IMPACT OF BCE / MTS TRANSACTION ON SASKTEL

A high level risk assessment

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Executive Summary

As part of its mandate, the Board of Directors of SaskTel acknowledges responsibility for identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks.

On May 2, 2016, BCE, the parent of Bell Canada, announced a deal to acquire Manitoba Telecom Services (MTS), the provincial incumbent phone company in Manitoba. Mark H. Goldberg & Associates Inc. was engaged to provide a high level report identifying and assessing risks for SaskTel that are created from this transaction.

In 2015, SaskTel had revenues of just over $1.25B, about 25% more than MTS. About 40% of its revenues are from Wireless ($492M); TV, internet and data represent about 25% of its revenues; a little over 20% is from legacy voice services, including long distance; about 5% is from equipment. By way of contrast, wireless represents 35% of MTS revenues, 36% of Bell's revenues (excluding Bell Media), and 56% of TELUS revenues.

We believe the most fundamental risk arising from the BCE/MTS transaction to SaskTel is the possibility that reduced numbers of facilities-based carriers in Manitoba could lead government policy makers to create incentives for additional wireless competition to develop through lowered costs for new entrant spectrum or other measures. Such measures could reduce the costs for competitors and increase costs or restrict capacity expansion for SaskTel. The first manifestation of this risk could be in establishing the rules for the 600MHz band in the next 12 months.

An alternate scenario could see removal of the four carriers objective by the government, possibly enabling Shaw to sell its newly acquired WIND Mobile business. Shaw could still offer mobile services, perhaps entering the retail mobile space through a partnership. Whether on its own or through a partnership arrangement, once Shaw launches a technically competitive mobile service, there is a risk that the entire portfolio of SaskTel's consumer communications services will face significant pressure.

Even without the elimination of the four carriers objective, there is an immediate risk that Rogers will look to replace its lost partnership with MTS by developing retail partnerships with cable companies in Manitoba and Saskatchewan. This would improve the competitive positions of the national wireless company as well as the local cable firms.

There is a risk the establishment of Winnipeg as a western headquarters for Bell could lead to erosion in SaskTel's share of the market for business services, a segment in which SaskTel holds market share well in excess of 90%.

For all of the reasons identified in this report, there is a risk that SaskTel's net income will not support the level of dividends that have been returned to the province in recent years. We also observe that continued investments in network and information systems are critical to preserving SaskTel's competitive edge.

We note that the various government agencies' reviews of the BCE/MTS transaction are not expected to be completed for 9-12 months. As such, most of the risks identified are expected to be longer term, with financial impact beyond 2016 and 2017. However, it is possible that the risks associated with the 600MHz auction could be felt with an auction as early as mid-2017, impacting spectrum acquisition costs in 2017 and creating longer term competitive losses.

In addition, the BCE/MTS transaction could result in changes to the regulatory and policy framework, potentially leading to increased intervention in the telecommunications marketplace with unpredictable impact on SaskTel. Regardless of whether the transaction is approved, there is a risk that policy makers may account for the possibility of such transactions in setting rules (such as those for spectrum auctions) and some of the resultant measures may not be favourable to SaskTel. The impact could be felt immediately in all regulatory decisions and policy determinations from the CRTC and the federal department of Innovation, Science and Economic Development.

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INTRODUCTION

On May 2, 2016, BCE, the parent of Bell Canada, announced[1] a deal to acquire Manitoba Telecom Services (MTS), the provincial incumbent phone company in Manitoba for approximately $3.1 billion and assumption of MTS's net debt of approximately $0.8 billion.

In order to lessen the potential competition concerns of regulators, Bell reached an agreement[2] for undisclosed terms to sell one-third of MTS' postpaid wireless subscribers and assign one-third of MTS's dealer locations to TELUS. This ensures that none of the wireless carriers in Manitoba will have a 50 per cent market share.[3]

In addition, Bell promised to make a $1-billion, 5-year capital investment commitment to expand the MTS broadband wireless and wireline networks in urban and rural locations. Bell will locate its Western Canada headquarters in Winnipeg. There is a $120M break penalty if either MTS or Bell fails to complete the agreement.

