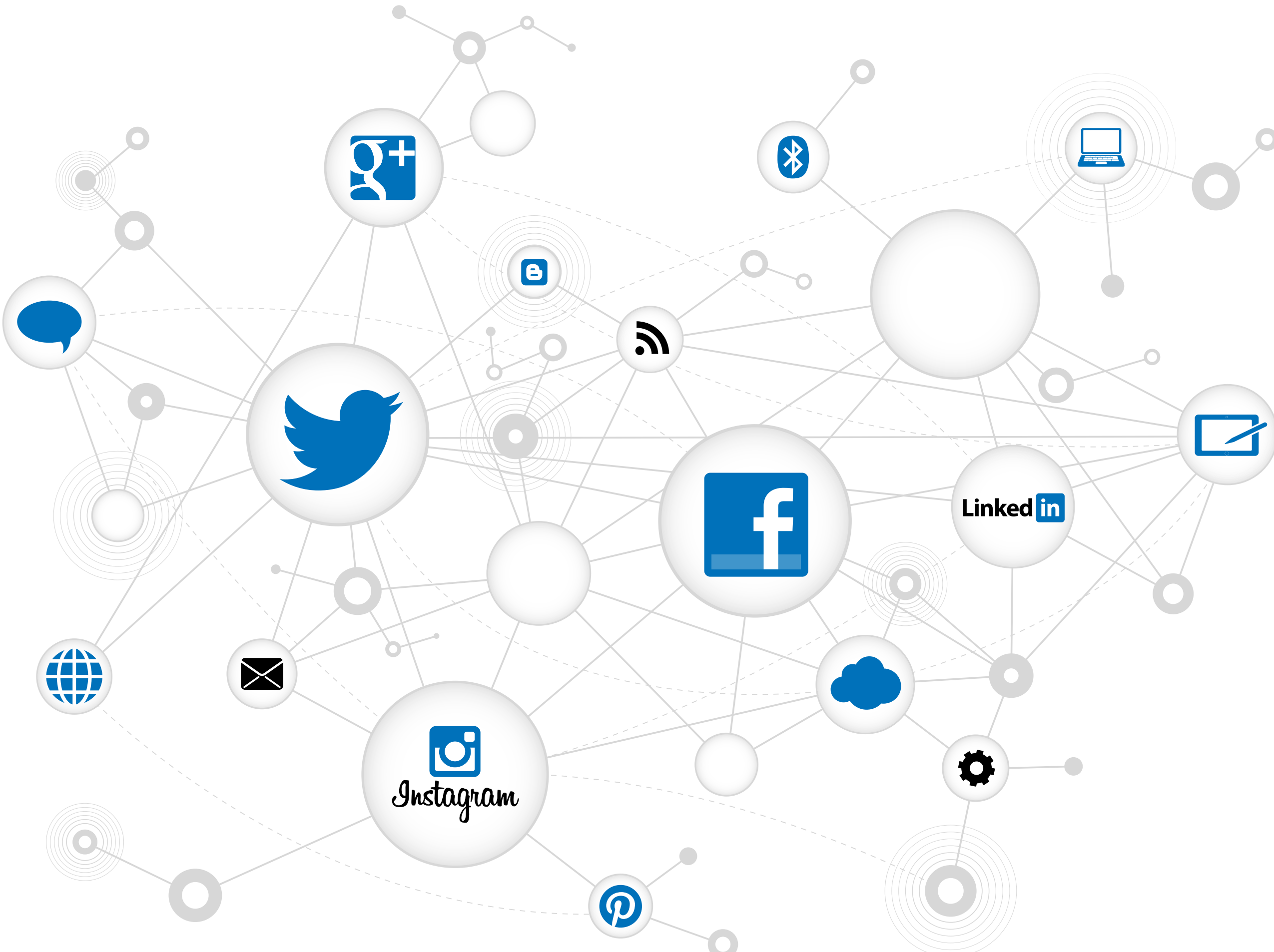
Connecting. Tomorrow. Today.



TWO THOUSAND AND TWELVE – ANNUAL REPORT

SaskTel

Letter of Transmittal

Regina, Saskatchewan
March 31, 2013

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, 2012, 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,

Honourable Don McMorris
Minister Responsible for Saskatchewan Telecommunications

Minister's Message

On behalf of Premier Brad Wall and the Government of Saskatchewan, I am pleased to present the 2012 SaskTel Annual Report. Saskatchewan communities, businesses and households continue to benefit from the world class communications, information and entertainment services delivered by SaskTel over its ever-advancing networks.

Once again in 2012, SaskTel fulfilled its Crown corporation mandate by delivering high quality, accessible and affordable services while investing in core business operations and services within Saskatchewan. These actions continue to create opportunities, not only for SaskTel and its subsidiaries, but also for the company's wide range of contractors, suppliers and partners. In the year to come, SaskTel will build on its successes throughout the organization while continuing to evaluate the highly competitive marketplace and ensure that the company is meeting the changing needs of its customers across Saskatchewan.

I would like to thank all SaskTel employees, management and the Board of Directors for their contributions to the company in 2012. The many accomplishments outlined within this annual report are the result of your dedication and I am confident that SaskTel will continue to meet its corporate goals in the future, thanks to your collective efforts.

Honourable Don McMorris
Minister Responsible for Saskatchewan Telecommunications

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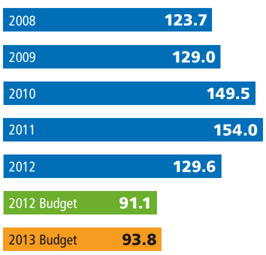
Financial Highlights

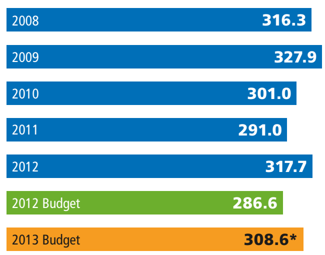
SaskTel had a strong year, with **net income, EBITDA (earnings before interest, taxes, depreciation and amortization) and Return on Equity** all exceeding 2012 targets. EBITDA was up $26.7 million (9.2%) from 2011 and exceeded budgeted EBITDA by $31.1 million (10.9%). Increases in EBITDA are due to continued revenue growth without a proportionate increase in expenses. Due to EBITDA improvements, SaskTel surpassed its 2012 targeted net income by $38.5 million (42.3%), however, net income decreased $24.4 million (15.8%) year over year, largely due to a reduction in income from discontinued operations. SaskTel saw a decrease in Return on Equity to 16.8%, down 3.9% compared to 2011, but exceeded targeted Return on Equity of 11.9%. In 2012, the Corporation declared dividends of $84.3 million, once again providing a strong return to its shareholders.

SaskTel is expecting an increase in 2013 EBITDA, but net income and return on equity will decrease due to increases in depreciation, amortization, and interest expenses. This is primarily due to SaskTel's continued commitment to invest significantly in network and IT infrastructures within Saskatchewan. In addition, net income and return on equity will be lower due to the impact of adopting IAS 19 Employee Benefits effective January 1, 2013.

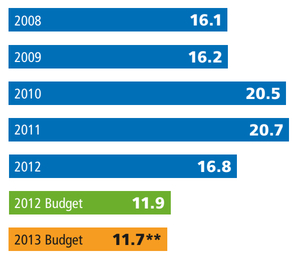
Net Income
($ Millions)



EBITDA
($ Millions)



Return on Equity
(Percentage)

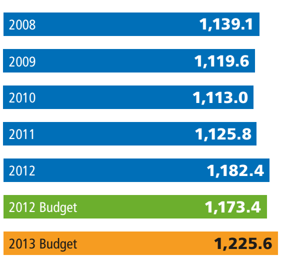


Revenues for the year were $1,182.4 million, up $56.6 million (5.0%) from 2011. Wireless revenues rose, despite slower wireless customer growth. Growth in wireless revenues are due to an increase in average revenue per customer as adoption of smartphones with data plans continues. SaskTel's *Max*™ Entertainment Services continues to see growth in customers and increases to its average revenue per customer, which has contributed to the increase in *Max* revenues in 2012. Declines in revenue can be seen in wireline services as customers migrate from landlines to wireless services, resulting in decreases to local access and long distance revenues.

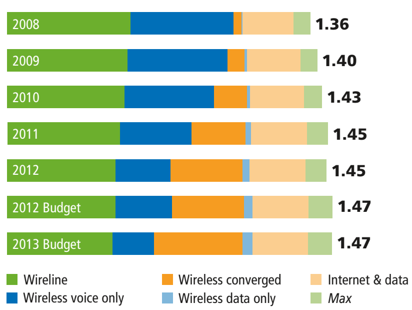
SaskTel has exceeded targeted revenues of $1,173.4 million by $9.0 million (0.8%) in 2012. Despite pressures on wireline services, SaskTel was successful in achieving its revenue targets for local access and long distance. SaskTel was able to surpass its overall revenue targets due to better than expected wireless and data revenue growth.

2013 revenue targets are set at $1,225.6 million, an increase of $43.2 million (3.7%) over 2012. Revenue growth is planned in wireless and *Max* Entertainment Services, which are partially offset by expected declines in local and long distance revenues.

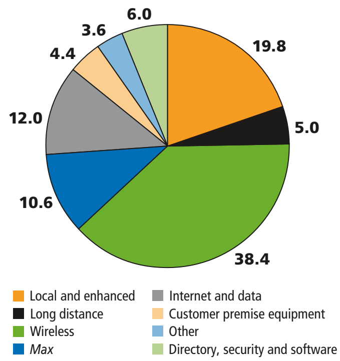
Revenue
($ Millions)



Number of Accesses
(Millions)



2012 Revenue Profile
(Percentage)



*2013 budget reflects the adoption of IAS 19 Employee Benefits effective January 1, 2013, see note 3(q) of the Financial Statements.

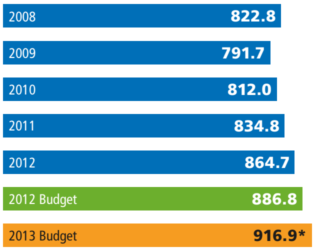
**SaskTel has calculated an adjusted target due to adoption of IAS 19. Adjusted Return on Equity is 12.4%.

Expenses for the year, excluding depreciation and amortization, were $864.7 million, up $29.9 million (3.6%) from 2011. Direct expenses jumped $12.6 million (4.7%) year over year due to increases in wireless device hardware subsidies, wireless spectrum costs and services purchased to support *Max* revenue growth. These were offset by declines in wireless roaming expenses. Goods and services purchased, excluding direct expenses, are up $21.5 million (8.6%) from 2011 due to increased contracts, consulting, advertising and marketing expenses. These increases were offset by a $4.2 million decline in net salaries and benefits primarily due to an increase in the number of internal labour hours being capitalized to projects.

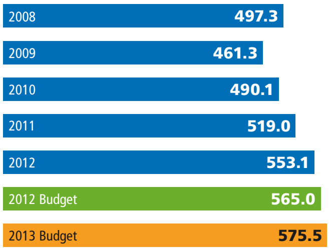
SaskTel came under budgeted expenses of $886.8 million by $22.1 million (2.5)% in 2012. *Max* revenues were lower than expected and as a result the Corporation was able to avoid some of the direct costs to deliver these services. In addition, the increase in wireless revenues is largely attributable to an increase in the average revenue per customer, which means cost increases associated with wireless device hardware subsidies typically associated with wireless customer growth were minimized.

SaskTel's 2013 expense targets are set at $916.9 million, an increase of $52.2 million over 2012. Goods and services purchased are planned to increase $22.4 million primarily due to increases in contract and consulting expenses along with an $8.8 million increase in direct expenses attributable to growth in wireless and *Max* Entertainment Services. Net salaries and benefits are planned to increase $29.8 million due to decreased job vacancies and expected economic increases as well as pension income reductions of $12.2 million.

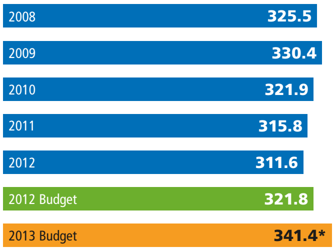
Expenses
($ Millions)



Goods & Services Purchased
($ Millions)



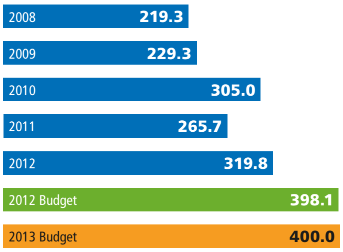
Net Salaries & Benefits
($ Millions)



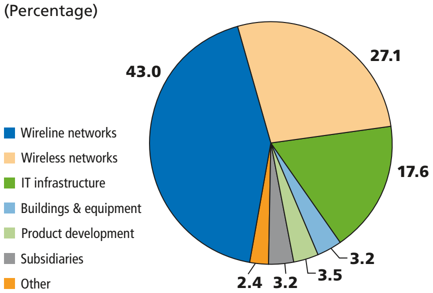
Capital Expenditures for the year were $319.8 million, up $54.1 million from 2011. SaskTel continues to focus on bringing the best wireless and wireline networks to the people of Saskatchewan. In 2012, SaskTel invested over $137.0 million to improve its wireline network infrastructure to handle new growth and service enhancements. This investment also included spending $49.8 million to start its fibre to the premises (FTTP) project, which will deliver a fibre optic network to both businesses and consumers in our nine largest urban centres by 2017. SaskTel also invested more than $86.0 million to increase coverage and improve services on its 4G wireless network and to prepare SaskTel's infrastructure to allow adoption of the new long term evolution (4G LTE) wireless technology to be launched in 2013.

In 2013, SaskTel is forecasting to invest $400.0 million in capital expenditures. Investment in business opportunity and growth initiatives will be a primary focus, but much effort will also be made to sustain current capital assets and replace operational support systems to help improve the customer experience. A significant portion of the investment will focus on expanding SaskTel's 4G LTE and FTTP networks, increasing 4G and 4G LTE coverage and service levels, and further enhancements to our *Max* Entertainment Services.

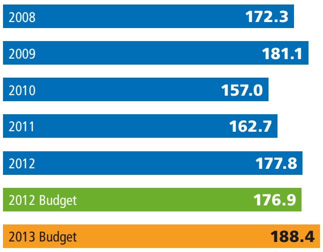
Capital Expenditures
($ Millions)



2012 Capital Expenditures
(Percentage)



Depreciation & Amortization
($ Millions)



Financial Highlights

SaskTel had a strong year, exceeding all financial targets while completing the largest capital program in our history. Challenges in the year to come will include **transformation and optimization** *of our network, products and services coupled with a capital program exceeding that of 2012.*

President's Message

Connecting. Tomorrow. Today. Future-proofing Saskatchewan.

The importance of communications in today's economy, and in society as a whole, cannot be overstated. It has affected how and where we do business, the type of business models that are effective, how we relate to one another personally, as well as the entire nature of how the global community works together to address the issues that confront us.

