2009 ANNUAL REPORT

SaskTel

Letter of Transmittal

Regina, Saskatchewan
March 31, 2010

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

Dear Lieutenant Governor:

I have the honour to submit herewith the annual report of SaskTel for the year ending December 31, 2009, 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,

DR Morgan

Honourable Don Morgan
Minister Responsible for Saskatchewan Telecommunications

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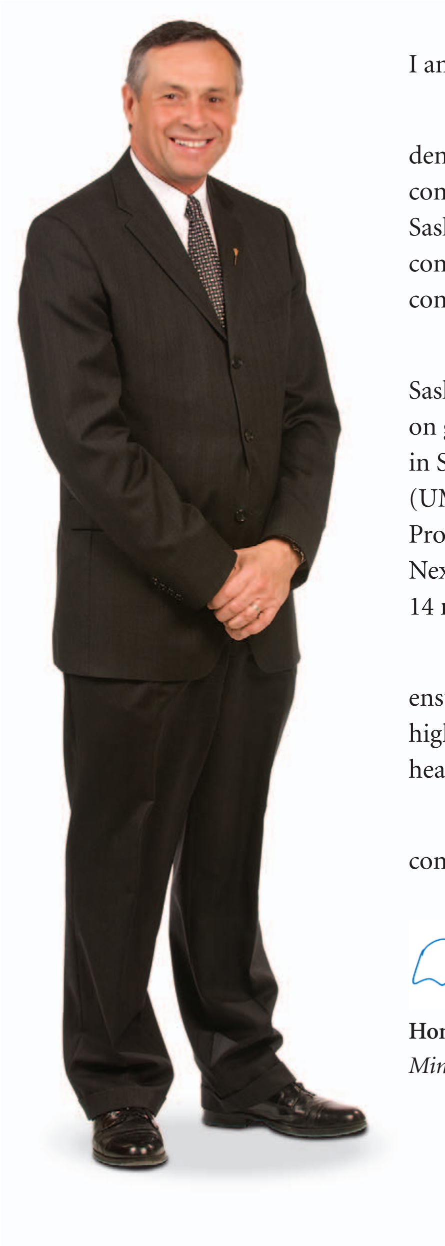
Minister's Message



I am extremely pleased to present SaskTel's 2009 Annual Report.

In 2009, SaskTel achieved very solid financial results while continuing to demonstrate its commitment to the people of Saskatchewan. From the $651 million contributed to the Saskatchewan economy, including dollars spent with Saskatchewan-based suppliers and sponsorships to non-profit organizations, to the continued investment in improvements in what is already one of the best communications networks in the world.

In alignment with our Government's Saskatchewan First investment policy, SaskTel's primary strategy for growth has been serving Saskatchewan first by focusing on growing its core business within the province. In 2009, the significant investments in SaskTel's network included a new Universal Mobile Telecommunications System (UMTS)/High Speed Packet Access (HSPA) wireless network; the Rural Infrastructure Program to deliver 100% high speed internet and improved wireless coverage; and the Next Generation Infrastructure Program to expand *Max*™ Entertainment Services to 14 more communities and offer higher speeds.

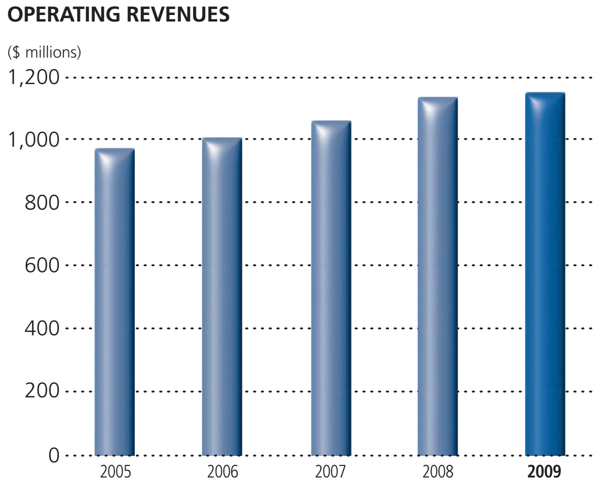
The Government of Saskatchewan's priority for the future remains the same: to ensure that Saskatchewan's Crown corporations remain publicly owned and provide high quality services at a low cost. As you will see in this report, SaskTel is financially healthy and ready to meet the challenges and opportunities of the coming years.

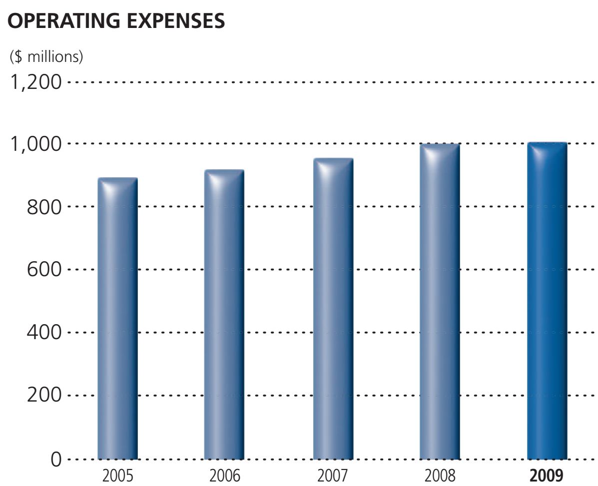
My sincere thank you to everyone at SaskTel for their dedication and commitment to providing better service to the people of Saskatchewan.

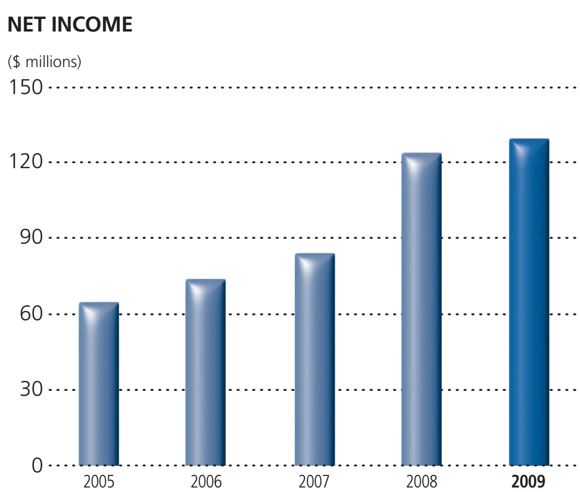
DR Morgan

Honourable Don Morgan
Minister Responsible for Saskatchewan Telecommunications

Financial Highlights







Operating revenues for the year were $1,152.8 million, up $13.7 million from 2008. The increase was primarily driven by continued strong customer growth in cellular, *Max*™ Entertainment Services and internet services. Increases in these services were partially offset by reductions in local access and long distance services.

Operating expenses for the year were $1,001.6 million, up $6.5 million from 2008. The increase was driven primarily by increased expenses to support cellular and *Max* Entertainment Services revenue growth, and increases to depreciation and amortization expenses. These increases were partially offset by a reduction in restructuring charges.

Net income for the year was $129.0 million, up $5.4 million from 2008. Income from continuing operations was $131.0 million and cash provided by operating activities was $319.0 million, which enabled SaskTel to once again self-finance the majority of its investing activities, debt obligations and dividend requirements.

Capital expenditures for the year were $206.1 million, up $78.1 million from 2008. SaskTel continued to focus its capital expenditures on growth initiatives, including cellular network upgrades and expansion, *Max* Entertainment Service enhancements and high speed internet coverage.

Dividends of $103.2 million were declared in 2009.

President's Message

If we really do have a quality that sets us apart—and I think we do—then it comes directly from our employees who bring that difference to work with them.

GIVING MORE

During this past year we used the phrase "Get More!" in our advertising, to help customers see how SaskTel offers them more coverage, more savings, and more selection, as well as more commitment to the community and the environment. The flipside of getting more, of course, is *giving more*, an ethic that goes right to the heart of what it is that sets SaskTel apart from every other communications service provider operating in this province. What I am referring to is the local, Saskatchewan-grown character and personality that comes through in our customer service and connection to the communities we serve. If it is hard to name, it's even harder to quantify. How do you measure the value of sharing the same weather and landscape, of trusting and understanding one another, of giving more than is expected because it's just the way we do things here? There are no benchmarks, no corporate scorecards for heart.

This annual report, covering the tenth year in a row SaskTel has been named one of Canada's Top 100 Employers, celebrates people who give more. If we really do have a quality that sets us apart—and I think we do—then it comes directly from our employees who bring that difference to work with them. The first few pages of this report feature stories that illustrate the depth of heart and integrity SaskTel people show every day of the year, both at work and at home. Take this past August 13th for instance: that day, some employees at our Customer Care Centre in Saskatoon noticed smoke and flames coming from an apartment across the alley. They promptly called 911 to report the blaze, but when they learned later that the young couple who owned the apartment had been at the hospital with their newborn baby at the time, they collected nearly $500, as well as clothing and various other items for the baby, delivering them in person a few days later. An act of such spontaneous generosity happens because SaskTel is here, in your neighbourhood, and not on the other side of the continent. This is very much a part of what we mean by "giving more" and part of what has made it possible for SaskTel to be one of Canada's Top 100 Employers for ten years.

Another landmark I would like to mention is the tenth anniversary of SecurTek, our security-monitoring subsidiary based in Yorkton. Thanks to our employees, we have been able to establish a strong position in the security industry by taking advantage of SaskTel's infrastructure and communications expertise. We are very proud of how far SecurTek has come, and I want to thank all of the employees and dealers who have helped to build SecurTek over the years.

As well this year, SaskTel was named one of Canada's Greenest Employers by MediaCorp Canada Inc. The award recognizes SaskTel's culture of environmental awareness and our efforts to reduce our environmental footprint, and involve employees and customers in green initiatives. Fittingly, this was also the year we started a new cellular recycling program called *Phones for a Fresh Start*. It encourages Saskatchewan residents to drop off their used wireless devices for recycling, while providing cellular phones and prepaid phone cards to women's shelters across the province.

2009 was the 20th anniversary of SaskTel wireless services. In just two decades, SaskTel designed and built a state-of-the-art wireless network that connects Saskatchewan people to each other and the world, despite vast distances and challenging terrain. The employees and dealers who were with us from the start back in 1989 should be especially proud of this achievement.

This was also a year to further expand our investment in the province's communications infrastructure by committing $220 million to our network as part of a multi-year infrastructure and improvement program. When the work from this program is complete, SaskTel will deliver 100% high speed internet coverage, and improved digital wireless coverage across the province, including the next evolution of 3G+ technology. In 2009, we began construction of a new $172 million Universal Mobile Telecommunications System (UMTS)/High Speed Packet Access (HSPA) wireless network—a next generation wireless network that will enable SaskTel customers to enjoy the benefits of using UMTS/HSPA compatible cellular and data devices. The first phase of the new network build, which will provide coverage in the major Saskatchewan centres, is expected to be available in 2010.

This industry is moving faster every day toward an environment where devices will be increasingly interchangeable and transparent in delivering the content and mobile connectivity people want. Any service provider that hopes to foster customer loyalty in such an industry needs two things: the physical network to offer the content and connectivity, and the right people to make it work. SaskTel has been blessed with both. Like all businesses, the exchange between our employees and our customers is what truly determines success. Satisfy the customer by giving them what they ask for and you are a good business. SaskTel is there and we have the customer satisfaction rates to prove it. A *great* business, however, is one that satisfies its employees by fostering an environment in which they can, and want to, give more than they are asked for. This is what SaskTel would like to strive to consistently deliver, and I believe the stories in this report show that we are headed in the right direction.

In closing, I thank all our employees, management, executive team and the SaskTel Board of Directors for everything they do for our customers and the communities we serve. Each time we give a bit more attention, more assistance, more flexibility, more responsiveness, or more understanding, we strengthen vital bonds between ourselves and the people we serve, and take one more step toward becoming that rare organization whose employees find that, in giving more, they too are satisfied.

Robert Watson
SaskTel President and CEO

More for Customers

A story that rings true…

Roberta (Bert) Belliveau, a Service Representative in Business Sales and Solutions, remembers one customer's sentimental request.

In 1996, I started with SaskTel in Small Business Sales. One day, an elderly gentleman called to see if he could purchase the rotary dial phone that he had been renting from SaskTel for many years—a phone he used in the business he owned. I was still quite new, but I remembered being told that all of the discontinued phones were to be recovered. When I mentioned this to the gentlemen his voice waivered slightly and he told me that he had proposed to his wife on that phone. He wanted to take it home and give it to her as a present. In a way, he said, he had SaskTel to thank for bringing him and his wife together and he would be indebted to SaskTel yet again if we could just grant this wish.

I told my manager his story—I'm sure my moist eyes helped—and she checked his account and saw that he had probably bought the phone ten times over. She decided we could write it off as a repair, which made him very happy. I still get goose bumps thinking about that customer.

Roberta Belliveau

A service to save a life…

Cindy Obuck, a Web Developer in Implementation and Support, tells the story of a customer who is counting on SaskTel's reliable service more than anyone.

We all know young people who won't go anywhere without their cell phone. Well, here is a story about the daughter of a friend of mine who has more than enough reason to keep two SaskTel cellphones close at hand, around the clock. Taryn Blyth is 23 years old now, but when she was 15 she had a heart attack on the soccer pitch while playing in a tournament in Lethbridge. She was a provincial-level player with a promising future ahead of her. Luckily, the referee was an off-duty firefighter and the manager of the other team was an ER nurse! They revived her with CPR, and she was rushed to the hospital when the paramedics arrived. She was transferred by helicopter to Calgary Children's Hospital, where it was discovered that she had a rare, genetic heart condition known as ARVD, Arrhythmogenic Right Ventricular Dysplasia.

Testing showed that Taryn's two brothers and mother also have this disease. They have gone from being a very active family to having to find other ways to be involved in the community. All three children now have ICDs (Internal Cardiac Defibrillators) implanted, which helps regulate the heartbeat and provide defibrillation if it stops. Taryn has months where her heart receives almost daily shocks from the device. Over the last year, her condition progressed to a stage where she decided to pursue a heart transplant. She has now been on the list for several months, waiting for the call.

Her mom tells me that she carries two SaskTel cell phones with her: one is her personal phone, and the other a phone dedicated to the transplant office—the only people to whom she has given this number. She keeps a packed suitcase in the trunk of her car. When that phone rings she will have perhaps an hour to get to the airport and be airlifted to Edmonton to get a new heart. Taryn needs to have this phone working 24/7. She needs it to be reliable and needs it to ring when the call comes in. She is counting on us. If that isn't a reason to care about the work we do at SaskTel, I don't know what is.

Taryn Blyth

Two operators, one customer, and one touching story…

Lori Bernt, Director of Customer Services (Moose Jaw/Swift Current), passes on a story about two SaskTel operators who, over the years, came to know one customer in particular.

Twenty-one years ago, when I started at SaskTel, I was hired as a temporary operator in Operator Services Moose Jaw. That first job opened my eyes to how helpful, caring and compassionate SaskTel employees are. I was mentored by experienced operators who had the ability to treat each customer as a unique person, regardless of the service request. Operators deal with many different situations daily, ranging from ordinary directory and long distance requests, to emergency situations. That mentorship provided me with the foundation of what it means to be a SaskTel employee.

Since that first temporary position as an operator, I have ventured through a number of different jobs in the company. All have been rewarding, but as the old saying goes "you never forget where you came from". I am fortunate to still work alongside a number of great employees, including some of the operators I learned from when I began my career.

Early last fall, one of the operators in Moose Jaw came to see me and shared a very touching story about something that had happened to her and another Moose Jaw operator.

Brenda Babiuk and Jennifer Saemann are long-term SaskTel employees and have spent their careers as operators in Moose Jaw, serving millions of customers in that time. Over the years, Brenda and Jennifer came to know a customer named Wendy [name changed], who is a "168" customer, meaning she uses Operator Assistance because she is visually impaired. Wendy used Operator Services for decades and always appreciated the service she received from Brenda and Jennifer. Over the years, Brenda and Jennifer came to learn something of Wendy's life and family stories. On her birthday and at Christmas, Brenda and Jennifer would send Wendy cards. More so, they were always kind and thoughtful when Wendy needed assistance. This created a special bond that lasted for more than ten years, although they never met face to face.

More for Customers continued...

Early last summer, Wendy's health started to deteriorate. On one of Wendy's last calls to an operator, Jennifer answered and discovered that Wendy was in the hospital. Jennifer suggested to Wendy during that call that she and Brenda would travel to her community and visit her. Wendy didn't want them to come, fearing that she did not look her best since she was ill.

In late August, Brenda and Jennifer learned that Wendy had passed away. Grateful for the personalized service and friendship that Brenda and Jennifer had given her for so many years, Wendy named both of them in her Will, leaving them each a small gift from her estate.

This story underscored to me the lifelong relationship our employees sometimes have with our customers. This kind of connection, made and sustained for so many years between Wendy, Brenda and Jennifer, is exceptional and irreplaceable.

Brenda Babiuk and Jennifer Saemann

Growing SaskTel, growing business...

Karen Purdy, Marketing Manager – Process Architect, describes the exceptional work of a sales associate who helped retain some key customers in the oil and gas sector.

Until 2008, SaskTel's unparalleled wireless coverage in rural areas gave us a distinct advantage over all of our competitors. That began to change when Telus gained access to our entire wireless network to resell it to their customers. We knew they would target our business customers who had head offices in Alberta. First to go, people thought, would be our customers in the oil and gas industry.

Enter Debra Dulle (Sales Associate – Mobility).

Debra was able to provide our Marketing department with detailed information on her customers and their potential vulnerability to the competition. Her feedback allowed us to develop product pricing and solutions that would help retain as many as possible.

The result? In 2008, SaskTel's wireless revenue in the oil and gas segment actually grew by 13%, even though we believed this to be the most vulnerable group of customers. In 2009, it continues to remain at a respectable level, despite the continued competitive threat and declining global economy.

While many people are involved with serving this group of customers (service reps, dealers, account reps, SaskTel Stores, and others), I am certain that Debra's leadership, enthusiasm, energy and passion to serve this customer base was a big part of what made the difference.

More for Employees

Representative in many ways…

Trevor McGugan, Business Analyst – Wireless Applications, is the president of the SaskTel Employee Network on Disability, and he has given our employee networks and representative workforce strategy some thought.

What is a representative workforce and why does it matter? SaskTel has always had a culture of great people doing great things, both in their jobs and carrying that excellence everywhere else in the community. This legacy may have begun with the SaskTel Pioneers, who laid a natural framework for the external involvement of SaskTel employees. But winning awards for community involvement is only part of the picture. We wanted to foster an employee culture at SaskTel that reflected back to the community its full character and variety. The best way to do that was through employee networks. We saw the SaskTel Aboriginal Employee Network (SAEN) come into existence in a unique SaskTel way. A few years later, we were able to create the SaskTel Employee Network on Disability (SEND). Finally, we formed NextGEN, which supports the youngest, or "next generation" SaskTel employees, with youth-oriented programs and activities.

Still, why does a representative workforce matter? Because it gives us a better perspective on the communities we serve. SEND provides what we call a "disability lens", which means seeing our actions from the view of a wheelchair (or any disability), and having SaskTel adjust so that we meet the needs of that customer. It's not possible for everyone to know everything, so SEND provides that little piece of information that can only come from the "chair"—because if you are not living it, you really don't know. The affinity groups (SAEN, SEND, NextGEN) all provide SaskTel with the representation and perspectives that help us connect more effectively with customers. It's more than beating our competitors and making a sale, it's also knowing there is someone who is different than you on your team. This makes us all winners.

