	GAAP 2009	GAAP 2008	GAAP 2007
Revenue	**$1,125.8**	$1,113.0	$1,119.6	$1,139.1	$1,061.7
Other income	**5.1**	8.6	8.2	4.8	5.3
	1,130.9	1,121.6	1,127.8	1,143.9	1,067.0
Expenses					
Goods and services purchased	**519.0**	490.1	461.3	497.3	464.0
Salaries, wages and benefits	**331.9**	338.9	330.4	325.5	321.6
Depreciation	**142.3**	136.0	143.0	149.2	162.8
Amortization	**20.4**	21.0	38.1	23.1	6.2
Internal labour capitalized	**(16.1)**	(17.0)	–	–	–
	997.5	969.0	972.8	995.1	954.6
Results from operating activities	**133.4**	152.6	155.0	148.8	112.4
Net finance expense	**(10.2)**	(7.9)	(22.1)	(23.1)	(25.0)
Income from continuing operations	**123.2**	144.7	132.9	125.7	87.4
Gain on disposal of intangible assets	**–**	–	3.1	–	–
Loss on disposal of assets held for sale	**–**	–	(9.0)	–	–
Net income (loss) from discontinued operations	**30.8**	4.8	2.0	(2.1)	(3.3)
Net income	**$154.0**	$149.5	$129.0	$123.6	$84.1

Consolidated Statement of Financial Position

($ millions)	IFRS 2011	IFRS 2010	GAAP 2009	GAAP 2008	GAAP 2007
Current assets	**$145.0**	$174.6	$136.1	$134.9	$150.4
Property, plant and equipment	**1,232.0**	1,153.9	924.9	880.6	965.9
Other long-term assets	**256.7**	218.9	355.8	343.1	180.2
Total assets	**$1,633.7**	$1,547.4	$1,416.8	$1,358.6	$1,296.5
Current liabilities	**$336.9**	$246.4	$313.6	$231.3	$213.8
Long-term debt	**433.0**	432.8	233.9	330.6	327.8
Other long-term liabilities	**291.9**	175.8	57.5	10.7	12.2
Province of Saskatchewan's equity	**571.9**	692.4	811.8	786.0	742.7
Total liabilities and Province of Saskatchewan's equity	**$1,633.7**	$1,547.4	$1,416.8	$1,358.6	$1,296.5

Consolidated Statement of Cash Flows

($ millions)	IFRS 2011	IFRS 2010	GAAP 2009	GAAP 2008	GAAP 2007
Cash and cash equivalents, beginning of year	**$18.9**	$9.0	$4.9	$12.0	$16.1
Cash provided by operating activities	**250.3**	290.5	310.8	268.5	229.5
Cash used in investing activities	**(254.9)**	(298.4)	(184.3)	(219.3)	(175.4)
Cash provided by (used in) financing activities	**(70.7)**	14.2	(125.3)	(53.7)	(53.1)
Increase (decrease) in cash from continuing operations	**(75.3)**	6.3	1.2	(4.5)	1.0
Increase (decrease) in cash from discontinued operations	**64.4**	3.6	3.2	(2.6)	(5.1)
Cash and cash equivalents, end of year	**$8.0**	$18.9	$9.3	$4.9	$12.0

Financial Indicators

	IFRS		GAAP		
	2011	2010	2009	2008	2007
Return on equity	**20.7%**	20.5%	16.2%	16.1%	11.8%
Debt ratio	**37.6%**	36.1%	24.4%	27.3%	27.7%
Dividends declared	**$138.6**	$139.7	$103.2	$78.9	$30.0

Consolidated Statement of Income

($ millions)	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Revenue	$299.4	$286.8	$271.3	$268.3	$291.3	$282.8	$271.6	$267.3
Other income	2.0	1.4	0.7	1.0	–	1.8	2.0	4.8
	301.4	288.2	272.0	269.3	291.3	284.6	273.6	272.1
Expenses								
Goods and services purchased	139.4	133.9	125.4	120.3	135.6	120.4	117.6	116.5
Salaries, wages and benefits	82.7	78.9	83.6	86.7	89.0	77.9	85.9	86.1
Depreciation	35.4	34.3	36.6	36.0	37.8	33.6	33.2	31.4
Amortization	5.2	5.2	5.0	5.0	5.3	5.3	5.1	5.3
Internal labour capitalized	(4.9)	(3.9)	(4.0)	(3.3)	(4.2)	(4.8)	(4.8)	(3.2)
	257.8	248.4	246.6	244.7	263.5	232.4	237.0	236.1
Results from operating activities	43.6	39.8	25.4	24.6	27.8	52.2	36.6	36.0
Net finance expense	(1.9)	(0.7)	(2.3)	(5.3)	(4.5)	(1.1)	–	(2.3)
Income from continuing operations	41.7	39.1	23.1	19.3	23.3	51.1	36.6	33.7
Net income from discontinued operations	–	–	–	30.8	1.4	1.0	1.1	1.3
Net income	$41.7	$39.1	$23.1	$50.1	$24.7	$52.1	$37.7	$35.0

Annual Operating Statistics

Customer Accesses	**2011**	2010	2009	2008	2007
Wireless*	**594,405**	568,904	549,767	510,886	460,277
Wireline*	**514,351**	528,546	543,585	555,668	565,647
Internet (includes *Max*)	**234,676**	230,996	225,125	216,062	205,837
Max subscribers	**93,960**	85,537	77,831	70,463	62,244
Total accesses	**1,437,392**	1,413,983	1,396,308	1,353,079	1,294,005

Employees and Payroll	**2011**	2010	2009	2008	2007
Total employees**	**4,053**	4,328	4,814	5,063	5,209
Salaries earned (000's)	**$296,025**	$300,929	$303,138	$296,494	$292,765

* Does not include SaskTel internal use
** 2010 and 2011 are 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, 2011, are the responsibility of management and have been approved by the Board of Directors. Management has prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board. As these consolidated financial statements represent management's initial presentation of its earnings, financial position and cash flows under IFRS, they were prepared in accordance with IFRS 1, First-time Adoption of IFRS. The policies set out have been consistently applied to all the periods presented unless otherwise noted. 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 6, 2012

Mike Anderson
Chief Financial Officer

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, 2011 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 SaskTel 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, 2011 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 6, 2012

Mike Anderson
Chief Financial Officer

Consolidated Financial Statements

INDEPENDENT AUDITORS' REPORT

To 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 statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of income and other comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, 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 International Financial Reporting Standards, 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 audits. We conducted our audits 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 in our audits 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 consolidated financial position of Saskatchewan Telecommunications Holding Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
Regina, Canada
March 6, 2012

Consolidated Statement of Income and Other Comprehensive Income

For the year ended December 31, Thousands of dollars	Note	**2011**	2010
Revenue	4	**$1,125,806**	$1,112,946
Other income	4	**5,050**	8,623
		1,130,856	1,121,569
Expenses			
Goods and services purchased		**519,020**	490,107
Salaries, wages and benefits		**331,875**	338,854
Depreciation	10	**142,349**	136,008
Amortization		**20,391**	21,028
Internal labour capitalized		**(16,114)**	(17,044)
		997,521	968,953
Results from operating activities		**133,335**	152,616
Net finance expense	5	**(10,146)**	(7,939)
Income from continuing operations		**123,189**	144,677
Net income from discontinued operations	6	**30,802**	4,822
Net income		**153,991**	149,499
Other comprehensive loss			
Actuarial losses on employee benefit plans	19	**(135,898)**	(43,033)
Total comprehensive income		**$18,093**	$106,466

All net income and total comprehensive income are attributable to Crown Investments Corporation of Saskatchewan.

See Accompanying Notes

Consolidated Statement of Changes in Equity

Thousands of dollars	Equity advances	Retained earnings	Total equity
Balance at January 1, 2010	$250,000	$475,597	$725,597
Net income	–	149,499	149,499
Other comprehensive loss	–	(43,033)	(43,033)
Total comprehensive income for the year	–	106,466	106,466
Dividends	–	139,682	139,682
	–	(33,216)	(33,216)
Balance at December 31, 2010	$250,000	$442,381	$692,381
Balance at January 1, 2011	**$250,000**	**$442,381**	**$692,381**
Net income	**–**	**153,991**	**153,991**
Other comprehensive loss	**–**	**(135,898)**	**(135,898)**
Total comprehensive income for the year	**–**	**18,093**	**18,093**
Dividends	**–**	**138,592**	**138,592**
	–	**(120,499)**	**(120,499)**
Balance at December 31, 2011	**$250,000**	**$321,882**	**$571,882**

See Accompanying Notes

Consolidated Financial Statements

Consolidated Statement of Financial Position

As at Thousands of dollars	Note	**December 31, 2011**	December 31, 2010	January 1, 2010
Assets				
Current assets				
Cash		**$7,998**	$12,886	$8,998
Trade and other receivables	7	**109,920**	105,316	111,163
Inventories	8	**8,774**	5,810	8,020
Prepaid expenses	9	**18,310**	8,907	10,283
Current portion of sinking funds	12	**–**	–	10,519
Assets classified as held for sale	6	**–**	41,729	43
		145,002	174,648	149,026
Investments accounted for using the equity method		**–**	–	1,523
Property, plant and equipment	10	**1,232,019**	1,153,943	1,023,983
Intangible assets	11	**168,875**	145,351	162,415
Sinking funds	12	**78,444**	64,769	57,744
Other assets	13	**9,327**	8,692	12,006
		$1,633,667	$1,547,403	$1,406,697
Liabilities and Province's equity				
Current liabilities				
Trade and other payables	14	**$132,133**	$113,016	$116,303
Dividend payable		**44,834**	16,157	31,026
Notes payable	15	**105,000**	59,900	8,700
Services billed in advance	16	**54,981**	55,657	48,687
Current portion of long-term debt	18	**–**	–	90,109
Liabilities classified as held for sale	6	**–**	1,635	262
		336,948	246,365	295,087
Deferred revenue		**7,950**	8,801	9,146
Deferred income – government funding	17	**46,045**	41,053	42,400
Employee benefit obligations	19	**237,870**	126,047	100,522
Long-term debt	18	**432,972**	432,756	233,945
		1,061,785	855,022	681,100
Province of Saskatchewan's equity				
Equity advance	20	**250,000**	250,000	250,000
Retained earnings		**321,882**	442,381	475,597
		571,882	692,381	725,597
		$1,633,667	$1,547,403	$1,406,697

See Accompanying Notes

On behalf of the Board:

Grant Kook
March 6, 2012

Blair Davidson

Consolidated Statement of Cash Flows

For the year ended December 31, Thousands of dollars	Note	**2011**	2010
Operating activities			
Income from continuing operations		**$123,189**	$144,677
Adjustments to reconcile income from continuing operations to cash provided by operating activities:			
Depreciation and amortization		**162,740**	157,036
Pension income of defined benefit plans	19	**(7,785)**	(782)
Contributions to defined benefit pension plans	19	**(15,989)**	(16,450)
Net finance expense	5	**10,146**	7,939
Interest received		**1,761**	1,294
Interest paid		**(26,724)**	(25,409)
Amortization of government funding	17	**(5,777)**	(2,668)
Other		**7,427**	11,199
Net change in non-cash working capital	21	**1,291**	13,616
		250,279	290,452
Investing activities			
Property, plant and equipment expenditures		**(221,798)**	(287,128)
Intangible asset expenditures		**(43,877)**	(17,916)
Government funding	17	**10,769**	1,321
Redemption of preferred shares		**–**	3,733
Proceeds from sale of specialty publications division		**–**	1,550
		(254,906)	(298,440)
Financing activities			
Proceeds from long-term debt		**–**	198,670
Repayment of long-term debt		**–**	(90,000)
Proceeds from sinking funds		**–**	11,260
Net proceeds from short-term borrowings	15	**45,100**	51,200
Sinking fund installments	12	**(5,866)**	(2,366)
Dividends paid		**(109,915)**	(154,551)
		(70,681)	14,213
Increase (decrease) in cash from continuing operations		**(75,308)**	6,225
Increase in cash from discontinued operations	6	**64,393**	3,690
Cash, beginning of year		**18,913**	8,998
Cash, end of year		**$7,998**	$18,913
Comprised of:			
Cash of continuing operations		**$7,998**	$12,886
Cash of discontinued operations		**–**	6,027
		$7,998	$18,913

See Accompanying Notes

Notes to Consolidated Financial Statements

Note 1 – General information

Saskatchewan Telecommunications Holding Corporation (the Corporation) is a corporation located in Canada. The address of the Corporation's registered office is 2121 Saskatchewan Drive, Regina, SK, S4P 3Y2. 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).