The technology of communications has facilitated those shifts, but it is important to accept that the pace of technological change will continue to accelerate and shape our future. It is important that, as a province, we embrace the new technology and the changes it brings so we can continue to grow our economy and broaden our leadership in Canada, as well as on the world stage. For SaskTel, it has meant changing from a telecommunications provider to an information and communications technology (ICT) company that is focused on connecting all things in our province.

In our business, we do not get a lot of breathing room between the establishment of one generation of technology and the advent of the next. Even so, to make sense of all this speed and change, to face the future with intelligence and poise, we need to take a moment regularly to step back and have a look at what is coming our way and how we will welcome and perhaps even shape that future. Annual report time is just such a pause, a breather between the year we just let go of and the one we now embrace.

A look back at our last fifteen or so annual reports shows a company that has thrived by welcoming tomorrow today. In the late '90s, competition was a brand new reality and SaskTel was positioning itself to bring the "information age" down every road in the province. Our wireless services under "SaskTel Mobility", security services provided by SecurTek and entertainment services provided by *Max* took their place in our growth strategies and we began what has become an ongoing process of renewing our network infrastructure. By 1999, we were investing more than $100 million in capital spending every year to make sure our provincial networks would be ready for the next capacity challenge brought by new services and devices.

One of the market realities we continue to learn from is the way a sudden burst in customer demand, driven by a new application in the market, can challenge our best efforts to match the speed of change. Something like Netflix takes hold and suddenly, your plan for managing network demand has to be revised on the fly. These days, it is difficult if not impossible to project customer demand for network and applications services with any degree of certainty.

When your customers begin demanding a new service, you have to get it to market as fast as you can, because if you don't, you can bet your competitors will. What sets SaskTel apart in its response to that kind of challenge to network capacity and application demands can be captured in two words: transform and optimize.

In order to future-proof our networks, we must balance the need to optimize our legacy services with the need to transform our company in the face of emerging market realities and powerful new ways of serving our customers.

So, what are some of those new services and markets that will be transforming SaskTel in the near future?

Well, first of all, early in 2013 we will be launching the first phase of our new 4G LTE wireless network.

4G LTE is about speed and greater capacity for data. It will allow for data speeds up to five times faster than the 4G network, and significantly faster than any competing LTE networks in the province. In fact, it will be roughly 33% faster than our competitor's service and double their coverage even on our launch date. After that, our coverage advantage will continue to grow as we expand to seven more communities. Our converged core, the first in Canada, will operate both the 4G and 4G LTE networks and our 4G LTE phones will be backwards compatible with 4G, providing for a seamless experience for our customers.

That is one example of how we intend to future-proof Saskatchewan and make it the most connected place to live in Canada.

And, of course, some of this past year's biggest excitement has been with our *infiNET* service crews hooking up customers in the first neighbourhoods, and all of our support staff working to change applications and processes to support the new fibre-based services. By bringing fibre optics to both our residential and business customers, we will supply them with the speeds and bandwidth they need to enhance the competitive position of their business or the quality of their life.

SaskTel is working hard to future-proof its networks and to make this province the most connected place to live in Canada.

In conjunction with our fibre rollout, we will begin converting our wireline voice telephone network from the present electronic switching environment with broadband line gateways. This change will occur over the next seven years and at the end, our voice services will be replaced with an IP core and voice application soft switches, creating a converged wireless and wireline voice network that will provide a platform that will serve Saskatchewan for the next several decades.

Another transformation that I am enthusiastic about is our new *Max* Online service, an on-demand video and music streaming service available free to residential *Max* TV subscribers.

Max Online can be accessed anytime, anywhere in Canada through any personal computer with a high speed Internet connection.

This service is transformational because it is an important step toward a future where we hope to be giving our customers access to any service, anywhere, over any device.

To capture the way our industry is going through a complete transformation, we sometimes talk about Telco 2.0.

To put it simply, Telco 2.0 is the telecommunications industry applying the principles of Web 2.0 and technologies and services from the Internet world to bring more connectivity and capacity to customers.

In the Telco 2.0 era, service providers will be able to offer hundreds of services that bring together numerous applications and types of content from a variety of sources to form composite services.

In this world, the combinations of potential new services are nearly limitless. We will become more focused than ever on the user and the applications that can be delivered over fully converged networks and devices.

The service will be IP-based and consumers will want to have access to any service, anywhere, on any device over fast and reliable broadband.

Think cloud, think connected home and unified services, think customer self-serve. Another change that will be part of our transformation will be a new focus on supporting and servicing our business customers. All indicators point to a future where revenues from business markets will rise to near parity with consumer market revenues.

I like to say that innovation is not about technology so much as what you *do* with the technology—it is asking ourselves how we can use this new tool, network or service to better serve our customers, to bring communities together, to foster social capital, to help businesses achieve their goals. I believe that with that kind of innovation, and with the support of the business community and our provincial government, SaskTel will do everything it can to make this province the most connected place to live in Canada.

In closing, I want to recognize and thank our employees, management, and board of directors for their outstanding efforts in 2012. Our capacity to welcome the future, transforming ourselves and optimizing our existing services, depends entirely on your energies and intelligence. In the years ahead, I am confident that together we will continue to provide tomorrow's services and networks today.

Ron Styles
SaskTel President & CEO

Towards the future.

56%

of cell phone users between the ages of 14 and 17 have a smartphone.

The use of smartphones more than doubled in Saskatchewan from 2011 to 2012.

In 2012, we completed 230 individual project enhancements on the 4G network. Looking ahead, our plan is to bring all of our accesses into one converged network encompassing both wireless and wireline. The new 4G LTE network we are launching in 2013 will bring 4G LTE and 4G together to operate on the first converged core in Canada. Once it is deployed, SaskTel will have the largest 4G LTE network in Saskatchewan, with twice the towers and up to 33% more speed—approximately five times faster than the current 4G network.

4G LTE WIRELESS NETWORK

To build connections.

Two-thirds of the world's…

…mobile data traffic will be video by **2017**.

Globally, time spent watching long-form video on tablet PCs grew 50% between Q1 and Q2 2012.

SaskTel is planning to spend $1.6 billion in capital expenditures over the next five years to make Saskatchewan one of the most connected places to live in Canada. For 2013 alone, we will invest approximately $400 million in overall capital expenditures, with approximately $216 million allocated towards our core Saskatchewan network. Our *Max* customers can now take full advantage of our connectivity, thanks to *Max* Online service, an on-demand video and music streaming service available free to residential *Max* TV subscribers. *Max* Online can be accessed anytime, anywhere in Canada through any personal computer with a high speed Internet connection.

MAX ONLINE SERVICE

To serve you better.

***infiNET* provides speeds up to 260 Mbps down and 60 Mbps up.**

In 2016, the gigabyte equivalent of all movies ever made will cross global IP networks every 3 minutes.

We are investing $670 million over seven years to deliver *infiNET*, Saskatchewan's fastest communications network, directly to homes and businesses in the nine largest urban centres in the province. *infiNET* offers a 260 Mbps service, making it the fastest residential offering in Canada. As we build out our fibre network over the next several years, we will be able to provide our customers with better products—for *Max*, that means up to seven HDTV streams at once, it means a clearer picture, it means 3D TV content when it arrives, plus enhanced home video conferencing.

INFINET FIBRE OPTICS

Total convergence.

The SaskTel Data Centre is supported 24/7 by more than 400 highly skilled IT personnel.

Worldwide IT spending is forecast to surpass $3.7 trillion in 2013.

Our Data Centre facilities provide a safe and secure operating environment for government, corporate and private customers on more than 2,300 constantly monitored and maintained servers. Providing a secure and stable environment, the centre features redundant UPS, generators with a virtually unlimited fuel supply, high bandwidth network connectivity options and an experienced Data Centre management team. Our Managed Hosting services offer environmental, data, and physical infrastructure security, including 24/7 on-site security personnel, keycard, video, and biometric security measures, in a hardened server facility with climate control and fire suppression systems.

CLOUD-BASED SERVICES

Management's Discussion and Analysis

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SASKTEL OVERVIEW

Saskatchewan Telecommunications Holding Corporation (SaskTel) is the leading full service communications provider in Saskatchewan, with $1.2 billion in annual revenue and over 1.44 million customer connections including 607,659 wireless accesses, 492,070 wireline network accesses, 250,068 Internet and data accesses and 97,262 *Max*™ (TV) subscribers. SaskTel offers a wide range of communications products and services including competitive voice, data, Internet, entertainment, security monitoring, 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 4,031 full-time equivalent employees (FTEs).

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, data, high speed Internet, data centre 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 3,756 FTEs.

DirectWest Corporation (DirectWest)

www.directwest.com

DirectWest, a wholly-owned subsidiary of SaskTel, is the exclusive provider of the mysask411 suite of print, online and mobile phonebooks. For over 50 years, DirectWest has been connecting buyers and sellers with the most complete, used and preferred sources for local search in Saskatchewan. Offering a wide range of products and services that help businesses connect with buyers, DirectWest continually launches innovative, consumer-driven products and services. The most recent initiative is the introduction of enhanced mysask411 Android, iOS and BlackBerry apps that allow users to find local business, people, entertainment and travel information.

With a head office in Regina and a satellite office in Saskatoon, DirectWest employs 94 FTEs.

Saskatchewan Telecommunications International Inc. (SaskTel International)

www.sasktel-international.com

Recognized as a global innovator and experience-backed solution provider, SaskTel International markets leading-edge software solutions and professional consulting services. SaskTel International leverages a unique relationship as a wholly-owned subsidiary of SaskTel to enable businesses around the globe to achieve strategic communications initiatives and projects. With the completion of over 60 projects spanning 40 countries and six continents, 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 150 individuals, 56 of whom 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 125 FTEs, 103 of whom are in Saskatchewan.

Management's Discussion and Analysis

INDUSTRY OVERVIEW

The telecommunications industry is transforming rapidly with mobile devices, network connectivity, social media and online gaming driving new and emerging wireless applications and services. Aggressive competition has slowed corporate revenue growth rates and shrunk margins. Maintaining growth amidst the transforming industry and fierce competition is critical. Industry dynamics continue to create both opportunities and challenges for telecommunications companies. The ability to adapt to change has long been important in this industry; now, more than ever, companies must change to remain viable.

Customers continue to demand the newest, fastest and most innovative technologies available. This trend is demonstrated by the increase in smartphone and tablet usage worldwide, which has caused a data demand explosion and created many challenges for service providers. To manage this demand, providers need to constantly invest in network upgrades, new technologies and infrastructure. Globally, telecom providers are building out 4G, Long Term Evolution (LTE) and fibre networks so customers can benefit from broadband and video-ready devices and services. Within Canada, wireless providers have launched and continue to expand their LTE networks.

Mounting customer demand for bandwidth is leading to a shortage of wireless spectrum nationally and internationally. Canadian wireless service providers obtain licenses from Industry Canada, which give them the right to use certain spectrum frequencies. Industry Canada will auction wireless spectrum in 2013. Both large and small carriers have been actively lobbying Industry Canada for auction rules that will benefit their businesses and are planning bidding strategies for this complex and competitive auction.

In early 2012, the federal government relaxed foreign ownership rules, allowing non-Canadian owned carriers to start up or acquire other carriers with less than 10% of total Canadian telecom industry revenues. The government's actions are intended to increase competition, which may hurt the bottom lines of established Canadian providers.

The telecommunications industry is fiercely competitive with incumbent providers and new entrants battling for market share across the country. New technologies have reduced the barriers to entry into the market and non-traditional providers are offering products and services with lower initial investment. New entrants are using aggressive promotions and low prices to entice customers to move from larger, well-established providers. Responding to these aggressive tactics requires agility on the part of established providers.

STRATEGIC DIRECTION

SaskTel continually monitors the state of the economy and our industry to stay abreast of any developments that may affect our business. We identify critical issues in our operating environment, and define strategic objectives to address them. Our six challenges for 2012 were as follows: technology and services deployment; keeping up with the pace of industry change; growth; business transformation; enabling our workforce; and improving focus and prioritization.

The telecom industry continues to be driven by rapid change and a competitive intensity that we do not expect to slow down. We are seeing shifts with network offerings, business models and markets primarily driven by rapid succession of technology. SaskTel is responding to this challenge through our investments in wireless and broadband technologies and by providing customers, employees, partners and suppliers with the products and services that connect them to their world.

These changes are not new and represent the reality in this industry. SaskTel is keeping pace with this change and remains competitive. We are deploying faster broadband and wireless networks while making available the new devices and applications. As customers demand more, we are ensuring our plans address these market realities.

Overall revenue growth continues to be impacted by the shift away from the traditional, high-margin products and services to new and emerging ones with less of a return. Again, this is not a new trend but the reality for the industry. Service offerings will continue to be driven by wireless and broadband, and be IP (Internet Protocol) based. Our growth plans will capitalize on opportunities among existing and new customers demanding these services. Growth will be maximized in Saskatchewan by utilizing partnerships and through our subsidiaries.

To drive overall sustainability for SaskTel, we recognize that we must not only grow our top-line revenues but ensure that we are simplifying our business and driving productivity efficiencies across the organization. We continue to invest in back office and support systems to try to minimize complexity and improve our customer experience while driving agility to help us succeed in the long term. As part of our Strategic Plan, we outline the need for a business transformation that aligns SaskTel's processes, people and technology that will ultimately deliver our desired customer experience and keep us competitive.

SaskTel has a knowledgeable and skilled workforce, particularly in its traditional lines of business, and a strong customer service culture. As the industry changes, we must align our resources, knowledge and skill sets to match our corporate priorities. In an industry characterized by rapid change, SaskTel must determine the top corporate priorities and focus on delivering them in order to ensure success. SaskTel will prioritize and shift the allocation of resources to those areas that need more resources in the near term, seeking a balance that will ensure the long-term success of the business.

CORE STRATEGIES AND PERFORMANCE MANAGEMENT

Crown Investments Corporation develops a Crown Sector Strategic Plan to articulate shareholder expectations and provide long-term direction to the Crown sector. The plan includes a Crown sector vision statement: "A secure and prosperous Saskatchewan, leading the country in economic and population growth, while providing a high quality of life for all". It also articulates Government goals and Crown sector areas of focus and shareholder direction. We have developed our corporate strategic plan in alignment with the Crown Sector Strategic Plan guidance.

2012 Strategic Objectives and Performance Results

Strategic objectives are the ends that a company wants to achieve. They focus the corporation on areas critical for long-term sustainability. SaskTel has four strategic objectives, one for each of the four balanced scorecard perspectives: customer, people, operational excellence and financial. We determine measures for each strategic objective based on information required to understand whether or not SaskTel is doing what is required to achieve that objective. We determine our targets by looking at what SaskTel needs to achieve for a measure to be considered successful. SaskTel uses a balanced scorecard to report performance results for the strategic objectives.

Customer

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

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 grow our customer base.