Trevor McGugan and Jeanette Devernichuk

As simple as going home…

Andrew Kerr, Technical Analyst, speaks of what it meant to be able to go home when his family hit a medical crisis and SaskTel came through.

It was in March 2009 when my wife Mandy and I learned that our two children have Duchenne Muscular Dystrophy (DMD). I can still remember the day the doctor called us with the results of some testing. I know we had just sat down for supper. We were having baked pork chops, mashed potatoes, and peas from Mandy's aunt's garden. From the call display we knew it was our doctor. As Mandy sat down, I could tell the results without hearing a word. They both had DMD.

Hayden was three at the time and Cameron was barely four months old. For those who don't know—and we sure didn't before this diagnosis—DMD, which generally only affects boys, is a severe genetic condition that results in a degeneration of muscles throughout the entire body. Affected boys are slower to develop physically, and are generally diagnosed later, around age five to seven. We found out early because two of our nephews had just been diagnosed as well. There is no cure, and very little in the way of treatment. They are usually wheelchair bound by the age of 12, and their life expectancy is only about 20 years.

Over the next month or so, we had various doctor's appointments. A genetic test confirmed the diagnosis and the exact defect that caused the boys to not produce a protein called dystrophin. Dystrophin is found in every muscle and sort of binds it together. Without dystrophin, the muscles waste away. We also met with a neurologist who continues to monitor our boys, and track their progress. The boys, and Mandy (as a carrier), will also regularly meet with cardiologists and pulmonologists. We have a team at the Wascana Rehabilitation Centre consisting of a physical therapist, occupational therapist, nurse and social worker. For the time being, appointments will likely be on an annual basis, but will increase in frequency as the condition progresses.

Andrew Kerr, his wife Mandy and their two sons, Cameron & Hayden

It was in late spring or early summer when Mandy told me she wanted to move back home. We are both originally from Weyburn, and most of our families still live there, including our two nephews who share the condition. I knew there were no Technical Analyst positions in Weyburn, and I wasn't anxious to leave SaskTel. There wouldn't be many other high-level tech jobs in Weyburn, so I knew finding work for me could be a challenge. Mandy was a transcriptionist with the Allan Blair Cancer Centre, but knew of a company that had transcriptionists do the same job from home, and they were looking for more people.

I approached my Tier 1 manager and explained the situation. I had already checked the postings and there wasn't much for me. I hoped there was something SaskTel could do. I didn't want to leave the company. This is when SaskTel really started to shine for me as an employer. It took some time, but my manager, Jose Moran, took it up with his Director, Ron Single, and eventually it went to our Vice-President, Kym Wittal. Within a week or so, I had my answer. My manager was booking a trip for the two of us to go to the Weyburn offices and pick out a location. He told me I could choose when to start in Weyburn, so we could easily coordinate selling our house in Regina and buying there.

Around this time, a co-worker suggested I mention our situation to SaskTel Employee Network on Disability (SEND). I joined SEND and they put me in touch with SaskTel Employees' Personal Problem Program (STEPP). STEPP provided some counselling for my wife and I as we came to terms with the diagnosis. We also received, and will continue to receive, some support from Helping Our Own People (HOOP) with expenses relating to the boys' condition.

Since our move to Weyburn, we've become involved with various groups. We learned of Jesse's Journey, a foundation for gene and cell therapy that funds research into the disease, when we heard on the radio that Saskatchewan Roughriders Mike McCullough and Jeremy O'Day were hosting a golf tournament to raise funds for this charity. Mike and his wife had a son who was diagnosed with DMD. Unfortunately, he passed away early this year. We've since met Mike on a few occasions and Mandy now proudly wears his jersey during all Rider games. Mandy and I are currently looking to organize a local "Walk Across Canada In A Day", an annual fundraiser to support Jesse's Journey. The full walk is 33 kilometres, though participants can choose to do whatever distance they feel comfortable with. The distance everyone walks is added up. Last year, that distance was equivalent to walking all the way across Canada and back!

While we still have a difficult road ahead of us, it has been made a bit easier being closer to our family. The future isn't totally dim, either. There are new drugs being trialled that could potentially convert their condition to a much less severe form. It's not a cure, but we are hopeful that it will provide a brighter, longer outlook for our children. We can't thank SaskTel enough for the extras they have done for us so far, and for the support we know will be there in the future.

More for Employees continued...

When family comes first…

Kevan McBeth, HR Manager, reflects on the time his family needed SaskTel's support.

If I had to point to the moment when I realized the impact SaskTel has on my life, it would be a day not long after the birth of my daughter, Lauryn. She was our first baby, and when she was born we found out that she had Down syndrome. It was a pretty scary time for us, and we didn't really know what it meant or how it was going to affect her life.

My wife and Lauryn were in the hospital for almost a week, and Lauryn was in the Neonatal Intensive Care Unit for five of those days. I had a lot going through my head. I hadn't been working at SaskTel very long (I think I'd only been here two years at the time), but a couple of days into Lauryn's time at the hospital, our Vice-President, Doug Burnett, showed up in our doorway with some flowers. He took me for a coffee and assured me that things would be okay. He told me that he would do whatever he could to support my family. The thought that someone in his position would personally come down to the hospital and check on someone like me still makes me quite emotional and proud of the place I work, and the people I work for.

Today, things are great. My daughter is amazing and I have had support from SaskTel in the form of a flexible work schedule and understanding when my family needs me to be with them. My wife and I are part of a small group of parents who started the Saskatchewan Down Syndrome Society, and SaskTel continues to support my family as well as hundreds of others through the society when we hold events. I truly believe that one incident has shaped my career at SaskTel and galvanized my commitment to staying here as long as we have people like Doug leading us.

Kevan McBeth and Doug Burnett

More for the World

Stretching SaskTel's reach…

Trevor Bowering, Customer Services Manager – Provincial Installation & Repair, gains a new perspective working for SaskTel International in Trinidad and Tobago.

I was in Trinidad and Tobago from October 2008 to July 2009, overseeing the delivery of a full, end-to-end Internet Protocol Television (IPTV) system with integrated components including hardware, software and services. Our client, Telecommunication Services of Trinidad & Tobago (TSTT), wanted to offer Video-on-Demand (VOD), High-definition (HD) and Standard-definition (SD) TV, Digital Television Recorder (DTVR), and Pay-per-view (PPV) services. It was our experience with *Max* that sold TSTT on SaskTel International. I consulted on the operations, service, network and IT parts of the business, and performed a gap analysis, helping TSTT to implement a pilot program and launch. It was the first IPTV deployment in the Caribbean.

We started working on the pilot in October 2008, and launched it successfully on March 15, 2009. It was quite amazing because within six months we launched a system that offers three set-top boxes per household (1HD- 2SD), DTVR, a TSTT-customized and branded portal, 100 channels HD/SD, six local channels, VOD and PPV.

The system has been very well received and gives SaskTel International an inroad into the Caribbean region, showcasing our abilities to plan, deploy and launch a successful IPTV system. For me personally, it was a great opportunity to share in the experience and coach a team of highly motivated and enthusiastic professionals to reach their goal of being the first IPTV provider in the Caribbean. I also valued my exposure to another way of life. I made an effort to get to know the local culture, learn the slang and dialects, and participate in the local festivities and Carnival. I also participated, as much as time allowed, in volunteer work in the community, including working with homeless people on the street and in soup kitchens. I volunteered time with youth groups in the schools and sponsored trophies for reading through a library. It was good to get involved that way—the same way I would have here at home. All around, the SaskTel International experience was a fantastic adventure, and I look forward to our next IPTV deployment in the Caribbean.

Trevor Bowering

From Saskatchewan to Nepal…

Former SaskTel employee Gary Harding takes community service global in his retirement.

I retired from SaskTel in 2009 to pursue my passion of working with acid survivors in Southeast Asia and Africa. My years with SaskTel prepared me well for my next career. I have had the pleasure of working with many compassionate employees who truly care about the needs of individuals not only locally, but also globally.

While working at SaskTel, I saw employees supporting and initiating fundraising events that provided much needed funds for worthy causes. I have been the fortunate recipient of a number of these events. In 2008, a group of caring colleagues, knowing I was going to Cambodia to work in a medical clinic that provided free services to the poorest of its residents, took it upon themselves to create a cookbook with recipes submitted by employees to sell to friends and family. The cookbook sales raised more than $10,000 to support the clinic. Another fundraiser followed, buying pieces of a larger puzzled mural, and raised more than $2,000.

After retiring, I began working with the United Kingdom's branch of Acid Survivors Trust International (ASTI) and was asked if I would consider setting up an Acid Survivors charity in Canada. ASTI Canada is a registered Canadian charity that we were able to establish in September 2009. One of our first projects was a burn clinic in Kathmandu, Nepal.

Once again, SaskTel was there to help and support the cause. The We See You group that Sheenah Ko (Project Manager – Human Resources) runs, is dedicated to providing equipment and supplies, so it seemed like a natural fit for them to become involved with ASTI Canada and our new clinic in Nepal. I could name many others at SaskTel who have helped make this possible—from new employees, to those at the executive level—but suffice it to say that, thanks to SaskTel and its employees, I will soon be delivering a container of vital medical, office and household supplies to the new clinic in Nepal.

The personal commitment from employees that I saw in my career at SaskTel and continue to see in their support for the victims of acid attacks is a big part of what sets the company apart, making it a great company to work for, and as it turns out, a great company to retire from.

Gary Harding

More for Community

Giving back can get competitive…

Cassandra Bradshaw, Marketing Analyst, reports that the Marketing Social Committee used the competitive spirit to collect material and funds for local charities.

I'm very proud of our SaskTel Marketing Social Committee. For the second year, the social committee held a Christmas Charity Challenge for the Marketing Department. The purpose was to give back to the community and also do some team building.

Because we made this into a competition, we were able to unveil the results at our annual Christmas party. We have really enjoyed volunteering and giving back, and even before the Charity Challenge, we were volunteering some hours. In May, Fred Reibin organized an opportunity to volunteer for Habitat for Humanity. SaskTel employees helped build several houses in Regina.

Then in November, we started selling poppies and held a bake sale to kick off the challenge. The Charity Challenge really started to become competitive in December, as the pride for finishing first (or not last) became evident.

All of our Marketing Department teams tried to outdo one another in generosity. We had several boxes outside each director's door to help fundraise for charities. We also held an ugly Christmas sweater day, sent out some Christmas Trivia, and held a decorating contest in the directors' offices. The Charity Challenge raised more than $8,297, which was divvied up between the Food Bank, the Transition House, the Regina Humane Society, and National Service Dogs. The charities were overwhelmed by our donations. It made the friendly competition even more worthwhile.

From Left to Right: Shawn MacKay, John Britton, Cassandra Bradshaw, Wes Czarnecki, Fred Reibin

More for Community continued...

Pioneering, a way to give back…

Gina Manulak, Business Analyst, honours the SaskTel Pioneers in her family.

I took my grandmother-in-law, 93-year-old Muriel Burke, to the SaskTel Pioneers Annual General Meeting in November 2009, just two days after her husband, Mel Burke, passed away. Mel worked for SaskTel for 39 years, and was an active life-member of the Pioneers, serving as president in 1979-1980. During this time he spearheaded the creation of the Infant Hearing Assessment Program (IHAP) for the Regina General Hospital's Neonatal Intensive Care Unit, which is fully funded and operated by the Pioneers. Mel encouraged me to join the Pioneers when he learned that I, too, worked for SaskTel.

He was proud of SaskTel, but mostly he was proud of his wife Muriel, who volunteered with IHAP. Even now, she knits almost a pair of mittens a day, which are then sold at the hospitals in Regina to raise money for both Regina Hospital Auxiliary Funds.

In 2009, she spent more than 1,600 hours knitting 300 pairs of mittens, raising nearly $2,000 for the two funds. At the AGM, Muriel made a $1,000 donation to IHAP in memory of her husband. People rose and spoke with admiration and affection for both Muriel and Mel, and when it was time for Muriel to leave, the room paused in respect as she walked out. The whole experience that evening filled me with pride and gratitude to be associated with an organization as fine as the SaskTel Pioneers.

Gina Manulak with Muriel Burke

Finding the true meaning of Christmas…

Hope McCheyne, Technical Assistant – Information Systems – Tactical Process Planning, finds the meaning of Christmas through the eyes of children with special needs.

I have been involved in a wonderful SaskTel and SaskTel Pioneer event that has been held in the community for twenty-one years. We call it Santa's Face-to-Face Visit, and we think of it as an accessible alternative to the shopping mall Santa. We do everything we can to bring the excitement and joy of visiting Santa to children whose special needs require a little more focused care and attention. I started out as an elf, but I've served as "chief elf" for 18 years now.

You have to experience it to really understand it. We gather at the Ramada Hotel & Convention Center, who graciously support the event, and we get ready for the children. Each child has a dedicated elf assigned to them. There are thirty or forty elves, including several musicians, dancers, and craft makers—all SaskTel employees, retirees, and their family members. There is always a lot going on while the children wait their turn, and I remember one time a boy arriving by taxi and coming into the room where the SaskTel

Back Row: Sandra Nippard and Hope McCheyne

Front Row: Phyllis Pearson (retiree) and Jim Goldie (retiree)

Pioneer Choir was singing carols. His mobility was limited and he couldn't speak, but the look on his face… the music made him light up and glow.

You see kids who come clinging to their moms, and after a minute or two with Santa, they are touching him, giving him high-fives, hugs, and fully engaged, if not in conversation, then through expressions. You see amazing transformations and moments of joy that remind you that it's the simple things about Christmas that the rest of us become blind to. One little girl, who has autism, was so happy just looking at the ornaments on our tree.

These are children who live in a world that expects them to act a certain way. We set it all aside and find ways to connect with them, and let them be themselves. I remember one boy just wanted to lie on the floor to visit Santa, so Santa got down on the floor too. As you can imagine, our volunteers keep coming back year after year. They tell me it makes Christmas for them. You look around the room and there is no way to be anything but happy because there are smiles and Christmas miracles everywhere you look.

Turning the page on a whole new world…

Dianna Stampe, Service Representative – Business Sales & Solutions, connects an inner-city special reading class with the SaskTel Pioneers.

My daughter was helping out at the Care and Share Christmas Dinner at Bishop Klein, one of Saskatoon's inner-city schools, when she ran into her former grade two teacher. It brought her former teacher to tears seeing one of her former students all grown up doing volunteer work at her school.

A few days later, she stopped into the SaskTel Store, where I worked at the time, to do some Christmas shopping. She spotted me and proceeded to tell me of the experience. We talked about what it was like to teach at an inner-city school and how the children in her special reading class did not have any "take home books" to practice reading. There just wasn't enough money in the budget. She said that her students were very eager to improve their reading skills, but there weren't enough books to go around.

Upon hearing this, I contacted the SaskTel Pioneers and put them in touch with the teacher. The Pioneers came through with money for the school to purchase "take home books" so that the children could work on their reading. Sometimes we take so much for granted and do not realize how fortunate we actually are. My years of working with the public in the Scotia Centre SaskTel Store certainly opened my mind and heart, and humbled me. I was very happy for the students, and grateful that I worked for a company that has volunteers like the Pioneers, who are always willing to help those in need.

Dianna Stampe

Management's Discussion and Analysis

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SASKTEL OVERVIEW

Saskatchewan Telecommunications Holding Corporation (SaskTel) is a Saskatchewan Crown corporation. SaskTel is the leading full service communications provider in Saskatchewan, with $1.153 billion in annual revenue and over 1.4 million customer connections including 553,825 wireless accesses, 543,585 wireline network accesses, 225,125 internet accesses and 77,831 *Max* (TV) subscribers. SaskTel offers a wide range of communications products and services including competitive voice, data, internet, entertainment, national security, messaging, cellular, wireless data and directory services. In addition, SaskTel International offers software solutions and project consulting in countries around the world.

In 2009, SaskTel contributed $651.0 million to the Saskatchewan economy through dollars spent with Saskatchewan-based suppliers and sponsorships to non-profit organizations. SaskTel and its wholly-owned subsidiaries have a workforce of 4,814 employees. For more, visit SaskTel at www.sasktel.com.

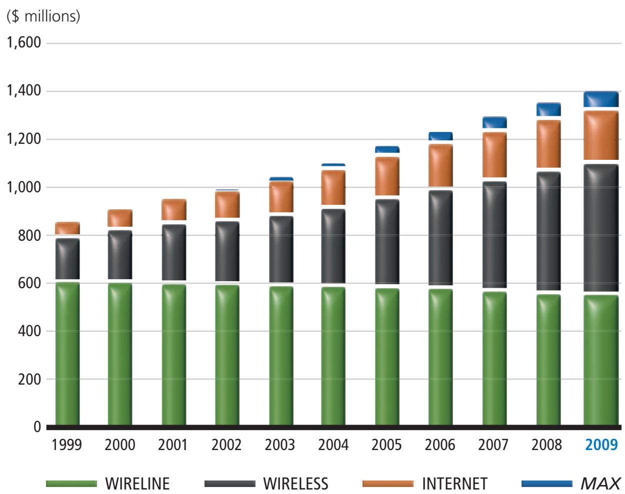
Saskatchewan Telecommunications (Telco)

www.sasktel.com

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

The following graph illustrates the areas of growth by type of access since 1999.

ACCESS GROWTH BY TYPE



As of December 31, 2009

Wireline Accesses: 543,585 Internet Accesses: 225,125

Wireless Accesses: 553,825 *Max* Entertainment Services Subscribers: 77,831

DirectWest Corporation (DirectWest)

www.directwest.com

DirectWest, a wholly-owned subsidiary of SaskTel, has been publishing telephone directories in Saskatchewan since 1909. DirectWest publishes and distributes ten telephone directories across Saskatchewan, and provides these directories online at www.sasktelphonebook.com and www.mysask.com. In addition to consistently generating value through print and online directories, the company continues to add new services and solutions for their customers, including online advertising and mobile phonebooks for cell phones. DirectWest's head office is in Regina with a second office in Saskatoon. The company employs 92 people in Saskatchewan.

Hospitality Network Canada Inc. (Hospitality Network)

www.hospitalitynetwork.ca

Hospitality Network is a wholly-owned subsidiary of SaskTel, and is the preferred provider of managed communication and entertainment solutions for the Canadian healthcare market. Hospitality Network provides service to more than 380 healthcare locations nationwide, including Canada's largest hospitals and Seniors Care Homes. Originally founded with private Saskatchewan business interests in 1993 to provide entertainment services to the hospitality industry, Hospitality Network acquired a major Canadian player in 2000 (Telehealth) and became a wholly-owned subsidiary of SaskTel in 2005. Their head office is in Regina and they employ 395 people nationwide, including 37 in Saskatchewan.

Saskatchewan Telecommunications International Inc. (SaskTel International)

www.sasktel-international.com

SaskTel International (SI), a wholly-owned subsidiary of SaskTel, helps their clients in countries around the world to develop, improve and expand their telecommunications systems by providing a variety of consulting services. SI also offers innovative software solutions that provide a modular approach to managing every aspect of a telecommunications network. SI's experience spans more than 30 countries across six continents. SI currently has strategic initiatives underway in both the United States and Caribbean markets, which continue to facilitate new revenue-generating opportunities and strategic partnerships. SI employs 35 people.