The Corporation markets and supplies a range of voice, data, Internet, wireless, text, image, directory, security and entertainment products, systems and services.

Note 2 – Basis of preparation

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). As these consolidated financial statements represent the Corporation's initial presentation of its earnings, financial position and cash flows under IFRS, they were prepared in accordance with IFRS 1, First-time Adoption of IFRS. The policies set out have been consistently applied to all the periods presented unless otherwise noted.

The Corporation's consolidated financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP). Reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on assets, liabilities, equity, earnings, and comprehensive income are included in Note 27 – Transition to IFRS.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Fair value through profit and loss financial instruments are measured at fair value, and
- The employee benefit obligation is recognized as the fair value of the plan assets less the present value of the accrued benefit obligation.

c. Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

d. Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements includes the following:

- Classification of intangible assets – indefinite life (Note 11 – Intangible assets), and
- Accounting for government funding (Note 17 – Deferred income – government funding).

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year includes:

- Useful lives and depreciation rates for property, plant and equipment (Note 10 – Property, plant and equipment),
- Useful lives and amortization rates for intangible assets (Note 11 – Intangible assets), and
- Measurement of the employee benefit obligations (Note 19 – Employee benefits).

Note 3 – Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

The accounting policies have been applied consistently by the Corporation and its subsidiaries and jointly controlled entities.

a. Basis of consolidation

i. Business combinations

Acquisitions on or after January 1, 2010

For acquisitions on or after January 1, 2010, the Corporation measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in income.

The Corporation elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

Acquisitions prior to January 1, 2010

As part of its transition to IFRS, the Corporation elected to restate only those business combinations that occurred on or after January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under previous Canadian GAAP (see Note 27 – Transition to IFRS).

ii. Subsidiaries

The financial statements include the financial statements of the Corporation and its subsidiaries.

A subsidiary is an entity that is controlled by another entity, known as the parent. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are consolidated from the date that control commences until the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries, associates and joint ventures to bring the accounting policies used in line with those used by the Corporation.

Upon transition to IFRS on January 1, 2010, the Corporation has elected to prospectively apply the provisions of IFRS 3, Business Combinations to all existing subsidiaries and jointly controlled entities (see Note 27 – Transition to IFRS).

Separate audited financial statements for each of the undernoted wholly-owned corporations, which are consolidated in these financial statements, are prepared and released publicly:

Subsidiary	Principal Activity
Saskatchewan Telecommunications (SaskTel)	Telecommunications
Saskatchewan Telecommunications International, Inc. (SaskTel International)	Telecommunications software solutions & consulting
DirectWest Corporation (DirectWest)	Directory publishing
SecurTek Monitoring Solutions Inc. (SecurTek)	Security monitoring

Throughout these financial statements the phrase "the Corporation" is used to collectively describe the activities of the consolidated entity.

iii. Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted for investees are eliminated against the investment to the extent of the Corporation's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Notes to Consolidated Financial Statements

Note 3 – Significant accounting policies, continued

b. Revenue

Revenue represents the fair value of the consideration received or receivable for the services provided and equipment sales, net of discounts, volume rebates and sales taxes. Revenue from the rendering of services and sale of equipment is recognized in the period the services are provided or the equipment is sold, when there is persuasive evidence that an arrangement exists, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Corporation and, in the case of equipment sales, when the significant risks and rewards of ownership of the goods are transferred to the buyer. Where the Corporation acts as an agent in a transaction amounts collected on behalf of the principal are excluded from revenue.

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 significant risks and rewards of ownership of the goods are transferred to the buyer, typically when the equipment is delivered to and accepted by the customer. Revenues for longer term contracts are recognized in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed. 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. Print directory advertising revenues are recognized at the delivery date of the directory. Electronic directory advertising revenues are recognized commencing with the display date. Amounts billed in advance for directory advertising are deferred and recognized at the delivery date 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, the Corporation has evidence of fair value for all the undelivered items and completion costs are reliably measurable. 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 rendered. Support and maintenance fees are recognized over the term of the contract.

The Canadian Radio-television and Telecommunications Commission (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.

c. Customer contributions

Customer contributions specifically related to access to the Corporation's network, based on standard terms and conditions, are recognized as revenue when the customer is connected to the network. Other contributions, either related to access to the Corporation's network based on non-standard terms or conditions, or based on specifically contracted products or services, are assessed to determine the appropriate revenue recognition for the products or services provided, based on the Corporation's revenue recognition policies.

d. Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments that have a maturity date of 90 days or less.

Note 3 – Significant accounting policies, continued

e. Inventories

Inventories for resale are valued at the lower of weighted average cost and net realizable value. Other supplies inventories are valued at the lower of average cost and replacement cost.

In establishing the appropriate provision for supplies inventory obsolescence, management estimates the likelihood that supplies inventory on hand will become obsolete due to changes in technology. Other supplies are charged to inventory when purchased and expensed or capitalized when used.

f. Property, plant and equipment

Property, plant and equipment are measured at cost or deemed cost, as disclosed in Note 27 – Transition to IFRS, less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to bringing the assets to a working condition for their intended use. The cost of self-constructed assets includes materials, services, direct labour and directly attributable overheads. Borrowing costs associated with major capital and development projects are capitalized during the construction period. Assets under construction are recorded as in progress until they are operational and available for use, at which time they are transferred to property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in income as incurred.

When property, plant and equipment is disposed of or retired, the related cost and accumulated depreciation and amortization is eliminated from the accounts. Any resulting gain or loss is reflected in net income for the year.

g. Depreciation and amortization of property, plant and equipment

Depreciation and amortization is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation and amortization is recognized in income on the straight-line basis over the estimated useful life of each part of an item of property, plant and equipment as follows:

Asset	Estimated useful life
Buildings and improvements	
Equipment and storage buildings	20 – 35 years
Warehouses, garages and parkades	50 years
Administrative buildings	60 years
Switching centres	70 years
Towers	35 and 75 years
Plant and equipment	2 – 50 years
Office furniture and equipment	3 – 17 years

Depreciation methods, useful lives and residual values are reviewed at each financial reporting date and adjusted if appropriate. Estimates in respect of certain items of plant and equipment were revised in 2011 (see Note 10 – Property, plant and equipment).

h. Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Corporation's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, and employee benefit assets, which continue to be measured in accordance with the Corporation's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in income. Gains are not recognized in excess of any cumulative impairment loss.

Notes to Consolidated Financial Statements

Note 3 – Significant accounting policies, continued

i. Discontinued operations

A discontinued operation is a component of the Corporation's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of income and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

j. Intangible assets

i. Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For measurement of goodwill at initial recognition, see Note 3(a)(i).

In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous Canadian GAAP.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

ii. Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in income when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Corporation intends to and has sufficient resources to complete development and to use or sell the asset. The expenditures capitalized include the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are capitalized. Other development expenditures are recognized in income as incurred.

Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in the consolidated statement of income and other comprehensive income on a straight-line basis over the estimated useful life of 1 to 5 years.

iii. Finite-life intangibles

Software is recorded at the cost of acquisition or development, which may include direct development costs, overhead costs directly attributable to development activity and betterment costs, less accumulated amortization and any accumulated impairment losses.

Customer accounts, acquired individually, with a group of other assets, or through the Corporation's authorized dealers are measured at cost less accumulated amortization and any accumulated impairment losses.

Amortization is recognized in income 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

iv. Spectrum licenses

Spectrum licenses have been recorded at cost less accumulated impairment losses.

Spectrum licenses have been classified as indefinite-life intangible assets due to the current licensing terms, the most significant of which are minimal renewal fees and no regulatory precedent of material license revocation. Should these factors change, the classification of indefinite-life will be reassessed.

k. Impairment

i. Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Corporation considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Corporation uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in income and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains/losses on available-for-sale financial assets in equity, to income. The cumulative loss that is removed from other comprehensive income and recognized in income is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in income, then the impairment loss is reversed, with the amount of the reversal recognized in income. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

ii. Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

Notes to Consolidated Financial Statements

Note 3 – Significant accounting policies, continued

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets CGU. For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Corporation's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in earnings. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

l. Government grants

Government grants are recognized initially as deferred income when there is reasonable assurance that they will be received and the Corporation will comply with the conditions associated with the grant. Grants that compensate the Corporation for expenses incurred are recognized in the consolidated statement of income and other comprehensive income on a systematic basis in the same period in which the expenses are recognized. Grants that compensate the Corporation for the cost of an asset are recognized in the consolidated statement of income and other comprehensive income on a systematic basis over the useful life of the asset.

m. Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Corporation at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

n. Employee benefits

The Corporation has a defined benefit pension plan, a defined contribution pension plan, and a service recognition defined benefit plan that provide retirement benefits for its employees.

i. Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Corporation's net obligation in respect of the defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is determined using high quality debt instruments with cash flows that match the timing and amount of the Corporation's expected benefit payments. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Corporation, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Corporation if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in income on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in income.

Upon transition to IFRS the Corporation has elected to recognize all cumulative gains and losses deferred under Canadian GAAP in opening retained earnings at the date of transition (see Note 27 – Transition to IFRS).

The Corporation recognizes all actuarial gains and losses arising from the defined benefit plans directly in other comprehensive income immediately and reports them in retained earnings.

ii. Defined contribution plan

A defined contribution plan is a post-employment benefit under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to the defined contribution pension plan are recognized as an employee benefit expense in the consolidated statement of income and other comprehensive income in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

iii. Service recognition defined benefit plan

The Corporation's net obligation in respect of the service recognition defined benefit plan is the amount of future benefit that employees have earned in return for their service in the prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is determined using high quality debt instruments with cash flows that match the timing and amount of the Corporation's expected obligations. The calculation is performed using the projected unit credit method prorated on service. Any actuarial gains and losses are recognized in other comprehensive income immediately and reported in retained earnings.

iv. Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

v. Termination benefits

Termination benefits are recognized as an expense when the Corporation is demonstrably committed to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Corporation has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

o. Financial instruments

i. Non-derivative financial assets

The Corporation initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Corporation has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables.

Notes to Consolidated Financial Statements

Note 3 – Significant accounting policies, continued

Financial assets at fair value through profit or loss

Financial assets are classified as fair value through profit or loss if they are held-for-trading (purchased and incurred with the intention of generating profits in the near term or are part of a portfolio of financial instruments that are managed together where there is evidence of a recent actual pattern of short-term profit taking) or designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. The Corporation has classified cash and cash equivalents and designated sinking funds as financial instruments at fair value through profit and loss. Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value with revaluation gains and losses included in net income in the period in which the gains and losses arise.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables are comprised of trade and other receivables.

Available-for-sale

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3(j)(i)) are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to income.

ii. Non-derivative financial liabilities

The Corporation initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Corporation has the following non-derivative financial liabilities: trade and other payables, notes payable and long-term debt.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

iii. Embedded derivatives

Derivatives may be embedded in other host instruments and are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, when the embedded derivative has the same terms as those of a stand-alone derivative, and the combined contract is not held-for-trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in net income.

The Corporation had no contracts with embedded derivatives as at December 31, 2010 and December 31, 2011.

p. Finance income and expenses

Finance income is comprised of interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets and changes in fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in the consolidated statement of income and other comprehensive income, using the effective interest method.

Finance expenses are comprised of interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognized on financial assets. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense.