Measure	2012 Target	2012 Actual	Results
Customer Perception	74	70	○
# of Customers In-Province *(thousands)*	1,410	1,401	○

○ Not met ● Achieved

High levels of customer satisfaction remain a corporate priority. SaskTel was ranked number one in overall customer satisfaction in the full service provider category of the *2012 Canadian Wireless Total Ownership Experience Study* conducted by J.D. Power and Associates. Throughout the year, SaskTel delivered on customer impacting initiatives such as: the timely launch of new devices, including the iPhone 5; the launch of a Customer Relationship Management (CRM) system that allows front line service representatives to better serve customers by using one system to enter all customer information and orders, and eliminates the need to transfer calls; and customer self-serve and virtual hold, a system that offers customers the choice to wait on the line or be called back.

At the same time, SaskTel faced challenges that had a negative impact on our customer perception indicator. In addition, customer perception declined throughout the Saskatchewan telecom industry.

SaskTel's customer base continued to grow in 2012, though at a rate slightly lower than anticipated. Customer growth came primarily from an increase in wireless customers, which was partially offset by a decline in wireline customers. In August, SaskTel achieved a significant milestone, announcing that we now serve over 600,000 wireless customers throughout Saskatchewan.

Management's Discussion and Analysis

People

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

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 ensure we have the resources we need to address business requirements and priorities, we review, identify and match workforce requirements to business objectives.

Measure	2012 Target	2012 Actual	Results
Employee Engagement	2% above 2011	2% above 2011	●
Representative Workforce			
Women *(% of women hired or promoted into designated groups classified as underrepresented by the Saskatchewan Human Rights Commission)*	31%	36%	●
Aboriginal People *(Permanent Hires)*	25% of hiring	26% of hiring	●
People with Disabilities *(Permanent Hires)*	5% of hiring	2% of hiring	○
Training *(Average learning and development per employee)*	20 hours	25.3 hours	●

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. In 2012, SaskTel achieved its employee engagement target of a 2% improvement over 2011. In addition to improving relative to 2011 results, SaskTel also improved relative to the Hay Norm. These are positive signs that SaskTel is meeting the challenge of increasing competitive pressures in all facets of our business.

SaskTel remains focused on recruiting and retaining a representative workforce. For 2012, SaskTel changed its indicator regarding women in our workforce. Previously, the indicator measured success in hiring women into management. The new representative indicator for women looks at hiring into designated groups the Saskatchewan Human Rights Commission has classified as underrepresented for women. Jobs within the category of Sales are considered underrepresented by women; throughout 2012, SaskTel filled a number of sales and management positions with female candidates and, as a result, exceeded the target set for this indicator.

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 focus on Aboriginal recruitment. Throughout 2012, SaskTel continued to build and develop relationships with Aboriginal communities, post secondary institutions and student associations. These practices provide us with a significant advantage when attracting and recruiting high-potential Aboriginal candidates. SaskTel achieved the target for this indicator.

SaskTel continues to maintain relationships with disability organizations in the province to assist in recruiting and hiring people with disabilities. The number of qualified candidates in this equity pool is very small. In 2012, 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. Although SaskTel did not meet the target, it continued to support people with disabilities. In 2012, SaskTel partnered with the Saskatchewan Abilities Council to increase and promote supported employment opportunities for people with disabilities across the province. SaskTel will work with the Saskatchewan Abilities Council through its Partners in Employment offices to identify opportunities for job shadowing, temporary and permanent employment, and job carving employment for individuals with disabilities who are enrolled in the program. SaskTel will also leverage internal programming and promote supported employment initiatives within other organizations.

In 2012, SaskTel added a training measure to the scorecard, which measures average learning and development of employees. SaskTel exceeded the target in 2012.

Operational Excellence

SaskTel will continuously improve on operational excellence.

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

Measure	2012 Target	2012 Actual	Results
Broadband Subscriber Growth	101,953	88,831	○
Fibre to the Premises *(Homes passed)*	40,000	41,705	●
Environmental Stewardship *(Greenhouse gas emission reduction)*	Direct greenhouse gas emissions <= 2011	7% below 2011	●

SaskTel saw significant growth in the number of broadband subscribers. However, we fell short of our 2012 target because of lower than expected wireless data and *Max* Service accesses. Wireless data market penetration growth was lower than projected and increased Wi Fi use led to lower than projected data stick and wireless modem sales. With respect to *Max* Service, SaskTel experienced higher than normal churn rates resulting from increased competition in a market nearing saturation.

SaskTel continued to make substantial investments in 2012 related to infrastructure. To address the ever-growing customer demand for 4G wireless service, we utilized a variety of infrastructure options to enhance wireless service based on usage patterns and demands across the province. The new 4G LTE core was also operational by year-end, making it the first converged core in Canada. We completed 230 network enhancements, including new towers built and adding infrastructure to existing sites to increase capacity.

SaskTel also officially launched our new fibre optic network, *infiNET*, which is a multi-year deployment placing fibre directly to homes and upgrading the broadband network in the nine largest urban centres in the province. *infiNET* allows for download speeds of up to 260 Mbps and upload speeds of up to 60 Mbps. Due to the magnitude of the fibre program, SaskTel added a measure into the scorecard to track success. In the first year of the program, SaskTel achieved its target of passing 40,000 homes.

As well, we successfully launched two phases of our Customer Relationship Management (CRM) program. This is an important step toward enabling our desired customer experience.

SaskTel has developed and implemented an Environmental Strategy to manage our greenhouse gas emissions. Throughout 2012, we pursued programs such as an Electrical Audit, Direct Emissions Reduction Strategy, Diesel Tank Audit and Wind Turbine Trial. SaskTel surpassed its target for greenhouse gas emissions reduction in 2012 due to decreases in both fleet fuel and natural gas consumption.

Financial

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

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 new and existing customers, organic growth from our subsidiaries and developing partnerships and investment opportunities.

Measure	2012 Target	2012 Actual	Results
Revenue Growth *(Gross Revenues)*	$1,173.4M	$1,182.4M	●
Net Income	$91.1M	$129.6M	●
Efficiency Measure *(EBITDA Margin)*	24.8%	26.9%	●
ROE	11.9%	16.8%	●
Capital Intensity	33.9%	26.5%	●
Debt Ratio	47.9%	42.0%	●

Management's Discussion and Analysis

SaskTel maintained strong financial performance through 2012. Wireless revenues were up 10% and the company continued to generate revenues in excess of one billion dollars overall. The ability of SaskTel's management team to control costs was a major factor in the company's impressive financial performance in 2012.

Revenue was $9.0 million higher than target and $56.6 million, or 5.0%, higher than 2011. SaskTel's net income was $38.5 million, or 42.3%, higher than target. EBITDA margin was 2.1% points higher than target and 1.0% point higher than 2011. ROE was 4.9% points higher than target, although lower than 2011. Capital Intensity of 7.4% points favourable to budget and debt ratio was 5.9% points favourable to budget.

Looking Ahead to 2013

SaskTel's Vision and Mission statements, adopted in 2011, continue to reflect our business direction and focus in a fast moving industry.

Our Vision: *Be the best at connecting people to their world*

Our Mission: *To provide the best customer experience through our superior networks, exceptional service, advanced solutions and applications*

With our Vision top of mind, we established two Core Strategies: Transform and Optimize, which clarify the means to achieve our desired ends.

Transform: to transform services, people, processes, systems and technology to be successful in the long term.

SaskTel will transform from a telecommunications provider to an Information and Communications Technology (ICT) company with recognized IT capabilities. We will move from communication services being embedded within the network connection to services being separated from the network and delivered by SaskTel and other service providers. Our services and processes will be designed to allow for effective and efficient operation of the network and enhancement to the overall customer experience.

With consumer markets becoming more commodity-based (i.e. customers view all services to be more or less similar regardless of who is providing them), SaskTel expects limited revenue growth from consumer markets. Given this challenge, we have decided to rebalance our focus between the consumer and business markets. SaskTel will develop products and services for new markets beyond our provincial borders, remaining in alignment with policy outlined by our shareholder.

SaskTel will also transform our workforce to ensure resources are focused on areas of corporate priority today and into the future.

Optimize: to get the most out of our existing environment with maximum efficiency.

SaskTel will optimize existing legacy environment and classic services through focused investment and concentration on the initiatives with the greatest positive returns. A positive customer experience will be maintained in the legacy environment and for classic services by making selective investments to systems or processes as required. SaskTel's workforce will focus on being accountable for roles and responsibilities, creating an optimum environment to maintain the positive customer experience. Revenue from the Optimize strategy will be used to fund projects and actions associated with transitioning SaskTel from a telecommunications company to an ICT company.

SaskTel will continue to generate revenue and retain customers from our classic services (Optimize) while aggressively developing products, services and markets that will ensure long-term relevance and success (Transform).

In addition to the core strategies, management has identified seven priorities to provide further focus:

1. Align the organizational structure and processes to enable delivery of the corporate strategy.
2. Have the appropriate corporate workforce to implement the corporate plan.
3. Better leverage data to enable informed decision-making.
4. Implement a new Operating Support System and Business Support System delivery environment.
5. Deliver a new intelligent broadband infrastructure.
6. Focus on growth in the business market.
7. Optimize classic services and legacy technology to maintain competitiveness.

SaskTel's transformation requires that we deploy an intelligent broadband infrastructure with a single converged fibre and wireless network. True convergence of our network and service layers allows SaskTel to become the first provider in Canada to have a converged core, using the IP Multimedia Subsystem (IMS) architecture to deliver this.

We have responded to rapidly increasing data demand by quickly deploying the latest technologies over our wireless network. SaskTel launched the 3G wireless network in 2010, 4G in 2011, and will launch 4G LTE in early 2013. These upgrades are vital to our ongoing success as our customers continue to use high bandwidth applications and services. This infrastructure investment will set SaskTel apart from competitors in Saskatchewan. Our ability to take advantage of future wireless growth will depend on our ability to purchase 700 MHz spectrum in the 2013 auction. This is fundamental for our 4G LTE network deployment across the province.

In addition to our wireless infrastructure investment, our seven-year fibre initiative, *infiNET*, is advancing on schedule. SaskTel will upgrade the broadband network in our nine largest urban centres in the province by the end of 2017. With this initiative, we will provide customers with the fastest communications network available and new possibilities for home entertainment.

Process and system transformation is integral to our plan because legacy technologies can often impede our ability to deliver the desired customer experience and financial results. We intend to transform systems that affect key facets of our business, such as customer relationship management, field services efficiency, customer self-service and billing. Significant capital investment is earmarked over the planning horizon to improve these systems.

SaskTel uses a balanced scorecard to monitor and measure performance in areas considered critical to SaskTel's long-term sustainability: customer, people, operational excellence and financial. SaskTel establishes measures and targets to understand whether or not we are doing what is required in each of these areas. We determine our targets by looking at what SaskTel needs to achieve for a measure to be considered successful.

Customer

Measure	2013 Target
Customer Satisfaction	
Customer Perception - Consumer	+1 point over 2012
Customer Perception - Business	+1 point over 2012
Competitive Index	+1 point over 2012
Product/Service Innovation	
# of New Products Introduced	5

Customer satisfaction continues to be a high priority and SaskTel sets targets to continually improve in this area. In addition to customer perception in the consumer market, SaskTel has added an indicator for customer perception in the business market, as a result of SaskTel's need to ensure focus on both the consumer and business markets, and a competitor index indicator, to enable a better understanding of our performance in this area relative to our key competitors. We also added an indicator related to product/service innovation to measure the number of new products or services offered by SaskTel that address a new market need, provide a new means of delivery or a new business model.

People

Measure	2013 Target
Employee Engagement	
Hay Survey Result for Employee Engagement	2% above 2012
Learning and Growth	
% of Employees Formally Trained in ICT Learning and Development	50%
Inclusive Workforce	
Aboriginal People *(Permanent hires)*	25% of hiring
People with Disabilities *(Permanent hires)*	7.5% of hiring
Women *(% of women hired or promoted into designated groups classified as underrepresented by the Saskatchewan Human Rights Commission)*	33%

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.

Management's Discussion and Analysis

The employee engagement indicator continues to be a key indicator in SaskTel's scorecard, gauging an employee's commitment to the organization and willingness to go above and beyond formal job requirements. This indicator has been a part of SaskTel's balanced scorecard for a number of years. In 2012, SaskTel changed the target from improvement relative to the Hay norm to improvement over the previous year's results.

SaskTel had an indicator related to learning and growth on the 2012 balanced scorecard. However, we have developed a new one that is more appropriate given SaskTel's strategic direction. With SaskTel's focus on transforming from a telecommunications company to an ICT company, SaskTel developed an indicator specific to training and development in the ICT area.

Having a diverse workforce strengthens our company and encourages innovation. SaskTel continues to focus on obtaining and maintaining a diverse workforce and has maintained inclusive workforce indicators and targets to reflect this priority.

Operational Excellence

Measure	2013 Target
Execution of Strategic Initiatives	
FTTP Execution - Homes Passed	41,000
FTTP Execution - Homes Connected	24,000
LTE Execution - Coverage	90%
Environment	
Greenhouse Gas (GHG) Emission	direct GHG emissions <= 2012

Consistent with SaskTel's core strategy of Transform and the priority to deliver a new intelligent broadband infrastructure, we are focused on implementing our fibre to the premise (FTTP) and 4G LTE networks. Since these networks are considered critical to SaskTel's success, we have developed indicators specific to these strategic initiatives. SaskTel's fibre network deployment is well underway. As a result, in addition to the current FTTP indicator of homes passed, SaskTel has added an FTTP indicator of homes connected. With the planned launch of 4G LTE service in 2013, the appropriate 4G LTE indicator is coverage. SaskTel intends to modify the indicators related to these strategic initiatives as they are implemented.

We recognize that being environmentally aware and proactive is crucial to preserving the world we live in. SaskTel is committed to reducing our impact on the environment; therefore, we maintained our greenhouse gas emissions indicator for 2013.

Financial

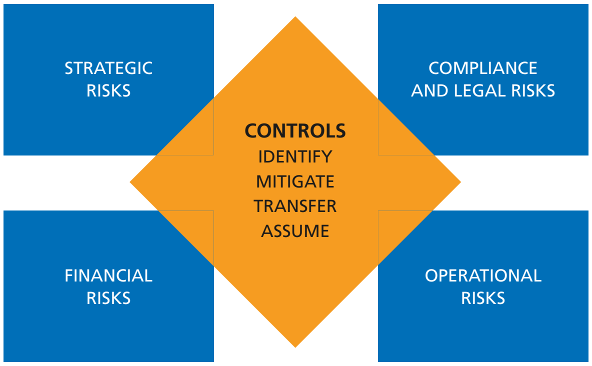
Measure	2013 Target
Shareholder Value	
ROE*	11.7%
Debt Ratio*	46.5%
EBITDA Margin	25.2%
Net Income	
Net Income	$93.8M

The financial measures that SaskTel includes in the scorecard are focused on shareholder value and profitability. Consistent with previous years, the measures will focus on appropriate returns through effective management of product margins and operating costs. SaskTel is embarking on the 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.