SecurTek Monitoring Solutions Inc. (SecurTek)

www.securtek.com

SecurTek, a wholly-owned subsidiary of SaskTel, provides commercial and residential security monitoring service to customers in Saskatchewan, Alberta, Manitoba, British

Columbia, Ontario and Nova Scotia from their monitoring centres in Yorkton, Saskatchewan and Winnipeg, Manitoba. Operating a security monitoring centre leverages SaskTel's call centre, network management and process expertise to provide value added services. Through their dealer program, SecurTek partners with 81 independently owned firms including retail, wholesale and servicing dealers who provide security sales and service expertise to their customers. Fifteen of SecurTek's dealers are Saskatchewan-based firms. SecurTek employs 121 people including 109 at their head office in Yorkton.

Saskatoon 2 Properties Limited Partnership (Saskatoon Square)

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

In accordance with the Government of Saskatchewan's Saskatchewan First policy, SaskTel will pursue divesting of Hospitality Network Canada Inc. and The Ag Dealer division of DirectWest at the appropriate time.

INDUSTRY OVERVIEW

The communications industry continues to transform. This industry transformation is driving the development of new and evolving technologies, increased competition and the continuing decline of revenue from traditional services. Demand for traditional local and long distance services is increasingly being replaced with demand for an improved array of wireless and broadband services. In order to meet future consumer needs, providers are faced with increased capital requirements.

Convergence, giving consumers the ability to access any service or content through any device from any location, is well underway. In an attempt to improve services and meet ever-increasing customer expectations, companies are trying to be both service and content providers, and manufacturers continue their quest to develop highly sophisticated devices. We expect convergence to lead to service providers and developers diversifying and establishing unique partnerships. Telecommunications companies may become software and media houses, computers may become telephones, cameras may become e-mail devices and personal digital assistants (PDAs) may become the device of choice.

SaskTel's competitive environment shows no signs of reprieve. Competition has intensified from both the traditional telecommunications and cable companies, and newer non-traditional competitors. Competitors are pursuing geographic and product and service markets previously not explored. All of the Canadian incumbent local exchange carriers (ILECs) have entered the digital television market, and cable providers have entered the digital phone market. The outcome of the Advanced Wireless Services (AWS) Spectrum auction is resulting in increased competition for wireless customers across the country.

Changes in the communications industry are enabling competitors to use lower cost delivery methods, separate the access from the service, and offer services to select customer segments. Service providers have used various business models, such as flat rate pricing, bundling, low cost provider and pay-per-use, and they continue to experiment with other models, including paid, ad-supported and free content. For example, to view an episode of a top national broadcaster's show, a consumer can subscribe to a television service provider or, after an episode has initially aired, view it at no charge, sponsored by commercials, through the national broadcaster's website. Alternatively, the consumer can purchase it for viewing, commercial-free, using a pay-for-download service. Another option for the consumer is to wait for a full season to be available for purchase on DVD.

New technologies such as Voice over Internet Protocol (VoIP), Fibre to the Home (FTTH), WiMAX (an IP based, wireless broadband access technology) and femtocells (small cellular base stations) have emerged over the past few years, and the industry is monitoring the success and disruption of each. In many cases, the new technologies are driving new business models, enabling next generation services and applications, and increasing competition from both traditional and non-traditional players.

STRATEGIC DIRECTION

SaskTel continued to face numerous challenges in 2009, including increasing competitive pressures, industry, technological, market and economic changes, declining margins, rising costs and changing workforce demographics. To address these challenges, SaskTel identified three critical issues:

- Industry Transformation
- Strategies for Growth
- Managing for Tomorrow
  - – Employees and customers
  - – Productivity and processes
  - – Partnerships and alliances

Industry Transformation

The industry overview highlighted many of the issues we are facing and why industry transformation is a critical issue. SaskTel needs to understand the impact of these changes and be prepared to address them.

Strategies for Growth

As a result of the changing communications industry and the impact that it will have on SaskTel, we are focused on identifying and achieving new sources of growth to ensure our long-term sustainability. Our primary strategy for growth is serving Saskatchewan first by focusing on growing our core business within the province. SaskTel will invest in its Saskatchewan network to provide improved and expanded SaskTel services, including: a new Universal Mobile Telecommunications System (UMTS)/High Speed Packet Access (HSPA) wireless network that will enable SaskTel customers to enjoy the benefits of using UMTS/HSPA compatible cellular and data devices; the Rural Infrastructure Program, which will deliver 100% high speed internet and improved wireless coverage; and the Next Generation Access Infrastructure program, which will expand *Max* Entertainment Services to 14 more communities and offer higher internet speeds. We will continue to pursue growth through our subsidiary companies and will focus on partnerships as a key source of growth.

Managing for Tomorrow

With declining margins, increasing competition and required network investments, we recognize that sustaining our business in the future requires not only growth, but proper management. This management imperative means we must continue to engage our workforce, simplify our business for our customers and employees, and develop partnerships to pursue business growth, generate economic stimulus and assist with productivity initiatives.

CORE STRATEGIES AND PERFORMANCE MANAGEMENT

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

2009 Strategies and Performance Results

Financial

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

Objective	Measure	2009 Target	2009 Actual	Results
Positive Results	Revenue Growth *(Gross Revenues)*	$1,185.0M	$1,152.8M	○
	Net Income	$115.7M	$129.0M	●
	ROE *(after restructuring)*	14.6%	16.2%	●
	Debt Ratio	37.7%	24.4%	●
Productivity Gains	Productivity Savings *(Cumulative Savings)*	$33.0M	$31.2M	○

2009 was another solid year financially for SaskTel. Revenue fell short of our 2009 target by 2.7% due to the sale of Telco out-of-province operations and DirectWest Canada, and lower than expected *Max* Entertainment Services and wireless revenues. While we fell short of the target, we did increase revenue by 1.2% over 2008. Our 2009 net income of $129.0 million is 11.5% over target and 4.4% over 2008 earnings. Our 16.2% ROE was significantly higher than our target of 14.6% and we maintained a debt ratio of 24.4%, far below our long-term debt ratio target of 45%. Please refer to the Operating Results section for additional information.

As important as it is to increase our revenue base, we are also focused on productivity gains. In 2008, we launched a corporate-wide productivity program to increase the focus on productivity improvement and cost reduction. The program continued through 2009, when we completed our operational reviews and continued to work through implementation activities. The productivity savings measure is a cumulative number that includes savings related to our Early Retirement Program (ERP) in 2008, and ERP and productivity savings in 2009. We fell short of our 2008 target by $2.1 million as fewer employees than expected accepted the ERP. This shortfall carried forward to our cumulative savings in 2009 and led to us not achieving the 2009 target.

Innovation

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

Objective	Measure	2009 Target	2009 Actual	Results
Solutions	Broadband Subscriber Growth	32,301	65,729	●
	Services *(Revenue from Growth Initiatives)*	$751.0M	$700.3M	○
Social Responsibility	$ Spent in SK Economy	$658.0M	$651.0M	○
	Environmental Stewardship *(Greenhouse Gas Emission Reduction)*	Stabilize at 2007 emission levels (66,213 tonnes of CO2e)	7.5% above 2007 levels	○

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

Since 1987, we have invested approximately $3.5 billion in our Saskatchewan network. In 2009, we invested $137 million in our Saskatchewan network to further expand our high speed internet and wireless coverage across the province, invest in a new UMTS/HSPA wireless network, increase bandwidth by providing fibre optic cable closer to customer homes and businesses, expand *Max* Entertainment Services to new communities and grow and enhance our basic network.

Increasing competitive forces and declining legacy revenues have forced SaskTel to focus on its growth strategy. Without continued growth, our operating results, infrastructure, products and services will diminish. In 2009, SaskTel fell short of its target for revenue from growth initiatives due to the sale of Telco out-of-province operations and DirectWest Canada, and lower than expected *Max* Entertainment Services and wireless revenues.

As a Crown corporation, SaskTel has a social responsibility to fulfill the public policy mandate of the Crown sector. In 2009, as always, our contribution to the Saskatchewan economy was wide and varied. SaskTel demonstrated its commitment to Saskatchewan businesses and communities through its contribution of $651 million to the Saskatchewan economy, including spending with vendors for goods and services, salaries, grants in lieu of taxes, dealer commissions and community involvement. Actual spending was just below target for this measure due to a continued corporate-wide focus on controlling costs. This led to lower than expected spending with vendors for goods and services and on salaries.

SaskTel has an Eco(logical) strategy that contains a number of environmental initiatives, including a Greenhouse Gas Management Plan focused on stabilizing and then reducing our greenhouse gas emissions. In 2009, SaskTel missed the target for this indicator as we were unable to purchase carbon credits as planned. SaskTel is working with the Crown sector on environmental objectives for greenhouse gas emissions, and remains committed to promoting environmental sustainability as we go forward.

People

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

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

Objective	Measure	2009 Target	2009 Actual	Results
Differentiate on Customer Experience	Customer Perception	74	75	●
	# of Customers In-Province *(thousands)*	971	996	●
	# of Customers Out-of-Province *(thousands)*	60	33	○
Engaged Workforce	Employee Engagement	At or above the Hay engagement norm	At or above the Hay engagement norm	●
	Representative Workforce:			
	Women *(# of women hired or promoted into management positions as a % of all hiring into management positions)*	44%	43%	○
	Aboriginal People *(Permanent Hires)*	40	40	●
	People with Disabilities *(Permanent Hires)*	5	5	●

Throughout 2009, we maintained our focus on providing outstanding customer service and our results indicate that we continued to improve. Following a two point increase in 2008, we achieved a one point increase to 75 in 2009. We exceeded our target for total number of in-province customers, but did not achieve our target for number of out-of-province customers as a result of our shift in focus to Saskatchewan.

Internally, commitment to our employees is measured through an annual survey. SaskTel's 2009 survey results show an improvement in overall attitudes and engagement. SaskTel's overall engagement outcome score is at the Hay norm with 63% of SaskTel employees being engaged. This is an improvement of 2% over 2008. Having an engaged workforce is a primary focus for the SaskTel management team. As a result, a number of actions are underway to continue to improve this result for future years. In 2009, Mediacorp Canada Inc. selected us as one of Canada's Top 100 Employers for the tenth consecutive year and recognized us as one of Saskatchewan's Top 20 Employers.

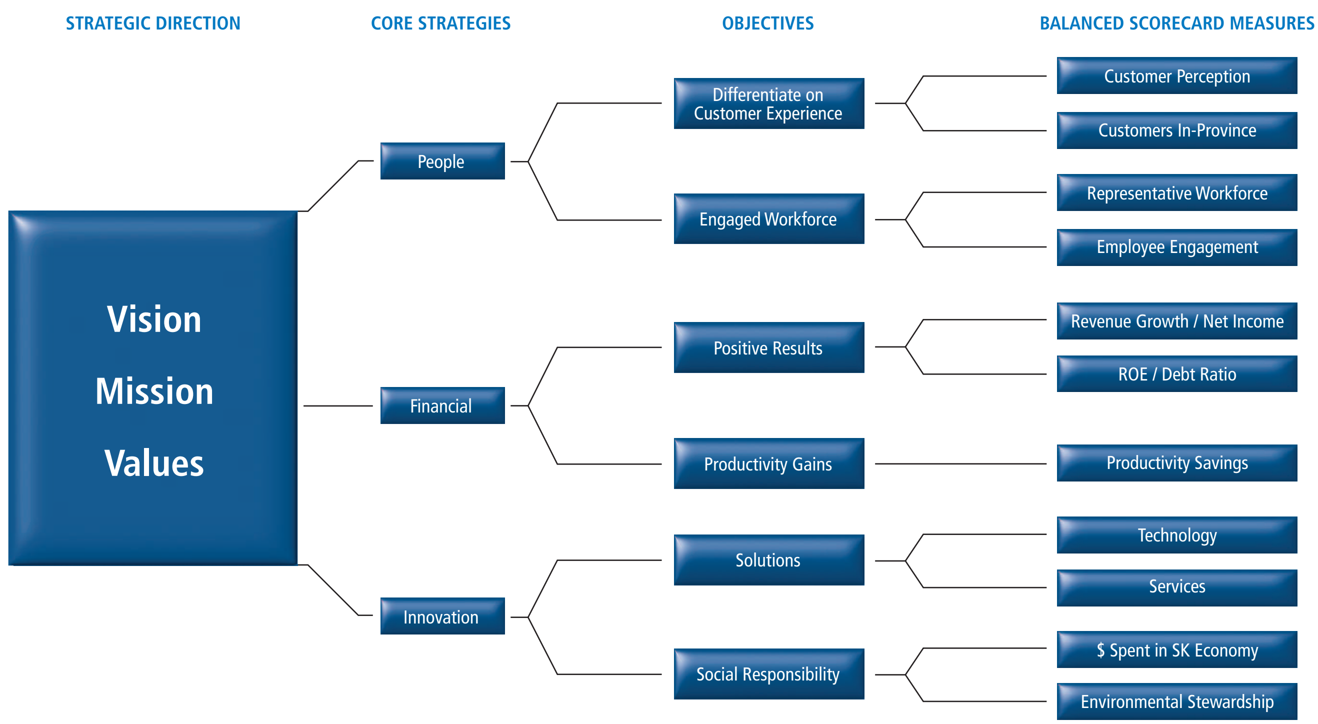
While our women hired into management positions result was just short of the target, our Representative Workforce Strategy has been a tremendous success and we remain committed to reflecting the equity demographics of the province.

Looking Ahead to 2010

We continue to operate as a successful business in the face of considerable economic and competitive pressures. Our strategic direction reflects an unwavering standard of excellence.

This direction starts with our vision: "*To improve the lives of everyone we serve each and every time.*" Our mission follows: "*We will go beyond in delivering innovative information, communication and entertainment solutions to our customers in Saskatchewan and other select markets. We will be a socially and environmentally responsible organization that delivers sound financial returns. Our focus is our Customer. Our strength is our People.*"

Along with these statements we have three core strategies (People, Financial and Innovation), which are defined by a statement of direction from which SaskTel management sets objectives, measures and targets. These core strategies focus the organization on the areas critical to our long-term sustainability. We use a Balanced Scorecard to measure and report performance results for these strategies. The graphic outlined below captures our strategic direction.



The following provides an overview of our performance management targets for 2010.

People

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

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

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

The components included in the # of Customers In-Province Measure have been expanded for 2010.

Our focus on people, including our customers and employees, is top of mind over the planning horizon.

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

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

Financial

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

Objective	Measure	2010 Target
Positive Results	Revenue Growth *(Gross Revenues)*	$1,140.7M
	Net Income	$118.3M
	ROE	14.5%
	Debt Ratio	36.1%
Productivity Gains	Productivity Savings *(Cumulative Savings)*	$46.1M

2010 Targets include all SaskTel subsidiaries; assume a 90% dividend payout ratio.

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

Productivity gains will continue to be identified and achieved through our corporate productivity program. In 2009, we completed reviews of all major Telco departments and in 2010, we are developing an implementation work plan with a goal of achieving $46.1 million in cumulative savings.

Innovation

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

Objective	Measure	2010 Target
Solutions	Broadband Subscriber Growth	47,447
	Services *(Revenue from Growth Initiatives)*	$710.9M
Social Responsibility	$ Spent in SK Economy	$661.6M
	Environmental Stewardship *(Greenhouse Gas Emission Reduction)*	Reduce greenhouse gas emissions by 2.2% of 2007 levels

2010 Services Target includes all SaskTel subsidiaries.

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

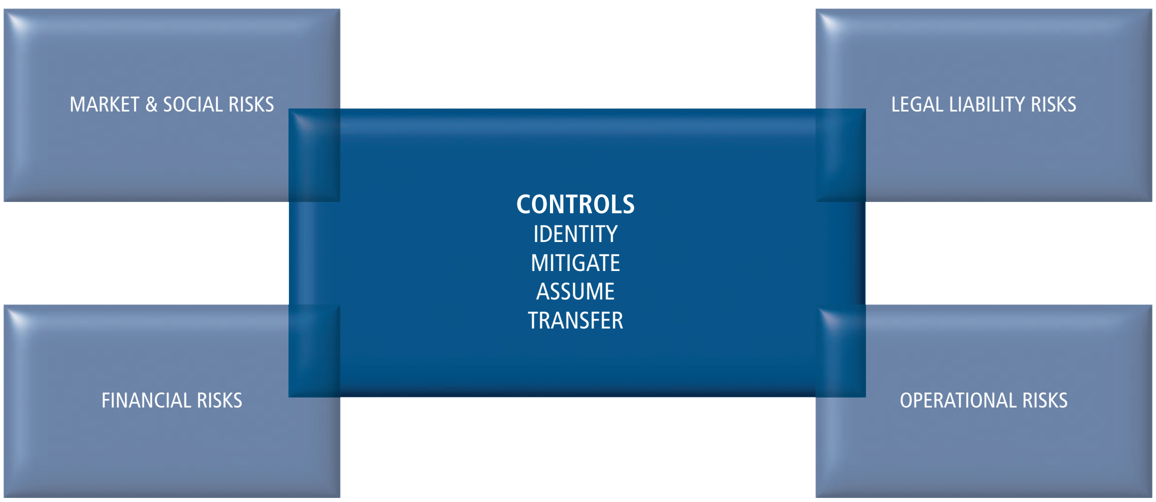
We will continue to make capital investments to enhance our infrastructure, providing leading-edge products and services to the people of Saskatchewan. This includes: constructing a new UMTS/HSPA wireless network—the next evolution of Global System for Mobile Communications (GSM) technology; continuing to implement the Rural Infrastructure Program to deliver 100% high speed internet coverage and improved wireless coverage across the province; and continuing to implement the Next Generation Access Infrastructure program to increase the bandwidth of SaskTel's access network and expand *Max* Entertainment Services to 14 more Saskatchewan communities.

RISK ASSESSMENT

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

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

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. Complementing these reviews are the ongoing activities undertaken to mitigate risk as well as the corporate insurance program and other methods to transfer risk where appropriate.



The following sections detail the significant risks encountered in our business environment and our plans and activities to mitigate these risks.

Market and Social Risks

Business Alliances

The transforming telecommunications industry, and evolving revenue mix, require SaskTel to develop business alliances and partnerships to remain successful into the future. Today, SaskTel has a number of alliances and partnerships with various vendors, competitors and associations. As part of our Strategies for Growth, we will continue to pursue new partnerships and alliances to generate business growth and economic stimulus as well as assist with productivity initiatives. Failure to maintain or develop these new opportunities could result in SaskTel not meeting growth targets which would reduce our overall revenues and profitability.

Growth

The telecommunications industry is forecast to continue growing, though at a much slower pace with profit margins under pressure. Increasing competition, customer demands and changing behaviors are affecting SaskTel and the industry as a whole. Industry transformation is also driving new business models and new technologies, which in turn, are leading to new strategic directions.

SaskTel continues to see revenues shift with the ongoing decline of profit margins from both legacy services and growth markets. Focusing on growth portfolios such as wireless, data, broadband and video, as well as identifying strategies to retain revenue, remains our priority. As part of SaskTel's Strategies for Growth, we will continue to focus on our core business within the province to maximize the opportunities created by provincial economic growth. In addition, while SaskTel will explore multiple partnerships and alliances, our subsidiaries will concentrate on organic growth to help meet our targets.