Note 3 – Significant accounting policies, continued

q. Equity advance

The Corporation periodically receives funding from its parent and sole equity holder, CIC. Funding is first analyzed to determine whether the funding is a transaction with the equity holder in their capacity as an equity holder e.g. equity injection, or whether the funding would be available to other parties for a specific purpose. If there is no requirement to comply with certain conditions relating to the operating activities of the entity, the funding is recorded as an equity advance. If the Corporation must comply with certain past or future conditions relating to the operating activities of the Corporation, and the funding could be available to other parties for a specific purpose, the funding is recorded as a government grant (see Note 3(l)).

r. New standards and interpretations not yet adopted

Certain new standards, interpretations and amendments to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (IFRIC) that are mandatory for annual accounting periods beginning after December 31, 2011. The Corporation is assessing the impact of these pronouncements on its results and financial position. These include:

- IFRS 1 First-Time Adoption of IFRS (IFRS 1) was amended to provide guidance for entities emerging from severe hyperinflation as well as to provide relief for first-time adopters of IFRS from having to reconstruct transactions that occurred before their date of transition to IFRS. IFRS 1 is effective for annual periods beginning on or after July 1, 2011.
- IFRS 7 Financial Instruments: Disclosures (IFRS 7) was amended to provide guidance on identifying transfers of financial assets and continuing involvement in a transferred asset for disclosure purposes. IFRS 7 is effective for annual periods beginning on or after July 1, 2011.
- IFRS 9 Financial Instruments (IFRS 9 (2010)) expands on IFRS 9 as issued in 2009. The 2010 version has a significant impact on financial liabilities designated under the fair value option. In addition, IFRS 9 (2010) retains virtually all of the classification and measurement guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 (2010) is effective for annual periods beginning on or after January 1, 2013.
- IFRS 10 Consolidations (IFRS 10) establishes a single control model to assess whether to consolidate an investee. The model focuses on exposure or rights to variability in returns versus the previous concept of benefits. IFRS 10 is effective for annual periods beginning on or after January 1, 2013.
- IFRS 11 Joint Arrangements (IFRS 11) redefines joint arrangements based on the control concept introduced in IFRS 10. Joint arrangements are classified depending on whether parties have rights to and obligations for underlying assets and liabilities. In addition the standard requires a single method of accounting for joint ventures. IFRS 11 is effective for annual periods beginning on or after January 1, 2013.
- IFRS 12 Disclosure of Interests in Other Entities (IFRS 12) combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013.
- IFRS 13 Fair Value Measurement (IFRS 13) defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013.
- IAS 1 Presentation of Financial Statements (IAS 1) introduces changes to the presentation of items in other comprehensive income. IAS 1 is effective for annual periods beginning on or after July 1, 2012.
- IAS 19 Employee Benefits (IAS 19) was amended to require immediate recognition of actuarial gains and losses, as well as revising the basis for the calculation of net interest on the net defined benefit asset or liability. In addition, disclosure requirements have been expanded. IAS 19 is effective for annual periods beginning on or after January 1, 2013.
- IAS 27 Separate Financial Statements (IAS 27) was amended to create one standard that deals with separate financial statements. Requirements related to consolidated financial statements have been moved to IFRS 10, and requirements related to joint ventures and associates have been relocated to this standard. IAS 27 is effective for annual periods beginning on or after January 1, 2013.
- IAS 28 Investments in Associates and Joint Ventures (IAS 28) was amended to incorporate the accounting for joint ventures because the equity method is now applicable to both joint ventures and associates. IAS 28 is effective for annual periods beginning on or after January 1, 2013.

Notes to Consolidated Financial Statements

Note 4 – Revenue and other income

Thousands of dollars	Note	**2011**	2010
Services revenue			
Wireless		**$414,432**	$408,386
Local service		**273,564**	282,508
Max, Internet and data services		**253,922**	232,177
Long distance services		**63,705**	65,969
Advertising and directory services		**43,401**	43,322
Security monitoring services		**19,790**	18,689
Telecommunication software		**11,628**	12,862
Other revenue		**45,364**	49,033
		1,125,806	1,112,946
Other income			
Net loss on retirement or disposal of property, plant and equipment		**(2,541)**	(3,328)
Amortization of government funding	17	**5,777**	2,668
Government funding received		**–**	3,250
Provincial sales tax refund		**–**	3,227
Other		**1,814**	2,806
		5,050	8,623
		$1,130,856	$1,121,569

Note 5 – Net finance expense

Thousands of dollars	**2011**	2010
Recognized in consolidated net income		
Interest income on unimpaired financial assets at fair value through profit or loss	**$5,435**	$4,661
Interest income on loans and receivables	**1,759**	1,284
Net change in fair value of financial assets at fair value through profit or loss	**2,374**	739
Finance income	**9,568**	6,684
Interest expense on financial liabilities measured at amortized cost	**(27,536)**	(25,655)
Interest capitalized	**7,822**	11,032
Finance expense	**(19,714)**	(14,623)
Net finance expense	**$(10,146)**	$(7,939)
Interest capitalization rate	**5.84%**	6.56%

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) were to be divested and the criteria for classification as discontinued operations had been met. In addition, the Corporation had previously classified the operations of DirectWest Canada, Inc. as discontinued operations.

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 cash consideration of $34.4 million resulting in a gain of $27.0 million which has been included in net income from discontinued operations in the consolidated statement of income and other comprehensive income.

In addition, on January 31, 2011, the Corporation, through its subsidiary Hospitality Network, disposed of the net assets of Hospitality Network for cash consideration of $36.0 million, resulting in a gain of $3.7 million which has been included in net income from discontinued operations in the consolidated statement of income and other comprehensive income. Active operations of Hospitality Network have ceased as of that date.

Note 6 – Discontinued operations, continued

The results of discontinued operations are as follows:

Thousands of dollars	**2011**	Year ended December 31, 2010
Hospitality Network		
Revenue	**$2,530**	$31,431
Expenses	**2,495**	27,633
Results of operating activities	**35**	3,798
Gain on sale of discontinued operation	**3,731**	–
Saskatoon Square		
Share of operating earnings of equity accounted investee	**–**	1,024
Gain on sale of discontinued operation	**27,036**	–
Net income from discontinued operations	**$30,802**	$4,822

The assets and liabilities of discontinued operations are as follows:

	December 31, 2011			December 31, 2010	January 1, 2010
Thousands of dollars	**Hospitality Network**	**Saskatoon Square**	**Total**	Total	Total
Assets					
Cash and cash equivalents	**$–**	**$–**	**$–**	$6,027	$–
Trade and other receivables	**–**	**–**	**–**	2,334	43
Prepaid expenses	**–**	**–**	**–**	310	–
Investments accounted for using the equity method	**–**	**–**	**–**	1,707	–
Property, plant and equipment	**–**	**–**	**–**	17,015	–
Intangible assets	**–**	**–**	**–**	2,498	–
Goodwill	**–**	**–**	**–**	11,838	–
Assets of discontinued operations	**$–**	**$–**	**$–**	$41,729	$43
Liabilities					
Trade and other payables	**$–**	**$–**	**$–**	$1,635	$262
Liabilities of discontinued operations	**$–**	**$–**	**$–**	$1,635	$262

The cash flows from discontinued operations are as follows:

Thousands of dollars	**2011**	Year ended December 31, 2010
Cash provided by operating activities	**$43**	$6,877
Cash provided by (used in) investing activities	**64,350**	(3,145)
Cash used in financing activities	**–**	(42)
	$64,393	$3,690

Notes to Consolidated Financial Statements

Note 7 – Trade and other receivables

Thousands of dollars	December 31, 2011	December 31, 2010	January 1, 2010
Accounts receivable			
Customer accounts receivable	**$76,634**	$68,906	$79,522
Accrued receivables – customer	**23,820**	23,060	23,321
Allowance for doubtful accounts	**(2,472)**	(2,840)	(3,622)
	97,982	89,126	99,221
High cost serving area subsidy	**5,341**	5,344	5,446
Other	**6,597**	10,846	6,496
	$109,920	$105,316	$111,163

Note 8 – Inventories

Thousands of dollars	December 31, 2011	December 31, 2010	January 1, 2010
Inventories for resale	**$4,872**	$4,376	$6,157
Materials and supplies	**3,902**	1,434	1,863
	$8,774	$5,810	$8,020

The cost of inventories recognized as an expense during the year was $35.1 million (2010 – $22.7 million).

In 2011, write-downs of inventory to net realizable value amounted to $2.9 million (2010 – $3.7 million).

Note 9 – Prepaid expenses

Thousands of dollars	December 31, 2011	December 31, 2010	January 1, 2010
Prepaid expenses	**$13,862**	$3,868	$4,559
Deferred service connection charges	**4,448**	5,039	5,724
	$18,310	$8,907	$10,283

Note 10 – Property, plant and equipment

Thousands of dollars	Plant and equipment	Buildings and improvements	Office furniture and equipment	Plant under construction	Land	Total
Cost or deemed cost						
Balance at January 1, 2011	**$2,583,019**	**$360,338**	**$93,891**	**$126,370**	**$31,584**	**$3,195,202**
Additions	**16,430**	**615**	**20,955**	**186,385**	**–**	**224,385**
Transfers	**159,244**	**32,685**	**4,199**	**(197,013)**	**885**	**–**
Retirements and disposals	**(116,254)**	**(116)**	**(21,436)**	**–**	**(1)**	**(137,807)**
Balance December 31, 2011	**$2,642,439**	**$393,522**	**$97,609**	**$115,742**	**$32,468**	**$3,281,780**
Balance at January 1, 2010	$2,398,858	$301,308	$73,615	$167,967	$30,942	$2,972,690
Additions	20,244	1,031	16,410	255,099	–	292,784
Transfer of assets held for sale	(28,732)	–	(1,417)	(803)	–	(30,952)
Transfers	224,374	59,766	11,110	(295,893)	643	–
Retirements and disposals	(31,725)	(1,767)	(5,827)	–	(1)	(39,320)
Balance December 31, 2010	$2,583,019	$360,338	$93,891	$126,370	$31,584	$3,195,202
Depreciation						
Balance at January 1, 2011	**$1,898,231**	**$98,325**	**$44,703**	**$–**	**$–**	**$2,041,259**
Depreciation for the year	**116,184**	**8,441**	**17,724**	**–**	**–**	**142,349**
Retirements and disposals	**(112,330)**	**(81)**	**(21,436)**	**–**	**–**	**(133,847)**
Balance December 31, 2011	**$1,902,085**	**$106,685**	**$40,991**	**$–**	**$–**	**$2,049,761**
Balance at January 1, 2010	$1,818,785	$91,415	$38,507	$–	$–	$1,948,707
Depreciation for the year	116,125	6,982	12,901	–	–	136,008
Retirements and disposals	(23,112)	(72)	(5,818)	–	–	(29,002)
Transfer to assets held for sale	(13,567)	–	(887)	–	–	(14,454)
Balance December 31, 2010	$1,898,231	$98,325	$44,703	$–	$–	$2,041,259
Carrying Amounts						
At January 1, 2011	**$684,788**	**$262,013**	**$49,188**	**$126,370**	**$31,584**	**$1,153,943**
At December 31, 2011	**$740,354**	**$286,837**	**$56,618**	**$115,742**	**$32,468**	**$1,232,019**
At January 1, 2010	$580,073	$209,893	$35,108	$167,967	$30,942	$1,023,983
At December 31, 2010	$684,788	$262,013	$49,188	$126,370	$31,584	$1,153,943

At December 31, 2011, the Corporation had property, plant and equipment that was fully depreciated and still in use with a cost of $1.5 billion (2010 – $1.5 billion).

Effective July 1, 2011, the Corporation extended the useful life of certain assets to coincide with the revised exit date for the related technology. The impact is a reduction in depreciation expense of $4.2 million in the current year, a reduction in depreciation expense of $8.4 million in 2012 and 2013, and increases in depreciation expense in 2014 to 2016 of $6.5 million, $11.5 million and $3.0 million respectively.

Notes to Consolidated Financial Statements

Note 11 – Intangible assets

Thousands of dollars	Goodwill	Software	Customer accounts	Spectrum licenses	Under development	Total
Cost						
Balance at January 1, 2011	**$5,976**	**$118,466**	**$58,612**	**$65,981**	**$8,199**	**$257,234**
Acquisitions	**–**	**11,571**	**3,487**	**–**	**18,853**	**33,911**
Acquisitions – internally developed	**–**	**3,862**	**–**	**–**	**6,106**	**9,968**
Disposals and retirements	**–**	**(23,321)**	**–**	**–**	**–**	**(23,321)**
Balance at December 31, 2011	**$5,976**	**$110,578**	**$62,099**	**$65,981**	**$33,158**	**$277,792**
Balance at January 1, 2010	$17,914	$107,247	$59,177	$65,981	$10,909	$261,228
Acquisitions	–	6,502	4,364	–	1,244	12,110
Acquisitions – internally developed	–	310	–	–	6,322	6,632
Transferred to assets held for sale	(11,838)	(262)	(4,929)	–	–	(17,029)
Transfers	–	10,276	–	–	(10,276)	–
Disposals and retirements	(100)	(5,607)	–	–	–	(5,707)
Balance December 31, 2010	$5,976	$118,466	$58,612	$65,981	$8,199	$257,234
Amortization and impairment losses						
Balance at January 1, 2011	**$–**	**$78,597**	**$33,286**	**$–**	**$–**	**$111,883**
Amortization for the year	**–**	**15,107**	**5,215**	**–**	**–**	**20,322**
Impairment loss	**–**	**–**	**–**	**–**	**–**	**–**
Reversal of impairment loss	**–**	**–**	**–**	**–**	**–**	**–**
Disposal and retirements	**–**	**(23,288)**	**–**	**–**	**–**	**(23,288)**
Balance at December 31, 2011	**$–**	**$70,416**	**$38,501**	**$–**	**$–**	**$108,917**
Balance at January 1, 2010	$–	$68,717	$30,096	$–	$–	$98,813
Amortization for the year	–	15,716	5,238	–	–	20,954
Impairment loss	–	–	–	–	–	–
Reversal of impairment loss	–	–	–	–	–	–
Transferred to assets held for sale	–	(228)	(2,048)	–	–	(2,276)
Disposals and retirements	–	(5,608)	–	–	–	(5,608)
Balance December 31, 2010	$–	$78,597	$33,286	$–	$–	$111,883
Carrying Amounts						
At January 1, 2011	**$5,976**	**$39,869**	**$25,326**	**$65,981**	**$8,199**	**$145,351**
At December 31, 2011	**$5,976**	**$40,162**	**$23,598**	**$65,981**	**$33,158**	**$168,875**
At January 1, 2010	$17,914	$38,530	$29,081	$65,981	$10,909	$162,415
At December 31, 2010	$5,976	$39,869	$25,326	$65,981	$8,199	$145,351

At December 31, 2011, the Corporation had intangible assets that were fully amortized and still in use with a cost of $15.6 million (2010 – $7.4 million).