* SaskTel has calculated adjusted targets due to adoption of IAS 19 Employee Benefits effective January 1, 2013, see note 3(q) of the Financial Statements (ROE – 12.4% and Debt Ratio – 48.1%).

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, 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 risks 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

Strategic risks are those that may inhibit SaskTel's ability to achieve the targets outlined in its Strategic Plan. These include risks related to the following areas: socio-demographics, competition, economics, political and regulatory climate, technology, industry and customers. Realization of one or more of these risks may require SaskTel to modify its Strategic Plan. The most significant strategic risks are summarized below.

Socio-Demographics

The environment that SaskTel operates within will continue to see a number of socio-demographic changes. Key trends include an aging population and workforce, increasing cultural diversity, a growing Aboriginal population and a multi-generational workforce. SaskTel requires a skilled and experienced workforce that can address the technological transformation, aggressive competition and customer demands that SaskTel faces. Socio-demographic trends, combined with SaskTel's need for skilled resources and the expectation that Saskatchewan will be among the provinces with the lowest unemployment rates, will result in challenges to SaskTel in obtaining and maintaining the workforce it needs to meet future business requirements. The inability to obtain and maintain this workforce will threaten SaskTel's ability to deliver its plan.

SaskTel mitigates this risk through its corporate workforce planning process, which is intended to ensure that SaskTel's workforce has the knowledge, skills and people to meet the changing needs of the business. It is a continuous and iterative process that takes into consideration the Strategic Plan, current and future labour trends and an internal workforce analysis.

Competition

SaskTel operates in an increasingly competitive environment and faces competition from both traditional (incumbent wireline and wireless providers and new wireless providers) and non-traditional competitors. Direct, traditional competition (e.g. device subsidies, intense price competition) between traditional telecommunications companies will likely decrease as competition with non-traditional competitors increases, and competitors will increasingly focus on the business market. In addition to Over the Top (OTT) solution providers that have economies of scale and unique business models that will allow them to offer less expensive substitutes for services traditionally associated with the telecommunications company, suppliers and customers are also becoming competitors. Some traditional telecommunications companies have become vertically integrated; others may pursue foreign investment. In this competitive environment, SaskTel faces the risk that increased competitive activity will negatively impact the customer base, revenue growth and profitability.

SaskTel effectively mitigates this risk through the development and implementation of its marketing plans. SaskTel continuously monitors customer, market share and revenue information, and competitive activity, and assesses and adjusts plans accordingly.

Technology

The telecommunications industry is transforming from communications services being embedded within the network connection to being separated from the network. Multi-service telecom providers are building converged IP data-centric networks to foster service differentiation. New open, non-proprietary ecosystems are driving rapid innovation and capabilities without core infrastructure requirements. In addition, the "cloud" service model is growing rapidly. SaskTel will compete with cloud providers, become a cloud provider, and become a user of third party cloud providers.

As technological change accelerates and SaskTel responds by introducing new networks while maintaining existing networks, SaskTel must invest in, manage and maintain networks appropriately to maximize the return from those investments. SaskTel's plans require aggressive network investment in new networks and continued maintenance of legacy networks through at least the medium term.

SaskTel continues to monitor industry trends and competitive activity, and adjust deployment strategies as necessary. The Strategic Plan and the Network Plan reflect SaskTel's network requirements and funding. The allocation of capital spending based on corporate prioritization of programs and projects is key to mitigating this risk.

In addition, SaskTel faces a risk that it does not implement the required information technology infrastructure upgrades and replacements to support the network and customer demands and, as a result, impedes corporate growth. SaskTel has developed IT infrastructure roadmaps that identify the requirements and direction to address this risk.

Industry

Industry transformation will continue at an accelerated pace. The primary networks will be wireless and fibre, with LTE being the new standard for wireless networks and FTTP for wireline. Ultimately, there will be one network that manages delivery of all forms of information, communications and entertainment.

The ability to access media and communications at anytime from anywhere is fast becoming the industry norm. As consumers continue to push for faster products and services, the demand for bandwidth and data usage continues to grow. While demand for telecom services will continue to grow, spending is expected to become more fragmented as it will be spread over an increasing number of devices and applications. The industry will see continued adoption of mobile devices, including smartphones and tablets, cloud services and an explosion in machine-to-machine connections and service offerings.

SaskTel continues to improve and expand its wireless and broadband networks, including upgrading and adding capacity to its wireless network and deploying its FTTP network. In addition, SaskTel has implemented policy controls to manage traffic flows. These actions allow SaskTel to better manage the network and data usage.

This industry environment also requires partnerships and business alliances because service providers, developers and marketers work in unison to meet ever increasing customer expectations. While business alliances and partnerships have been key to SaskTel for many years, rapid technological change, intense competition and increasing customer demands result in their increasing importance to SaskTel and the broader communications industry. SaskTel has a number of valuable business alliances and partnerships in place, and actively manages these relationships. SaskTel proactively seeks business alliances and partnerships as appropriate to meet growth and net income objectives.

Customers

SaskTel believes that its future growth will come from the business market, with the retail revenue split shifting from primarily consumer today to a more equal split over the next decade. If SaskTel fails to meet the demands and expectations of business customers and is unable to drive growth in the business market, SaskTel's profitability will suffer. SaskTel's Business Market Strategy is a corporate priority reflected in business plans.

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 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 to be 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 SaskTel's financial return to its shareholder.

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 that 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, SaskTel would have to increase its employer contribution significantly to maintain the financial health of the plan and meet regulatory funding requirements. Such an increase would reduce cash and potentially reduce net earnings.

SaskTel continues to mitigate pension plan risk by contributing to the plan as required by existing legislation, and managing the asset mix to the optimal proportion of equities, real estate and bonds. Additionally, the Saskatchewan Financial Services Commission has introduced solvency relief measures that provide for three-year relief from funding any new solvency deficits (established in a valuation between December 31, 2008 and January 1, 2011). This measure 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, third 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. Our legal risk mitigation relies upon 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 defences 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 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. 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's application for leave to appeal to the Supreme Court of Canada has been denied in June 2012. SaskTel is in the process of preparing its Statement of Defence.

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 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. A case management judge has now been appointed for the proposed class action. SaskTel believes that it has strong defenses to the claim and will be defending it. 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 three years later. SaskTel believes that it has strong defences 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 defences to the claim and will be defending it.

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 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 mitigation involves attempting to achieve favorable regulatory reform while participating in the current CRTC processes with a view to obtaining the best possible result for SaskTel. Governments continue to move towards a more consumer-friendly environment. This trend is demonstrated by legislation that demands clarity, fair pricing, and privacy of customer data in the Internet and wireless sectors and by the current CRTC proceeding regarding a mandatory national code of conduct for the wireless sector.

700 MHz Spectrum

Industry Canada sets conditions of license for the use of spectrum. It has outlined its proposed spectrum auction rules for the 700 MHz spectrum auction to take place in 2013.

Obtaining license to some of this spectrum would allow SaskTel to provide rural residents access to advanced wireless technologies in the most cost-effective manner. If the rules prohibit SaskTel from obtaining this spectrum, the company will be forced to choose among much more expensive alternatives or provide rural residents with a lower grade of service. In addition to participating in the spectrum auction framework consultation process being managed by Industry Canada and lobbying efforts, SaskTel is identifying and taking measures to increase the likelihood that it will obtain the required spectrum. SaskTel is also considering alternative ways to serve wireless customers in the event that it does not obtain the required 700 MHz spectrum.

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 to be high are discussed below.

System and Information Security

System 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.

One change management risk is the possibility that projects may be deferred or cancelled, resulting in expected benefits being delayed or unrealized. SaskTel strives to select the right projects and ensure they 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 compartmentalization, 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 that evolve through the Business Continuity Management (BCM) program. The BCM program is the unifying, integrated process that aids business units with the development and ongoing management of advance arrangements and procedures, which enable SaskTel to respond to an event where critical business functions and processes have been disrupted. This program includes recovery of critical applications and data, employee health and safety, and alternate work arrangements.

Infrastructure

SaskTel's extensive network has evolved over the years to provide a variety of services from traditional wireline and wireless 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.

SaskTel has made enormous strides in 2012 to enhance the 4G coverage and capacity and reduce congestion points. A number of methods have been used to increase cell site capacity in an orderly, cost-effective manner. In addition, longer term strategies to off-load the 4G network will begin to be deployed more readily in 2013.

Management's Discussion and Analysis

OPERATING RESULTS

Net Income

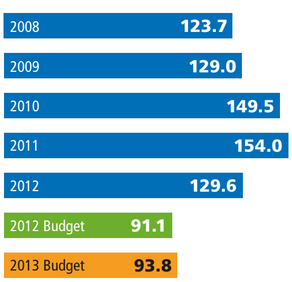
Consolidated Net Income

($ millions)	2012	2011	Change	%
Revenues	$1,182.4	$1,125.8	$56.6	5.0
Other income	10.7	5.1	5.6	109.8
	1,193.1	1,130.9	62.2	5.2
Expenses				
Goods and services purchased	553.1	519.0	34.1	6.6
Salaries, wages and benefits	332.2	331.9	0.3	0.1
Depreciation	153.6	142.3	11.3	7.9
Amortization	24.2	20.4	3.8	18.6
Internal labour capitalized	(20.6)	(16.1)	(4.5)	28.0
	1,042.5	997.5	45.0	4.5
Results from operating activities	150.6	133.4	17.2	12.9
Net finance expense	21.0	10.2	10.8	105.9
Income from continuing operations	129.6	123.2	6.4	5.2
Net income from discontinued operations	–	30.8	(30.8)	*nmf*[1]
Net income	**$129.6**	**$154.0**	$(24.4)	(15.8)

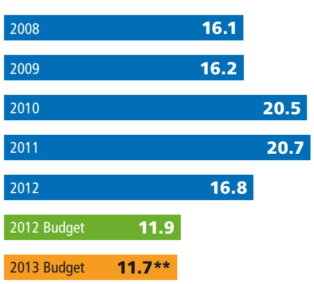
[1] *nmf* - no meaningful figure

Net income for the year was $129.6 million, down $24.4 million (15.8%) from 2011 primarily due to a reduction in net income from discontinued operations of $30.8 million. This has led to a corresponding decrease in our Return on Equity from 20.7% in 2011 to 16.8% in 2012. The decline in net income and a decrease in the dividend rate, resulted in 2012 dividends declared of $84.3 million, down $54.3 million from 2011.

Net income from discontinued operations is down $30.8 million from 2011 due to the gains realized on the sales of Hospitality Network Canada Inc. and Saskatoon 2 Properties Partnership in 2011.



Net Income
($ Millions)



Return on Equity
(Percentage)

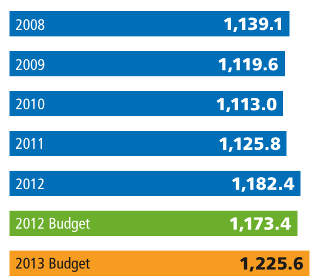
**SaskTel has calculated an adjusted target due to adoption of IAS 19. Adjusted Return on Equity is 12.4%.

Revenues

Consolidated Revenues

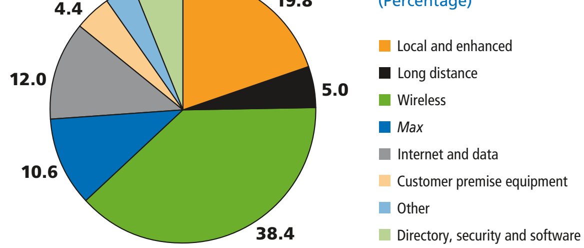
($ millions)	2012	2011	Change	%
Wireless services	$454.2	$414.4	39.8	9.6
Local and enhanced services	234.3	239.5	(5.2)	(2.2)
Internet and data services	142.4	135.9	6.5	4.8
Max services	125.6	110.9	14.7	13.3
Long distance services	59.5	62.0	(2.5)	(4.0)
Customer Premise Equipment	52.1	51.8	0.3	0.6
Advertising and directory services	43.4	43.4	–	–
Security monitoring services	19.9	19.8	0.1	0.5
Software solutions and consulting services	7.9	11.6	(3.7)	(31.9)
Other services	43.1	36.5	6.6	18.1
	$1,182.4	$1,125.8	$56.6	5.0

Total revenues increased to $1,182.4 million in 2012, up $56.6 million (5.0%) from 2011. Growth continues to be driven by *Max*, wireless, Internet and data services largely due to an increase in number of customers and an increase in their adoption of feature rich services, resulting in a higher average revenue per customer. Decreases in revenue have occurred in local access, enhanced services and long distance portfolios as customers replace these services with their wireless counterparts and small numbers of customers choose an alternate service provider.



Revenue
($ Millions)

2012 Revenue Profile
(Percentage)

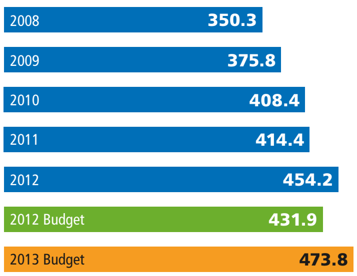


Wireless Services

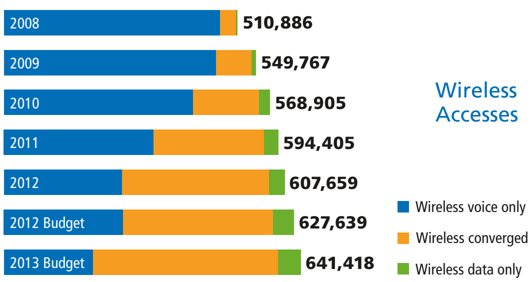
Wireless revenues increased by $39.8 million (9.6%) to $454.2 million in 2012. SaskTel's 2011 launch of its 4G services with increased data speeds resulted in strong wireless customer growth and unprecedented data usage by our customers.

Total wireless accesses increased to 607,659 at year end, up 13,254 from 2011, because customers continued to migrate from voice only devices to data-capable devices such as smartphones. This trend resulted in a 30.6% increase in the number of data-capable devices to 353,490 in 2012.

Adoption of data capable devices, such as smartphones, has also resulted in customer migration to more expensive and feature rich data plans, which spurred an increase in the average revenue per subscriber from $59.46 in 2011 to $62.99 in 2012.



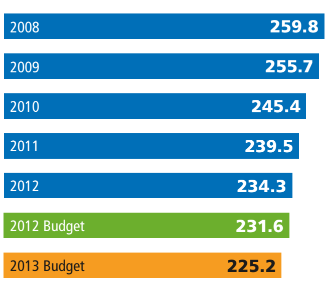
Wireless Services
($ Millions)



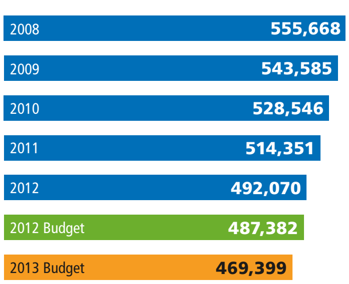
Wireless Accesses

Local Access and Enhanced Services

Local access and enhanced service revenues declined to $234.3 million in 2012, down $5.2 million (2.2%) from 2011. This decline is due to a 4.3% reduction in local accesses that occurred during the year as local access competitors gained market share and as customers continued to migrate to wireless services.