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

Competition

SaskTel faces a variety of competitors in every facet of our business including traditional Incumbent Local Exchange Carriers (ILECs), cablecos, and non-traditional competitors (Google, Microsoft). As well, the Advanced Wireless Spectrum Auction held in 2008, ensured that we will soon face new wireless providers (Globalive Communications Corp., Shaw Communications Inc.). The cablecos are our most aggressive competitors because they are well positioned in our core markets and focus on the key portfolios that we operate in: internet, video, data and voice. The ILECs are primarily focused on expanding their growth services including wireless, broadband and video while stabilizing voice services. The major competition from the ILECs includes customers with a presence in Saskatchewan and branch or head office locations in other parts of Canada.

We are also wary of non-traditional competitors as they actively pursue opportunities within the telecom space. As new competitors entering the market, they have advantages such as lower cost delivery methods, speed to market, lower capital costs and the ability to capture niche markets.

SaskTel does not anticipate competitive activity to slow in the near future, which means increased threat to our revenue growth, customers and profitability. SaskTel continually monitors competitive activity and undertakes risk mitigation through re-pricing of services, providing superior customer service, offering a broad range of products and continually investing in our state-of-the-art network to provide leading-edge services to our customers.

Technology

The rapid pace of technological change provides a wide variety of choice for our customers. These technologies are guiding the development of new business models, enabling next generation services/applications and increasing competition. The ability to react to such technological change is a risk to SaskTel given that competition is more aggressive and customers' needs continue to change. The trend of converged networks continues, with consumers demanding any service be available on any device, anywhere. The key technology evolution is happening in wireless networks, where service providers are changing their existing cellular technologies to third and fourth generation technologies. As competitors become increasingly nimble in the market, SaskTel must ensure it can deliver with the same speed. To remain competitive, SaskTel is in the process of constructing a new UMTS/HSPA wireless network, which will enable our customers to enjoy new cellular and data devices.

The demand for bandwidth-intensive services (high definition television, personal video recorders, video on demand) continues to grow. Fibre to the Home (FTTH) has emerged as a network solution allowing providers to deliver these services by installing fibre-optic networks that connect directly to homes and businesses. In addition, providers are looking to replace old copper networks are choosing fibre for its low maintenance, reliability and ease of use. To remain competitive, SaskTel is planning to begin deployment of FTTH in 2010.

As competitors look to upgrade their infrastructure to accommodate these increasing requirements, SaskTel must also ensure its network is able to keep stride. The risk of losing customers, revenues and competitive edge is great if our capacity is less than adequate, or we are unable to deliver parallel services in a timely manner.

Economy

Saskatchewan is experiencing positive economic conditions despite the global recession. We were Canada's top performer in 2008 (5% GDP – Conference Board of Canada), but the Saskatchewan economy shrank in 2009. Despite this, Saskatchewan's economy is expected to rebound into 2010, providing an opportunity for SaskTel to increase revenues from our customers.

While the global economy has shown signs of recovery, economies around the world shrank in 2009, and slow recoveries are forecast in 2010. The economy that most directly affects Canada is the United States. All key indicators are showing signs of improvement, but analysts are not forecasting any real recovery for the U.S. until mid to late 2010.

The telecommunications industry has not been as adversely affected by the global recession as other industries. Customers have come to view telecommunications products and services as a utility rather than a luxury. Although discretionary spending levels may have receded, spending on telecommunications has remained somewhat stable.

An economic turnaround may be later than expected, and will depend on the recovery of the major global economies. Timing of the economic recovery will affect SaskTel's revenue growth and customer targets over the planning period. This risk is mitigated through SaskTel continually monitoring the economic implications on a global, national and provincial basis, and adjusting plans accordingly. We complement this monitoring and adjustment by continuing to focus on improving productivity.

Regulatory

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

Although the Regulatory environment faced by SaskTel has become more favorable, risks remain that may affect profitability. SaskTel mitigates these risks through a proactive and multifaceted approach. This involves attempting to achieve favourable regulatory reform while participating in the current CRTC processes with a view to obtaining the best possible result for SaskTel.

High Cost Serving Area Subsidy

The CRTC has launched a review of the High Cost Serving Area subsidy regime, which helps service providers provide local telephone service in areas where it might not be economical otherwise. A decision on any potential changes is expected in the first half of 2011. It is anticipated many parties will attempt to reduce or eliminate the subsidy regime. SaskTel will be watching the proceeding carefully and will make every effort to ensure that a regime remains in place to enable the company to provide quality service to customers throughout Saskatchewan.

Wholesale Internet Services

SaskTel is participating in CRTC proceedings related to the wholesale services, which incumbents such as SaskTel must provide to competitors selling retail internet service. SaskTel is concerned that the decisions made could affect new fibre-based networks that ILECs are considering deploying. SaskTel will work to support a wholesale regime that allows competitors to operate, while adequately compensating those who take the risk of building network facilities.

Human Resources

Changing workforce demographics, increasing competition for skilled resources, and rising demands for workforce flexibility all pose human resource challenges for SaskTel and the industry as a whole. These factors may impair SaskTel's ability to deliver products and services in a timely manner, increase operating costs or reduce employee morale and productivity. Although the global recession and positive economic climate in Saskatchewan has temporarily eased the labour situation in the province, a long-term labour shortage is still predicted.

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

In 2009, SaskTel evolved its workforce planning process, collected and analyzed key workforce data in collaboration with all SaskTel departments, and revised its five year SaskTel People Plan. The People Plan identifies SaskTel's key workforce issues, summarizes future workforce projections, and outlines a series of strategies and actions that identify how the organization will recruit, support, develop and retain the employees it needs to succeed. The corporate action plan has been implemented, and several initiatives from the plan are addressing critical human resource challenges.

Financial Risks

Cost Management

Since 2000, SaskTel has been focused on operational efficiency and removing operating costs from the legacy part of the business. The onset of local competition, the transition to lower margin Internet Protocol-based services, and the continued decline in legacy revenues, reinforce the need to continually focus on initiatives that will improve efficiency and remove costs from the business.

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

Pension Plan

The combined effect of the worldwide decline in capital markets and historically low interest rates has resulted in the SaskTel Pension Plan (defined benefit) being in a significant deficit position. The capital markets reached their lowest point in March 2009, but managed to stage a significant recovery throughout the rest of the year. SaskTel is monitoring the risks of a stall or reversal of this recovery and/or a further decrease in the discount rate used to value pension liabilities. Should these situations occur, significantly increased employer contributions would be required to maintain the financial health of the plan and meet regulatory funding requirements. This would have a material and negative effect on cash and on net earnings.

Should capital markets continue to recover and ongoing returns exceed underlying plan expectations and/or should the discount rate increase, an opposite and positive effect will result.

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. We will continue to monitor market rates of return, interest rates, and other factors to determine the impact on plan funding and solvency status. Employer solvency contributions are fixed through 2010, subsequent to a 2008 actuarial filing, but SaskTel is able to increase this funding if deemed appropriate. We believe these actions will ensure the plan deficit is managed and ultimately eliminated as required by existing legislation.

Legal Risks

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

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

At year end, SaskTel is named in the following major lawsuits. SaskTel believes it has strong 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 July 18, 2006, the Saskatchewan court declined to certify the action as a class action, but granted the Plaintiffs leave to renew their application in order to further address certain statutory requirements respecting class actions. The Plaintiffs renewed their application for certification and the renewed application was heard in June 2007. On September 17, 2007, the Saskatchewan court certified the Plaintiff's proceeding as a class action with respect to an allegation of unjust enrichment only. SaskTel, together with all other defendants in the proceedings, have filed motions with the Saskatchewan Court of Appeal seeking leave to appeal the decision of the court certifying the action as a class action. SaskTel's leave to appeal application is presently before the Court of Appeal. No specific date has yet been set for the hearing of that application. The application has recently been adjourned pending two motions that need to be decided before SaskTel's application for leave to appeal can be heard. SaskTel continues to believe that it has strong defences to the allegations and that legal errors were made by the court in the certification proceeding. SaskTel's leave to appeal application in the 2004 action was heard by the Court of Appeal on February 24, 2010, with the decision to be given at a later date.

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 to have been before the Saskatchewan Court of Appeal in October. On December 7–8, 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 is currently waiting for written reasons for this ruling. The Plaintiff's motion to discontinue the 2004 action was withdrawn leaving the 2004 action as a live lawsuit before the Court. A further case management conference is scheduled with the Court for early January 2010, to determine next steps and scheduling for the outstanding litigation. SaskTel believes that it has strong defences to the allegations contained in the most recent 2009 claim.

911 Fee Class Action Suit

On June 26, 2008, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireline, wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireline and wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning fees and charges paid for 911 service. The Plaintiffs seek unquantified damages from the defendant communications service providers. Thus far the claim has simply been issued by the Plaintiffs. SaskTel is not aware whether all the named defendant carriers have been served with the claim yet. 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 by SaskTel to handle this matter

R.L.T.V. Investments Lawsuit

On March 20, 2007, R.L.T.V. Investments Inc. brought a lawsuit against Saskatchewan Telecommunications Holding Corporation, Saskatchewan Telecommunications and several current and former officers and employees of Saskatchewan Telecommunications. The lawsuit includes allegations that SaskTel wrongfully obtained its Multipoint Communication Systems (MCS) licence in Saskatchewan and is legally responsible for the failure of Image Wireless Communications Inc. as a consequence of alleged breach of contract, intentional interference with trade or business, deceit, misrepresentation and breach of the Competition Act. The Plaintiff claims damages in excess of $87 million. SaskTel believes that it has strong defences to the allegations and a motion to strike all claims against the defendants was heard on September 25, 2007. The court struck the lawsuit in its entirety and the Plaintiff has appealed the decision to the Saskatchewan Court of Appeal. The Court of Appeal has heard and dismissed the Plaintiff's appeal. The Plaintiff has filed an application with the Supreme Court of Canada seeking leave to appeal to that court, the decision of the Saskatchewan Court of Appeal. SaskTel has filed a response to that application arguing that leave to appeal to the Supreme Court of Canada should not be granted. Presently, SaskTel is waiting for a decision on this Leave Application.

Operational Risks

System and Information Security

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

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

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

Business Interruption

With more than 1,400 locations of property, plant, and equipment around 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 using departmentalization, zoned environmental systems, smoke barriers, automatic sprinklers and very early fire detection systems. As well, a comprehensive insurance program is in place to transfer any significant physical loss and resultant business interruption experienced.

SaskTel's extensive network has evolved over the years to provide a variety of services from traditional voice services, to leading-edge internet, entertainment and data services. The confidence level in the networks 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 business continuity and disaster recovery plans in place which evolve through the Business Continuity Management (BCM) program. The BCM program is the unifying, integrated process which aids business units with the development and ongoing management of advance arrangements and procedures which enable SaskTel to respond to an event where critical business functions and processes have been disrupted. This program includes disaster recovery of critical applications and data, employee health and safety, and alternate work arrangements. Planning for an H1N1 pandemic has been completed by all business units.

Vendor Viability

SaskTel performs regular reviews of all major vendors to assess our exposure in the event that hardware, software, professional and support services are impacted. Market conditions have stressed most technology vendors, as evidenced by Nortel's bankruptcy protection filing. SaskTel proactively manages the lifecycle evolution of our technology and services, making the company well prepared to address any issues that arise, as in the case with this particular vendor restructure. Specifically, the network has been purposely built as a diverse, multi-vendor environment. Also, SaskTel has business continuity plans that address the ongoing operation of both wireless and wireline services that depend on Nortel infrastructure. SaskTel's proactive evolution planning of technology and services not only defines transitional steps for current and future goals, but also defines mitigation actions where necessary.

OPERATING RESULTS

Net Income

($ millions)	2009	2008	Change	%
Operating Revenues	**$1,152.8**	$1,139.1	$13.7	1.2
Operating Expenses	**1,001.6**	995.1	6.5	0.7
Income from operations	**151.2**	144.0	7.2	5.0
Other items	**8.2**	4.8	3.4	70.8
Interest and related costs	**(22.5)**	(23.1)	0.6	2.6
Income before the following	**136.9**	125.7	11.2	8.9
Gain on disposal of intangible assets	**3.1**	–	3.1	*nmf*[1]
Loss on disposal of assets held for sale	**(9.0)**	–	(9.0)	*nmf*[1]
Income from continuing operations	**131.0**	125.7	5.3	4.2
Loss from discontinued operations	**(2.0)**	(2.1)	0.1	*nmf*[1]
Net income	**$129.0**	$123.6	$5.4	4.4

[1] *nmf - no meaningful figures*

Net income for the year was $129.0 million, up $5.4 million from 2008. Income from continuing operations was $131.0 million, up $5.3 million from 2008.

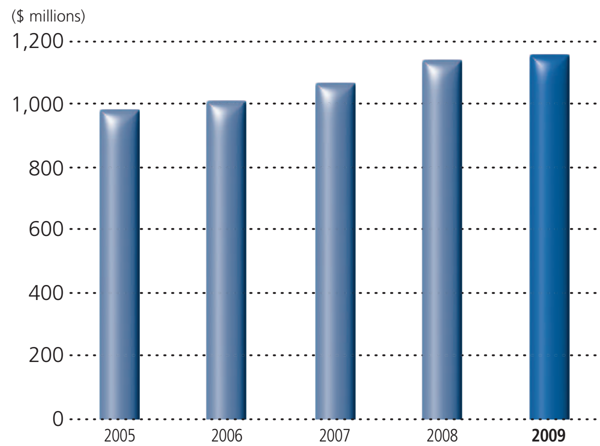
During the year, SaskTel, through its subsidiary SecurTek Monitoring Solutions Inc. (SecurTek), exchanged regional accounts with an unrelated corporation, resulting in a gain of $3.1 million. Additional details are provided in Note 8 of the consolidated financial statements.

During the fourth quarter of 2008, SaskTel, through its subsidiary Saskatchewan Telecommunications (Telco), approved a plan whereby specific underperforming out-of-province assets of Telco would be divested and the criteria for classification as assets held for sale were met. These assets were sold during 2009 for $1.25 million resulting in a loss on disposal of $9.0 million. In addition, during the fourth quarter of 2008, SaskTel, through its subsidiary DirectWest Corporation (DirectWest), approved a plan whereby the underperforming operations of DirectWest's wholly-owned subsidiary DirectWest Canada, Inc. will be divested and the criteria for classification as a discontinued operation were met. These assets were also sold during the year. Additional details for these transactions are provided in Note 9 of the consolidated financial statements.

Operating Revenues

Total operating revenues increased to $1,152.8 million in 2009, up $13.7 million (1.2%) from 2008. The increase was primarily driven by continued strong customer growth in cellular, *Max* Entertainment and internet services. Increases in these services were partially offset by reductions in local access and long distance services.

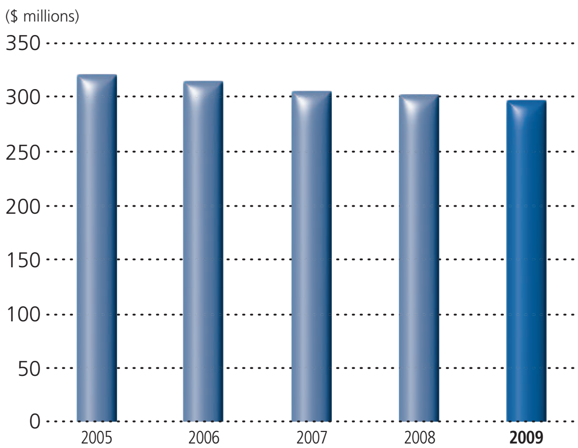
OPERATING REVENUES



($ millions)	2009	2008	Change	%
Local services	**$296.1**	$302.5	($6.4)	(2.1)
Wireless	**375.8**	352.9	22.9	6.5
Max, internet and data services	**225.3**	215.0	10.3	4.8
Long distance services	**89.3**	111.8	(22.5)	(20.1)
Other revenues	**166.3**	156.9	9.4	6.0
Total	**$1,152.8**	$1,139.1	$13.7	1.2

Local Service

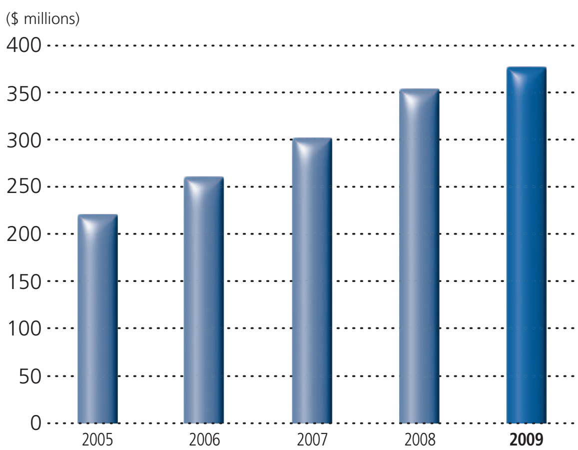
OPERATING REVENUES - LOCAL SERVICE



Local service revenues declined to $296.1 million in 2009, a reduction of $6.4 million (2.1%) from 2008. This decline reflects the reduction in network accesses that occurred during the year as local access competitors gained market share and as customers continued to migrate to wireless services.

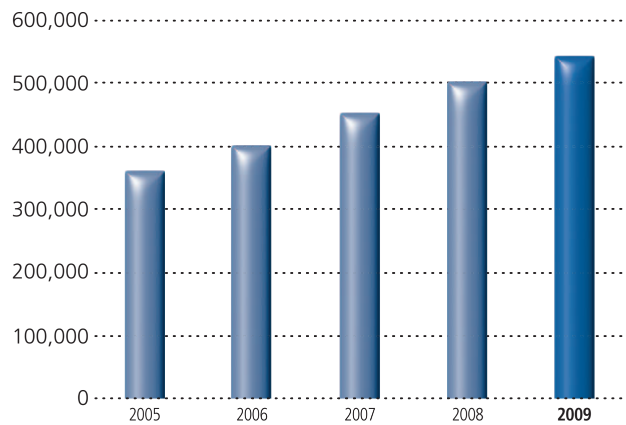
Wireless Services

OPERATING REVENUES - WIRELESS SERVICE



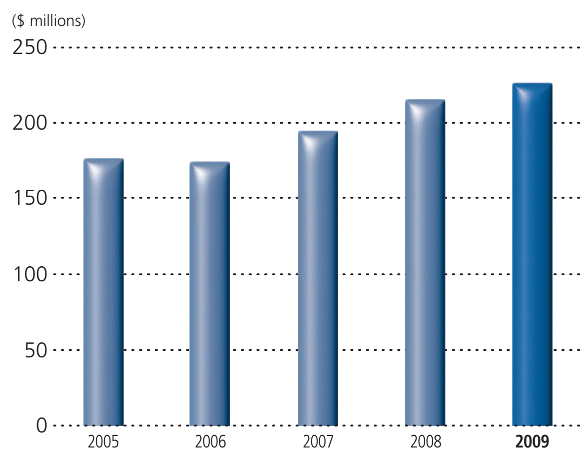
Wireless revenues increased significantly to $375.8 million in 2009, up $22.9 million (6.5%) from 2008. This was driven primarily by continued strong customer growth for cellular service, as total cellular accesses increased to 541,105 at year end, up 39,085 from 2008. The average revenue per cellular subscriber decreased to $59.40, down from $60.80 in 2008 as cellular customers continue to increase usage of services such as text messaging and other data applications in place of more costly voice calls.