The agreement will require approvals from the Competition Bureau, the CRTC and the Federal Department of Innovation, Science and Economic Development (formerly known as Industry Canada).

Mark H. Goldberg & Associates Inc. was engaged by SaskTel to provide a high level report identifying and assessing risks for Saskatchewan that may arise from this transaction.

PURPOSE OF THE EVALUATION

The sale of MTS to Bell marks a further consolidation of the Canadian telecom industry.

The sale is expected to have both direct and indirect impacts on SaskTel in a wide variety of areas and the Board of Directors for SaskTel has directed management to arrange for an independent third party review of the risks that this sale will present for SaskTel going forward.

Assuming the MTS acquisition is approved, it would reduce Manitoba to a three-player wireless market (Bell, TELUS and Rogers) from four. In addition to potentially having impacts on the present commercial relationships between SaskTel and MTS, it also brings Bell more directly into the Western Canadian market. Approval of the sale may also have regulatory, market structure, pricing and other competitive impacts for SaskTel. The sale could also lead to further

[1] Press release dated May 2, 2016: "BCE announces agreement to acquire Manitoba Telecom Services (MTS)"
[2] Press release dated May 2, 2016: "BCE to sell a portion of MTS wireless subscribers and assign certain dealer locations to TELUS"
[3] At year-end 2015, market shares were: MTS with 48%, Rogers 33%, TELUS 11% and Bell 8%. Post transaction, the transfer of one third of MTS subscribers would initially yield subscriber market shares of Bell with 40%, Rogers with 33% and TELUS with 27%. 2015 data from NBI/Michael Sone Associates, 2015 Canadian Mobile Wireless Communications Services Report.

consolidation of the industry with attendant impacts on SaskTel together with further consolidation and sale of spectrum assets.

An analysis of the risks for SaskTel associated with the MTS acquisition will allow the Board of Directors to consider the risks in its annual strategic planning process plus provide valuable information to the public of Saskatchewan on the challenges faced by the provincially owned Crown Corporation.

MTS – SaskTel by the Numbers

2015	MTS	SaskTel
Total Revenues ($M)	1,009.6	1,257.7
Wireless Revenues ($M)	350.5	492.4
Wireline ($M)	611.3	671.4
Other[4] ($M)	47.8	94.0
Wireless Connections Total	491,017	615,907
Postpaid	423,330	544,217
% Wireless on Data Plans	80%	76%
Wireline Connections		
Internet	224,314	268,444
TV	106,034	106,392
Local Access	241,155	250,567
Business Access	197,678	159,356
Total Accesses	1,260,198	1,400,666
5 year Capital Plan ($M)	1,000	1,400

FIGURE 1: MTS - SASKTEL BY THE NUMBERS

MARKET ENVIRONMENT

In its most recent report,[5] Canada's communications regulator, the Canadian Radio-television and Telecommunications Commission (CRTC) indicated that the total Canadian communications services marketplace generates revenues of $63.2B in 2014, of which telecommunications represented $45.9B and broadcasting was $17.3B as shown in Figure 2.

[4] "Other" category for MTS includes AAA Security, EPIC Information Solutions, The Technology Consortium and MTS Data Centres. For SaskTel, other category includes security monitoring, advertising, international software and consulting, and "other". MTS information from annual report. SaskTel Financial data from fourth quarter 2015 results and internal information. MTS Capital plan from BCE/MTS transaction announcement; SaskTel capital plan announced in May 16, 2016 press release.

[5] CRTC Communications Monitoring Report, October 2015

Broadcasting is further divided between broadcast distribution (such as cable TV and IP TV, collectively known as broadcast distribution undertakings or BDU) at $9.1B, versus radio ($1.6B) and TV stations ($6.6B).

Telecommunications is further broken down into Wireline voice and long distance ($10.1B), Wireless ($22.0B) and Internet and data ($13.7B).