Impairment testing for the cash-generating unit containing goodwill

For the purpose of impairment testing, goodwill is allocated to one CGU; DirectWest. This is the lowest level within the Corporation at which goodwill is monitored for internal management purposes, which is not higher than the Corporation's operating segments.

The Corporation's CGU impairment test was based on fair value less costs to sell using a comparable company that is actively traded. Share prices for this company were used to derive an Enterprise Value (EV) to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio that was used as the basis for the determination of fair value less costs to sell. The EV to EBITDA ratio was then adjusted to reflect differences in size and operating environment of the comparable company, as well as the assumption that the market trades at a minority discount. The adjusted EV to EBITDA ratio was then applied to the EBITDA of the unit to determine the recoverable amount of the unit. The current impairment test indicated no impairment at December 31, 2011. Previous impairment tests indicated no impairment at January 1, 2010, and December 31, 2010.

Note 11 – Intangible assets, continued

Impairment testing for cash-generating units containing indefinite-life intangible assets and recoverability testing of finite-life intangible assets under development

For the purpose of impairment testing, indefinite-life intangible assets (spectrum licences) are allocated to SaskTel and finite-life intangible assets under development are allocated to SaskTel and SaskTel International. These are the lowest level within the Corporation at which indefinite-life intangible assets and finite-life intangible assets under development are monitored for internal management purposes, which is not higher than the Corporation's operating segments.

The Corporation's CGU impairment tests were based on fair value less costs to sell using comparable companies that are listed on exchanges and are actively traded. Share prices for these companies were used to derive an EV to EBITDA ratio that was applied to the EBITDA of the unit to determine the recoverable amount. The Corporation applied an industry average EV to EBITDA ratio adjusted for minority discounts associated with publicly traded shares to the EBITDA of the unit to estimate the recoverable amount of the unit. Current impairment test indicated no impairment at December 31, 2011. Previous impairment tests conducted indicated no impairment at January 1, 2010 and December 31, 2010.

Note 12 – Sinking funds

Under conditions attached to 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	**December 31, 2011**	December 31, 2010	January 1, 2010
Sinking funds, beginning of year	**$64,769**	$68,263	$62,540
Installments	**5,866**	2,366	3,266
Earnings	**5,435**	4,661	3,487
Redemptions	**–**	(11,260)	–
Valuation adjustment	**2,374**	739	(1,030)
Total sinking funds	**78,444**	64,769	68,263
Less current portion	**–**	–	(10,519)
	$78,444	$64,769	$57,744

Sinking fund installments due in each of the next five years are as follows:

Thousands of dollars	
2012	$5,866
2013	5,866
2014	5,866
2015	5,866
2016	5,866

Note 13 – Other assets

Thousands of dollars	**December 31, 2011**	December 31, 2010	January 1, 2010
Deferred service connection charges	**$5,821**	$5,798	$6,562
Financing leases	**3,464**	2,782	2,553
Other	**42**	112	2,891
	$9,327	$8,692	$12,006

Notes to Consolidated Financial Statements

Note 14 – Trade and other payables

Thousands of dollars	**December 31, 2011**	December 31, 2010	January 1, 2010
Trade accounts payable and accrued liabilities	**$94,027**	$74,871	$77,772
Payroll and other employee-related liabilities	**30,228**	29,681	32,464
Other	**7,878**	8,464	6,067
	$132,133	$113,016	$116,303

Note 15 – Notes payable

Notes payable are due to the Province of Saskatchewan's General Revenue Fund (GRF). These notes are due on demand and have an effective interest rate of 1.09% (2010 – 1.13%).

Note 16 – Services billed in advance

Thousands of dollars	**December 31, 2011**	December 31, 2010	January 1, 2010
Services billed in advance	**$42,378**	$43,307	$35,780
Deferred customer activation and connection fees	**6,435**	7,229	7,967
Customer deposits	**6,168**	5,121	4,920
	$54,981	$55,657	$48,687

Note 17 – Deferred income – government funding

The Corporation received $55.0 million in funding from the Province of Saskatchewan through CIC as partial funding of the Rural Infrastructure Program (RIP). To date $40.8 million has been applied to capital expenditures and $5.8 million to operating expenditures. The balance of the funded expenditures is planned for early 2012.

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 $1.3 million in funding for distance education hardware upgrades. To date $0.1 million has been applied to capital expenditures and $0.1 million to operating expenditures. Funded expenditures are planned for the balance of 2012.

In conjunction with the First Nations Service Improvement Project (FNSIP), the Corporation has received $0.8 million for funding of Internet and cellular service to selected First Nations communities in Saskatchewan. To date $0.5 million has been applied to operating expenditures. The balance of the funded expenditures is planned for early 2012.

The funding has initially been classified as deferred income to be recognized as related expenses are incurred or amortized as assets related to the program are put into service. 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.

	December 31, 2011				December 31, 2010
Thousands of dollars	**RIP**	**SCN**	**FNSIP**	**Total**	Total
Balance, beginning	**$39,733**	**$1,320**	**$–**	**$41,053**	$42,400
Funding received	**10,000**	**–**	**769**	**10,769**	1,321
	49,733	**1,320**	**769**	**51,822**	43,721
Amortization	**5,151**	**119**	**507**	**5,777**	2,668
Balance, ending	**$44,582**	**$1,201**	**$262**	**$46,045**	$41,053

Note 18 – Long-term debt

	December 31, 2011		December 31, 2010		January 1, 2010	
Thousands of dollars	**Principal Outstanding**	**Effective Interest Rate(%)**	Principal Outstanding	Effective Interest Rate(%)	Principal Outstanding	Effective Interest Rate(%)
Unsecured advances from the Province of Saskatchewan						
6.15% due September 2010	**$–**	**–**	$–	–	$90,109	5.96
10.08% due December 2020	**125,879**	**10.18**	125,832	10.18	125,790	10.18
3.90% due July 2020	**148,829**	**4.01**	148,716	4.01	–	–
4.15% due December 2025	**50,000**	**4.15**	50,000	4.15	–	–
5.75% due March 2029	**73,264**	**5.97**	73,208	5.97	73,155	5.97
5.60% due March 2029	**35,000**	**5.18**	35,000	5.18	35,000	5.18
Total due to Province of Saskatchewan	**432,972**		432,756		324,054	
Due within one year	**–**		–		(90,109)	
	$432,972		$432,756		$233,945	

As at December 31, 2011, the Corporation has no scheduled debt principal retirement requirements in the next five years.

There is a requirement attached to above advances to make annual payments into sinking funds in amounts representing 1.0% to 2.0% of the original issue. The cumulative annual payments plus interest earned are used for the retirement of debt issues upon maturity, on a net basis (see Note 12).

Note 19 – Employee benefits

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

a. Defined benefit pension plan

The defined benefit pension plan is governed by SaskTel which 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. Separate audited financial statements for the defined benefit plan are prepared and released publicly.

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 2.0% 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 2.0% per year.

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. Current service costs of this plan are charged to earnings on the basis of actuarial valuations. 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 December 31, 2010. The latest valuation for funding purposes was performed as of December 31, 2010.

Notes to Consolidated Financial Statements

Note 19 – Employee benefits, continued

The actuarial valuations include a provision for uncommitted and ad hoc benefit increases, and are measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action. The estimate, therefore, involves risks that the actual amount may differ materially from the estimate. The major assumptions used in the valuations are as follows:

Actuarial assumptions:

	2011	2010
Discount rate – end of year	**4.30%**	5.25%
Expected return on plan assets	**6.75%**	6.75%
Inflation rate	**2.50%**	2.50%
Expected salary increase	**3.00%**	3.00%
Post-retirement index	**100% of CPI**	100% of CPI

The actuarial assumptions are based on management's expectations, independent actuarial advice and guidance provided by IFRS. Two of the most significant assumptions are the discount rate and expected long-term rate of return on plan assets. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the obligations. The expected long-term rate of return on assets is based upon the asset mix and the expected returns for each asset class.

Information about the Corporation's defined benefit plan is as follows:

Movement in the present value of the defined benefit obligation

Thousands of dollars	**2011**	2010
Defined benefit obligation, beginning of year	**$1,050,704**	$976,755
Current service cost	**1,075**	1,693
Interest cost	**53,475**	56,731
Benefits paid	**(66,408)**	(65,849)
Impact of change in actuarial assumptions in OCI	**91,464**	81,374
Defined benefit obligation, end of year	**$1,130,310**	$1,050,704

Movement in the fair value of plan assets

Thousands of dollars	**2011**	2010
Fair value of plan assets, beginning of year	**$945,668**	$896,306
Expected return on plan assets	**62,137**	58,845
Actuarial gains (losses) in OCI	**(43,301)**	39,555
Employee funding contributions	**198**	361
Employer funding contributions	**15,989**	16,450
Benefits paid	**(66,408)**	(65,849)
Fair value of plan assets, end of year	**$914,283**	$945,668
Employee benefit obligations	**$216,027**	$105,036

Based on the current actuarial assumptions, the Corporation's expected contributions for the subsequent year are $0.1 million.

The defined benefit plan pension income recognized in the consolidated statement of income and other comprehensive income is as follows:

Thousands of dollars	**2011**	2010
Current service cost – defined benefit plan	**$877**	$1,332
Interest cost	**53,475**	56,731
Expected return on pension plan assets	**(62,137)**	(58,845)
Defined benefit plan pension income included in salaries, wages and benefits	**$(7,785)**	$(782)

Note 19 – Employee benefits, continued

Actuarial gains and losses recognized directly in other comprehensive income

Thousands of dollars	**2011**	2010
Cumulative amount, beginning of year	**$41,819**	$–
Recognized during the year	**134,765**	41,819
Cumulative amount, end of year	**$176,584**	$41,819

The asset allocation of the defined benefit pension plans is as follows:

Asset Category	**December 31, 2011**	December 31, 2010	January 1, 2010
Short-term investments	**10.5%**	8.0%	6.9%
Bond and debentures	**27.8%**	25.0%	26.0%
Equity securities - Canadian	**21.6%**	25.5%	26.9%
Equity securities - US	**14.4%**	15.2%	15.3%
Equity securities - Non-North American	**15.3%**	17.1%	15.9%
Real estate	**10.4%**	9.2%	9.0%

b. 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 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:

	2011	2010
Discount rate	**4.50%**	5.40%
Expected salary increase	**3.00%**	3.00%
Estimated average remaining employee service life	**10.9 years**	11.8 years

Employee benefit obligations

Thousands of dollars	**2011**	2010
Balance, beginning of year	**$21,011**	$19,988
Defined benefit service cost	**910**	1,061
Benefit payments	**(1,211)**	(1,252)
Impact of change in actuarial assumptions	**1,133**	1,214
Balance, end of year	**$21,843**	$21,011

Actuarial gains and losses recognized directly in other comprehensive income

Thousands of dollars	**2011**	2010
Cumulative amount, beginning of year	**$1,214**	$–
Recognized during the year	**1,133**	1,214
Cumulative amount, end of year	**$2,347**	$1,214

c. Defined contribution pension plan

The defined contribution pension plan requires the Corporation to contribute 7.0% of employees' pensionable earnings and employees to contribute a minimum of 4.0% of pensionable earnings. The total cost for the defined contribution plan is equal to the Corporation's required contribution. The Corporation's 2011 pension cost and employer contributions for the Public Employees Pension Plan are $18.5 million (2010 – $18.1 million).