CELLULAR ACCESSES



Max Entertainment Services, Internet and Data Services

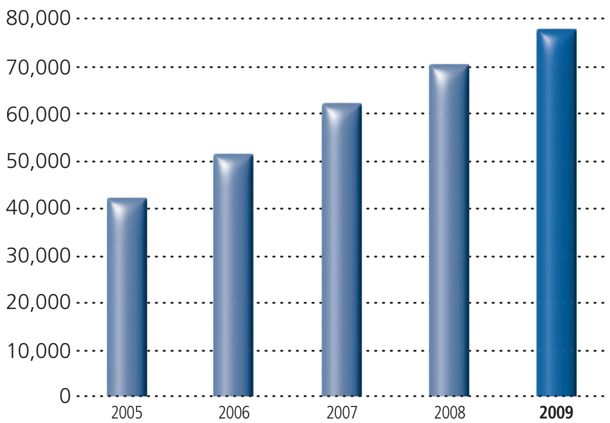
OPERATING REVENUES - *MAX* ENTERTAINMENT SERVICES, INTERNET AND DATA SERVICES



Revenues from *Max*, internet and data services increased to $225.3 million in 2009, up $10.3 million (4.8%) from 2008.

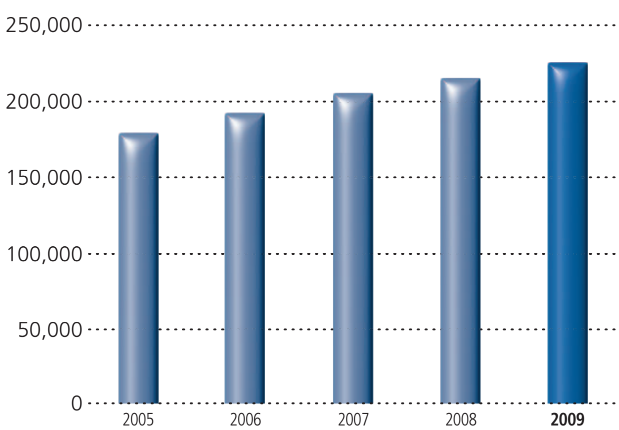
Max Entertainment Services revenues increased by $13.5 million from 2008, driven primarily by continued strong customer growth. At year end, there were 77,831 *Max* customers compared to 70,463 at the end of 2008, an increase of 7,368 (10.5%). *Max* services deliver: digital video signals, including high definition and specialty television channels, digital TV recorder, video on demand in partnership with Hollywood studios, local video on demand, live event pay per view and "always on" high speed internet.

MAX ENTERTAINMENT SERVICES SUBSCRIBERS



Internet revenues increased $4.2 million in 2009, primarily due to an increase in internet customers. At year end, there were 225,125 internet accesses, up from 216,062 in 2008, an increase of 9,063 (4.2%). This growth was driven, in part, by our continued expansion of service to more Saskatchewan communities.

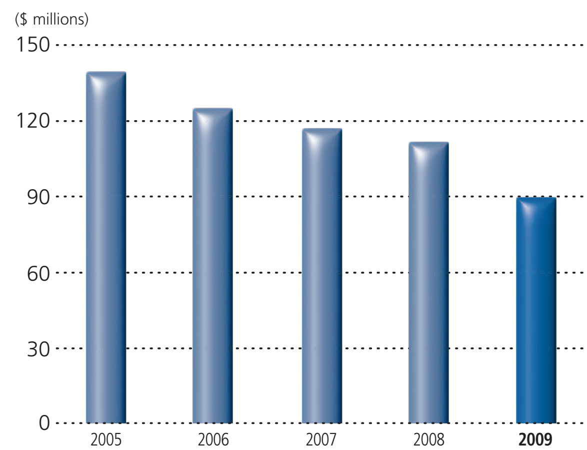
INTERNET ACCESSES



Data revenues decreased by $7.4 million in 2009 as customers continue to migrate to other lower cost IP based services and as rates for these services continue to decline.

Long Distance

OPERATING REVENUES - LONG DISTANCE



Long distance revenues declined to $89.3 million in 2009, a reduction of $22.5 million (20.1%) from 2008, primarily due to reduced wholesale revenues from SaskTel's out-of-province operations. Competitive pressures and continued growth in long distance bundles and unlimited calling plans continue to drive in-province long distance revenues downward.

Other Revenues

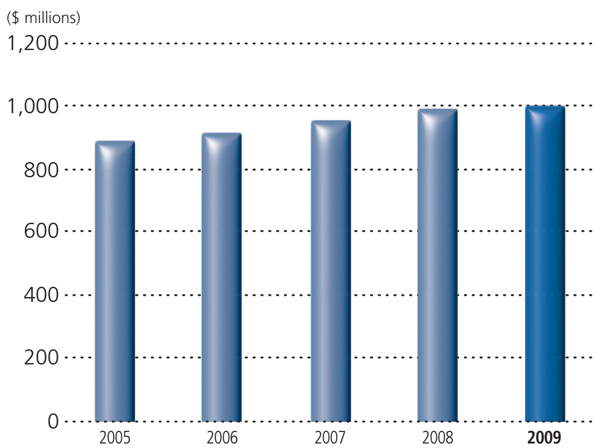
Other revenues increased to $166.3 million in 2009, up $9.4 million (6.0%) from 2008.

This increase was due to increased sales of customer premise equipment, and to increased revenues from SaskTel International, Hospitality Network Canada Inc., DirectWest Corporation, and SecurTek Monitoring Solutions Inc.

Operating Expenses

Total operating expenses increased to $1,001.6 million in 2009, up $6.5 million (0.7%) from 2008. The increase was driven primarily by increased expenses to support cellular and *Max* Entertainment Services revenue growth, and increases to depreciation and amortization expenses. These increases were partially offset by a reduction in restructuring charges and by a reduction in the write-down of assets held for sale.

OPERATING EXPENSES

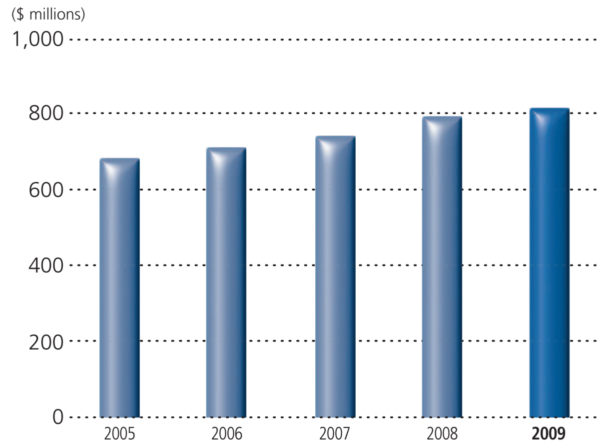


($ millions)	2009	2008	Change	%
Operations	**$812.9**	$793.0	$19.9	2.5
Depreciation and amortization	**185.1**	172.3	12.8	7.4
Restructuring charges	**3.6**	21.5	(17.9)	(83.3)
Write-down of assets held for sale	**–**	8.3	(8.3)	*nmf*[1]
Total	**$1,001.6**	$995.1	$6.5	0.7

[1] *nmf - no meaningful figures*

Operations

OPERATIONS

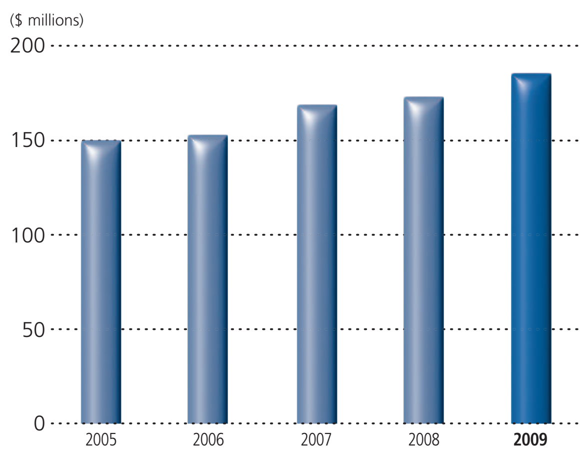


Operations expense increased to $812.9 million in 2009, up $19.9 million (2.5%) from 2008.

Direct costs, which include items such as *Max* content fees, cost of goods sold for customer premise equipment, cellular roaming expenses, commissions and license fees, increased by $7.7 million in 2009. Increases in contract spending to support network provisioning and systems development projects also contributed to the increase in 2009. These increases were offset by reductions in bad debt and operating rent expenses.

Depreciation and Amortization

DEPRECIATION AND AMORTIZATION



Depreciation and amortization expense increased to $185.1 million in 2009, up $12.8 million (7.4%) from 2008, due to increased levels of property, plant and equipment, and to a change in the estimated useful life of some intangible assets.

Restructuring charges

Restructuring charges decreased to $3.6 million in 2009, down $17.9 million (83.3%) from 2008. Restructuring costs were driven by the Early Retirement Program which was implemented in 2004 with the goal of reducing operating costs in traditional lines of business, while at the same time creating opportunities for growth in non-traditional areas. The number of employees electing to retire under this program decreased to 46 in 2009 as compared to 123 in 2008.

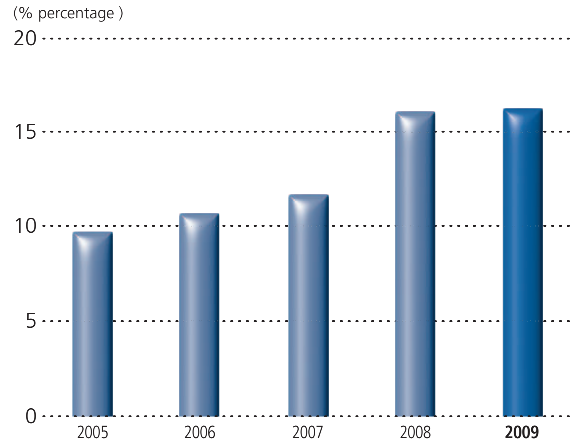
Write-down of assets held for sale

During the fourth quarter of 2008, SaskTel, through its subsidiary Saskatchewan Telecommunications, approved a plan whereby specific underperforming out-of-province assets of Saskatchewan Telecommunications would be divested. The out-of-province long-lived assets were classified as held for sale, and were written down to the lower of their carrying amount and fair value less cost to sell resulting in a charge to operations of $8.3 million in 2008.

Return on Equity

	2009	2008	Change	%
Return on equity	**16.2**	**16.1**	0.1	0.6

RETURN ON EQUITY



SaskTel once again provides a strong return to its shareholders.

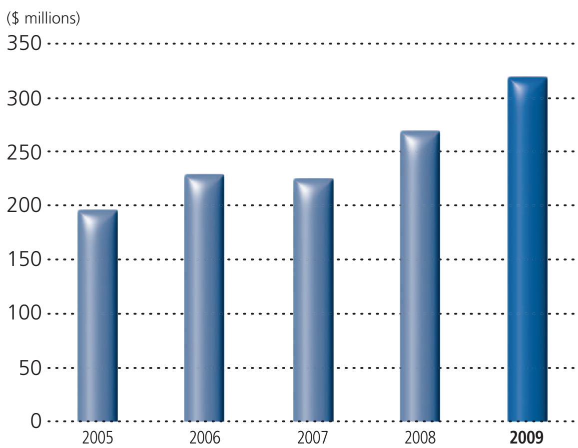
LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operating Activities

	2009	2008	Change	%
Years ended December 31	**$319.0**	$268.5	$50.5	18.8

Cash provided by operating activities was $319.0 million, up $50.5 million from 2008. Cash provided by operations increased $28.9 million compared to 2008 primarily due to decreased pension funding and increased earnings. Working capital changes resulted in an increase in cash of $21.6 million compared to 2008.

OPERATING ACTIVITIES



Cash Used by Investing Activities

($ millions)	2009	2008	Change	%
Years ended December 31	**$189.3**	$219.3	$(30.0)	(13.7)

Cash used in investing activities was $189.3 million, down $30.0 million from 2008, primarily due to reduced spending for wireless spectrum in 2009. SaskTel acquired spectrum for $66.0 million in 2008 through the Advanced Wireless Services (AWS) Auction. This reduction was partially offset by an increase in property, plant and equipment expenditures of $78.1 million, part of which ($45.0 million) was funded by the Province of Saskatchewan for the Rural Infrastructure Program (RIP).

Investing Activities

Capital Spending

SaskTel's net capital spending on property, plant and equipment in 2009 was $206.1 million, up $78.1 million from 2008. Spending increased to support the Saskatchewan Infrastructure Improvement Program (SIIP), enhancements to *Max* Entertainment Services and increased spending on buildings and equipment.

SaskTel invested approximately $175.1 million in growth initiatives in 2009 compared to $111.5 million in 2008. Expenditures to sustain capital assets increased to $45.3 million in 2009 from $29.4 million in 2008.

Growth and diversification initiatives in 2009 included:

- $58.9 million in additional investment on the SIIP. A portion of SIIP, the Rural Infrastructure Program, is a SaskTel partnership with the government of Saskatchewan to provide last-mile broadband to 100% of rural Saskatchewan, cellular expansion to 98% of the population of Saskatchewan and backbone infrastructure upgrades to increase basic internet to five (5) megabits per second. Additional aspects of SIIP include expansion of fibre to the premise and migration of the wireless network to 3rd generation standards based on UMTS/HSPA technology.
- $45.1 million in additional investment into the Access & Core Network Growth program to ensure the SaskTel wireline and wireless network continues to meet customer needs.
- $33.9 million in capital expenditures to enhance *Max* Entertainment Services. *Max* provides customers with a full line-up of digital and HD quality television channels as well as unlimited high speed internet on their television and personal computer.
- $13.2 million in capital spending on state-of-the-art equipment to prepare the SaskTel network for the future growth in wireline data requirements.
- $4.9 million in capital spending on the Wireless Cellular Network Expansion program to improve digital wireless network coverage in rural areas across Saskatchewan.

Significant investments to sustain capital assets in 2009 included:

- $18.2 million was spent for the maintenance and construction of buildings and equipment across Saskatchewan.
- $9.7 million in spending on the wireline and wireless networks to ensure the SaskTel network remains a leader in quality while still being able to meet growth in customer demand.
- $6.8 million in capital spending for systems infrastructure and desktop computer provisioning initiatives. These upgrades will establish new data and communications infrastructure needed to sustain current technology and provide for future growth.

Targets for 2010

Capital expenditures in 2010 will focus on further investment in growth initiatives while sustaining current capital assets. A large portion of the growth expenditures will see capital investment to increase bandwidth to our customers. Capital investments will include a cellular network upgrade to UMTS/HSPA technology, network growth and refurbishment, further investment in *Max* Entertainment Services, and improved high speed internet quality.

Cash Used by Financing Activities

($ millions)	2009	2008	Change	%
Years ended December 31	**$125.7**	$53.7	72.0	134.1

Cash used in financing activities was $125.7 million, up $72.0 million from 2008, primarily due to increased dividend payments to Crown Investment Corporation of Saskatchewan and to an increase in the repayment of short-term debt. During the last five years, SaskTel paid a total of $320.2 million in dividends while maintaining a debt ratio below 40%.

DEBT RATIO

($ millions)	2009	2008	Change	%
Long-term debt	**$330.5**	$331.0	$(0.5)	(0.2)
Short-term debt	**8.7**	31.7	(23.0)	(72.6)
Less: Sinking funds	**68.2**	62.5	5.7	9.1
Cash and short-term investments	**9.3**	4.9	4.4	89.8
Net debt	**261.7**	295.3	(33.6)	(11.4)
Equity	**811.8**	786.0	25.8	3.3
Capitilization	**$1,073.5**	$1,081.3	(7.8)	(0.7)
Debt ratio	**24.4%**	27.3%	(2.9)	(10.7)

The debt ratio decreased in 2009 as SaskTel continued to self-finance its capital and dividend requirements and reduce the overall level of net debt. Retained earnings increased $25.8 million after recording net income of $129.0 million and declaring dividends of $103.2 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 7.52% in both 2009 and 2008. The average interest rate of the short-term debt was 0.28% in 2009 and 1.35% in 2008.

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, 2009.

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

Access to Capital

The primary uses of cash in 2010 will be property, plant and equipment expenditures, growth initiatives and dividend payments.

The 2010 plan assumes that funding of capital expenditures, growth initiatives and dividend payments will be initially from operations. Additional funding will be accessed through short-term notes and, potentially, long-term debt issued through the Province of Saskatchewan.

Credit facilities consist of up to $125 million in combined lines of credit with financial institutions and advances from the Province of Saskatchewan. At December 31, 2009, SaskTel had accessed $8.7 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, 2009, total outstanding debt was $339.2 million compared to $362.7 million in 2008.

Use of Financial Instruments

SaskTel uses derivative instruments to manage exposure to interest rate risk and foreign exchange risk. Derivative instruments are not used to speculate. Because derivative instruments are related to specific financial exposures, there is no significant liquidity risk. At December 31, 2009, there were no derivative financial instruments outstanding.

SIGNIFICANT ACCOUNTING POLICIES

SaskTel's consolidated financial statements are prepared according to Canadian Generally Accepted Accounting Principles (GAAP). 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 estimates and assumptions in determining transaction amounts and financial statement balances, and is required to constantly evaluate the estimates and assumptions used. Management bases these estimates and assumptions on past experience and other factors considered reasonable under the circumstances. Because of the judgment and uncertainty involved, the amounts currently reported in the financial statements could, in the future, prove to be inaccurate.

Employee Defined Benefit Plans

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

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

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

Discount rate

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

SaskTel determines the appropriate discount rate at the end of every year. SaskTel's discount rate was 6.00% at December 31, 2009, down 1.50% from 7.50% used in 2008. Changes in the discount rate could have an effect on SaskTel's earnings through an effect on the projected benefit obligation. A lower discount rate results in a higher obligation, which could at some point require additional contributions to the plan.

Expected long-term rate of return

In 2009, SaskTel assumed an expected long-term rate of return on plan assets of 6.75%, consistent with the rate used in 2008. This rate is not currently anticipated to change in 2010.

Allowances for Doubtful Accounts

SaskTel and its subsidiaries maintain allowances for losses expected to result from customers who do not make their required payments. Estimates of the allowances are based on the likelihood of collecting accounts receivable based on past experience, taking into account current and expected collection trends. If economic conditions or specific industry trends become worse than anticipated, the allowances for doubtful accounts will be increased by recording an additional expense.

Depreciation and Amortization

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

Long-lived Assets

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

Goodwill

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

Intangible Assets

SaskTel records intangible assets at the most appropriate value depending on the method of acquisition; cost for purchased and internally developed intangible assets, and fair value for intangible assets acquired in business combinations. Intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value. Estimating the cash flows from the use and eventual disposal of intangible assets requires significant 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.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

The aspects of IFRS that have the potential to most significantly impact SaskTel are accounting for property, plant and equipment, employee future benefits, revenue recognition, impairment testing and financial statement disclosures. The IASB plans to make revisions to, or to replace, existing IFRS standards that may impact these areas as well as other accounting issues. Some of the anticipated changes may be in effect prior to SaskTel's transition date, such that IFRS may differ at transition date from its current form. However, it is likely that the majority of the changes will be in effect subsequent to the date of transition; with the result that the impact to SaskTel of adopting IFRS will extend beyond its transitional year.