Local Access & Enhanced Services
($ Millions)

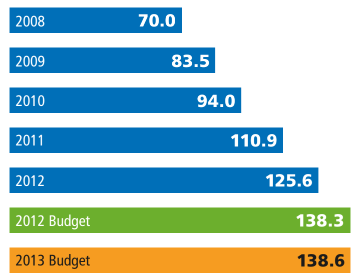


Local Accesses

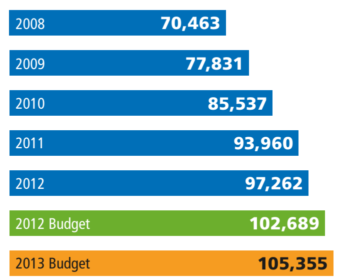
Max Entertainment Services

Max Entertainment 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.

Revenues from *Max* Entertainment services increased to $125.6 million in 2012, up $14.7 million (13.3%) from 2011. *Max* Entertainment revenue increases were driven by customer growth of 3,302 as well as an increase of $5.74 in average revenue per customer. Increases in average revenue per customer can be attributed to increased adoption of high definition services, increased penetration of digital video recorders and *Max* price increases necessary to offset increases in cost of *Max* content.



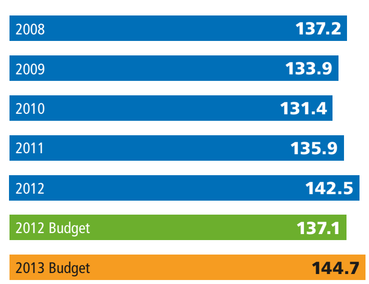
Max Entertainment Services
($ Millions)



Max Entertainment Subscribers

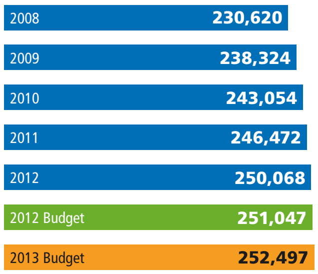
Internet and Data Services

Internet and data services revenues are up $6.5 million (4.8%) to $142.4 million in 2012. Internet revenues increased $1.1 million in 2012, primarily due to customers migrating from aging dial up Internet services to faster high speed Internet services. In 2012, SaskTel reached 250,068 Internet and data accesses, up from 246,472 in 2011, an increase of 3,596 (1.5%).



Internet & Data Services
($ Millions)

Management's Discussion and Analysis

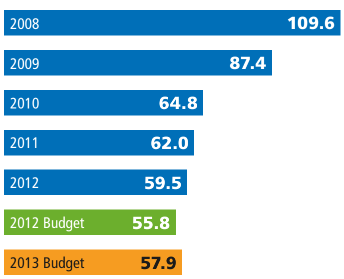


Internet & Data Accesses

Data services revenues increased by $5.4 million in 2012, primarily due to increase in demand for LANspan services. Customers are also opting for LANspan IP packages, resulting in higher revenues per customer. LANspan IP is a private Internet protocol transport network service designed to interconnect local area networks (LANs) in two or more locations.

Long Distance

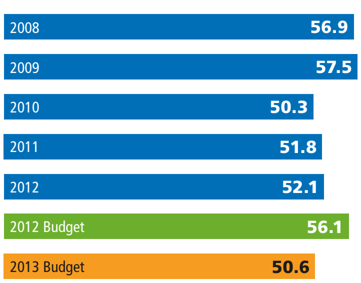
Long distance revenues declined to $59.5 million in 2012, down from $62.0 million in 2011, primarily due to rate reductions, customer movement to less expensive bundle plans and loss of customers to substitute services such as social media, wireless and voice over Internet protocol (VOIP) services.



Long Distance Services ($ Millions)

Customer Premise Equipment

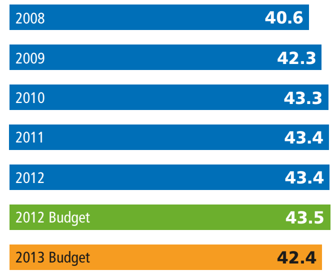
Customer premise equipment revenues have increased marginally to $52.1 million in 2012 compared to $51.8 million in 2011. SaskTel experienced increased sales in IP (Internet Protocol) based phone systems, which was partially offset by decreased sales of customer premise wiring.



Customer Premise Equipment ($ Millions)

Advertising and Directory Services

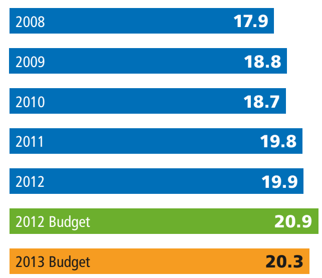
Advertising and directory services provided $43.4 million in 2012, which matched revenues received in 2011. SaskTel continues to offer both traditional print, as well as online digital products and services.



Advertising & Directory Services ($ Millions)

Security Monitoring Services

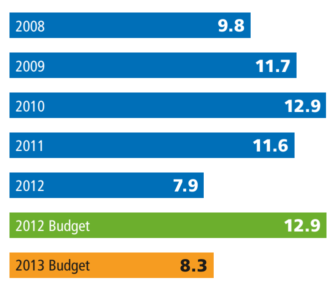
Security monitoring revenues were stable, increasing $0.1 million to $19.9 million in 2012.



Security Monitoring Services ($ Millions)

Software Solutions and Consulting

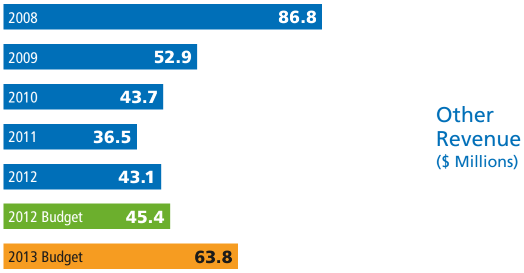
Software solutions and consulting revenues decreased to $7.9 million in 2012, down $3.7 million (31.9%) from 2011 primarily due to decreased consulting services in 2012.



Software Solutions & Consulting Services ($ Millions)

Other Revenue

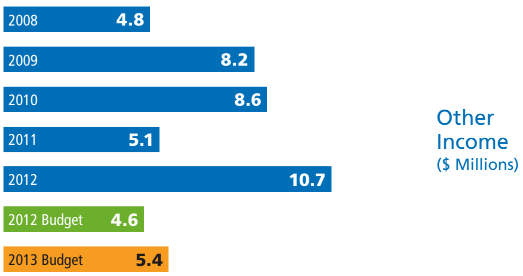
Other revenue increased to $43.1 million in 2012, up $6.6 million (18.1%) from 2011. Revenues were higher in 2012 due to the resolution of a billing dispute in 2011.



Other Income

($ millions)	2012	2011	Change	%
Other Income	**$10.7**	**$5.1**	$5.6	109.8

Other income increased to $10.7 million, up $5.6 million (109.8%) from 2011. This increase is primarily due to gains on disposal of property, plant and equipment.



Expenses

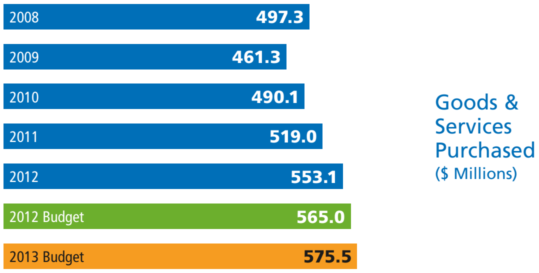
Total expenses were $1,042.5 million, up $45.0 million from 2011. This increase was due to increased goods and services purchased to support revenue growth in wireless, *Max* Entertainment, data and Internet services. In addition, depreciation and amortization increased $15.1 million due to increased plant in service.

Consolidated Expenses

($ millions)	2012	2011	Change	%
Expenses				
Goods and services purchased	**$553.1**	**$519.0**	$34.1	6.6
Salaries, wages and benefits	**332.2**	**331.9**	0.3	0.1
Depreciation	**153.6**	**142.3**	11.3	7.9
Amortization	**24.2**	**20.4**	3.8	18.6
Internal labour capitalized	**(20.6)**	**(16.1)**	(4.5)	28.0
	$1,042.5	**$997.5**	$45.0	4.5

Goods and Services Purchased

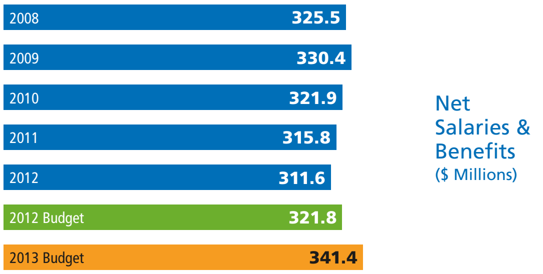
Goods and services purchased increased to $553.1 million, up $34.1 million (6.6%) from 2011. This increase was due to increased hardware subsidies, *Max* content expense, cost of goods sold, advertising, consulting and project related expense to support revenue growth in wireless, *Max* Entertainment, data and Internet revenues. These increases were partially offset by reduced roaming expense and mobile content expense and device fees.

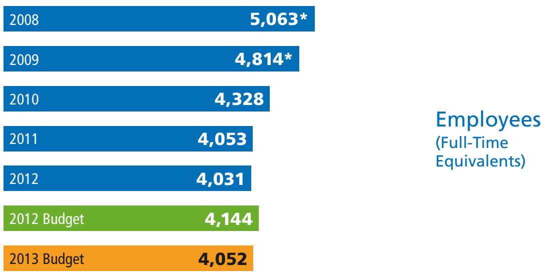


Salaries, Wages, and Benefits (net of internal capitalized labour)

Salaries, wages and benefits increased to $332.2 million, up $0.3 million (0.1%) from 2011. This increase was primarily due to the annual collective agreement increases, partially offset by higher pension income.

Internal labour capitalized increased to $20.6 million in 2012, up $4.5 million (28.0%) from 2011. This increase was due to increased capital projects requiring internal labour in 2012 compared to 2011.



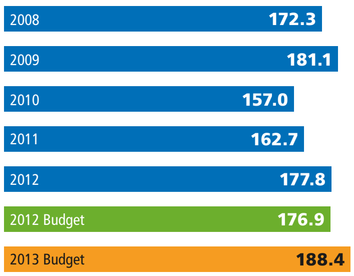


* 2008 and 2009 reported as staff employed at December 31.

Management's Discussion and Analysis

Depreciation and Amortization

Depreciation and amortization expense increased to $177.8 million in 2012, up $15.1 million (9.3%) from 2011, primarily due to increased plant in service.



Depreciation & Amortization
($ Millions)

Net Financing Expense

($ millions)	2012	2011	Change	%
Net Financing Expense	**$21.0**	**$10.2**	$10.8	105.9

Net financing expense increased to $21.0 million in 2012, up $10.8 million (105.9%) from 2011. This is driven by increased borrowings to fund the 2011 construction program, reduced capitalized interest resulting from lower plant under construction in 2012 compared to 2011 and decreases in the fair value of sinking funds.

Other Comprehensive Loss

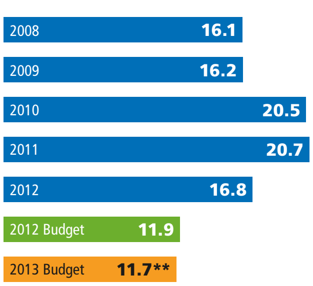
($ millions)	2012	2011	Change	%
Other comprehensive loss	**$38.4**	**$135.9**	$(97.5)	(71.7)

Other comprehensive loss decreased to $38.4 million, down $97.5 million from 2011. 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 (i.e. the discount rate used to calculate the liabilities of the plans), and partially offset by 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 decreased to 16.8% in 2012, down from 20.7% in 2011, primarily due to the gains from the disposal of discontinued operations recognized in 2011. SaskTel, however, continues to provide strong returns to its shareholder.

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



Return on Equity
(Percentage)

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operating Activities

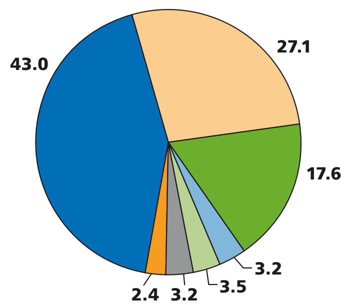
($ millions)	2012	2011	Change	%
Operating activities	**$287.5**	**$250.3**	$37.2	14.9

Cash provided by operating activities was $287.5 million, up $37.2 million from 2011, primarily due to increased income from operations and decreased contributions to the defined benefit pension plan.

Cash Used by Investing Activities

($ millions)	2012	2011	Change	%
Investing activities	**$308.4**	**$254.9**	$53.5	21.0

Cash used in investing activities was $308.4 million, up $53.5 million from 2011, primarily due to significant capital spending on corporate priority programs as well as increased spending on intangible assets.



2012 Capital Expenditures
(Percentage)

Investing Activities

Capital Spending

SaskTel's net capital spending on property, plant and equipment in 2012 was $253.2 million, up $31.4 million from 2011, primarily due to increased spending on Fibre to the Premises (FTTP) and the cellular network upgrade to Long Term Evolution (4G LTE) technology, and partially offset by government funding in the amount of $11.4 million related to the First Nations Service Improvement Project and Aboriginal Affairs and Northern Development funding for First Nations Schools. SaskTel's net spending on intangible assets was $66.6 million, up $22.7 million from the same period in 2011 primarily due to increased spending on Customer Relationship Management and Field Services Efficiency software.

SaskTel invested approximately $116.3 million in corporate priority initiatives in 2012 compared to $171.9 million in 2011. Infrastructure expenditures increased to $134.8 million in 2012 from $101.2 million in 2011.

**SaskTel has calculated an adjusted target due to adoption of IAS 19. Adjusted Return on Equity is 12.4%.

Corporate priority initiatives in 2012 included:

- $49.8 million in capital expenditures on FTTP, which will allow more functionality on the broadband network including significantly higher download and upload speeds, as well as continued improvement in *Max* services, and
- $33.4 million in capital expenditures on the cellular network upgrade to 4G LTE. This upgrade will provide more capacity for cellular traffic leading to faster data upload and download speeds.

Significant investments on infrastructure in 2012 included:

- $32.8 million spent on continued enhancements to the 4G network to allow for increased coverage and capacity, and
- $45.7 million to provide for network growth and enhancements.

Investment in intangible assets included:

- $14.2 million on Customer Relationship Management, which will consolidate customer information and allow seamless provisioning of services,
- $6.8 million on Field Services Efficiency Program, which is an automated system that is improving the efficiency and responsiveness of our dispatch of field technicians,
- $6.5 million on Marten's modernization to upgrade the software, and
- $5.2 on million on Customer Self-Serve to enhance the customer experience when accessing SaskTel products and services.