Notes to Consolidated Financial Statements

Note 20 – Equity advances and capital disclosures

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances are an equity investment in the Corporation by CIC.

Due to its ownership structure, the Corporation has no access to capital markets for internal equity. Equity advances in the Corporation are determined by the shareholder on an annual basis. Dividends to CIC are determined through the Saskatchewan Provincial budget process on an annual basis.

The Corporation closely monitors its debt level utilizing the debt ratio as a primary indicator of financial health. The debt ratio measures the amount of debt in a corporation's capital structure. The Corporation uses this measure in assessing the extent of financial leverage and in turn, its financial flexibility.

Too high a ratio relative to target indicates an excessive debt burden that may impair the Corporation's ability to withstand downturns in revenues and still meet fixed payment obligations. The ratio is calculated as net debt divided by capitalization at the end of the year.

The Corporation reviews the debt ratio targets of all its subsidiaries on an annual basis to ensure consistency with industry standards. This review includes subsidiary corporations' plans for capital spending. The target debt ratios for subsidiaries are approved by the Board. The Corporation uses targeted debt ratios to compile a weighted average debt to equity ratio for the consolidated entity. The target ratio for 2011 was 45.0%.

The Corporation raises most of its capital requirements through internal operating activities and long-term debt through the Saskatchewan Ministry of Finance. This type of borrowing allows the Corporation to take advantage of the Province of Saskatchewan's strong credit rating and receive financing at attractive interest rates.

The Corporation made no changes to its approach to capital management during the year.

The debt ratio is as follows:

Thousands of dollars	Note	**December 31, 2011**	December 31, 2010	January 1, 2010
Total debt (a)		**$537,972**	$492,656	$332,754
Less: Sinking funds	12	**78,444**	64,769	68,263
Cash		**7,998**	12,886	8,998
Net debt		**451,530**	415,001	255,493
Equity (b)		**750,813**	735,414	725,597
Capitalization		**$1,202,343**	$1,150,415	$981,090
Debt ratio		**37.6%**	36.1%	26.0%

a) Total debt includes long-term debt, long-term debt due within one year and notes payable.

b) Equity includes equity advances and retained earnings excluding amounts recognized in other comprehensive income.

Note 21 – Consolidated statement of cash flows

Thousands of dollars	**2011**	2010
Net change in non-cash working capital balances related to operations		
Trade and other receivables	**$(2,614)**	$4,485
Inventories	**(2,963)**	2,211
Prepaid expenses	**(9,403)**	1,080
Trade and other payables	**17,937**	(1,549)
Services billed in advance	**(792)**	6,970
Deferred expenses	**(23)**	764
Deferred revenues	**(851)**	(345)
	$1,291	$13,616

Note 22 – Financial risk management

The Corporation is exposed to fluctuations in foreign exchange rates and interest rates. The Corporation utilizes a number of financial instruments to manage these exposures. The Corporation mitigates the risk associated with these financial instruments through Board-approved policies, limits on use and amount of exposure, internal monitoring, and compliance reporting to senior management and the Board.

Fair values are 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.

Fair value of financial assets and liabilities

Thousands of dollars	Classification (a)	Note	**2011** Carrying amount	**2011** Fair value	2010 Carrying amount	2010 Fair value
Financial assets						
Cash	FVTPL		**$7,998**	**$7,998**	$12,886	$12,886
Cash and cash equivalents – held for sale	FVTPL	6	**–**	**–**	6,027	6,027
Trade and other receivables	LAR	7	**109,920**	**109,920**	105,316	105,316
Trade and other receivables – held for sale	LAR	6	**–**	**–**	2,334	2,334
Investments – sinking funds	FVTPL	12	**78,444**	**78,444**	64,769	64,769
Financial liabilities						
Trade and other payables	OL	14	**132,133**	**132,133**	113,016	113,016
Trade and other payables – held for sale	OL	6	**–**	**–**	1,635	1,635
Notes payable	OL	15	**105,000**	**105,000**	59,900	59,900
Long-term debt	OL	18	**432,972**	**569,233**	432,756	528,145

(a) Classification details are:
FVTPL – fair value through profit or loss LAR – loans and receivables OL – other liabilities

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 cash equivalents, trade and other receivables, trade and other payables 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.
Level 3 – Where valuation is based on unobservable inputs. There were no items measured at fair value using level 3 in 2010 or 2011.

There were no items transferred between levels in 2010 or 2011.

Thousands of dollars	**2011** Level 1	**2011** Level 2	**2011** Total	2010 Level 1	2010 Level 2	2010 Total
Sinking funds	**$–**	**$78,444**	**$78,444**	$–	$64,769	$64,769
Long-term debt	**$–**	**$569,233**	**$569,233**	$–	$528,145	$528,145

Notes to Consolidated Financial Statements

Note 22 – Financial risk management, continued

a) Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

The Corporation has on deposit with the Province of Saskatchewan, under the administration of the Ministry of Finance, $78.4 million (2010 – $64.8 million) in sinking funds which is required for certain long-term debt issues. At December 31, 2011, the GRF has invested these funds primarily in Provincial and Federal government bonds with varying maturities to coincide with related debt maturities and they are managed based on this maturity profile and market conditions. As such, the related credit risk associated with these investments is considered low. The Corporation does not believe that the impact of fluctuations in market prices related to these investments will be significant and, therefore, has not provided a sensitivity analysis of the impact on net income or other comprehensive income.

The Corporation may be exposed to interest rate risk on the maturity of its long-term debt. However, in the current interest rate environment, these risks are considered low. As a result, the Corporation has no financial contracts in place to offset interest rate risk as of December 31, 2011. The Corporation has not provided a sensitivity analysis of the impact of interest rate changes on net income as substantially all of the Corporation's debt is at fixed rates at December 31, 2011, with maturities of 2020 and beyond.

b) Foreign currency risk

The Corporation is exposed to currency risk, primarily US dollars, through transactions with foreign suppliers and short-term foreign commitments. 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. The Corporation does not believe that the impact of fluctuations in foreign exchange rates on anticipated transactions will be material and therefore has not provided a sensitivity analysis of the impact on net income.

c) Credit risk

Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. Concentration of credit risk relates to groups of customers or counterparties that have similar economic or industry characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Corporation does not have material concentrations of credit risk. The credit risk relates to trade and other receivables and unbilled revenue, sinking funds, interest receivable and counterparties to financial hedges. Trade and other receivables and unbilled revenue are diversified among many residential, farm and commercial customers primarily throughout Saskatchewan.

In addition, the Corporation maintains credit policies and limits in respect to short-term investments and counterparties to financial transactions. The carrying amount of financial assets represents the maximum credit exposure as follows:

Thousands of dollars	Note	**December 31, 2011**	December 31, 2010	January 1, 2010
Cash		**$7,998**	$12,886	$8,998
Trade and other receivables	7	**109,920**	105,316	111,163
Sinking funds	12	**78,444**	64,769	68,263
		$196,362	$182,971	$188,424

The allowance for doubtful accounts, which provides an indication of potential impairment losses, is reviewed regularly based on an analysis of the aging of customer accounts receivable and an estimate of outstanding amounts that are considered to be uncollectible. Historically, the Corporation has not written off a significant portion of its customer accounts receivable balances.

Note 22 – Financial risk management, continued

The allowance for doubtful accounts and the aging of customer accounts receivable are detailed as follows:

Allowance for doubtful accounts

Thousands of dollars	**December 31, 2011**	December 31, 2010	January 1, 2010
Opening balance	**$2,840**	$3,622	$12,126
Less: accounts written off	**(10,623)**	(13,093)	(13,384)
Transfers	**–**	1,760	–
Recoveries	**3,427**	2,883	4,118
Provision for losses	**6,828**	7,668	762
Ending balance	**$2,472**	$2,840	$3,622

Customer accounts receivable

Thousands of dollars	**December 31, 2011**	December 31, 2010	January 1, 2010
Current	**$61,219**	$52,482	$58,665
30-60 Days	**12,635**	13,327	13,041
61-90 Days	**1,778**	2,315	4,463
Greater than 90 Days	**1,002**	782	3,353
Gross customer accounts receivable	**76,634**	68,906	79,522
Allowance for doubtful accounts	**(2,472)**	(2,840)	(3,622)
Net customer accounts receivable	**$74,162**	$66,066	$75,900

d) Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial commitments as they become due. The Corporation is a Provincial Crown corporation and as such has access to capital markets through the Saskatchewan Ministry of Finance.

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

The following summarizes the contractual maturities of the Corporation's financial liabilities:

Thousands of dollars			Contractual Cash Flows				
December 31, 2011	**Carrying amount**	**Total**	**0-6 Months**	**7-12 Months**	**1-2 Years**	**3-5 Years**	**More than 5 Years**
Long-term debt (a)	**$432,972**	**$739,231**	**$13,479**	**$13,479**	**$26,959**	**$80,876**	**$604,438**
Notes payable	**105,000**	**106,145**	**106,145**	**–**	**–**	**–**	**–**
Trade and other payables	**132,133**	**132,133**	**132,133**	**–**	**–**	**–**	**–**
	$670,105	**$977,509**	**$251,757**	**$13,479**	**$26,959**	**$80,876**	**$604,438**

Thousands of dollars			Contractual Cash Flows				
December 31, 2010	**Carrying amount**	**Total**	**0-6 Months**	**7-12 Months**	**1-2 Years**	**3-5 Years**	**More than 5 Years**
Long-term debt (a)	$432,756	$769,789	$13,479	$13,479	$26,959	$80,876	$635,086
Notes payable	59,900	60,577	60,577	–	–	–	–
Trade and other payables	113,016	113,016	113,016	–	–	–	–
Trade and other payables – held for sale	1,635	1,635	1,635	–	–	–	–
	$607,307	$945,107	$188,707	$13,479	$26,959	$80,876	$635,086

a) Contractual cash flows for long-term debt include principal and interest payments but exclude sinking fund installments.

Notes to Consolidated Financial Statements

Note 23 – Related party transactions

The Corporation is indirectly controlled by the Government of Saskatchewan through its ownership of the Corporation's parent, CIC. Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "government-related entities"). The Corporation has elected to take a partial exemption under IAS 24 Related Party Disclosures, which allows government related entities to limit the extent of disclosures about related party transactions with government or other government related entities.

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. For the year ended December 31, 2011, the aggregate amount of the Corporation's transactions with other government-related entities are approximately 6.8% of revenues, 10.3% of operating expenses and 1.4% of property, plant and equipment expenditures.

Key management personnel compensation

In addition to their remuneration, the Corporation also provides non-cash benefits to directors and executive officers, either a defined benefit pension or a defined contribution pension, and a service recognition defined benefit pension.

Key management personnel compensation is comprised of:

Thousands of dollars	**2011**	2010
Short-term employee benefits	**$3,964**	$3,543
Post-employment benefits		
Defined contribution	**232**	223
Defined benefit	**13**	42
	$4,209	$3,808

Note 24 – Commitments and contingencies

Commitments

As at December 31, 2011, the Corporation has committed to spend $44.9 million (2010 – $16.0 million) on property, plant and equipment, $3.2 million (2010 – $4.6 million) on intangible assets and $170.1 million (2010 – $230.8 million) related to operations.

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 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 for wireless customers during the period of April 1, 1987, and the date of the certification order being February 13, 2008. 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. The Corporation 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. On November 15th, 2011, the Court of Appeal released its decision dismissing the appeal of the Corporation from the certification order. The Corporation is seeking Leave to Appeal the Saskatchewan Court of Appeal decision to the Supreme Court of Canada.

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 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 the Corporation, 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.

Note 24 – Commitments and contingencies, continued

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 plaintiff to pursue their claims in the future if circumstances change. The Corporation believes that it has strong defenses to the allegations contained in the most recent 2009 claim.

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 9-1-1 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 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 the Corporation to handle this matter.

In September 2011 the Corporation was served with a second 9-1-1 Class Actions claim substantially the same as the 2008 Saskatchewan action noted above. This second claim was issued in Alberta in August 2008 but not served on Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications until more than 3 years later. The Corporation believes that it has strong defenses to the allegations 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. Currently, the Corporation is not aware of any further proceedings being taken in this second action beyond service of the claim.