FIVE YEAR RECORD OF SERVICE

CONSOLIDATED INCOME STATEMENT

($ millions)	2009	2008	2007	2006	2005
Operating revenues	**$1,152.8**	$1,139.1	$1,061.7	$1,009.6	$978.8
Operations expenses	**(812.9)**	(793.0)	(740.0)	(709.7)	(684.4)
Restructuring charges	**(3.6)**	(21.5)	(45.6)	(55.1)	(41.0)
EBITDA	**336.3**	324.6	276.1	244.8	253.4
Depreciation and amortization	**(185.1)**	(172.3)	(169.0)	(152.6)	(149.7)
Write-down of long-lived assets	**–**	(8.3)	–	–	(15.3)
Income from operations	**151.2**	144.0	107.1	92.2	88.4
Other items	**8.2**	4.8	5.3	5.6	1.2
Interest & related costs	**(22.5)**	(23.1)	(25.0)	(25.3)	(25.2)
Gain on disposal of intangible assets	**3.1**	–	–	–	–
Loss on disposal of assets held for sale	**(9.0)**	–	–	–	–
Income from continuing operations	**131.0**	125.7	87.4	72.5	64.4
Loss from discontinued operations	**(2.0)**	(2.1)	(3.3)	–	–
Net Income	**$129.0**	$123.6	$84.1	$72.5	$64.4

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

($ millions)	2009	2008	2007	2006	2005
Current assets	**$136.6**	$134.9	$150.4	$138.6	$218.6
Property, plant and equipment, at cost	**2,976.9**	2,878.1	2,893.9	2,793.0	2,640.6
Accumulated depreciation and amortization	**2,029.4**	1,997.5	1,928.0	1,834.9	1,766.1
Total assets	**1,416.8**	1,358.6	1,296.5	1,254.9	1,213.6
Current liabilities	**313.3**	231.3	213.8	206.6	218.0
Long-term debt	**240.1**	330.6	327.8	348.9	320.7
Dividends declared	**103.2**	78.9	30.0	50.0	57.9
Change in accounting policy and prior year adjustment	**–**	(1.4)	–	–	–
Total equity	**811.8**	786.0	742.7	687.6	665.1

CONSOLIDATED CASH FLOW STATEMENT

($ millions)	2009	2008	2007	2006	2005
Cash and cash equivalents, beginning of year	**$4.9**	$12.0	$16.1	$97.1	$141.5
Cash provided by operating activities	**319.0**	268.5	229.5	228.1	195.4
Cash used in investing activities	**(189.3)**	(219.3)	(175.4)	(231.1)	(144.7)
Cash used in financing activities	**(125.7)**	(53.7)	(53.1)	(78.0)	(95.1)
Increase (decrease) in cash from discontinued operations	**0.4**	(2.6)	(5.1)	–	–
Cash and cash equivalents, end of year	**$9.3**	$4.9	$12.0	$16.1	$97.1

FINANCIAL RATIOS

	2009	2008	2007	2006	2005
Return on Equity	**16.2%**	16.1%	11.8%	10.7%	9.7%
Debt Ratio	**24.4%**	27.3%	27.7%	30.4%	28.3%

CONSOLIDATED INCOME STATEMENT

($ millions)	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Operating revenues	$288.9	$293.6	$286.6	$283.7	$294.2	$286.4	$282.0	$276.5
Operations expenses	(214.7)	(199.7)	(208.1)	(190.4)	(212.6)	(193.3)	(198.9)	(188.2)
Restructuring charges	0.4	0.2	(4.2)	–	(7.0)	–	(14.5)	–
EBITDA	74.6	94.1	74.3	93.3	74.6	93.1	68.6	88.3
Depreciation and amortization	(56.6)	(43.2)	(42.9)	(42.4)	(43.7)	(43.3)	(43.0)	(42.3)
Write-down of long-lived assets	–	–	–	–	(8.3)	–	–	–
Income from operations	18.0	50.9	31.4	50.9	22.6	49.8	25.6	46.0
Other Items	4.1	1.5	1.6	1.0	0.9	1.8	3.9	(1.8)
Interest & related costs	(6.9)	(4.2)	(5.6)	(5.8)	(4.5)	(6.7)	(6.7)	(5.2)
Gain on disposal of intangible assets	–	–	3.1	–	–	–	–	–
Loss on disposal of assets held for sale	(9.0)	–	–	–	–	–	–	–
Income from continuing operations	6.2	48.2	30.5	46.1	19.0	44.9	22.8	39.0
Loss from discontinued operations	(0.5)	(0.5)	(0.4)	(0.6)	(0.9)	(0.2)	(0.6)	(0.4)
Net income	$5.7	$47.7	$30.1	$45.5	$18.1	$44.7	$22.2	$38.6

ANNUAL OPERATING STATISTICS

	2009	2008	2007	2006	2005
Wireless*					
Total wireless access services	**553,825**	510,886	460,277	411,918	368,817
Cellular access services	**541,105**	502,020	452,218	402,676	360,137
Cellular average revenue per access ($)	**59.4**	60.8	57.9	55.5	53.6
Wireline*					
Network access services	**543,585**	555,668	565,647	576,289	581,812
Internet access services (includes *Max* accesses)	**225,125**	216,062	205,837	192,623	179,388
Max customers	**77,831**	70,463	62,244	51,277	42,089
Originated long distance minutes (000's)	**1,350,491**	1,397,661	1,388,800	1,393,824	1,390,614
Employees and payroll					
Total employees	**4,814**	5,063	5,209	5,152	5,134
Salaries earned (000's)	**$303,138**	$296,494	$292,765	$275,679	$272,032

** Does not include SaskTel internal use*

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, 2009, are the responsibility of management and have been approved by the Board of Directors. Management has prepared the consolidated financial statements in accordance with generally accepted accounting principles in Canada. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

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

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

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

Robert Watson
President and
Chief Executive Officer
March 1, 2010

Mike Anderson
Chief Financial Officer

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

I, Robert Watson, 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, 2009, 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, 2009, were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

Robert Watson	**Mike Anderson**
President and	*Chief Financial Officer*
Chief Executive Officer	
March 1, 2010	

Consolidated Financial Statements

AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan.

We have audited the consolidated statement of financial position of Saskatchewan Telecommunications Holding Corporation as at December 31, 2009, and the consolidated statements of operations and comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada
March 1, 2010

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended December 31, (Thousands of dollars)	2009	2008 (Restated Note 2)
Operating revenues	**$1,152,791**	$1,139,065
Operating expenses		
Operations	**812,849**	792,986
Depreciation and amortization	**185,088**	172,322
Restructuring charges (Note 6)	**3,619**	21,506
Write-down of assets held for sale	–	8,274
	1,001,556	995,088
Income from operations	**151,235**	143,977
Other items	**8,166**	4,792
Interest and related items (Note 7)	**(22,503)**	(23,091)
Income before the following	**136,898**	125,678
Gain on disposal of intangible assets (Note 8)	**3,087**	–
Loss on disposal of assets held for sale (Note 9)	**(9,002)**	–
Income from continuing operations	**130,983**	125,678
Loss from discontinued operations (Note 9)	**(1,974)**	(2,080)
Net income	**129,009**	123,598
Other comprehensive income	**–**	–
Comprehensive income	**$129,009**	$123,598

See Accompanying Notes

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31, (Thousands of dollars)	2009	2008 (Restated Note 2)
Retained earnings, beginning of year as previously reported	**$535,142**	$492,660
Change in accounting policy and prior period adjustment (Note 2)	**855**	(1,365)
Retained earnings, beginning of year as restated	**535,997**	491,295
Net income	**129,009**	123,598
	665,006	614,893
Dividends	**103,207**	78,896
Retained earnings, end of year	**$561,799**	$535,997

See Accompanying Notes

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, (Thousands of dollars)	2009	2008 (Restated Note 2)
Assets		
Current assets		
Cash and short-term investments	**$8,913**	$3,808
Accounts receivable (Note 21a)	**92,793**	91,364
Inventories (Note 10)	**8,020**	8,521
Prepaid expenses (Note 21a)	**15,947**	17,157
Current portion of sinking funds (Note 14)	**10,519**	–
Current assets from discontinued operations	**443**	14,040
	136,635	134,890
Property, plant and equipment (Note 11)	**947,509**	880,648
Intangible assets – finite-life (Note 12)	**70,847**	86,436
Intangible assets – indefinite-life (Note 13)	**65,981**	65,981
Sinking funds (Note 14)	**57,744**	62,540
Goodwill	**17,913**	18,079
Deferred pension costs (Note 23)	**108,145**	91,518
Other assets (Note 15)	**12,006**	10,510
Assets held for sale	**–**	7,967
	$1,416,780	$1,358,569
Liabilities and Province's equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 21a)	**$131,143**	$112,960
Notes payable (Note 16)	**8,700**	31,700
Dividend payable	**31,026**	26,612
Services billed in advance (Note 21a)	**51,774**	50,543
Current portion of long-term debt (Note 18)	**90,403**	433
Current liabilities from discontinued operations	**262**	9,006
	313,308	231,254
Deferred revenue	**9,145**	10,714
Deferred revenue – Rural Infrastructure Program funding (Note 17)	**42,400**	–
Long-term debt (Note 18)	**240,128**	330,604
	604,981	572,572
Province of Saskatchewan's equity		
Equity advance (Note 19)	**250,000**	250,000
Retained earnings	**561,799**	535,997
	811,799	785,997
	$1,416,780	$1,358,569

See Accompanying Notes

On behalf of the Board: Grant Kook Blair Davidson

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, (Thousands of dollars)	2009	2008 (Restated Note 2)
Operating activities		
Income from continuing operations	**$130,983**	$125,678
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	**185,088**	172,322
Write-down of assets held for sale	**–**	8,274
Gain on disposal of intangible assets	**(3,087)**	–
Loss on disposal of assets held for sale	**9,002**	–
Pension income of defined benefit plans	**(8,408)**	(12,741)
Special termination benefits cost	**–**	11,584
Contributions to defined benefit pension plans	**(8,252)**	(29,727)
Sinking fund earnings	**(3,487)**	(3,367)
Other	**(2,993)**	(2,071)
Net change in non-cash working capital (Note 21b)	**20,179**	(1,473)
Cash provided by operating activities	**319,025**	268,479
Investing activities		
Property, plant and equipment expenditures	**(206,055)**	(127,987)
Intangible assets – finite-life	**(28,285)**	(25,323)
Intangible assets – indefinite-life	**–**	(65,981)
Rural Infrastructure Program funding	**45,000**	–
Cash used in investing activities	**(189,340)**	(219,291)
Financing activities		
Proceeds from (repayment of) notes payable	**(23,000)**	31,700
Sinking fund installments	**(3,266)**	(3,266)
Repayment of long-term debt	**(406)**	(21,040)
Capital lease obligations	**(55)**	(144)
Dividends paid	**(98,793)**	(59,784)
Financing leases	**(211)**	(1,140)
Cash used in financing activities	**(125,731)**	(53,674)
Increase (decrease) in cash from continuing operations	**3,954**	(4,486)
Increase (decrease) in cash from discontinued operations	**417**	(2,618)
Cash and cash equivalents, beginning of year	**4,942**	12,046
Cash and cash equivalents, end of year	**$9,313**	$4,942
Comprised of:		
Cash and cash equivalents of continuing operations	**$8,913**	$3,808
Cash of discontinued operations	**400**	1,134
	$9,313	$4,942

See Accompanying Notes

Notes to Consolidated Financial Statements

Note 1 – The Corporation

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

By virtue of *The Crown Corporations Act, 1993*, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation.

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

Note 2 – Change in accounting policies and prior period adjustment

Effective for year-ends beginning on or after January 1, 2009, the CICA has amended certain sections of the CICA Handbook to remove the rate regulation exemption for recognition of certain assets and liabilities arising from rate regulation as well as other recognition and measurement guidance. The Corporation has implemented these changes with no impact on the financial statements of the Corporation.

Effective January 1, 2009, the Corporation adopted the accounting recommendations for goodwill and intangible assets (Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064) in accordance with the transition provisions of the section. This section requires intangible assets to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria, and provides further information on the recognition of internally generated intangible assets. The new recommendations have been implemented retroactively.

In addition, revenue and expenses related to certain prepaid cellular services had been incorrectly recorded for 2008 and prior years. The financial statements have been retroactively restated for all periods presented.

Total adjustments to December 31, 2008 balances are as follows:

(Thousands of dollars)	Change in Accounting Policy	Prior period adjustment	Total
Increase (decrease)			
Revenue	$ –	$1,239	$1,239
Operating expenses	140	(965)	(825)
Depreciation and amortization	(156)	–	(156)
Net income	16	2,204	2,220
Prepaid expenses	–	(1,305)	(1,305)
Intangible assets – finite life	59,457	–	59,457
Other assets	(4,191)	–	(4,191)
Property, plant and equipment	(56,076)	–	(56,076)
Services billed in advance	–	(2,970)	(2,970)
Beginning retained earnings	(826)	(539)	(1,365)
Ending retained earnings	(810)	1,665	855

Note 3 – Summary of significant accounting policies

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

Subsidiaries and investments

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

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

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

Operating entities	Percentage ownership	Basis for inclusion
Saskatchewan Telecommunications	100.0%	Consolidation
Saskatchewan Telecommunications International, Inc.	100.0%	Consolidation
DirectWest Corporation	100.0%	Consolidation
DirectWest Canada, Inc.	100.0%	Consolidation
SecurTek Monitoring Solutions Inc.	100.0%	Consolidation
Hospitality Network Canada Inc.	100.0%	Consolidation
Saskatoon 2 Management Ltd.	70.0%	Proportionate consolidation
Saskatoon 2 Properties Limited Partnership	70.0%	Proportionate consolidation
Manalta Investment Company Ltd.	1.0%	Cost
NSI Global Inc.	0.1%	Cost

The following is a summary of the non-operating entities of the Corporation: 675161 British Columbia Ltd., Avonlea Holding, Inc., Battleford International, Inc., Hollywood At Home, Inc., Navigata Communications Ltd., Nokomis Holding, Inc., Qu'Appelle Holding, Inc., Saskatchewan Telecommunications International (Tanzania) Ltd., SaskTel International Consulting, Inc., SaskTel Investments Inc., Shellbrook Holding, Inc., Vanguard Holding, Inc., and Wadena Holding, Inc.

Cash and short-term investments

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

Inventories

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

Property, plant and equipment

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

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

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

Note 3 – Summary of significant accounting policies, continued

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

Assets held for sale and discontinued operations

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

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

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

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

Impairment of long-lived assets

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

Asset retirement obligations

Legal obligations associated with the retirement of property, plant and equipment are initially measured at fair value and are adjusted for any changes resulting from the passage of time and any changes to the timing or amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized as part of the related asset and is amortized into earnings over the asset's useful life. There were no significant asset retirement obligations as at December 31, 2009.

Goodwill

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

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first

Note 3 – Summary of significant accounting policies, continued

step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination as described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statement of operations and comprehensive income.

Intangible assets – finite-life

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

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

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

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

Asset	Estimated useful life
Software	1 - 5 years
Customer accounts	3 - 10 years
Customer contracts	1 - 10 years
Implementation costs	5 - 10 years
Parkade lease	17 years
Leasing costs and tenant inducements	3 - 10 years

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

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

Intangible assets – indefinite-life

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

Deferred revenue-government funding

Government funding related to operating expenses is recognized in income when the related expenses are incurred. Government funding related to capital expenditures is deferred until the related assets are in service. The funding is amortized over the estimated useful life of the related assets, currently 16 years.

Revenue recognition

Revenues are recognized in the period the services are provided when there is clear proof that an arrangement exists, amounts are determinable and the ability to collect is reasonably assured. Revenues from local telecommunications,

Note 3 – Summary of significant accounting policies, continued

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

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

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

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

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

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

Employee future benefits

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

a) *Defined benefit pension plan*

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

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

Note 3 – Summary of significant accounting policies, continued

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

Expected return on plan assets is calculated based on a five-year weighted average of actuarial gains and losses, expected returns on plan assets, and contributions and benefit payments made in the current year.

Past service costs from plan amendments were amortized on a straight-line basis over the average remaining service period of employees who were active on the day of the amendment but not yet fully eligible to receive benefit (8.3 years). This represents the period that economic benefits from the amendments are expected to be realized.

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

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

b) *Defined contribution pension plan*

Defined contribution plan costs are recognized as employees render services during the year.

c) *Service recognition defined benefit plan*

The Corporation also provides a service recognition defined benefit program for its employees. The cost of the plan is determined using the projected benefit method prorated on service.

Foreign currency translation

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

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

Financial instruments

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

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

The Corporation, from time to time, is party to certain derivative financial instruments, principally interest rate swap contracts (used to manage the exposure to market risks from changing interest rates) and forward foreign exchange contracts (used to manage foreign currency exposures).

Note 3 – Summary of significant accounting policies, continued

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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

Use of estimates

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

Note 4 – Accounting policy developments

International Financial Reporting Standards (IFRS)

The CICA Accounting Standards Board has confirmed that publicly accountable enterprises will be required to adopt IFRS in place of GAAP for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. In September 2009, the Public Sector Accounting Board (PSAB) approved an amendment to the introduction to the Public Sector Accounting Handbook which requires Government Business Enterprises (GBEs) to adopt IFRS and Other Government Organizations (OGOs) to adopt either IFRS or the public sector handbook, whichever is considered the most appropriate basis of accounting. The Corporation and its subsidiaries, as GBE's, are proceeding with adoption of IFRS.

The Corporation and its subsidiaries have commenced an IFRS conversion project including initiating the development of high level IFRS implementation plans for each subsidiary that include stakeholder identification, milestones and deadlines, planned scope and approach, risks and mitigations, project governance and accountability responsibilities, and resource requirements. An external advisor has been engaged to assist with the development of plans and to perform a detailed review of major differences between current GAAP and IFRS. Board members have been briefed on IFRS and the Corporation's project plan has been reviewed by the Board of Directors.

Management and staff from the Corporation and its subsidiaries have participated in detailed IFRS training seminars. Project teams have completed an initial assessment of those international financial reporting standards with the highest potential for impacts on either individual subsidiaries, or for the Corporation as a whole. Based on the analysis to date, potential areas of difference are related to accounting for property, plant and equipment, employee future benefits, revenue recognition, impairment testing and financial statement disclosures. Working

Note 4 – Accounting policy developments, continued

groups have been formed to review identified standards in detail and discuss specific issues as a basis for ensuring common understanding and consistency in approaches to issue resolution. Selection of accounting policies has been finalized and the Corporation is in the final stages of determining the impact of IFRS on processes, systems, internal controls over financial reporting and disclosures, and future financial position and results of operations. IFRS financial statement presentation formats are being finalized. As part of the IFRS implementation, the Corporation plans to make changes to certain processes and systems to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

Note 5 – Rate regulation

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

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

In September 2009, the CRTC issued *Notice of Consultation 2009-575 Call for comments – Identification, scope, and prioritization of issues regarding obligation to serve, basic service objective, and local service subsidy regime.* The results of this consultation could significantly impact future subsidy mechanisms. As a result of responses to the *Call for comments*, the CRTC has issued Telecom *Notice of Consultation CRTC 2010-43* advising of proceedings to review access to basic telecommunications services and other matters.

Approximately 17% (2008 - 18%) of the Corporation's operating revenues are currently subject to CRTC rate regulation. Rate regulation does not result in the Corporation selecting accounting policies that would differ from GAAP.

Note 6 – Restructuring charges

During 2009, $3,619,254 (2008 - $21,506,097) was recorded to restructuring charges. The charges relate to phase three of a three-phase, voluntary Early Retirement Program (ERP) for Saskatchewan Telecommunications.