Targets for 2013

Capital expenditures in 2013 will focus on further investment in corporate priorities while sustaining current capital assets. A large portion of the growth expenditures will see capital investment to increase bandwidth to our customers through expenditures on FTTP and 4G LTE as well as continued investment in 4G enhancements and growth, network growth and refurbishment, further investment in *Max* Entertainment Services, and improved high speed Internet quality.

Cash Provided by (used in) Financing Activities

($ millions)	2012	2011	Change	%
Financing activities	**$16.4**	**$(70.7)**	$87.1	(123.2)

Cash provided by financing activities was $16.4 million compared to cash used in financing activities of $70.7 million in 2011. During 2012, SaskTel issued long-term debt with net proceeds of $147.8 million and reduced its net short-term borrowings by $19.4 million. There was no significant long-term debt activity in 2011. SaskTel paid dividends of $106.2 million to CIC, a decrease of $3.7 million from 2011. During the last five years, SaskTel paid a total of $529.3 million in dividends while maintaining a debt ratio below 45.0%.

Debt Ratio

($ millions)	2012	2011	Change	%
Long-term debt	**$580.9**	**$433.0**	$147.9	34.2
Short-term debt	**85.6**	**105.0**	(19.4)	(18.5)
Less: Sinking funds	**86.7**	**78.4**	8.3	10.6
Cash and short-term investments	**3.5**	**8.0**	(4.5)	(56.3)
Net Debt	**576.3**	**451.6**	124.7	27.6
Equity[1]	**796.2**	**750.9**	45.3	6.0
Capitalization	**$1,372.5**	**$1,202.5**	$170.0	14.1
Debt ratio	**42.0%**	**37.6%**	4.4	11.7

[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.

SaskTel's debt ratio increased to 42.0% in 2012, up from 37.6% in 2011. The overall level of net debt increased $124.7 million primarily to fund continued investment in property, plant and equipment as well as intangible assets. Equity increased $45.3 million after recording net income of $129.6 million and declaring dividends of $84.3 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 5.49% at December 31, 2012 and 6.17% at December 31, 2011. The average interest rate of the short-term debt outstanding at December 31, 2012 was 1.10% and 1.09% at December 31, 2011.

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, 2012.

	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 2013 will be property, plant and equipment and intangible asset expenditures, growth initiatives, and dividend payments.

The 2013 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 $500.0 million in combined lines of credit with financial institutions and advances from the Province of Saskatchewan. At December 31, 2012, SaskTel had accessed $85.6 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, 2012, total outstanding debt was $666.5 million compared to $538.0 million in 2011.

SIGNIFICANT ACCOUNTING POLICIES

SaskTel's consolidated financial statements are prepared according to International Financial Reporting Standards (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 judgements, 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 judgements, 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 in other comprehensive income in the period the differences arise.

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

Discount Rate

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

SaskTel determines the appropriate discount rate at the end of every year. SaskTel's discount rate was 3.80% at December 31, 2012, down 0.50% from 4.30% used in 2011. Changes in the discount rate could have an effect on SaskTel's cash flows 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 2012, SaskTel assumed an expected long-term rate of return on plan assets of 6.75%, consistent with the rate used in 2011. This rate is not currently anticipated to change in 2013.

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 depreciation or 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 estimated useful lives. These estimated useful lives are reviewed annually. In addition, 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 cash-generating unit 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 judgement and is generally based on current and anticipated asset potential, including future technological trends. Declines in future cash flow potential or significant unanticipated technology changes could impact the carrying value and potential impairment. In addition, SaskTel cannot predict whether an event that may trigger an impairment will occur, when it will occur, or how it will affect the asset values reported.

Goodwill

SaskTel management does not amortize goodwill but tests it for impairment 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 goodwill allocated to the CGU. Again, estimating the cash flows to determine the recoverable amount of the relevant CGU requires significant judgement 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 cash-generating unit 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 judgement 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 judgement and is generally based on current and anticipated asset potential, including future technological trends. Declines in future cash flow potential or significant unanticipated technology changes could impact the carrying value and potential impairment. In addition, SaskTel cannot predict whether an event that 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

	IFRS			GAAP	
($ millions)	**2012**	2011	2010	2009	2008
Revenue	**$1,182.4**	$1,125.8	$1,113.0	$1,119.6	$1,139.1
Other income	**10.7**	5.1	8.6	8.2	4.8
	1,193.1	1,130.9	1,121.6	1,127.8	1,143.9
Expenses					
Goods and services purchased	**553.1**	519.0	490.1	461.3	497.3
Salaries, wages and benefits	**332.2**	331.9	338.9	330.4	325.5
Depreciation	**153.6**	142.3	136.0	143.0	149.2
Amortization	**24.2**	20.4	21.0	38.1	23.1
Internal labour capitalized	**(20.6)**	(16.1)	(17.0)	–	–
	1,042.5	997.5	969.0	972.8	995.1
Results from operating activities	**150.6**	133.4	152.6	155.0	148.8
Net finance expense	**(21.0)**	(10.2)	(7.9)	(22.1)	(23.1)
Income from continuing operations	**129.6**	123.2	144.7	132.9	125.7
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)
Net income	**$129.6**	$154.0	$149.5	$129.0	$123.6

Consolidated Statement of Financial Position

	IFRS			GAAP	
($ millions)	**2012**	2011	2010	2009	2008
Current assets	**$164.9**	$145.6	$174.6	$136.1	$134.9
Property, plant and equipment	**1,335.2**	1,232.0	1,153.9	924.9	880.6
Other long-term assets	**309.9**	257.6	218.9	355.8	343.1
Total assets	**$1,810.0**	$1,635.2	$1,547.4	$1,416.8	$1,358.6
Current liabilities	**$325.9**	$337.5	$246.4	$313.6	$231.3
Long-term debt	**580.9**	433.0	432.8	233.9	330.6
Other long-term liabilities	**324.3**	292.8	175.8	57.5	10.7
Province of Saskatchewan's equity	**578.9**	571.9	692.4	811.8	786.0
Total liabilities and Province of Saskatchewan's equity	**$1,810.0**	$1,635.2	$1,547.4	$1,416.8	$1,358.6

Consolidated Statement of Cash Flows

	IFRS			GAAP	
($ millions)	**2012**	2011	2010	2009	2008
Cash and cash equivalents, beginning of year	**$8.0**	$18.9	$9.0	$4.9	$12.0
Cash provided by operating activities	**287.5**	250.3	290.5	310.8	268.5
Cash used in investing activities	**(308.4)**	(254.9)	(298.4)	(184.3)	(219.3)
Cash provided by (used in) financing activities	**16.4**	(70.7)	14.2	(125.3)	(53.7)
Increase (decrease) in cash from continuing operations	**(4.5)**	(75.3)	6.3	1.2	(4.5)
Increase (decrease) in cash from discontinued operations	**–**	64.4	3.6	3.2	(2.6)
Cash and cash equivalents, end of year	**$3.5**	$8.0	$18.9	$9.3	$4.9

Financial Indicators

	IFRS			GAAP	
	2012	2011	2010	2009	2008
Return on equity	**16.8%**	20.7%	20.5%	16.2%	16.1%
Debt ratio	**42.0%**	37.6%	36.1%	24.4%	27.3%
Dividends declared	**$84.3**	$138.6	$139.7	$103.2	$78.9

Consolidated Statement of Income

($ millions)	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Revenue	$304.5	$302.5	$290.3	$285.1	$299.4	$286.8	$271.3	$268.3
Other income	2.4	2.7	4.4	1.2	2.0	1.4	0.7	1.0
	306.9	305.2	294.7	286.3	301.4	288.2	272.0	269.3
Expenses								
Goods and services purchased	158.9	135.1	133.5	125.6	139.4	133.9	125.4	120.3
Salaries, wages and benefits	83.7	80.3	81.9	86.3	82.7	78.9	83.6	86.7
Depreciation	39.6	36.1	38.4	39.5	35.4	34.3	36.6	36.0
Amortization	6.9	6.8	5.4	5.1	5.2	5.2	5.0	5.0
Internal labour capitalized	(5.8)	(4.9)	(5.6)	(4.3)	(4.9)	(3.9)	(4.0)	(3.3)
	283.3	253.4	253.6	252.2	257.8	248.4	246.6	244.7
Results from operating activities	23.6	51.8	41.1	34.1	43.6	39.8	25.4	24.6
Net finance expense	(5.8)	(5.0)	(4.0)	(6.2)	(1.9)	(0.7)	(2.3)	(5.3)
Income from continuing operations	17.8	46.8	37.1	27.9	41.7	39.1	23.1	19.3
Net income from discontinued operations	–	–	–	–	–	–	–	30.8
Net income	$17.8	$46.8	$37.1	$27.9	$41.7	$39.1	$23.1	$50.1

Annual Operating Statistics

Customer Accesses	**2012**	2011	2010	2009	2008
Wireless*	**607,659**	594,405	568,905	549,767	510,886
Wireline*	**492,070**	514,351	528,546	543,585	555,668
Internet and data (includes *Max*)	**250,068**	246,472	243,054	238,324	230,620
Max subscribers	**97,262**	93,960	85,537	77,831	70,463
Total accesses	**1,447,059**	1,449,188	1,426,042	1,409,507	1,367,637

Employees and Payroll	**2012**	2011	2010	2009	2008
Total employees**	**4,031**	4,053	4,328	4,814	5,063
Salaries earned (000's)	**$295,714**	$296,025	$300,929	$303,138	$296,494

* Does not include SaskTel internal use
** 2010, 2011 and 2012 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, 2012, 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. 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 and Risk Management Committee, consisting of outside directors, which meets periodically with management as well as with the internal and external auditors. The Audit and Risk Management 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 and Risk Management 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
February 26, 2013

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, 2012 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, 2012 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
February 26, 2013

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 statement of financial position as at December 31, 2012, the consolidated statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained in our audit 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, 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
Regina, Canada
February 26, 2013

Consolidated Statement of Income and Other Comprehensive Income

For the year ended December 31, Thousands of dollars	Note	2012	2011
Revenue	4	**$1,182,422**	$1,125,806
Other income	4	**10,696**	5,050
		1,193,118	1,130,856
Expenses			
Goods and services purchased		**553,067**	519,020
Salaries, wages and benefits		**332,188**	331,875
Depreciation	10	**153,648**	142,349
Amortization		**24,189**	20,391
Internal labour capitalized		**(20,568)**	(16,114)
		1,042,524	997,521
Results from operating activities		**150,594**	133,335
Net finance expense	5	**20,968**	10,146
Income from continuing operations		**129,626**	123,189
Net income from discontinued operations	6	**–**	30,802
Net income		**129,626**	153,991
Other comprehensive loss			
Actuarial losses on employee benefit plans	19	**(38,394)**	(135,898)
Total comprehensive income		**$91,232**	$18,093

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, 2012	**$250,000**	**$321,882**	**$571,882**
Net income	**–**	**129,626**	**129,626**
Other comprehensive loss	**–**	**(38,394)**	**(38,394)**
Total comprehensive income for the year	**–**	**91,232**	**91,232**
Dividends	**–**	**84,257**	**84,257**
Balance at December 31, 2012	**$250,000**	**$328,857**	**$578,857**
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
Balance at December 31, 2011	$250,000	$321,882	$571,882

See Accompanying Notes

Consolidated Financial Statements

Consolidated Statement of Financial Position

As at December 31, Thousands of dollars	Note	**2012**	2011
Assets			
Current assets			
Cash		**$3,466**	$7,998
Trade and other receivables	7	**129,776**	109,920
Inventories	8	**8,570**	8,774
Prepaid expenses	9	**23,101**	18,894
		164,913	145,586
Property, plant and equipment	10	**1,335,155**	1,232,019
Intangible assets	11	**210,520**	168,875
Sinking funds	12	**86,695**	78,444
Other assets	13	**12,760**	10,317
		$1,810,043	$1,635,241
Liabilities and Province's equity			
Current liabilities			
Trade and other payables	14	**$158,874**	$132,133
Dividend payable		**22,881**	44,834
Notes payable	15	**85,600**	105,000
Services billed in advance	16	**58,560**	55,565
		325,915	337,532
Deferred revenue		**8,067**	8,940
Deferred income – government funding	17	**52,787**	46,045
Long-term debt	18	**580,881**	432,972
Employee benefit obligations	19	**263,536**	237,870
		1,231,186	1,063,359
Province of Saskatchewan's equity			
Equity advance	20	**250,000**	250,000
Retained earnings		**328,857**	321,882
		578,857	571,882
		$1,810,043	$1,635,241

See Accompanying Notes

On behalf of the Board:

Grant Kook
February 26, 2013

Glenys Sylvestre

Consolidated Statement of Cash Flows

For the year ended December 31, Thousands of dollars	Note	2012	2011
Operating activities			
Income from continuing operations		**$129,626**	$123,189
Adjustments to reconcile income from continuing operations to cash provided by operating activities:			
Depreciation and amortization		**177,837**	162,740
Contributions to defined benefit pension plans	19	**(133)**	(15,989)
Pension income of defined benefit plans	19	**(12,153)**	(7,785)
Net finance expense	5	**20,968**	10,146
Interest paid		**(30,161)**	(26,724)
Interest received		**1,980**	1,761
Amortization of government funding	17	**(4,675)**	(5,777)
Other		**3,833**	6,848
Net change in non-cash working capital	21	**355**	1,870
		287,477	250,279
Investing activities			
Property, plant and equipment expenditures		**(253,176)**	(221,798)
Intangible asset expenditures		**(66,621)**	(43,877)
Government funding	17	**11,417**	10,769
		(308,380)	(254,906)
Financing activities			
Proceeds from long-term debt		**147,847**	–
Net proceeds (repayment) of notes payable	15	**(19,400)**	45,100
Sinking fund installments	12	**(5,866)**	(5,866)
Dividends paid		**(106,210)**	(109,915)
		16,371	(70,681)
Decrease in cash from continuing operations		**(4,532)**	(75,308)
Increase in cash from discontinued operations	6	**–**	64,393
Cash, beginning of year		**7,998**	18,913
Cash, end of year		**$3,466**	$7,998

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).

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:

- Use of the straight-line basis of depreciation and amortization (Note 10 – Property, plant and equipment and Note 11 – Intangible assets),
- 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 include:

- 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 unless otherwise indicated.

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

a. Basis of consolidation

i. Business combinations

For acquisitions, 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.

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 to bring the accounting policies used in line with those used by the Corporation.

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.

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.

Note 3 – Significant accounting policies, continued

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 are 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 ninety days or less.

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.

Note 3 – Significant accounting policies, continued

f. Property, plant and equipment

Property, plant and equipment are measured at cost, 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 is eliminated from the accounts. Any resulting gain or loss is reflected in net income for the year.

g. Depreciation of property, plant and equipment

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

Depreciation 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	3 – 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 2012 (see Note 10 – Property, plant and equipment).

h. 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.

i. 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). Subsequently goodwill is measured at cost less any accumulated impairment losses.