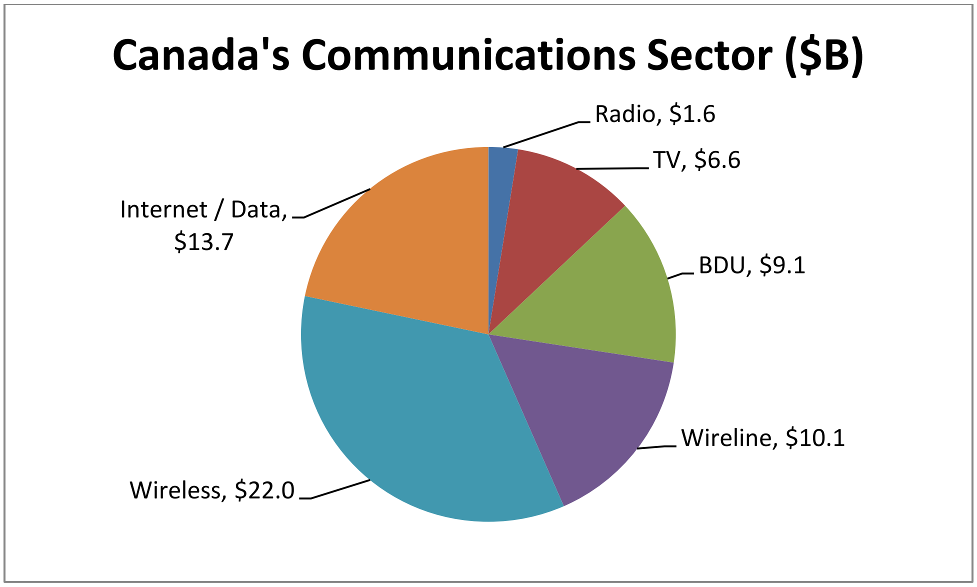

FIGURE 2: CANADA'S COMMUNICATIONS SECTOR - TOTAL $63.2B

Most Canadian telecommunications service providers, including SaskTel, offer a combination of all of these services to their clients as well as TV Distribution. A few of the service providers, such as Bell, Rogers and Shaw, are also television and radio broadcasters. Shaw recently restructured its media holdings to transfer them to Corus – an affiliated company.

There are some very large national service providers in SaskTel territory: Bell, Rogers, TELUS and Shaw. In 2015, SaskTel had total revenues of $1.257B, representing just over 2% of Canada's total revenues in the services SaskTel offers (telecommunications plus broadcast distribution).

As can be seen in Figure 1, in 2015, SaskTel had revenues of just over $1.25B, about 25% more than MTS. The breakdown of these revenues can be found in Figure 3. About 40% of its revenues are from Wireless ($492M); TV, internet and data represent about 25% of its revenues; a little over 20% is from legacy voice services, including long distance; about 5% is from equipment. Security services revenue represents less than 2% of the total.