The ERP has been undertaken to reduce operating costs and manage the employee demographic profile in the context of a changing labour market. During 2009, 46 employees (2008 - 123) elected to receive a package that included a cash allowance and immediate pension benefits.

The table below provides a summary of the costs recognized and the liability recorded at December 31:

(Thousands of dollars)	**2009**	2008
Balance in accounts payable and accrued liabilities, beginning of year	**$9,140**	$9,760
Restructuring charges	**3,619**	21,506
Less:		
Cash payments	**9,854**	10,542
Special termination benefits costs	**–**	11,584
Balance in accounts payable and accrued liabilities, end of year	**$2,905**	$9,140

Note 7 – Interest and related items

(Thousands of dollars)	**2009**	2008
Interest on long-term debt	**$25,010**	$26,722
Sinking fund earnings	**(3,487)**	(3,367)
Change in fair value of sinking funds	**1,030**	501
Interest on short-term investments	**(50)**	(765)
	$22,503	$23,091

Note 8 – Gain on disposal of intangible assets

On June 29, 2009, the Corporation, through its subsidiary SecurTek Monitoring Solutions Inc. (SecurTek), exchanged regional customer accounts with an unrelated corporation. Consideration included selected regional accounts of each purchaser, valued based on industry standard valuation techniques and cash consideration of $1,261,285 paid by SecurTek, resulting in a gain of $3,087,124.

Note 9 – Assets held for sale and discontinued operations

During the fourth quarter of 2008, the Corporation, through its subsidiaries Saskatchewan Telecommunications (SaskTel) and DirectWest Corporation (DirectWest), approved plans for the divestiture of specific underperforming out of province assets.

On December 8, 2009, selected out-of-province assets of SaskTel were sold for consideration of $1,250,000 resulting in a loss on disposal of $9,002,058.

In addition, during the year the Corporation through its subsidiary DirectWest, disposed of the directory operations of DirectWest Canada, Inc. for consideration of $4,714,732 in the form of cash of $531,732, short-term promissory note of $450,000 and preferred shares of $3,733,000, resulting in a net loss of $396,550 which has been included in loss from discontinued operations in the Consolidated Statement of Operations and Comprehensive Income.

The operating loss from discontinued operations for the year was $1,578,271.

The results of the directory operations of DirectWest Canada, Inc. have been presented as discontinued operations in the Consolidated Statements of Operations and Cash Flows and the related assets and liabilities have been reported as assets of discontinued operations and liabilities of discontinued operations in the Consolidated Statement of Financial Position for all periods presented.

The results of discontinued operations related to the operations of DirectWest Canada, Inc. are as follows:

(Thousands of dollars)	**2009**	2008
Revenues	**$2,630**	$7,457
Cost of sales	**1,533**	4,548
Operating expenses	**2,682**	4,751
Depreciation and amortization	**–**	273
Interest income	**7**	35
Net loss on disposal of discontinued operations	**396**	–
Loss from discontinued operations	**$1,974**	$2,080

The cash flows from discontinued operations are as follows:

(Thousands of dollars)	**2009**	2008
Operating activities	**$(565)**	$(2,608)
Investing activities	**982**	(10)
	$417	$(2,618)

Note 10 – Inventories

During the year, $24,666,101 of inventories for resale (2008 - $20,947,019) were recognized as cost of goods sold. Inventory write-downs amounted to $538,905 (2008 - $452,669). There were no reversals of any prior period write-down during 2009.

Note 11 – Property, plant and equipment

(Thousands of dollars)	Cost	Accumulated depreciation and amortization	Net book value 2009	Net book value 2008 (Restated Note 2)
Buildings	**$288,183**	**$161,182**	**$127,001**	$127,909
Plant and equipment	**2,402,299**	**1,829,022**	**573,277**	590,404
Office furniture, equipment and leaseholds	**74,143**	**39,217**	**34,926**	27,253
Plant under construction	**178,911**	**–**	**178,911**	107,257
Materials and supplies	**23,339**	**–**	**23,339**	17,737
Land	**10,055**	**–**	**10,055**	10,088
	$2,976,930	**$2,029,421**	**$947,509**	$880,648

Depreciation and amortization for the year totaled $146,517,933 (2008 - $149,166,864).

Note 12 – Intangible assets – finite-life

(Thousands of dollars)	Cost	Accumulated amortization	Net book value 2009	Net book value 2008 (Restated Note 2)
Software	**$111,137**	**$70,434**	**$40,703**	$57,531
Customer accounts	**54,248**	**28,048**	**26,200**	24,515
Customer contracts	**4,253**	**1,768**	**2,485**	2,774
Implementation costs	**676**	**280**	**396**	439
Parkade lease	**742**	**277**	**465**	509
Leasing costs and tenant inducements	**1,191**	**593**	**598**	668
	$172,247	**$101,400**	**$70,847**	$86,436

Amortization during the year totaled $38,495,766 (2008 - $23,080,780).

Note 13 – Intangible assets – indefinite-life

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

Note 14 – Sinking funds

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

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

(Thousands of dollars)	**2009**	2008
Sinking funds, beginning of year	**$62,540**	$56,408
Installments	**3,266**	3,266
Earnings	**3,487**	3,367
Valuation adjustment, during the year	**(1,030)**	(501)
Total sinking funds	**68,263**	62,540
Less current portion	**10,519**	–
	$57,744	$62,540

As at December 31, 2009 scheduled sinking fund installments for the next five years are as follows:

	(Thousands of dollars)
2010	$3,266
2011	2,366
2012	2,366
2013	2,366
2014	2,366

Note 15 – Other assets

(Thousands of dollars)	**2009**	2008
Deferred expenses	**$6,562**	$7,782
Financing leases	**2,553**	2,454
Other	**2,891**	274
	$12,006	$10,510

Amortization for the year totaled $74,022 (2008 - $74,022).

Note 16 – Notes payable

The balance represents interim financing arranged under established lines of credit totaling $125,000,000. As at December 31, 2009, there were $8,700,000 (2008 - $31,700,000) of outstanding unsecured notes payable to the Province of Saskatchewan bearing interest at a rate of 0.28% (2008 - 1.35%) due March 31, 2010.

Note 17– Deferred revenue—Rural Infrastructure Program funding

The Corporation received $45,000,000 in funding from the Province of Saskatchewan through CIC, as partial funding of the 2009 portion of the Rural Infrastructure Program (RIP). The $45,000,000 has been classified as deferred revenue and will be recognized as related expenses are incurred or amortized as assets related to the program are put into service.

Funded expenditures for the year amounted to $34,248,949, of which $31,649,451 related to capital expenditures. In accordance with the Corporation's accounting policy, $2,599,704 has been recognized as revenue and included in other items in the current period.

Note 18 – Long-term debt

(Thousands of dollars)	Years to Maturity	Weighted Average Interest Rate (%)	**2009**	2008
Province of Saskatchewan				
Canadian dollar issues (a)	1- 5	5.96	**$90,109**	$90,265
Canadian dollar issue (a)	11	10.18	**125,790**	125,751
Canadian dollar issues (a)	20	5.71	**108,155**	108,105
			324,054	324,121
Other (b)			**6,477**	6,916
Total long-term debt			**330,531**	331,037
Less current portion			**90,403**	433
			$240,128	$330,604

(a) As at December 31, 2009, scheduled principal debt retirement requirements related to Province of Saskatchewan debt are as follows:

	(Thousands of dollars)
2010	$90,000
2011	–
2012	–
2013	–
2014	–

(b) This includes amounts related to mortgage on real property. The mortgage bears an annual interest rate of 6.28% and is amortized over 20 years. The principal repayments due in the next five years are as follows:

	(Thousands of dollars)
2010	$294
2011	313
2012	333
2013	5,298
2014	–

Note 19 – Equity advance and additional capital disclosures

a) Equity advance

As a Saskatchewan Provincial Crown corporation, the Corporation's equity financing is in the form of equity advances of $250,000,000 (2008 - $250,000,000) from CIC.

b) Additional capital disclosures

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

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

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

The Corporation's strategy, which is unchanged from 2008, is to maintain a debt to equity ratio below 45%.

The debt ratio is as follows:

(Thousands of dollars)	**2009**	2008 (Restated Note 2)
Total debt	**$339,231**	$362,737
Less: Sinking funds	**68,263**	62,540
Cash and short-term investments	**9,313**	4,942
Net debt	**261,655**	295,255
Equity	**811,799**	785,997
Capitalization	**$1,073,454**	$1,081,252
Debt ratio	**24.4%**	27.3%

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

Note 20 – Commitments and contingencies

Commitments

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

	(Thousands of dollars)
2010	$31,305
2011	23,962
2012	22,935
2013	21,994
2014	21,207

The above payments include $24,297,500 for leases with related parties.

Note 20 – Commitments and contingencies, continued

Contingencies

On August 9, 2004, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning system administration fees. The Plaintiffs seek unquantified damages from the defendant wireless communications service providers. Similar proceedings have been filed by, or on behalf of, Plaintiffs' counsel in other provincial jurisdictions. On September 17, 2007, the Saskatchewan court certified the Plaintiffs' proceeding as a class action with respect to an allegation of unjust enrichment only. The Corporation, together with all other defendants in the proceedings as well as the Plaintiffs, have filed motions with the Saskatchewan Court of Appeal seeking leave to appeal the decision of the court certifying the action as a class action. The Corporation's leave to appeal application is presently before the Court of Appeal and was to have been heard in October 2009. 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. On December 7-8, 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, allowing them to pursue their claims in the future if circumstances change. SaskTel is currently waiting for written reasons for this ruling. The Plaintiff's motion to discontinue the 2004 action was withdrawn leaving the 2004 action as an active lawsuit before the Court. A further case management conference is scheduled with the Court to determine next steps and scheduling for the outstanding litigation. The Corporation continues to believe that it has strong defences to the allegations and that legal errors were made by the court in the certification proceeding of the 2004 claim and that it has strong defences to the allegations contained in the most recent 2009 claim. The leave to appeal application in the 2004 action was heard by the Saskatchewan Court of Appeal on February 24, 2010, with the decision to be given at a later date.

On March 20, 2007, R.L.T.V. Investments Inc. brought a lawsuit against Saskatchewan Telecommunications Holding Corporation, Saskatchewan Telecommunications and several current and former officers and employees of Saskatchewan Telecommunications. The lawsuit includes allegations that the Corporation wrongfully obtained its Multipoint Communication Systems (MCS) license in Saskatchewan and is legally responsible for the failure of Image Wireless Communications Inc. as a consequence of alleged breach of contract, intentional interference with trade or business, deceit, misrepresentation and breach of the Competition Act. The Plaintiff claims damages in excess of $87 million. The Corporation believes that it has strong defences to the allegations and a motion to strike all claims against the defendants was heard on September 25, 2007. The court struck the lawsuit in its entirety and the Plaintiff's appeal of the decision to the Saskatchewan Court of Appeal was heard on November 20, 2008. The Saskatchewan Court of Appeal released its unanimous decision on July 23, 2009, and agreed with the Court of Queen's Bench that the lawsuit should be dismissed in its entirety. The Plaintiffs are now seeking leave of the Supreme Court of Canada to appeal that decision. The Corporation awaits a decision from the Supreme Court of Canada regarding this application.

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

Note 20 – Commitments and contingencies, continued

breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning fees and charges paid for 911 service. The Plaintiffs seek unquantified damages from the defendant communications service providers. Thus far, the claim has simply been issued by the Plaintiffs. The Corporation is not aware whether all the named defendant carriers have been served with the claim yet. The Corporation believes that it has strong 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 to handle this matter. No further steps have been taken in this action to date.

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

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2009, 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.

Deferral account

The previous price cap framework, which expired in May 2007, included a mechanism known as the "deferral account". This mechanism was used to mitigate potential adverse effects on competition in the local market which the CRTC felt might be caused by mandated reductions in the price of local residential service. Rather than lowering rates, as the price cap formula would otherwise have required, the CRTC directed the Corporation to keep a record of the amount of revenue, which would otherwise have been lost. Various adjustments to this amount were allowed or required as a result of specific CRTC policy directives.

A new price cap framework, which no longer contains a deferral account mechanism, became effective May 2007. However, there is an outstanding deferral account balance generated during the previous price cap period, which, in Saskatchewan, must be used to fund initiatives such as service improvements for the disabled.

On January 17, 2008, the CRTC released its decision in the proceeding determining the specific uses of the deferral account and approving the Corporation's proposals. The Corporation will spend the deferral accounts remaining balance of $1.1 million over the next two years on items designed to improve service for the disabled.

Note 21 – Additional financial information

a) Balance sheet

(Thousands of dollars)	2009	2008 (Restated Note 2)
Accounts receivable		
Customer accounts receivable	**$79,600**	$80,832
Accrued receivables - customer	**4,874**	4,990
Allowance for doubtful accounts	**(3,623)**	(9,159)
	80,851	76,663
High cost serving area subsidy	**5,446**	5,110
Other	**6,496**	9,591
	$92,793	$91,364
Prepaid expenses		
Prepaid expenses	**$10,224**	$10,797
Deferred service connection charges	**5,723**	6,360
	$15,947	$17,157
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	**$73,522**	$50,080
Payroll and other employee-related liabilities	**47,572**	52,413
Taxes payable	**5,200**	5,450
Interest payable	**4,333**	4,460
Other	**516**	557
	$131,143	$112,960
Services billed in advance		
Advance billings	**$38,886**	$37,655
Deferred customer activation and connection fees	**7,967**	8,694
Customer deposits	**4,921**	4,194
	$51,774	$50,543

b) Supplementary cash flow information

(Thousands of dollars)	2009	2008 (Restated Note 2)
Net change in non-cash working capital		
Accounts receivable	**$6,186**	$6,937
Inventories	**501**	891
Prepaid expenses	**2,455**	720
Accounts payable and accrued liabilities	**13,336**	(12,203)
Services billed in advance	**(194)**	3,254
Deferred revenues	**(2,105)**	(1,072)
	$20,179	($1,473)
Interest paid	**$24,569**	$26,666

Note 22 – Financial instruments

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

a) Fair value

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

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

(Thousands of dollars)		**2009**		2008	
Financial Instruments	Classification[1]	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial Assets					
Cash and short-term investments	HFT	**$8,913**	**$8,913**	$3,808	$3,808
Cash of discontinued operations	HFT	**400**	**400**	1,134	1,134
Accounts receivable	LAR	**92,793**	**92,793**	91,364	91,364
Accounts receivable – held for sale	LAR	**–**	**–**	7,401	7,401
Accounts receivable – discontinued operations	LAR	**43**	**43**	1,222	1,222
Sinking funds	HFT	**68,263**	**68,263**	62,540	62,540
Financial Liabilities					
Accounts payable and accrued liabilities	OL	**131,143**	**131,143**	112,960	112,960
Accounts payable and accrued liabilities - held for sale	OL	**–**	**–**	4,586	4,586
Accounts payable and accrued liabilities - discontinued operations	OL	**262**	**262**	1,413	1,413
Notes payable	OL	**8,700**	**8,700**	31,700	31,700
Dividend payable	OL	**31,026**	**31,026**	26,612	26,612
Long-term debt	OL	**324,054**	**401,877**	324,121	408,784
Other long-term debt	OL	**6,477**	**6,898**	6,916	7,668

[1] Classification details are:
AFS – available for sale
HFT – held-for-trading
LAR – loans and receivables
OL – other liabilities

Note 22 – Financial instruments, continued

Determination of fair value

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

For financial instruments listed below, fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. Accordingly, the determination of fair value requires judgement 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.

		2009			2008	
(Thousands of dollars)	**Level 1**	**Level 2**	**Total**	Level 1	Level 2	Total
Sinking funds	**–**	**$68,263**	**$68,263**	–	$62,540	$62,540
Long-term debt	**–**	**$401,877**	**$401,877**	–	$408,784	$408,784
Other long-term debt	**–**	**6,898**	**6,898**	–	7,668	7,668
Total liabilities	**–**	**$408,775**	**$408,775**	–	$416,452	$416,452

b) Currency risk

The Corporation is exposed to currency risk, primarily US dollars, through transactions with foreign suppliers, foreign currency denominated revenues and short-term foreign commitments. Assuming all other variables remained constant at December 31, 2009, currency fluctuations in excess of 15% would have a material impact on net income. Specifically, a 15% weakening in the Canadian dollar versus US dollar exchange rate would have a 4.1% unfavourable effect on net income while a 15% strengthening would have a 4.1% favourable effect on net income. The Corporation uses a combination of derivative financial instruments to manage these exposures when deemed appropriate. The Corporation does not actively trade derivative financial instruments.

c) Interest rate risk

The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on short-term investments, sinking funds, short-term obligations and long-term debt. The most significant of these is interest rate risk related to issuance of long-term debt. However, assuming all other variables remained constant at December 31, 2009, a 15% (71 basis point) increase or decrease in interest rates would not have a material impact on net income.

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

The average effective interest rate on the Corporation's long-term debt was 7.52% as was the average actual interest rate on long-term debt.

Note 22 – Financial instruments, continued

d) Market risk

The Corporation is exposed to market risk primarily through the sinking funds. Fair value adjustments will fluctuate based on changes in market prices. The sinking funds consist of mostly Provincial government and Federal government bonds with varying maturities to coincide with related debt maturities, and are managed based on this maturity profile and market conditions. Fair value adjustments similar to those experienced up to December 31, 2009 would not have a material impact on net income.

e) Credit risk

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

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

(Thousands of dollars)	**2009**	2008
Cash and short-term investments	**$8,913**	$3,808
Cash from discontinued operations	**400**	1,134
Accounts receivable	**92,793**	91,364
Accounts receivable—held for sale	**–**	7,401
Accounts receivable—discontinued operations	**43**	1,222
Sinking funds	**68,263**	62,540
	$170,412	$167,469

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

Continuing operations

(Thousands of dollars)	**2009**	2008
Current	**$58,742**	$56,588
30 - 60 days past billing date	**13,041**	12,651
61 - 90 days past billing date	**4,463**	5,197
Greater than 90 days past billing date	**3,354**	6,396
Total	**$79,600**	$80,832

Discontinued operations

(Thousands of dollars)	**2009**	2008
Current	**$3**	$514
30 - 60 days past billing date	**2**	334
61 - 90 days past billing date	**24**	173
Greater than 90 days past billing date	**1,787**	1,269
Total	**$1,816**	$2,290

Note 22 – Financial instruments, continued

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

Continuing operations

(Thousands of dollars)	**2009**	2008
Allowance for doubtful accounts, opening balance	**$9,159**	$3,597
Transfer from held for sale	**2,966**	–
Accounts written off	**(13,384)**	(8,902)
Recoveries	**4,118**	2,849
Provision for losses	**764**	11,615
Allowance for doubtful accounts, closing balance	**$3,623**	$9,159

Held for sale

(Thousands of dollars)	**2009**	2008
Allowance for doubtful accounts, opening balance	**$2,966**	$1,003
Transfer to continuing operations	**(2,966)**	–
Accounts written off	**–**	(1,376)
Recoveries	**–**	271
Provision for losses	**–**	3,068
Allowance for doubtful accounts, closing balance	**$ –**	$2,966

Discontinued operations

(Thousands of dollars)	**2009**	2008
Allowance for doubtful accounts, opening balance	**$1,094**	$342
Accounts written off	**(99)**	(239)
Recoveries	**5**	34
Provision for losses	**783**	957
Allowance for doubtful accounts, closing balance	**$1,783**	$1,094

Note 22 – Financial instruments, continued

f) Liquidity risk

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

December 31, 2009

(Thousands of dollars)	Carrying Amount	Contractual cash flows	6 mths or less	7-12 mths	2 years	3-5 years	More than 5 years
Long-term debt							
Province of Saskatchewan	$324,054	$594,822	$12,284	$102,284	$19,034	$57,101	$404,119
Other long-term debt	6,477	7,935	610	336	673	6,316	–
Notes payable	8,700	8,700	8,700	–	–	–	–
Dividend payable	31,026	31,026	31,026	–	–	–	–
Accounts payable and accrued liabilities							
- continuing operations	131,143	131,143	131,143	–	–	–	–
- discontinued operations	262	262	262	–	–	–	–
	$501,662	$773,888	$184,025	$102,620	$19,707	$63,417	$404,119

December 31, 2008

(Thousands of dollars)	Carrying Amount	Contractual cash flows	6 mths or less	7-12 mths	2 years	3-5 years	More than 5 years
Long-term debt							
Province of Saskatchewan	$324,121	$619,392	$12,284	$12,284	$114,569	$57,101	$423,154
Other long-term debt	6,916	8,949	783	336	673	2,018	5,139
Notes payable	31,700	31,700	31,700	–	–	–	–
Dividend payable	26,612	26,612	26,612	–	–	–	–
Accounts payable and accrued liabilities							
- continuing operations	112,960	112,960	112,960	–	–	–	–
- held for sale	4,586	4,586	4,586	–	–	–	–
- discontinued operations	1,413	1,413	1,413	–	–	–	–
	$508,308	$805,612	$190,338	$12,620	$115,242	$59,119	$428,293

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

Note 23 – Employee future benefits

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

a) Defined benefit pension plan

The defined benefit pension plan is governed by Saskatchewan Telecommunications (SaskTel), which has been closed to new membership since 1977. The SaskTel defined benefit pension plan is registered under The Pension

Note 23 – Employee future benefits, continued

and Benefit Act, 1992, Saskatchewan, the Income Tax Act, Canada and regulated by the Saskatchewan Financial Services Commission – Pension Division. The Corporation is responsible for adequately funding the defined benefit pension plan. Contributions are determined by actuarial valuations. The contributions reflect actuarial assumptions about future investment returns, salary projections and future service benefits. A valuation is performed at least every three years to determine the actuarial present value of the accrued pension benefit. An actuarial valuation for accounting purposes was performed at November 30, 2009. The latest valuation for funding purposes was performed as of December 31, 2007.