In November 2011 the Corporation was served with two proposed Class Action claims, one issued in Saskatchewan and one issued in Alberta. The claims substantially overlap and name the major wireless carriers in Canada, including the Corporation, and Research in Motion as defendants. The proposed Claims seek compensation related to BlackBerry service issues alleged to have occurred in October 2011. The Corporation has retained external counsel for these matters. The Corporation believes that it has strong defenses to the allegations made by the Plaintiffs in the claim and will be strongly defending and opposing the claims that have been made. Currently, the Corporation is not aware of any further proceedings being taken in this second action beyond service of the claim.

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, 2011, 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 25 – Operating leases

Non-cancellable operating lease rentals are payable as follows:

Thousands of dollars	**December 31, 2011**	December 31, 2010
Less than 1 year	**$5,382**	$5,360
Between 1 and 5 years	**12,854**	8,580
Greater than 5 years	**5,495**	3,962
	$23,731	$17,902

During the year ended December 31, 2011, the Corporation recognized $12.9 million (2010 – $11.8 million) as rent expense related to operating leases.

Note 26 – Subsequent event

On February 3, 2012, the Corporation, through its subsidiary SaskTel, issued $150.0 million of long-term debt through the Province of Saskatchewan maturing on February 3, 2042 at a rate of 3.40%. The debt was issued at a discount of $2.4 million yielding an effective interest rate of 3.49%.

Note 27 – Transition to IFRS

As stated in Note 2(a), these are the Corporation's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Corporation's date of transition).

Notes to Consolidated Financial Statements

Note 27 – Transition to IFRS, continued

In preparing its opening IFRS statement of financial position, the Corporation has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Corporation's financial position, financial performance and cash flows is set out below:

A. IFRS 1 elections

i. Employee benefits

IFRS 1 provides the option to retrospectively apply the corridor approach under IAS 19 Employee Benefits, for the recognition of actuarial gains and losses, or recognize all cumulative gains and losses deferred under previous Canadian GAAP in opening retained earnings at the date of transition. The Corporation elected to recognize all cumulative actuarial gains and losses that existed at its date of transition in opening retained earnings for all of its defined benefit plans resulting in a decrease in deferred pension costs of $108.1 million, a decrease in trade and other payables of $15.1 million, an increase in employee benefit liability of $100.5 million, and a corresponding decrease in retained earnings of $193.5 million.

IFRS 1 also provides the option to disclose amounts required by paragraph IAS 19 (120A(p)) as the amounts are determined for each accounting period prospectively from the date of transition to IFRS. The Corporation has elected to disclose these amounts prospectively.

ii. Fair value or revaluation as deemed cost

IFRS 1 provides the option to measure an item of property, plant and equipment at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at that date. The Corporation elected to revalue certain items of property, plant and equipment at its date of transition. The election resulted in an increase in property, plant and equipment of $109.3 million and a corresponding increase in retained earnings.

iii. Transfer of assets from customers

IFRIC 18 Transfers of Assets from Customers, requires an entity to apply the Interpretation to transfers of assets from customers received on or after July 1, 2009. Early application is permitted. IFRS 1 provides the option to apply the Interpretation as of the date of transition. The Corporation has elected to apply the Interpretation as of the date of transition, therefore transfers of assets from customers received prior to January 1, 2010, have not been reclassified in accordance with the Interpretation.

iv. Business combinations

IFRS 1 provides the option to apply IFRS 3 Business Combinations, retrospectively to all combinations, to combinations from a specified date prior to the date of transition, or prospectively from the date of transition only. The Corporation elected not to retrospectively apply IFRS 3 to business combinations, jointly controlled entities and associates that occurred prior to the date of transition to IFRS, and as such business combinations have not been restated. Any goodwill arising on business combinations prior to the date of transition was tested for impairment at January 1, 2010, resulting in no goodwill impairment. Accordingly goodwill has not been adjusted from the carrying value determined under previous Canadian GAAP as a result of applying this exemption.

B. Changes in accounting policy

In addition to the exemptions and exceptions, the following are the significant differences between previous Canadian GAAP accounting policies and the current IFRS policies applied by the Corporation for which adjustments have been made to these financial statements:

i. Property, plant and equipment

a. Under previous Canadian GAAP the Corporation capitalized overheads attributable to construction and development activities. Under IAS 16 Property, Plant and Equipment only directly attributable costs can be capitalized to an item of property plant and equipment.

This adjustment resulted in the following:

Thousands of dollars	January 1, 2010	December 31, 2010
Increase (decrease)		
Property, plant and equipment	$(42,596)	$(50,966)
Intangible assets	(2,174)	(2,225)
Assets classified as held for sale	–	(428)
Deferred revenue – government funding	–	(110)
Retained earnings	(44,770)	(53,509)

Note 27 – Transition to IFRS, continued

Thousands of dollars	Year ended December 31, 2010
Increase (decrease)	
Other income	$110
Goods and services purchased	8,673
Net income from discontinued operations	(176)

b. Under previous Canadian GAAP the Corporation was not required to capitalize borrowing costs related to qualifying assets. Under IAS 23 Borrowing Costs these costs are required to be capitalized.

The Corporation has applied IAS 23 retroactively.

This adjustment resulted in the following:

Thousands of dollars	January 1, 2010	December 31, 2010
Increase (decrease)		
Property, plant and equipment	$26,562	$37,594
Retained earnings	26,562	37,594

Thousands of dollars	Year ended December 31, 2010
Increase (decrease)	
Finance expense	$(11,032)

c. Under previous Canadian GAAP depreciation and amortization on the majority of property, plant and equipment was computed on the straight-line basis using rates determined by a continuing program of engineering studies for each class of property in service. Under IFRS depreciation and amortization is recognized in income on the straight-line basis over the estimated useful life of each item of property, plant and equipment.

The impact of this change combined with deemed cost elections, changes to overhead capitalization and capitalization of borrowing costs has resulted in the following:

Thousands of dollars	December 31, 2010
Increase (decrease)	
Property, plant and equipment	$(3,433)
Intangible assets	1,467
Assets classified as held for sale	40
Retained earnings	(1,926)

Thousands of dollars	Year ended December 31, 2010
Increase (decrease)	
Other income	$(2,576)
Depreciation	857
Amortization	(1,467)
Net income from discontinued operations	40

Notes to Consolidated Financial Statements

Note 27 – Transition to IFRS, continued

d. Under IFRS each part of an item of property, plant and equipment with a cost that is significant to the total cost of the item is to be depreciated separately. Upon conversion, additional components were identified, some of which had been recorded as normal repairs and maintenance under previous Canadian GAAP.

These adjustments resulted in the following:

Thousands of dollars	January 1, 2010	December 31, 2010
Increase (decrease)		
Investment accounted for using the equity method	$294	$–
Assets classified as held for sale	–	374
Retained earnings	294	374

Thousands of dollars	Year ended December 31, 2010
Increase (decrease)	
Net income from discontinued operations	$80

ii. Revenue

a. Under previous Canadian GAAP directory advertising revenues were recognized in accordance with the contractual terms with advertisers, on a monthly basis over the life of the print directory. Under IFRS print directory revenues must be recognized when each directory is distributed to the public.

The Corporation has adopted this policy effective January 1, 2010 resulting in the following:

Thousands of dollars	January 1, 2010	December 31, 2010
Increase (decrease)		
Trade and other receivables	$18,447	$18,333
Services billed in advance	(3,075)	(2,942)
Retained earnings	21,522	21,275

Thousands of dollars	Year ended December 31, 2010
Increase (decrease)	
Revenue	$(247)

b. Under previous Canadian GAAP services contract incentives were recorded as an expense. Under IFRS these incentives must be deducted from revenue.

The Corporation has adopted this policy effective January 1, 2010, resulting in the following:

Thousands of dollars	Year ended December 31, 2010
Increase (decrease)	
Revenue	$(317)
Goods and services purchased	(317)

Note 27 – Transition to IFRS, continued

iii. Prepaid publishing expenses

Under previous Canadian GAAP expenses directly related to directory publications were deferred and amortized over the life of the related directory. Under IFRS these expenses must be recognized when the related directory is distributed to the public.

The Corporation has adopted this policy effective January 1, 2010, resulting in the following:

Thousands of dollars	January 1, 2010	December 31, 2010
Increase (decrease)		
Prepaid expenses	$(5,127)	$(5,193)
Retained earnings	(5,127)	(5,193)

Thousands of dollars	Year ended December 31, 2010
Increase (decrease)	
Goods and services purchased	$64

iv. Provisions

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.

The Corporation has adopted this policy effective January 1, 2010, resulting in the following:

Thousands of dollars	January 1, 2010	December 31, 2010
Increase (decrease)		
Property, plant and equipment	$(227)	$–
Assets classified as held for sale	–	(227)
Trade and other payables	174	–
Liabilities classified as held for sale	–	94
Retained earnings	(401)	(321)

Thousands of dollars	Year ended December 31, 2010
Increase (decrease)	
Net income from discontinued operations	$80

v. Discontinued operations

Under IFRS prior years comparative figures in the statement of financial position are not restated for reclassification of discontinued operations. The Corporation has adjusted the opening statement of financial position to reclassify discontinued operations reported under Canadian GAAP to continuing operations under IFRS. In addition, in the year operations are designated as discontinued, 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 specific impacts are highlighted as discontinued operations adjustments in the reconciliations of financial position at January 1 and December 31, 2010.

Notes to Consolidated Financial Statements

Note 27 – Transition to IFRS, continued

vi. Joint venture accounting

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 is not allowed for annual periods beginning on or after July 1, 2010.

The Corporation has adopted this policy effective January 1, 2010, resulting in the following:

Thousands of dollars	January 1, 2010	December 31, 2010
Increase (decrease)		
Cash	$(315)	$–
Trade and other receivables	(77)	–
Prepaid expenses	(31)	–
Assets classified as held for sale	–	(6,103)
Investment accounted for using the equity method	1,229	–
Property, plant and equipment	(6,139)	–
Intangible assets	(1,062)	–
Trade and other payables	(180)	–
Services billed in advance	(12)	–
Liabilities classified as held for sale	–	(6,103)
Current portion of long-term debt	(294)	–
Long-term debt	(5,909)	–

Thousands of dollars	Year ended December 31, 2010
Increase (decrease)	
Goods and services purchased	$671
Net income from discontinued operations	671

vii. Employee benefits

Under previous Canadian GAAP actuarial gains and losses were recognized in income based on the corridor approach. IFRS provide an option to charge actuarial gains and losses directly to other comprehensive income. The Corporation has adopted this method of recognizing actuarial gains and losses effective January 1, 2010.

In addition to the impact upon transition, the impact of employee benefits adjustments is as follows:

Thousands of dollars	December 31, 2010
Increase (decrease)	
Deferred pension costs	$(24,548)
Trade and other payables	27
Employee benefit obligations	25,525
Retained earnings	(50,100)

Thousands of dollars	Year ended December 31, 2010
Increase (decrease)	
Salaries, wages and benefits	$7,067
Other comprehensive income	(43,033)

Note 27 – Transition to IFRS, continued

viii. Customer contributions

Under previous Canadian GAAP transfers of assets from customers (e.g. customer contributions) were recorded as a reduction of property, plant and equipment. Under IFRIC 18 Transfer of Assets from Customers, the corresponding adjustment on receipt of the asset is recognized as revenue when the customer is connected to the network.

The Corporation has adopted this policy effective January 1, 2010, resulting in the following:

Thousands of dollars	December 31, 2010
Increase (decrease)	
Property, plant and equipment	$1,148
Retained earnings	1,148

Thousands of dollars	Year ended December 31, 2010
Increase (decrease)	
Revenue	$1,148

C. Presentation

IFRS requires that expenses be classified either by nature or by function for presentation. The Corporation has selected classification by nature. In addition, other reclassifications were required to conform with disclosure requirements for other income and net finance expense.