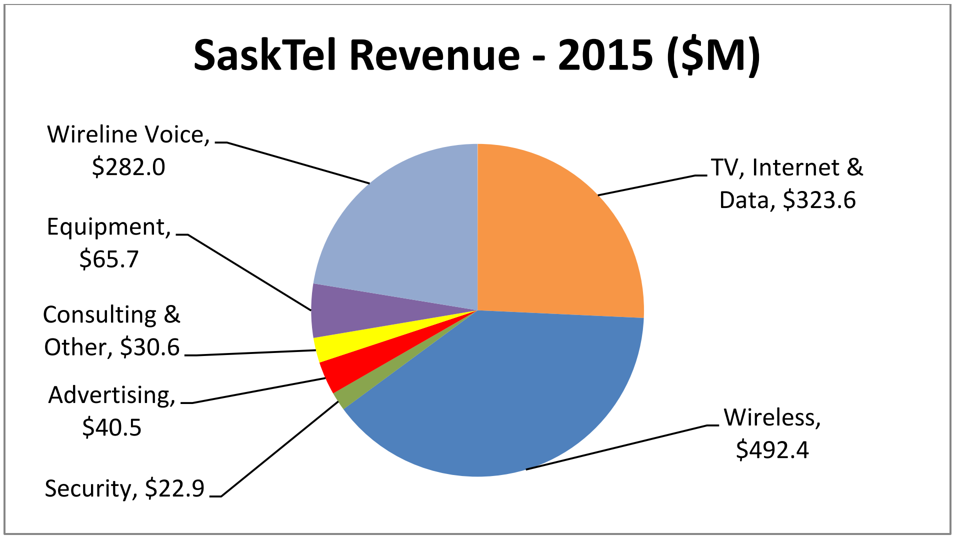

FIGURE 3: SASKTEL REVENUE – 2015 TOTAL $1,257.7M

In 2015, SaskTel invested $307.7M in its capital program, of which $61.9M was for fibre to the premise (FTTP), $29.5M for wireless networks, $98.1M for service expansion and network enhancements, and $35.2M for spectrum. The remaining $83.0M was spent on other property plant and equipment and intangibles, such as support systems.[6] SaskTel has announced plans to invest $1.4B over the next 5 years in its capital program, including $331M in the current fiscal year.[7] The capital plan for 2016-17 includes $51M for Fibre to the Premises (FTTP), $46M for wireless network upgrades and reinforcement, $111M for wireline and converged network requirements and $123M for customer service and information technology upgrades.

SaskTel's capital program includes investments that are critical for the company in maintaining its competitive position. As discussed in the section entitled "Consumer Services" on page 12, SaskTel is a leader in delivering a superior customer experience. Investments in network and information systems are critical to preserving this competitive edge. In addition, as discussed in "Network Sharing & Reciprocity" on page 10, SaskTel's investments in maintaining its wireless network at the most advanced level is important to continue to create the appropriate incentives for preserving the existing network sharing relationships.

SaskTel's investments in fibre optic technology continue to apply competitive pressure to its cable company competitors. SaskTel's FTTP plans were announced in 2012 as a $670M project, now expected to be a 12 year program. While cable companies are able to deploy DOCSIS 3.0 technology to offer internet access speeds that can rival fibre to the home, such an upgrade has

[6] SaskTel provided data

[7] SaskTel press release, May 16, 2016, "SaskTel announces 2016-17 capital investment". SaskTel's fiscal year has shifted to an April 1 start, aligning with governments.

not yet been implemented by SaskTel's competitors. SaskTel has plans to make fibre available to every home in Saskatchewan's nine major centres.[8]

As shown in Figure 4, SaskTel's 2015 Capital spending shows capital intensity of 24%, compared to 17% for MTS and 21% for TELUS. The other major carriers in Canada have broadcasting holdings that make comparisons more difficult. BCE reported capital intensity of 16.9% in 2015 (22.9% for wireline, 10.4% for wireless); Rogers' capital intensity was 18.2% in 2015 (29.7% for cable, 12.5% for wireless). The variability can often be impacted by acquisition of spectrum licenses and timing for significant technology upgrades, such as next generation wireless.

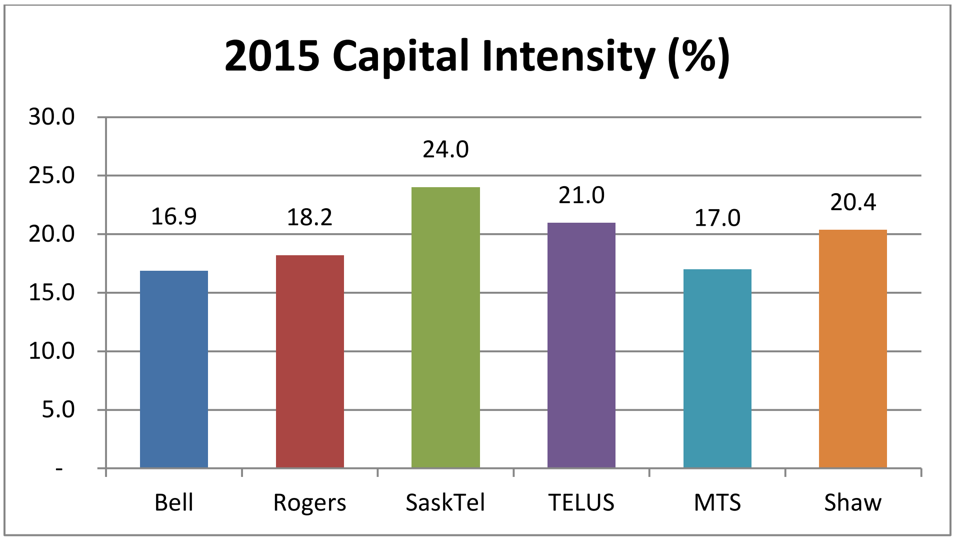

FIGURE 4: 2015 CAPITAL INTENSITY FOR SELECTED CARRIERS

Capital intensity reflects the percentage of a company's total operating revenues that are reinvested into capital expenditures. With all else equal, investors will view lower capital intensity as being more efficient, allowing a larger return for the investor with respect to net income and dividends for the shareholder. If SaskTel continues to maintain a level of capital intensity above the industry average, it will likely provide a reduced return to the Province.