The SaskTel defined benefit pension plan provides a full pension at age 65, at age 60 with at least 20 years of service, or upon completion of 35 years of service. The pension is calculated to be 2% times the average of the highest three years of pensionable earnings times the number of years of service up to a maximum of 35 years of service. A reduced pension may be opted for if certain age and years of service criteria are met.

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

Key assumptions used as inputs to the actuarial calculations are:

	2009	2008
Discount rate	**6.00%**	7.50%
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 (not to exceed 2%)	**100% of CPI**	100% of CPI

The table below shows the allocation of pension plan assets:

Asset category	**2009**	2008
Equity securities	**58.1%**	52.7%
Bonds	**26.0%**	32.6%
Short-term investments (treasury bills, notes and commercial paper)	**6.9%**	4.6%
Real estate	**9.0%**	10.1%
	100.0%	100.0%

The table below shows the components of the defined pension plan cost:

(Thousands of dollars)	**2009**	2008
Current service cost – defined benefit plan	**$1,261**	$2,663
Interest cost	**59,670**	54,350
Expected return on pension plan assets	**(66,551)**	(63,367)
Special termination benefits costs	**–**	11,584
Amortization of net transitional asset	**(3,845)**	(11,651)
Amortization of past service costs	**1,057**	3,538
Amortization of actuarial loss	**–**	1,726
Net pension income	**$(8,408)**	$(1,157)

Note 23 – Employee future benefits, continued

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

Accrued benefit obligation

(Thousands of dollars)	2009	2008
Accrued benefit obligation, beginning of year	**$826,771**	$1,015,444
Impact due to change in actuarial valuation	**–**	7,389
Current service cost	**1,789**	3,413
Curtailment gain	**(239)**	(18,010)
Interest cost	**59,669**	54,348
Benefits paid	**(65,427)**	(63,273)
Impact due to change in assumptions	**154,192**	(184,124)
Special termination benefits costs	**–**	11,584
Accrued benefit obligation, end of year	**$976,755**	$826,771

Plan assets

(Thousands of dollars)	2009	2008
Fair value of plan assets, beginning of year	**$844,548**	$1,044,655
Actual return on plan assets	**108,405**	(167,182)
Employer contributions	**8,252**	29,599
Employee contributions	**528**	749
Benefits paid	**(65,427)**	(63,273)
Fair value of plan assets, end of year	**$896,306**	$844,548

Deferred pension costs

(Thousands of dollars)	2009	2008
Funded status surplus (deficit)	**$(80,449)**	$17,777
Unamortized transitional asset	**–**	(3,844)
Unamortized past service costs	**–**	1,057
Unamortized net actuarial losses	**188,594**	76,528
Deferred pension costs	**$108,145**	$91,518

Note 23 – Employee future benefits, continued

b) Defined contribution pension plan

The defined contribution pension plan requires the Corporation to contribute 7% of employees' pensionable earnings and employees to contribute a minimum of 4% of pensionable earnings. The total cost for the defined contribution plan is equal to the Corporation's required contribution. The Corporation's 2009 pension cost and employer contributions for the Public Employees Pension Plan are $17,636,867 (2008 - $17,033,523).

c) Service recognition defined benefit plan

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

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

	2009	2008
Discount rate	**5.40%**	7.40%
Expected salary increase	**3.00%**	3.00%
Estimated average remaining employee service life	**14.1 years**	14.1 years

Accrued benefit obligation

(Thousands of dollars)	**2009**	2008
Accrued benefit liability, beginning of year	**$16,320**	$17,830
Defined benefit service cost	**1,199**	343
Benefit payments	**(2,248)**	(1,853)
Accrued benefit liability, end of year	**$15,271**	$16,320

Note 24 – Related party transactions

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

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

(Thousands of dollars)	**2009**	2008
Operating revenues	**$73,003**	$80,519
Operating expenses	**76,354**	72,776
Other income	**94**	52
Accounts receivable	**4,921**	5,661
Property, plant and equipment	**2,920**	2,530
Accounts payable and accrued liabilities	**4,281**	2,403

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

A director of the Corporation has an indirect minor interest in a related party from which the Corporation recorded operating revenues of $252,778 (2008 - $228,437), operating expenses of $24,445,943 (2008 - $20,301,393) for services provided to the Corporation, accounts receivable of $14,538 (2008 - $22,122) and accounts payable and accrued liabilities of $562,985 (2008 - $1,738,027).

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

Note 25 – Comparative figures

Certain of the 2008 figures have been reclassified to conform to the current year's presentation.

Board of Directors

GRANT KOOK – CHAIR

- Founder, past Chairman and current President/CEO of Golden Opportunities Fund Inc.
- President/CEO of private equity and venture capital portfolio manager, Westcap Mgt. Ltd.
- Fund manager of First Nations and Métis Fund, and Golden Opportunities Fund Inc.
- 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 such as: Canadian Venture Capital and Private Equity Association (CVCA), the World Entrepreneurs Association, First Nation Trust Funds, Children's Hospital Foundation of Saskatchewan (chair), Mike Weir Miracle Golf Drive for Kids, PotashCorp Vanier Cup, Nokia Brier and the 2010 World Junior Hockey Championship, as well as the Heart and Stroke Foundation of Saskatchewan.
- Recipient of the Commemorative Medal for the Centennial of Saskatchewan, B'nai Brith – We are Proud of You Award, Ernst & Young nominee for Entrepreneur of the Year in 1998 and 2003, and in 2008 was recognized as one of the Province's Most Influential Men by *Saskatchewan Business* magazine.

DARCY BEAR – VICE CHAIR

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

BLAIR DAVIDSON

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

Board of Directors, *continued*

TERRY DENNIS

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

DAVE DOEPKER

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

REG HOWARD

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

PAMELA LOTHIAN

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

Board of Directors, *continued*

GAYLE MACDONALD

- President & CEO of G-Mac's AgTeam Inc.
- Full-time mother of three.
- Former community representative on the board of Sun West School Division.
- Graduate of Quantum Shift Ivy School of Business, McMaster University, London, Ontario.
- Member of Kindersley Business Focus Group.
- Active member in the community, having coached and/or participated in speed-swimming, fast-ball and hockey, curling, volleyball and golf, as well as participated in and promoted community programs and fundraising events.
- Enjoys playing in a band, and 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.

DOUGLAS B. RICHARDSON, Q.C.

- Partner and past Chair of McKercher, McKercher & Whitmore, a Saskatchewan law firm.
- Previously worked in the investment banking industry, as well as in government in Ottawa.
- Formerly a principal of a family-owned real estate business with assets in Saskatchewan, Alberta, and the U.S.A.
- SGI Board member (past), Canadiana Fund, Historica Board and trustee (past) of the National Chamber of Commerce.

Board of Directors, *continued*

JOHN RITCHIE

- First Vice-President, Branch Manager and Investment Advisor CIBC for Wood Gundy.
- Chair (past) for the Investment Dealers Association of Saskatchewan.
- Division Chair (past) for the Regina United Way.
- Vice-Chair of Skate Canada, Regina.
- Co-founder and Chair of the Saskatchewan Open Squash Championships.
- Board member (past) Potash Corporation of Saskatchewan.

GLENYS SYLVESTRE

- Chartered Accountant
- Associate Dean (Undergraduate), Paul J. Hill School of Business at the University of Regina
- Formerly an audit and assurance manager at Deloitte & Touche.
- Served for six years as a Councilor with the Institute of Chartered Accountants of Saskatchewan, including service as President and Chair.
- Board member, Queen City Kinsmen Gymnastics Club.
- Past volunteer with the Arcola East Community Association and the 2005 Canada Summer Games.

Dale Bloom, Secretary to the Board of Directors

BOARD COMMITTEES

AUDIT COMMITTEE

Blair Davidson – Chair

Terry Dennis

Reg Howard

John Ritchie

Glenys Sylvestre

ENVIRONMENT AND HUMAN RESOURCES COMMITTEE

Glenys Sylvestre – Chair

Chief Darcy Bear

Dave Doepker

Reg Howard

Pamela Lothian

Garry Reichert

GOVERNANCE COMMITTEE

Pamela Lothian – Chair

Chief Darcy Bear

Terry Dennis

Douglas Richardson

Gayle MacDonald

CORPORATE GROWTH AND TECHNOLOGY COMMITTEE

John Ritchie – Chair

Blair Davidson

Dave Doepker

Gayle MacDonald

Douglas Richardson

Garry Reichert

SaskTel Executive

ROBERT WATSON – President and Chief Executive Officer

- Before coming to SaskTel in November 2004, held several senior executive positions in the Canadian Telecom industry, including Vice-President of Business Development at GT Group Telecom/360 Networks; Executive Vice-President – Carrier Services, Engineering, Operations, Customer Services and Chief Quality Officer at Group Telecom; President of Shaw FiberLink Ltd.; President of Shaw Mobilecomm; and President of WIC Connexus.
- Has held numerous director and affiliation appointments within the telecommunications industry, as well as in the education and community sectors.
- A recipient of the Saskatchewan Centennial Medal, he currently sits on the Board of Directors for the Conference Board of Canada, Prostate Cancer Canada and the Information Technology Association of Canada (ITAC).
- Graduate in Electrical Technologies from Ryerson University.
- Has attended the International Executive Development Program at the INSEAD Centre in Fountainbleau, France, as well as the Executive Management Program at Ashridge College in the United Kingdom. Holds an ICD.D designation from the institute of Corporate Directors.

MIKE ANDERSON – Chief Financial Officer

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

DOUG BURNETT – Vice-President, Human Resources & Corporate Services

- 21 years with SaskTel, initially as Corporate Counsel and subsequently promoted to his current role.
- Serves as executive Sponsor and Board Chair for Saskatoon Square Investment, as well as on the boards of Wicihitowin Foundation, SecurTek Monitoring Solutions Inc., DirectWest Publishing Partnership, Hospitality Network Canada Inc., SaskTel International, Junior Achievement, and INROADS, Inc.
- 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.Admin, 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 HILL – Chief Information Officer

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

SaskTel Executive, *continued*

KEN KEESEY – Vice-President, Customer Services – Sales

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

GREG MEISTER –
Vice-President, Customer Services – Operations

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

JOHN MELDRUM – Vice-President, Corporate Counsel and Regulatory Affairs & Chief Privacy Officer

- 33 years with SaskTel, first as a solicitor, and later as General Counsel and Corporate Secretary.
- Serves on numerous boards including the DirectWest Corporation, Saskatoon Properties Limited Partnership, Hospitality Network Canada Inc., 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 Q.C. (Queen's Counsel) designation in 2000.

JIM PITT – President, Vice-President, Partnership Development Group and Carrier Relations

- Before joining SaskTel, held executive positions at GT Group Telecom from 1999 to 2005, where he was responsible for multiple divisions including International Development and the National Partner Programs, and at Shaw Communications from 1995 to 1999, where he was VP/GM for Shaw Communications Paging and Mobilecomm Divisions. Previous to Shaw, held various executive positions dating back to 1985, when he was involved with the launch of Cantel's cellular service in Canada.
- Chair, Salveo Steering Committee.
- Executive sponsor, SaskTel International.
- Attended McGill University, Faculty of Education.
- Attended the McGill Management Institute focusing on finance, transportation and distribution management.

STACEY SANDISON –
Vice-President – Holdco Marketing

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

KYM WITTAL – Chief Technology Officer

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

Corporate Directory

SASKTEL SUBSIDIARIES EXECUTIVE OFFICERS

Gord Farmer	President, DirectWest
Barry Rogers	President, SecurTek
Doug Jesse	President, Hospitality Network; Chief Executive Officer, SecurTek

SASKTEL SENIOR OPERATING MANAGERS

(As of December 31, 2009)

Dale Baron	Senior Director – Finance (Controller)
Bill Beckman	Senior Director – Strategical Business Development
Gail Lefebvre	Senior Director – Sales Operations
Darcee MacFarlane	Senior Director – Corporate Communications
Pat Tulloch	Senior Director – Operations (Salveo)
Barry Ziegler	Senior Director – Productivity

SASKTEL INTERNATIONAL SENIOR OPERATING MANAGERS

Steve Sousa	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 twelve (12) members on the Board.

KEY ACCOUNTABILITIES

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

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

CORPORATE GOVERNANCE PRACTICES

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

On June 30, 2005, the Canadian Securities Administrators (CSA) National Policy 58-201 on Corporate Governance Guidelines and National Instrument 58-101 on Governance Disclosure Rules came into effect. The CSA standards supercede the Toronto Stock Exchange Corporate Governance Guidelines, which the Board used previously to assess its practices. The Governance Committee has reviewed the Guidelines with a view of adapting the Board's governance practices to the Guidelines, where effective and beneficial. Although SaskTel is not required to comply with the CSA Governance Guidelines, the Corporation has used them to benchmark its corporate governance practices in the following section.

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 (11 out of 12) are independent.	Yes
NI 58-101F1, sections 1(a) and (d)		
1(a) Disclose the identity of directors who are independent; (b) Disclose the identity of directors who are not independent and the basis for that determination; (c) Disclose whether the majority of directors are independent; and (d) Disclose whether a director is a director of any other issuer that is a reporting issuer.	**GRANT KOOK**, Chair: *INDEPENDENT* - President and CEO, Westcap Management Ltd. **CHIEF DARCY BEAR**, Vice Chair: *INDEPENDENT* - Chief, Whitecap Dakota First Nations **BLAIR DAVIDSON**: *INDEPENDENT* - Chartered Accountant & Partner, Hergott Duval Stack & Partners LLP **TERRY DENNIS**: *INDEPENDENT* - Entrepreneur – Business Owner **DAVE DOEPKER**: *INDEPENDENT* - Executive Chairman & VP International Business - Doepker Industries Ltd. **REG HOWARD**: *INDEPENDENT* - VP Corporate Development - Phoenix Advertising Group **PAM LOTHIAN**: *INDEPENDENT* - Lawyer **GAYLE MACDONALD**: *INDEPENDENT* - Owner & Operator of G-Mac's AgTeam Inc. **GARRY REICHERT**: *NOT INDEPENDENT** - Retired, former SaskTel employee **DOUGLAS RICHARDSON, Q.C.**: *INDEPENDENT* - Partner & Chairman of the Law Firm, McKercher, LLP **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 ten (10) regular Board meetings held in 2009, and during nine 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

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 ten (10) meetings in 2009. The number of Board meetings attended by each director in 2009 is set out below.

Director	Meetings Attended*
Grant Kook, Chair	10(10)**
Chief Darcy Bear, Vice-Chair	4(10)
Blair Davidson	9(9)
Terry Dennis	9(10)
Dave Doepker	8(10)
Reg Howard	9(10)
Pam Lothian	10(10)
Gayle MacDonald	7(10)
Garry Reichert	5(5)
Douglas Richardson	6(9)
John Ritchie	8(10)
Glenys Sylvestre	9(9)

* 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.

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

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 (g) developing the Corporation's approach to corporate governance, including a set of principles and guidelines specific to the Corporation. The written mandate should also address measures for receiving feedback from stakeholders (for example, a process for stakeholders to contact independent directors); and the expectations and responsibilities of directors, including basic duties to attend meetings and review materials in advance.	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

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, and tours of Corporate operations are arranged periodically. Prior to each regular board meeting, 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

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
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
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 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

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
NP 58-201, section 3.9 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 2009.	Yes
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. In 2009, the Governance Committee requested and received from all directors, disclosure information respecting which Board members and their immediate families currently hold shares in telecom companies. Management monitors agenda items to identify any issues where a director may have a material interest and such items are not distributed to the director.	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 annually to the Governance Committee respecting significant issues that have arisen pursuant to the whistle blowing policy.	Yes

CSA CORPORATE GOVERNANCE POLICY, NP 58-201, AND DISCLOSURE INSTRUMENT, NI 58-101F1 (SUMMARY)	COMMENTS AND DISCUSSION	Does SaskTel align?
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
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 and 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

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(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
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 CIC. 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

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.	In 2009, the Corporation did not retain any compensation consultants to assist in determining compensation for the directors or officers.	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, Governance and Environment & Human Resources Committees, the Board has appointed a Corporate Growth & 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 evaluations and 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 and committee evaluations being conducted the following year. The evaluations take into consideration the elements of the Policy. In 2009, Committee, Committee Chair and Peer Evaluations were conducted.	Yes
NI 58-101F1, section 9		
9 Disclose whether the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution and, if yes, describe the process used.	The Governance Committee oversees the implementation of the above evaluation processes, and uses an external consultant in the case of director peer assessments. The evaluations are survey-based, using an instrument developed by CIC in consultation with an outside consultant and with Crown board members. Board, chair, committee and director performance is measured against the duties and expectations set out in their respective Terms of Reference and the specific standards outlined in the evaluation instruments. The purpose of the evaluations is to identify areas where the Board, Committee, Chair or director is managing well and to highlight areas that may benefit by additional focus and attention. Directors complete surveys to provide feedback in writing on the effectiveness and contribution of the Board, Committees, Chairs and individual directors. The Board Chair or a third party follows 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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