Reconciliation of Province of Saskatchewan's equity

Thousands of dollars	Reference	January 1, 2010	December 31, 2010
Province's equity under Canadian GAAP		$811,799	$827,319
Employee benefits	A(i),B(vii)	(193,560)	(243,660)
Deemed cost	A(ii)	109,280	109,280
Directly attributable costs	B(i)(a)	(44,770)	(53,509)
Borrowing costs	B(i)(b)	26,562	37,594
Revenue recognition	B(ii)(a)	21,522	21,275
Prepaid publishing costs	B(iii)	(5,129)	(5,193)
Componentization	B(i)(d)	294	374
Provisions	B(iv)	(401)	(321)
Customer contributions	B(viii)	–	1,148
Depreciation	B(i)(c)	–	(3,393)
Amortization	B(i)(c)	–	1,467
Province's equity under IFRS		$725,597	$692,381

Notes to Consolidated Financial Statements

Note 27 – Transition to IFRS, continued

Reconciliation of net income

Thousands of dollars	Reference	Year ended December 31, 2010
Net income under Canadian GAAP		$155,202
Employee benefits expenses	B(vii)	(7,067)
Directly attributable costs	B(i)(a)	(8,739)
Borrowing costs	B(i)(b)	11,032
Revenue recognition	B(ii)(a)	(247)
Prepaid publishing costs	B(iii)	(64)
Componentization	B(i)(d)	80
Provisions	B(iv)	80
Customer contributions	B(viii)	1,148
Depreciation	B(i)(c)	(3,393)
Amortization	B(i)(c)	1,467
Net income under IFRS		$149,499

Reconciliation of comprehensive income

Thousands of dollars	Reference	Year ended December 31, 2010
Comprehensive income under Canadian GAAP		$155,202
Differences in net income		(5,703)
Employee benefits expenses	B(vii)	(43,033)
Comprehensive income under IFRS		$106,466

Reconciliation of cash flow

Thousands of dollars	Year ended December 31, 2010
Net change in cash under Canadian GAAP	$9,975
Differences increasing (decreasing) reported net change in cash:	
Net income	(6,397)
Cash from operating activities	8,415
Cash from investing activities	(3,508)
Cash from financing activities	819
Cash from discontinued operations	611
Net change in cash under IFRS	$9,915

Note 27 – Transition to IFRS, continued

The following are reconciliations of the financial statements previously presented under Canadian GAAP to the financial statements prepared under IFRS:

Reconciliation of consolidated statement of income and other comprehensive income for the year ended December 31, 2010

Thousands of dollars **Canadian GAAP accounts**	**Reference**	**Canadian GAAP**	**IFRS Adjustments** **Mandatory**	 **Elective**	 **Other[C †]**	**IFRS balance**	**IFRS accounts**
Operating revenues	B(ii)(a,b),B(viii)	$1,112,362	$584	$–	$–	$1,112,946	Revenue
	B(i)(a,c)	–	(2,466)	–	11,089	8,623	Other income
		1,112,362	(1,882)	–	11,089	1,121,569	
Operating expenses							Expenses
Operations	B(i)(a),B(ii)(b), B(iii), B(vi)	795,759	9,091	–	(314,743)	490,107	Goods and services purchased
	B(vii)	–	–	7,067	331,787	338,854	Salaries, wages and benefits
Depreciation and amortization	B(i)(c)	157,646	857	–	(22,495)	136,008	Depreciation
			(1,467)	–	22,495	21,028	Amortization
		–	–	–	(17,044)	(17,044)	Internal labour capitalized
		953,405	8,481	7,067	–	968,953	
Income before the following		158,957	(10,363)	(7,067)	11,089	152,616	Results from operating activities
Other items		12,303	–	–	(12,303)	–	
Interest and related items		(20,185)	–	–	26,871	6,686	Finance income
	B(i)(b)	–	11,032	–	(25,657)	(14,625)	Finance expense
		(20,185)	11,032	–	1,214	(7,939)	Net finance expense
Income from continuing operations		151,075	669	(7,067)	–	144,677	Income from continuing operations
Income from discontinued operations	B(i)(a,c,d), B(iv),B(vi)	4,127	695	–	–	4,822	Net income from discontinued operations
Net income		155,202	1,364	(7,067)	–	149,499	Net income
Other comprehensive income							Other comprehensive income
	B(vii)	–	–	(43,033)	–	(43,033)	Actuarial losses on employee benefit plans
Comprehensive income		$155,202	$1,364	$(50,100)	$–	$106,466	Total comprehensive income

† Refers to section C. Presentation on page 75.

Notes to Consolidated Financial Statements

Note 27 – Transition to IFRS, continued

Reconciliation of the consolidated statement of financial position as of January 1, 2010

Thousands of dollars

Canadian GAAP accounts	Reference	Canadian GAAP	IFRS Adjustments: Discontinued operations B(v)	IFRS Adjustments: Mandatory	IFRS Adjustments: Elective	IFRS	IFRS accounts
Assets							Assets
Current assets							Current assets
Cash	B(vi)	$2,904	$6,409	$(315)	$–	$8,998	Cash
Accounts receivable	B(ii)(a), B(vi)	90,749	2,044	18,370	–	111,163	Trade and other receivables
Inventories		8,020	–	–	–	8,020	Inventories
Prepaid expenses	B(iii), B(vi)	15,117	326	(5,160)	–	10,283	Prepaid expenses
Current portion of sinking funds		10,519	–	–	–	10,519	Current portion of sinking funds
Current assets of discontinued operations		8,822	(8,779)	–	–	43	Assets classified as held for sale
		136,131	–	12,895	–	149,026	
	B(i)(d), B(vi)	–	–	1,523	–	1,523	Investments
Property, plant and equipment	A(ii),B(i)(a,b), B(iv),B(vi)	924,895	23,117	(22,400)	98,371	1,023,983	Property, plant and equipment
Intangible assets – finite-life	B(i)(a), B(vi)	66,870	3,977	(3,236)	94,804	162,415	Intangible assets
Intangible assets – indefinite-life		65,981	–	–	(65,981)	–	
Goodwill		6,076	11,838	–	(17,914)	–	
Sinking funds		57,744	–	–	–	57,744	Sinking funds
Deferred pension costs	A(i)	108,145	–	–	(108,145)	–	
Other assets		12,006	–	–	–	12,006	Other assets
Long-lived assets of discontinued operations		38,932	(38,932)	–	–	–	
		$1,416,780	$–	$(11,218)	$1,135	$1,406,697	
Liabilities and Province's equity							Liabilities and Province's equity
Current liabilities							Current liabilities
Accounts payable and accrued liabilities	A(i),B(iv), B(vi)	$129,310	$2,106	$(6)	$(15,107)	$116,303	Trade and other payables
Notes payable		8,700	–	–	–	8,700	Notes payable
Dividend payable		31,026	–	–	–	31,026	Dividend payable
Services billed in advance	B(ii)(a), B(vi)	51,762	12	(3,087)	–	48,687	Services billed in advance
Current portion of long-term debt	B(vi)	90,109	294	(294)	–	90,109	Current portion of long-term debt
Current liabilities of discontinued operations		2,674	(2,412)	–	–	262	Liabilities classified as held for sale
		313,581	–	(3,387)	(15,107)	295,087	
Non-current liabilities of discontinued operations		5,909	(5,909)	–	–	–	
Deferred revenue		9,146	–	–	–	9,146	Deferred revenue
Deferred revenue – government funding		42,400	–	–	–	42,400	Deferred income – government funding
	A(i)	–	–	–	100,522	100,522	Employee benefit obligations
Long-term debt	B(vi)	233,945	5,909	(5,909)	–	233,945	Long-term debt
		604,981	–	(9,296)	85,415	681,100	
Province of Saskatchewan's equity							Province of Saskatchewan's equity
Equity advance		250,000	–	–	–	250,000	Equity advance
Retained earnings		561,799	–	(1,922)	(84,280)	475,597	Retained earnings
		811,799	–	(1,922)	(84,280)	725,597	
		$1,416,780	$–	$(11,218)	$1,135	$1,406,697	

Note 27 – Transition to IFRS, continued

Reconciliation of consolidated statement of financial position as of December 31, 2010

Thousands of dollars

Canadian GAAP accounts	Reference	Canadian GAAP	IFRS Adjustments: Discontinued operations[B(v)]	IFRS Adjustments: Mandatory	IFRS Adjustments: Elective	IFRS	IFRS accounts
Assets							Assets
Current assets							Current assets
Cash		$12,886	$–	$–	$–	$12,886	Cash
Accounts receivable	B(ii)(a)	86,983	–	18,333	–	105,316	Trade and other receivables
Inventories		5,810	–	–	–	5,810	Inventories
Prepaid expenses	B(iii)	14,100	–	(5,193)	–	8,907	Prepaid expenses
Current assets of discontinued operations	B(i)(a,c,d), B(iv), B(vi)	9,195	38,878	(6,344)	–	41,729	Assets classified as held for sale
		128,974	38,878	6,796	–	174,648	
Property, plant and equipment	A(ii),B(i) (a,b,c), B(viii)	1,068,519	–	(15,657)	101,081	1,153,943	Property, plant and equipment
Intangible assets – finite-life	B(i)(a,c)	65,954	–	(758)	80,155	145,351	Intangible assets
Intangible assets – indefinite-life		65,981	–	–	(65,981)	–	
Goodwill		5,976	–	–	(5,976)	–	
Sinking funds		64,769	–	–	–	64,769	Sinking funds
Deferred pension costs	A(i),B(vii)	132,693	–	–	(132,693)	–	
Other assets		8,692	–	–	–	8,692	Other assets
Long-lived assets of discontinued operations		38,878	(38,878)	–	–	–	
		$1,580,436	$–	$(9,619)	$(23,414)	$1,547,403	
Liabilities and Province's equity							Liabilities and Province's equity
Current liabilities							Current liabilities
Accounts payable and accrued liabilities	A(i),B(vii)	$128,097	$–	$–	$(15,081)	$113,016	Trade and other payables
Notes payable		59,900	–	–	–	59,900	Notes payable
Dividend payable		16,157	–	–		16,157	Dividend payable
Services billed in advance	B(ii)(a)	58,599	–	(2,942)	–	55,657	Services billed in advance
Current liabilities of discontinued operations	B(iv),B(vi)	2,037	5,607	(6,009)	–	1,635	Liabilities classified as held for sale
		264,790	5,607	(8,951)	(15,081)	246,365	
Non-current liabilities of discontinued operations		5,607	(5,607)	–	–	–	
Deferred revenue		8,801	–	–	–	8,801	Deferred revenue
Deferred revenue – government funding	B(i)(a)	41,163	–	(110)	–	41,053	Deferred income – government funding
	A(i),B(vii)	–	–	–	126,047	126,047	Employee benefit obligations
Long-term debt		432,756	–	–	–	432,756	Long-term debt
		753,117	–	(9,061)	110,966	855,022	
Province of Saskatchewan's equity							Province of Saskatchewan's equity
Equity advance		250,000	–	–	–	250,000	Equity advance
Retained earnings		577,319	–	(558)	(134,380)	442,381	Retained earnings
		827,319	–	(558)	(134,380)	692,381	
		$1,580,436	$–	$(9,619)	$(23,414)	$1,547,403	

Board of Directors

Grant Kook—Chair

- Founder, past Chairman and current President and Chief Executive Officer of Golden Opportunities Fund Inc.
- President and Chief Executive Officer 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 Chief Executive Officer of Cheung On Investments Group Ltd.
- Owner, President and Chief Executive Officer 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, Bnai Brith – We are Proud of You Award, Ernst & Young nominee for Entrepreneur of the Year in 1998 and 2003, and was recognized in 2008 as one of the Province's Most Influential Men 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: 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 then 5 years in the 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 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

- Pam graduated from the University of Saskatchewan, obtaining a BA (Political Science) in 1982, and a 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.

Board of Directors, *continued*

Gayle MacDonald

- President and 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, having coached and/or participated in speed swimming, fastball, hockey, curling, volleyball and golf, as well as participating in and promoting community programs & 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, in 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 Fibre Project in northern China and Director of Engineering for the Leicester Communications Limited Project in the United Kingdom.
- Graduate in Electronic Technologies from SIAST.

John Ritchie

- First Vice President, Branch Manager and Investment Advisor for CIBC Wood Gundy.
- Chair (past) for the Investment Dealers Association of Saskatchewan.
- Division Chair (past) for the Regina United Way.
- Vice Chair of Skate Canada, Regina.
- Co-founder and Chair of the Saskatchewan Open Squash Championships.
- Board member (past) 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 and Risk Management Committee
Blair Davidson, Chair
Terry Dennis
Reg Howard
John Ritchie
Glenys Sylvestre

Corporate Growth and Technology Committee
John Ritchie, Chair
Blair Davidson
Dave Doepker
Gayle MacDonald
Garry Reichert

Environment and Human Resources Committee
Glenys Sylvestre, Chair
Dave Doepker
Reg Howard
Pamela Lothian
Randy Kachur
Garry Reichert

Governance Committee
Pamela Lothian, Chair
Terry Dennis
Gayle MacDonald
Randy Kachur

SaskTel Executive

Ron Styles – President & Chief Executive Officer

- Prior to joining SaskTel in August 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 and Director for the Regina Chapter of the Institute of Public Administration of Canada.
- 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 and board member for Information Technology Association of Canada.
- B.A. Honours, M.A. (Economics), University of Regina, and Diploma of Associate in Administration.