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.

Notes to Consolidated Financial Statements

Note 3 – Significant accounting policies, continued

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 any 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.

j. 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.

Note 3 – Significant accounting policies, continued

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.

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.

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 (the cash generating unit or the CGU). The recoverable amount of an asset or 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 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.

k. 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.

l. 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.

Notes to Consolidated Financial Statements

Note 3 – Significant accounting policies, continued

m. 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.

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. 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.

Note 3 – Significant accounting policies, continued

n. 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.

Financial assets at fair value through profit or loss (FVTPL)

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 (LAR)

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.

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.

Other liabilities (OL)

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.

Notes to Consolidated Financial Statements

Note 3 – Significant accounting policies, continued

o. Finance income and expenses

Finance income is comprised of interest income on funds invested 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.

p. 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(k)).

q. 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, 2012. These include:

- 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, 2015. The Corporation does not expect to by materially affected by the new recommendations.
- 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. The Corporation does not expect to by materially affected by the new recommendations.
- 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. The Corporation does not expect to by materially affected by the new recommendations.
- 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. The Corporation does not expect to by materially affected by the new recommendations.
- 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. The Corporation is currently assessing the impacts of the new recommendations.
- 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. The Corporation does not expect to by materially affected by the new recommendations.
- 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 applied retrospectively. The Corporation estimates that, upon adoption of the new standard, net income for the year ended December 31, 2012 will be reduced by $23.4 million and other comprehensive income will increase by the same amount. Retained earnings and accumulated other comprehensive loss at January 1, 2013 will increase by $169.4 million.
- 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. The Corporation does not expect to by materially affected by the new recommendations.
- 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. The Corporation does not expect to be materially affected by the new recommendations.

Note 4 – Revenue and other income

For the year ended December 31, Thousands of dollars	Note	2012	2011
Services revenue			
Wireless		**$454,196**	$414,432
Max, Internet and data services		**276,017**	253,922
Local service		**265,744**	273,564
Long distance services		**61,013**	63,705
Advertising and directory services		**43,407**	43,401
Security monitoring services		**19,888**	19,790
Telecommunication software		**7,853**	11,628
Other revenue		**54,304**	45,364
		1,182,422	1,125,806
Other income			
Net gain (loss) on retirement or disposal of property, plant and equipment		**1,189**	(2,541)
Amortization of government funding	17	**4,675**	5,777
Other		**4,832**	1,814
		10,696	5,050
		$1,193,118	$1,130,856

Note 5 – Net finance expense

For the year ended December 31, Thousands of dollars	Note	2012	2011
Recognized in consolidated net income			
Interest expense on financial liabilities measured at amortized cost		**$32,160**	$27,536
Interest capitalized		**(6,829)**	(7,822)
Net interest expense		**25,331**	19,714
Net change in fair value of financial assets at fair value through profit or loss	12	**2,547**	–
Finance expense		**27,878**	19,714
Interest income on unimpaired financial assets at fair value through profit or loss	12	**(4,932)**	(5,435)
Net change in fair value of financial assets at fair value through profit or loss	12	**–**	(2,374)
Interest income on loans and receivables		**(1,978)**	(1,759)
Finance income		**(6,910)**	(9,568)
Net finance expense		**$20,968**	$10,146
Interest capitalization rate		**5.31%**	5.84%

Note 6 – 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 was 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 was included in net income from discontinued operations in the consolidated statement of income and other comprehensive income. Active operations of Hospitality Network ceased as of that date.

Note 7 – Trade and other receivables

As at December 31, Thousands of dollars	**2012**	2011
Accounts receivables		
Customer accounts receivable	**$91,798**	$76,634
Accrued receivables – customer	**25,543**	23,820
Allowance for doubtful accounts	**(2,711)**	(2,472)
	114,630	97,982
High cost serving area subsidy	**2,726**	5,341
Other	**12,420**	6,597
	$129,776	$109,920

Note 8 – Inventories

As at December 31, Thousands of dollars	**2012**	2011
Inventories for resale	**$6,371**	$4,872
Materials and supplies	**2,199**	3,902
	$8,570	$8,774

The cost of inventories recognized as an expense during the year was $40.0 million (2011 - $35.1 million).

In 2012, write-downs of inventory to net realizable value amounted to $1.1 million (2011 - $2.9 million).

Note 9 – Prepaid expenses

As at December 31, Thousands of dollars	**2012**	2011
Prepaid expenses	**$16,165**	$13,862
Deferred service connection charges	**4,392**	4,448
Short-term prepaid customer incentives	**2,544**	584
	$23,101	$18,894

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						
Balance at January 1, 2012	**$2,642,439**	**$393,522**	**$97,609**	**$115,742**	**$32,468**	**$3,281,780**
Additions	**48,670**	**12**	**20,445**	**193,902**	**1,010**	**264,039**
Transfers	**146,079**	**17,579**	**1,565**	**(166,090)**	**867**	**–**
Retirements and disposals	**(23,071)**	**(69)**	**(7)**	**–**	**(91)**	**(23,238)**
Balance at December 31, 2012	**$2,814,117**	**$411,044**	**$119,612**	**$143,554**	**$34,254**	**$3,522,581**
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 at December 31, 2011	$2,642,439	$393,522	$97,609	$115,742	$32,468	$3,281,780
Accumulated depreciation						
Balance at January 1, 2012	**$1,902,085**	**$106,685**	**$40,991**	**$ –**	**$ –**	**$2,049,761**
Depreciation for the year	**127,061**	**8,828**	**17,759**	**–**	**–**	**153,648**
Retirements, disposals and adjustments	**(19,748)**	**(48)**	**3,813**	**–**		**(15,983)**
Balance at December 31, 2012	**$2,009,398**	**$115,465**	**$62,563**	**$ –**	**$ –**	**$2,187,426**
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 at December 31, 2011	$1,902,085	$106,685	$40,991	$ –	$ –	$2,049,761
Carrying amounts						
At January 1, 2012	**$740,354**	**$286,837**	**$56,618**	**$115,742**	**$32,468**	**$1,232,019**
At December 31, 2012	**$804,719**	**$295,579**	**$57,049**	**$143,554**	**$34,254**	**$1,335,155**
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 December 31, 2012, the Corporation had property, plant and equipment that was fully depreciated and still in use with a cost of $1.6 billion (2011 – $1.5 billion).

Effective October 1, 2012, the Corporation adjusted the useful lives of certain assets to coincide with the revised exit dates for the related technologies. The impacts are as follows:

Millions of dollars	2012	2013	2014	2015	2016	2017	2018	2019
Depreciation expense increase (decrease)	$1.4	$(4.7)	$(5.2)	$(5.1)	$3.1	$6.2	$6.2	$1.3

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, 2012	**$5,976**	**$110,578**	**$62,099**	**$65,981**	**$33,158**	**$277,792**
Acquisitions	**–**	**28,210**	**5,440**	**–**	**14,929**	**48,579**
Acquisitions – internally developed	**–**	**465**	**–**	**–**	**16,781**	**17,246**
Transfers	**–**	**31,888**	**–**	**–**	**(31,888)**	**–**
Retirements and disposals	**–**	**(145)**	**–**	**–**	**–**	**(145)**
Balance at December 31, 2012	**$5,976**	**$170,996**	**$67,539**	**$65,981**	**$32,980**	**$343,472**
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
Retirements and disposals	–	(23,321)	–	–	–	(23,321)
Balance December 31, 2011	$5,976	$110,578	$62,099	$65,981	$33,158	$277,792
Accumulated amortization						
Balance at January 1, 2012	**$ –**	**$70,416**	**$38,501**	**$ –**	**$ –**	**$108,917**
Amortization for the year	**–**	**19,530**	**4,650**	**–**	**–**	**24,180**
Retirements and disposals	**–**	**(145)**	**–**	**–**	**–**	**(145)**
Balance at December 31, 2012	**$ –**	**$89,801**	**$43,151**	**$ –**	**$ –**	**$132,952**
Balance at January 1, 2011	$ –	$78,597	$33,286	$ –	$ –	$111,883
Amortization for the year	–	15,107	5,215	–	–	20,322
Retirements and disposals	–	(23,288)	–	–	–	(23,288)
Balance December 31, 2012	$ –	$70,416	$38,501	$ –	$ –	$108,917
Carrying amounts						
At January 1, 2012	**$5,976**	**$40,162**	**$23,598**	**$65,981**	**$33,158**	**$168,875**
At December 31, 2012	**$5,976**	**$81,195**	**$24,388**	**$65,981**	**$32,980**	**$210,520**
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 December 31, 2012, the Corporation had intangible assets that were fully amortized and still in use with a cost of $44.5 million (2011 – $15.6 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. Impairment testing indicated no impairment at December 31, 2012.

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) and finite-life intangible assets under development are allocated to SaskTel. 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.

Note 11 – Intangible assets, continued

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. Impairment testing indicated no impairment at December 31, 2012.

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:

As at December 31, Thousands of dollars	**2012**	2011
Sinking funds, beginning of year	**$78,444**	$64,769
Installments	**5,866**	5,866
Earnings	**4,932**	5,435
Valuation adjustment	**(2,547)**	2,374
	$86,695	$78,444

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

Thousands of dollars	
2013	$7,366
2014	7,366
2015	7,366
2016	7,366
2017	7,366

Note 13 – Other assets

As at December 31, Thousands of dollars	**2012**	2011
Deferred service connection charges	**$5,567**	$5,821
Long-term prepaid customer incentives	**3,664**	990
Financing leases	**3,485**	3,464
Other	**44**	42
	$12,760	$10,317

Note 14 – Trade and other payables

As at December 31, Thousands of dollars	**2012**	2011
Trade accounts payable and accrued liabilities	**$119,843**	$90,932
Payroll and other employee-related liabilities	**32,929**	30,228
Other	**6,102**	10,973
	$158,874	$132,133

Notes to Consolidated Financial Statements

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 1.10% (2011 – 1.09%).

Note 16 – Services billed in advance

As at December 31, Thousands of dollars	**2012**	2011
Advance billings	**$46,358**	$42,962
Deferred customer activation and connection fees	**5,481**	6,435
Customer deposits	**6,721**	6,168
	$58,560	$55,565

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), $49.2 million has been applied to capital expenditures and $5.8 million to operating expenditures.

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 $0.5 million has been applied to capital expenditures and $0.1 million to operating expenditures. The balance of funded expenditures are planned for 2013.

In conjunction with the First Nations Service Improvement Project (FNSIP), the Corporation has received $7.5 million of the contracted amount of $8.8 million for funding of Internet and cellular service to selected First Nations communities in Saskatchewan. To date $7.0 million has been applied to capital expenditures and date $0.5 million has been applied to operating expenditures. The balance of the funded expenditures are planned for early 2013.

In conjunction with Aboriginal Affairs and Northern Development (AAND), the Corporation has received $4.6 million for funding of Internet and cellular service to selected First Nations communities in Saskatchewan. To date $1.8 million has been applied to capital expenditures and $0.1 million has been applied to operating expenditures. The balance of the funded expenditures are planned for early 2013.

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.

As at December 31,			**2012**			2011
Thousands of dollars	**RIP**	**SCN**	**FNSIP**	**AAND**	**Total**	Total
Balance, beginning	**$44,582**	**$1,201**	**$262**	**$ –**	**$46,045**	$41,053
Funding received	**–**	**–**	**6,777**	**4,640**	**11,417**	10,769
	44,582	**1,201**	**7,039**	**4,640**	**57,462**	51,822
Amortization	**4,285**	**69**	**195**	**126**	**4,675**	5,777
Balance, ending	**$40,297**	**$1,132**	**$6,844**	**$4,514**	**$52,787**	$46,045

Note 18 – Long-term debt

As at December 31,	2012		2011	
Thousands of dollars	**Principal Outstanding**	**Effective Interest Rate (%)**	Principal Outstanding	Effective Interest Rate (%)
Unsecured advances from the Province of Saskatchewan				
3.90% due July 2020	**$148,945**	**4.01**	$148,829	4.01
10.08% due December 2020	**125,931**	**10.18**	125,879	10.18
4.15% due December 2025	**50,000**	**4.15**	50,000	4.15
5.75% due March 2029	**73,324**	**5.97**	73,264	5.97
5.60% due March 2029	**35,000**	**5.18**	35,000	5.18
3.40% due February 2042	**147,681**	**3.49**	–	–
Total due to Province of Saskatchewan	**$580,881**		$432,972	

As at December 31, 2012, 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% to 2% 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 Financial and Consumer Affairs Authority of Saskatchewan – Pensions 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% times the average of the highest three years of pensionable earnings times the number of years of service up to a maximum of 35 years of service. A reduced pension may be opted for if certain age and years of service criteria are met.

For employees that retire before the age of 65, but meet other age plus service requirements, either a reduced or unreduced pension may be payable. Pensions are subject to annual indexing with the Consumer Price Index (CPI) up to a maximum of 2% per year.

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 three 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.

The accounting actuarial valuation includes a provision for uncommitted and ad hoc benefit increases, and uses 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:

As at December 31,	2012	2011
Discount rate – end of year	**3.80%**	4.30%
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

Notes to Consolidated Financial Statements

Note 19 – Employee benefits, continued

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	**2012**	2011	2010
Defined benefit obligation, beginning of year	**$1,130,310**	$1,050,704	$976,755
Current service cost	**166**	1,075	1,693
Interest cost	**47,155**	53,475	56,731
Benefits paid	**(67,699)**	(66,408)	(65,849)
Impact of change in actuarial assumption recognized in OCI	**70,654**	91,464	81,374
Defined benefit obligation, end of year	**$1,180,586**	$1,130,310	$1,050,704

Movement in the fair value of plan assets

Thousands of dollars	**2012**	2011	2010
Fair value of plan assets, beginning of year	**$914,283**	$945,668	$896,306
Expected return on plan assets	**59,435**	62,137	58,845
Actuarial gains (losses) recognized in OCI	**32,628**	(43,301)	39,555
Employee funding contributions	**39**	198	361
Employer funding contributions	**133**	15,989	16,450
Benefits paid	**(67,699)**	(66,408)	(65,849)
Fair value of plan assets, end of year	**$938,819**	$914,283	$945,668
Employee benefit obligations	**$241,767**	$216,027	$105,036

Recently amended provisions of *The Pension Benefits Regulations, 1993*, allow corporations to elect a three year moratorium from funding a solvency deficit. The Corporation has exercised this election and has suspended contributions.