In announcing the acquisition of MTS, Bell committed to a 5-year, $1B capital program, with plans to expand gigabit internet service, rollout Bell's Fibe TV, accelerate expansion of the LTE wireless footprint and integrate MTS datacenters.[9] The level of capital announced by Bell in the plan is not significantly different from the current rate of capital investment by MTS.

[8] Regina, Saskatoon, Moose Jaw, Prince Albert, North Battleford, Yorkton, Swift Current, Estevan, and Weyburn. SaskTel press release, August 9, 2012, "SaskTel Launches infiNET, its new Fibre Optic Network". In the current fiscal year, SaskTel expects to extend its FTTP to pass another 16,000 homes, mainly located in Regina, Saskatoon, Moose Jaw, Prince Albert, Swift Current, Weyburn and Estevan.

[9] Press release dated May 2, 2016: "BCE announces agreement to acquire Manitoba Telecom Services (MTS)"

As of year-end 2013, SaskTel had in the order of 68% of the Saskatchewan wireless market.[10] SaskTel's $492M in wireless revenues represent about 2.5% of Canada's total $22.0B wireless services market. SaskTel's relative size can be seen in Figure 5 and Figure 6.

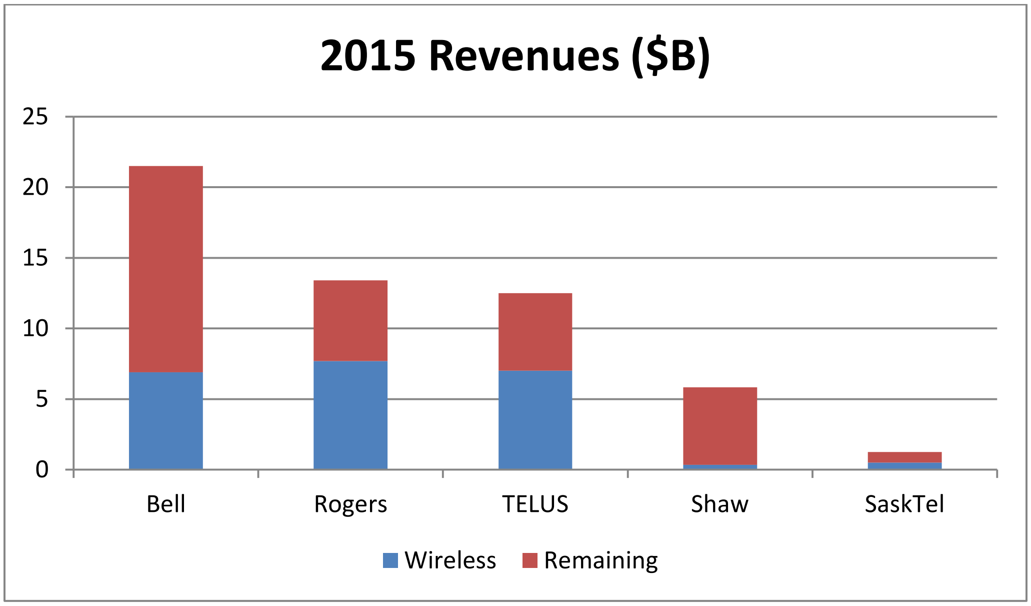

FIGURE 5: REVENUES OF SELECT CANADIAN CARRIERS ($B) – 2015

Revenues of Select Canadian Carriers - 2015

Carrier	2015 Wireless Revenues ($B)	2015 Total Revenues ($B)
Bell	$6.9	$21.5
Rogers	$7.7	$13.4
TELUS	$7.0	$12.5
Shaw	$0.3	$5.8
SaskTel	$0.5	$1.3