Mike Anderson – Chief Financial Officer

- 32 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, DirectWest and SecurTek.
- B.Admin., University of Regina, Certified Management Accountant (CMA); member of the Society of Management Accountants.

Doug Burnett – Vice President – Human Resources & Corporate Services

- 23 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 and West Wind Aviation, a 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.
- B.A., University of Regina; LL.B., 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 Boden – Vice President – Product Innovation & Carrier Relations

- Prior to joining SaskTel in October 2011, served as Chief Technology Officer and Senior Vice President of Corporate Development at Movius Interactive Corporation.
- Before Movius, served as Senior Vice President of Products at Openwave, Chief Technology Office at GENBAND and several senior management roles at Nortel.
- B.Eng. in Engineering Physics from McMaster University, Hamilton, Ontario.

John Hill – Chief Information Officer

- 23 years with SaskTel, beginning his career as a summer student apprentice lineman while attending university 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 information technology related issues in support of business support systems, operational support systems and associated processes.
- Leads the Corporate Project Management Office and is Chair of the Corporate Directors Council.
- Serves 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.Sc.EE., P.Eng, University of Saskatchewan.

SaskTel Executive, *continued*

Ken Keesey – Vice President – Customer Services – Sales

- 30 years with SaskTel in a variety of positions in Customer Services, in both Sales and Operations.
- Serves on 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.

Darcee MacFarlane – Vice President – Corporate & Government Relations

- 25 years with SaskTel in a variety of positions in Marketing Communications, Media Relations, Customer Relations, Community Relations, Internal Communications and Government Relations.
- Member of IABC (International Association of Business Communicators).
- Serves on the Board of Directors for Computers for Schools.
- B.A. and Public Relations Certificate, University of Regina; Social Responsibility Certification, University of Toronto.

Greg Meister – Vice President – Customer Services – Operations

- 18 years with SaskTel in a variety of positions within Marketing, Sales and Operations.
- Currently Director of Fundraising with Saskatchewan Crimestoppers.
- Currently SaskTel representative on Provincial Emergency Management Committee.
- 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, Acting Chief Technology Officer & Chief Privacy Officer

- 35 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.
- LL.B., University of Saskatchewan.
- Received Queen's Counsel designation in 2000.

Stacey Sandison – Chief Marketing Officer

- 29 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 boards of Canadian Women in Communications and Royal Canadian Mounted Police.
- Division Chair for Crowns, Regina United Way.
- B.Admin., University of Regina, MBA, Ellis College, New York.

Corporate Directory

SaskTel Subsidiaries Executive Officers

Gord Farmer	President and Chief Executive Officer, DirectWest
Barry Rogers	President and Chief Executive Officer, SecurTek

SaskTel International Senior Operating Managers

Steve Sousa	President and Chief Operating Officer
Scott Fedec	Vice President – Finance

SaskTel Senior Operating Managers

Dale Baron	Senior Director – Finance (Controller)
Bill Beckman	Senior Director – Strategic Business Development
Gail Lefebvre	Senior Director – Marketing (Service Development)
Barry Ziegler	Senior Director – Productivity

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 eleven (11) 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 and Risk Committee; the Corporate Growth & 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 supersede 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.

Corporate Governance Statement

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 *(Summary)*	COMMENTS AND DISCUSSION	*Does SaskTel align?*
COMPOSITION OF THE BOARD		
NP 58-201, section 3.1 3.1 The board should have a majority of independent directors.	The majority of directors on the SaskTel Board (10 out of 11) are independent.	Yes
NI 58-101F1, sections 1(a) and (d) 1(a) Disclose the identity of directors who are independent; (b) Disclose the identity of directors who are not independent and the basis for that determination; (c) Disclose whether the majority of directors are independent; and (d) 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. **Blair Davidson:** *INDEPENDENT* – Chartered Accountant & Partner, Hergott Duval Stack & Partners LLP **Terry Dennis:** *INDEPENDENT* – Entrepreneur – Business Owner **Dave Doepker:** *INDEPENDENT* – Executive Chairman & President, Doepker Industries Ltd. **Reg Howard:** *INDEPENDENT* – Senior VP Corporate Development, Phoenix Advertising Group **Randy Kachur:** *INDEPENDENT* – Partner in Rusnak Balacko Kachur Law Firm **Pam 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 Administration 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 58-201, section 3.2 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

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(f) 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
MEETINGS OF INDEPENDENT DIRECTORS		
NP 58-201, section 3.3 3.3 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 58-101F1, sections 1(e) 1(e) Disclose whether the independent directors hold regularly scheduled meetings at which members of management are not present; 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.	There were eight (8) Board meetings held in 2011, and during four regular meetings, in camera sessions without management present but including all directors were held. 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.	Yes

Corporate Governance Statement

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 eight (8) meetings in 2011. The number of Board meetings attended by each director in 2011 is set out below. **Director** — **Meetings Attended*** Grant Kook, Chair — 8(8)** Chief Darcy Bear, Vice-Chair — 0(1)*** Blair Davidson — 7(8) Terry Dennis — 8(8) Dave Doepker — 7(8) Reg Howard — 8(8) Randy Kachur — 7(8) Pam Lothian — 7(8) Gayle MacDonald — 7(8) Garry Reichert — 8(8) John Ritchie — 6(8) Glenys Sylvestre — 8(8) * For the purposes of this report, members who attended meetings in part were considered to be present. ** Figures in brackets represent the maximum number of meetings for the period in which the individual was a Board member. *** Chief Darcy Bear resigned from the Board during 2011.	Yes
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: (a) 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; (b) 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; (c) 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; (f) 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 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.	Substantial compliance

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 *(Summary)*	COMMENTS AND DISCUSSION	*Does SaskTel align?*
NP 58-201, section 3.4, ***continued*** 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.	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.	
NI 58-101F1, section 2 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
POSITION DESCRIPTIONS		
NP 58-201, section 3.5 3.5 The board should: develop clear position descriptions for the chair of the board and the chair of each board committee; 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 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. 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.	Yes
NI 58-101F1, sections 3(a) and (b) 3(a) 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. (b) 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

Corporate Governance Statement

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 *(Summary)*	COMMENTS AND DISCUSSION	*Does SaskTel align?*
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.	Yes
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. (b) Describe the measures taken to provide continuing education opportunities for all directors.	The Corporation provides all members appointed to the Board with a comprehensive *Directors' Reference Manual*, and new directors receive an orientation session delivered by management. The orientation session addresses key industry trends, critical business risks and challenges, the 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.	Yes
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; (d) 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 *Directors' Code of Conduct*, 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 Business Code of Conduct, 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.	Yes

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 *Directors' Code of Conduct* 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 *Directors' Code* and the Business Code. The Governance Committee monitors compliance with Corporate donation and sponsorship policies and is responsible to administer, monitor and enforce the *Directors' Code*. 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 *Directors' Code*. The Audit and Risk 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.	Yes
NP 58-201, section 3.9 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 2011.	Yes

Corporate Governance Statement

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(b)		
5(b) Describe steps the board takes to ensure directors exercise independent judgement in considering transactions and agreements where a director or officer has a material interest.	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. 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. 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.	Yes
NI 58-101F1, sections 5(c)		
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. 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. Whistle blowing reports may also be made directly to the Chair of the Governance Committee.	Yes
NOMINATION OF DIRECTORS		
NP 58-201, section 3.10		
3.10 The board should appoint a nominating committee composed of entirely independent directors.	The Governance Committee functions as the nominating committee. All four (4) members of the Governance Committee, including the Committee Chair, are independent directors.	Yes

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 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. 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.	Yes
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.	Yes

Corporate Governance Statement

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 composed 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 Committee performs the functions of a compensation committee. Five (5) of the six (6) members of the Environment & Human Resources 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	*Does SaskTel align?*
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 discharging this function, the Committee has the ability to retain external advisors, subject to approval by the Board.	Yes
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 Environment & Human Resource 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.	Substantial compliance

Corporate Governance Statement

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 *(Summary)*	COMMENTS AND DISCUSSION	*Does SaskTel align?*
NI 58-101F1, sections 7(c) (c) If the board has a compensation committee, describe the responsibilities, powers 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 director compensation, incentive-compensation plans and equity-based plans; and reviewing executive compensation prior to public disclosure.	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, 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.	Substantial compliance
NI 58-101F1, sections 7(d) (d) If a compensation consultant has been retained, at any time during the Corporation's most recently completed fiscal year, to assist in determining compensation for any of the Corporation's directors and officers, disclose the identity of the consultant and briefly summarize their mandate. If retained to perform any other work, state that fact and briefly describe the nature of the work.	The Corporation did not retain a compensation consultant in 2011.	Yes

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 *(Summary)*	COMMENTS AND DISCUSSION	*Does SaskTel align?*
OTHER BOARD COMMITTEES		
NI 58-101F1, section 8 8 If the board has standing committees of the board, other than audit, compensation and nominating committees, identify the committees and describe their function.	In addition to the Audit and Risk, Governance and Environment & Human Resources Committees, the Board also has a Corporate Growth & Technology Committee. The Corporate Growth & Technology 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.	Yes
BOARD ASSESSMENTS		
NP 58-201, section 3.18 3.18 The board, its committees and each 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 description(s), as well as the competencies and skills each individual director brings to the board.	Board, Board Chair, Committee Chair and Committee evaluations as well as director peer assessments are performed annually on a two-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. In 2011, Committee, Committee Chair, and Board Peer Evaluations were conducted.	Yes
NI 58-101F1, section 9 9 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.	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.	Yes

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For more information about SaskTel, our initiatives and operations please contact Corporate Communications at http://sasktel.com/about-us/news/media-contacts.html.

To obtain additional copies of the 2011 SaskTel Annual Report please call 1-306-777-4897.

2011 Corporate Social Responsibility Highlights

Please view the SaskTel 2011 Corporate Social Responsibility (CSR) Report online. To reduce our ecological footprint we no longer print our Corporate Social Responsibility Report for distribution. Instead, it is available at www.sasktel.com.

http://sasktel.com/about-us/company-information/financial-reports/attachments/11-sasktel-corporate-responsibility-report.pdf

A few of the year's CSR highlights include:

- In 2011, SaskTel was recognized as one of Canada's Best Diversity Employers by Mediacorp Canada Inc. The honour distinguishes employers who demonstrate exceptional diversity and inclusiveness programs.
- SaskTel was also named one of Canada's 50 Greenest Employers for the third consecutive year. The Mediacorp Canada Inc. title recognizes SaskTel's leading environmental policies, including waste management, fuel use reduction, greenhouse gas emissions reduction and resource management. Our achievements in these areas represent the best efforts of Canadian business to improve sustainability. SaskTel was the only Saskatchewan-based company to win the award in 2011.
- SaskTel began deployment of high speed Internet service and 4G wireless coverage to 28 First Nations communities in Saskatchewan. These enhancement projects are part of SaskTel's Saskatchewan Infrastructure Improvement Program (SIIP), which began in 2009. Aboriginal Affairs and Northern Development Canada is contributing $8.8 million to Saskatoon Tribal Council (STC) through the First Nations Infrastructure Fund. SaskTel will be investing an equal amount, with the STC assuming an administrative role.
- Through the We See You program, SaskTel sent two more 40-foot cargo containers of medical supplies and donated goods to vulnerable communities on the other side of the globe. Nearly 1,500 students from across the province and 150 SaskTel employees volunteered time to organize, collect and pack the containers. The containers were SaskTel's 10th and 11th in the past five years. One was the fourth container sent to Arusha, Tanzania and the other was the first sent to Ussongo, Tanzania.
- SaskTel also continued its Phones for a Fresh Start program, which collects used wireless devices and accessories from customers and recycles obsolete devices to make other products. Any profit made from recycling is converted to pre-paid calling cards that are distributed to the Provincial Association of Transition Houses and Services of Saskatchewan (PATHS). Through PATHS, SaskTel also provides women's shelters across the province with usable cell phones.
- SaskTel continued to partner with the Communications, Energy, and Paperworkers Union of Canada and the Saskatchewan Abilities Council to create jobs for individuals with disabilities.

SaskTel