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

For the year ended December 31, Thousands of dollars	**2012**	2011
Current service cost – defined benefit plan	**$127**	$877
Interest cost	**47,155**	53,475
Expected return on pension plan assets	**(59,435)**	(62,137)
Defined benefit plan pension income included in salaries, wages and benefits	**$(12,153)**	$(7,785)

Experience adjustments recognized directly in other comprehensive income

For the year ended December 31, Thousands of dollars	**2012**	2011	2010
Experience adjustment on plan liabilities	**$ –**	$26,897	$ –
Experience adjustment on plan assets	**–**	–	–
	$ –	$26,897	$ –

Note 19 – Employee benefits, continued

Actuarial losses recognized directly in other comprehensive income

Thousands of dollars	**2012**	2011	2010
Cumulative amount, beginning of year	**$176,584**	$41,819	$ –
Recognized during the year	**38,026**	134,765	41,819
Cumulative amount, end of year	**$214,610**	$176,584	$41,819

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

As at December 31, **Asset Category**	**2012**	2011
Short-term investments	**1.2%**	10.5%
Bond and debentures	**31.6%**	27.8%
Equity securities – Canadian	**16.5%**	21.6%
Equity securities – US	**14.3%**	14.4%
Equity securities – Non-North American	**23.4%**	15.3%
Real estate	**13.0%**	10.4%

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:

As at December 31,	**2012**	2011
Discount rate	3.40%	3.80%
Expected salary increase	3.00%	3.00%
Estimated average remaining employee service life	9.5 years	10.9 years

Employee benefit obligations

Thousands of dollars	**2012**	2011	2010
Balance, beginning of year	**$21,843**	$21,011	$19,988
Defined benefit service cost	**806**	910	1,061
Benefit payments	**(1,248)**	(1,211)	(1,252)
Impact of change in actuarial assumptions	**368**	1,133	1,214
Balance, end of year	**$21,769**	$21,843	$21,011

Actuarial gains and losses recognized directly in other comprehensive income

Thousands of dollars	**2012**	2011	2010
Cumulative amount, beginning of year	**$2,347**	$1,214	$ –
Recognized during the year	**368**	1,133	1,214
Cumulative amount, end of year	**$2,715**	$2,347	$1,214

Note 19 – Employee benefits, continued

c. Defined contribution pension plan

The defined contribution pension plan requires the Corporation to contribute 7% of employees' pensionable earnings and employees to contribute a minimum of 4% of pensionable earnings. The total cost for the defined contribution plan is equal to the Corporation's required contribution. The Corporation's 2012 pension cost and employer contributions for the Public Employees Pension Plan are $18.6 million (2011 – $18.5 million).

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 2012 was 47.9%.

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:

As at December 31, Thousands of dollars	Note	**2012**	2011
Total debt (a)		**$666,481**	$537,972
Less: Sinking funds	12	**86,695**	78,444
Cash and short-term investments		**3,466**	7,998
Net debt		**576,320**	451,530
Equity (b)		**796,182**	750,813
Capitalization		**$1,372,502**	$1,202,343
Debt ratio		**42.0%**	37.6%

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

For the year ended December 31, Thousands of dollars	2012	2011
Net change in non-cash working capital balances related to operations		
Trade and other receivables	**$(20,008)**	$(2,614)
Inventories	**204**	(2,963)
Prepaid expenses	**(4,207)**	(9,986)
Trade and other payables	**24,664**	18,516
Services billed in advance	**2,995**	(209)
Deferred revenues	**(873)**	139
Long-term prepaid customer incentives	**(2,674)**	(990)
Deferred expenses	**254**	(23)
	$355	$1,870

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
As at December 31,

			2012		2011	
Thousands of dollars	Classification (a)	Note	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Financial assets						
Cash	FVTPL		**$3,466**	**$3,466**	$7,998	$7,998
Trade and other receivables	LAR	7	**129,776**	**129,776**	109,920	109,920
Investments – sinking funds	FVTPL	12	**86,695**	**86,695**	78,444	78,444
Financial liabilities						
Trade and other payables	OL	14	**158,874**	**158,874**	132,133	132,133
Notes payable	OL	15	**85,600**	**85,600**	105,000	105,000
Long-term debt	OL	18	**580,881**	**720,763**	432,972	569,233

(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, 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 2011 or 2012.

Notes to Consolidated Financial Statements

Note 22 – Financial risk management, continued

There were no items transferred between levels in 2011 or 2012.

As at December 31,		**2012**			2011	
Thousands of dollars	**Level 1**	**Level 2**	**Total**	Level 1	Level 2	Total
Sinking funds	**$ –**	**$86,695**	**$86,695**	$ –	$78,444	$78,444
Long-term debt	**$ –**	**$720,763**	**$720,763**	$ –	$569,233	$569,233

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, $86.7 million (2011 – $78.4 million) in sinking funds which is required for certain long-term debt issues. At December 31, 2012, 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, 2012. 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, 2012 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:

As at December 31,		**2012**	2011
Thousands of dollars	Note		
Cash		**$3,466**	$7,998
Trade and other receivables	7	**129,776**	109,920
Sinking funds	12	**86,695**	78,444
		$219,937	$196,362

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

As at December 31, Thousands of dollars	**2012**	2011
Opening balance	**$2,472**	$2,840
Less: accounts written off	**(11,843)**	(10,623)
Recoveries	**4,352**	3,427
Provisions for losses	**7,730**	6,828
Ending balance	**$2,711**	$2,472

Customer accounts receivable

As at December 31, Thousands of dollars	**2012**	2011
Current	**$76,703**	$61,219
30-60 Days	**12,082**	12,635
61-90 Days	**2,254**	1,778
Greater than 90 Days	**759**	1,002
Gross customer accounts receivable	**91,798**	76,634
Allowance for doubtful accounts	**(2,711)**	(2,472)
Net customer accounts receivable	**$89,087**	$74,162

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, 2012	**Carrying amount**	**Total**	**0-6 Months**	**7-12 Months**	**1-2 Years**	**3-5 Years**	**More than 5 Years**
Long-term debt (a)	**$580,881**	**$1,009,634**	**$16,029**	**$16,029**	**$32,059**	**$96,176**	**$849,341**
Notes payable	**85,600**	**85,835**	**85,835**	**–**	**–**	**–**	**–**
Trade and other payables	**158,874**	**158,874**	**158,874**	**–**	**–**	**–**	**–**
	$825,355	**$1,254,343**	**$260,738**	**$16,029**	**$32,059**	**$96,176**	**$849,341**

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	105,286	105,286	–	–	–	–
Trade and other payables	132,133	132,133	132,133	–	–	–	–
	$670,105	$976,650	$250,898	$13,479	$26,959	$80,876	$604,438

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

e) Embedded derivatives

The Corporation had no contracts with embedded derivatives as at December 31, 2011 and December 31, 2012.

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, 2012, the aggregate amount of the Corporation's transactions with other government-related entities are approximately 6.1% of revenues, 30.4% of other income, 10.0% of operating expenses and 1.8% 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:

For the year ended December 31, Thousands of dollars	**2012**	2011
Short-term employee benefits	**$3,978**	$3,964
Post-employment benefits		
Defined contribution	**242**	232
Defined benefit	**2**	13
	$4,222	$4,209

Note 24 – Commitments and contingencies

Commitments

As at December 31, 2012, the Corporation has committed to spend $134.2 million (2011 – $44.9 million) on property, plant and equipment, $1.3 million (2011 – $3.2 million) on intangible assets and $116.7 million (2011 – $170.1 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. A subsequent application for leave to appeal to the Supreme Court of Canada was dismissed in June of 2012. The matter will now proceed in the usual fashion of finalized pleadings, document and oral discovery to trial. The Corporation is finalizing its formal Statement of Defense to the Claim and continues to believe that it has strong defenses to the allegations as certified in the 2004 action.

Note 24 – Commitments and contingencies, continued

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 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 claim and will be defending it. 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 three years later. The Corporation believes that it has strong defenses to the claim and will be defending it. 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 claim and will be defending it. 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, 2012 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:

As at December 31, Thousands of dollars	**2012**	2011
Less than 1 year	**$7,052**	$5,382
Between 1 and 5 years	**19,325**	12,854
Greater than 5 years	**14,532**	5,495
	$40,909	$23,731

During the year ended December 31, 2012, the Corporation recognized $13.1 million (2011 – $12.9 million) as rent expense related to operating leases.

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 and HeadStart on a Home.
- 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 past 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 2012 Queen Elizabeth II Diamond Jubilee Commemorative Medal, 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.

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

- President 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, and Executive Chairman of the Board.
- 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.
- Served on fundraising committees for St. Elizabeth Hospital Foundation and the Humboldt Jaycees.

Reg Howard

- Chief Operating Officer of Canadian Digital Network.
- Vice President of Construction for Century West Homes, Commercial and Residential.
- Vice President of Human Resources and Marketing for the Walker Group of Companies.
- Formerly 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 and Vice Chair of the George Reed Foundation.

Board of Directors, *continued*

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.

Gayle MacDonald

- President and Chief Executive Officer 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 and fundraising events.
- Enjoys playing in a band, entertaining crowds in numerous communities.
- Formerly an orthoptic technician at the Orthoptic Clinic in Regina's Pasqua Hospital.

Garry Reichert

- Retired from SaskTel in 2005 after 38 years of service, during which he held progressively senior positions, including General Manager Technology Performance and Operations.
- Worked with SaskTel International on projects, including Manager for the Jilin Power Microwave and 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.

Board of Directors, *continued*

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.
- Instructor and former 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

Glenys Sylvestre, Chair
Terry Dennis
Reg Howard
John Ritchie

Corporate Growth and Technology

John Ritchie, Chair
Gayle MacDonald
Garry Reichert

Environment and Human Resources

Reg Howard, Chair
Dave Doepker
Pamela Lothian
Randy Kachur
Garry Reichert
Glenys Sylvestre

Governance

Pamela Lothian, Chair
Terry Dennis
Dave Doepker
Randy Kachur
Gayle MacDonald

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 (CIC) 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, member of the CEO's Advisory Circle and University of Regina's Paul Hill School of Business.
- B.A. Honours, M.A. (Economics), University of Regina, and Diploma of Associate in Administration.

Mike Anderson – Chief Financial Officer

- 33 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 SaskFilm, DirectWest Publishing Partnership and Navigata Communications Partnership.
- Currently sits on the boards of 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

- 25 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.

Daryl Godfrey – Chief Technology Officer

- 30 years with SaskTel, including senior positions in Network Planning and Provisioning, SaskTel International, Business Development and Stentor.
- SaskTel International assignments included Network Services Director in Leicester, UK and Chief Technology Officer for Tanzania Telecommunications Company in Tanzania.
- Serves on the Board of TR Labs and held past positions in the Regina Engineering Society.
- BScME, P. Eng, University of Saskatchewan; member of the Association of Professional Engineers and Geoscientists of Saskatchewan (APEGS).

John Hill – Chief Information Officer

- 24 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 strategic direction and oversight in all information management and 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.
- Currently Swim Canada's Provincial representative as President of Swim Saskatchewan.
- Serves on the Committee of Crown Chief Information Officer Council and 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

- 31 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

- 26 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

- 19 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

- 36 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

- 30 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 the RCMP Foundation.
- 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

John Hill	Acting President and Chief Operating Officer
Scott Fedec	Vice President – Finance

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 ten (10) 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 and Technology Committee; the Environment & Human Resources Committee; and the Governance Committee.

CORPORATE GOVERNANCE PRACTICES

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

On June 30, 2005, the Canadian Securities Administrators (CSA) National Policy 58-201 on Corporate Governance Guidelines and National Instrument 58-101 on Governance Disclosure Rules came into effect. The CSA standards 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 (9 out of 10) 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 Mgt. Ltd. **Terry Dennis:** *INDEPENDENT* – Entrepreneur – Business Owner **Dave Doepker:** *INDEPENDENT* – Executive Chairman & President - Doepker Industries Ltd. **Reg Howard:** *INDEPENDENT* – COO - Canadian Digital Network **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 2012, and during seven 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 judgement 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 2012. The number of Board meetings attended by each director in 2012 is set out below.

Director	Meetings Attended*
Grant Kook, Chair	8(8)**
Blair Davidson, Vice-Chair	3(4)***
Terry Dennis	8(8)
Dave Doepker	8(8)
Reg Howard	8(8)
Randy Kachur	6(7)
Sumith Kahanda	6(7)***
Pam Lothian	8(8)
Gayle MacDonald	7(8)
Garry Reichert	8(8)
John Ritchie	8(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.

*** Blair Davidson and Sumith Kahanda resigned from the Board during 2012

Does SaskTel align? 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.

Does SaskTel align? 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 behavior.	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 behavior.	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 2012.	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(b) 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. Whistleblowing 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 five (5) 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 comprised of a maximum of 12 directors. As the Committee responsible for the Board's approach to corporate governance, the Committee makes recommendations to promote timely and effective decision-making.	Yes
NP 58-201, section 3.13 3.13 The nominating committee should be responsible for identifying individuals qualified to become new board members and recommending to the board the new director nominees.	The Governance Committee, serving as the nominating committee, is responsible for leading the process to identify, recruit and recommend qualified candidates for appointment to the Board.	Yes
NP 58-201, section 3.14 3.14 In making its recommendations the nominating committee should consider: the competencies and skills that the board considers necessary for the board as a whole to possess; the competencies and skills of existing directors; the competencies and skills of each nominee; and whether each new nominee can devote sufficient time and resources to board work.	The process followed by the Governance Committee complies with that set out in the Policy and is described above.	Yes
COMPENSATION **NP 58-201, section 3.15** 3.15 The board should appoint a compensation committee composed entirely of independent directors.	The Environment & Human Resources (EHR) Committee performs the functions of a compensation committee. Five (5) of the six (6) members of the EHR Committee, including the Committee Chair, are independent directors. One (1) Committee member, as a retired employee of SaskTel, is not independent.	Substantial compliance

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (Summary)	COMMENTS AND DISCUSSION	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 E&HR 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 2012.	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 and Technology (CGT) Committee. The CGT Committee: works with management to develop a growth strategy and related policies; reviews and recommends investments and divestitures; monitors and reports to the Board respecting the performance of investments; and reviews and makes recommendations concerning the evolution of technology in the Corporation, long-term technology strategies and technology investments. A copy of the Committee's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.	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 2 year cycle, with comprehensive board and board chair evaluations being conducted one year, and director peer, committee chair and committee evaluations being conducted the following year. The evaluations take into consideration the elements of the Policy. In 2012, Board and Board Chair 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 2012 SaskTel Annual Report please call 1-306-777-4897.

2012 Corporate Social Responsibility Reporting – GRI Level C

SaskTel has adopted the Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines, a reporting framework that is used around the world by corporations. For 2012, SaskTel met the standards for the following performance indicators, thereby qualifying for a GRI self-declared level C:

- **EC1:** Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.
- **EC8:** Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.
- **EN3:** Direct energy consumption by primary energy source.
- **EN23:** Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.
- **LA1:** Total workforce by employment type, employment contract, and region, broken down by gender.
- **LA7:** Rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities, by region and by gender.
- **LA9:** Health and safety topics covered in formal agreements with trade unions.
- **LA10:** Average hours of training per year per employee by gender, and by employee category.
- **LA11:** Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.
- **LA12:** Percentage of employees receiving regular performance and career development reviews, by gender.
- **SO5:** Public policy positions and participation in public policy development and lobbying.
- **PR5:** Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.

Please view the SaskTel 2012 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.

SaskTel