FIGURE 6: REVENUES OF SELECT CANADIAN CARRIERS ($B) - 2015

In wireless, SaskTel is competing against 3 very large national competitors: Bell had total 2015 revenues of $21.5B of which $6.9B was from wireless; Rogers had total 2015 revenues of $13.4B with wireless representing $7.7B; and, TELUS had total 2015 revenues of $12.5B with wireless revenues of $7.0B. While wireless represents about 40% of SaskTel's revenues, the wireless segment represents 35% of MTS revenues, 36% of Bell's revenues (excluding Bell Media), and 56% of TELUS revenues.[11] Each of these companies, Rogers, TELUS and Bell, operates at a scale that is an order of magnitude greater than SaskTel. As such, they have the

[10] The CRTC's Communications Monitoring Report did not provide provincial market share data in its October 2015 edition (covering 2014 year end data).

[11] All revenues sourced from 2015 corporate annual reports. Shaw revenues augmented by estimates of WIND Mobile revenues by NBI/Michael Sone Associates, 2015 Canadian Mobile Wireless Communications Services Market Report.

ability to purchase network equipment and services with improved scale and can amortize fixed overheads across a vastly different number of customers. SaskTel has approximately 616,000 wireless access lines. Each of Rogers, Bell and TELUS has more than 8 million wireless lines. As such, these competitors are able to negotiate more favourable terms for devices from their suppliers, potentially getting access to new devices sooner and at lower unit costs. However, SaskTel has negotiated agreements that provide it with access to devices at comparable costs and generally at the same time as its much larger competitors, as discussed in the section entitled "Access to Technology".

For internet and TV distribution, SaskTel competes with Shaw, a company with $4.5B in annual revenues from telecommunications and TV distribution, and Access Communications, a Saskatchewan cooperative with $81.8M in revenues in 2015, $26M of which were from telecommunications services and $55M from TV.[12]

Shaw recently acquired WIND Mobile, which provided the company with 1 million wireless accesses. However, as will be discussed below, Shaw and WIND Mobile do not currently hold mobile spectrum licenses in Saskatchewan. As such, SaskTel does not have competition for its bundle of residential services.

In addition, there are numerous non-traditional competitors for all segments of the telecommunications industry. As video consumption shifts to internet based on-demand platforms, some consumers are cutting back on traditional TV subscriptions (cord-shaving) or eliminating subscription TV altogether (cord-cutting). Voice services have seen migration from wireline home phones to wireless or internet based services. Security monitoring services can be set up with cordless devices that use home internet connectivity. Apple, Google and Facebook all offer a broad range of services that compete with traditional telephone company revenues. The risks from such competition are not expected to change materially as a result of the BCE/MTS transaction.

Ownership Structure & Dividends

SaskTel is a Crown Corporation, wholly owned by the Crown Investments Corporation (CIC), the holding company for Saskatchewan's commercial crown corporations.

As observed in its 2014 Annual Report, SaskTel's Net Income has declined since 2010, "due to changes in the regulatory environment, rapid change in technology, wireless displacement, increased cost to deliver wireless devices, increased competition in the market place, and increased capital investment in order to compete as a facilities-based provider." As can be seen

[12] Access Communications Co-Operative 2015 Annual Report.

in Figure 7,[13] there was an improvement in 2015, but net income remained in the order of 30% - 40% below the levels of 2010 and 2011, which were higher, in part, due to income associated with asset divestitures.[14]

SaskTel Net Income, Shareholder Returns			
Year	**Net Income**	**Dividends Declared**	**SK Corporate Capital Tax**
2010	$149.5M	$139.7M	$15.7M
2011	$154.0M	$138.6M	$16.7M
2012	$106.3M	$84.3M	$17.4M
2013	$90.7M	$81.1M	$18.1M
2014	$76.4M	$53.3M	$18.4M
2015	$97.7M	$30.0M	$19.0M

FIGURE 7: SASKTEL NET INCOME, SHAREHOLDER RETURNS 2010-2015

In 2014 and 2015, SaskTel declared dividends of $53.3M and $30.0 respectively. Over the period 2012-2015, SaskTel declared dividends of $248.7M, an average of $62.2M per year. In addition to dividends, for 2012-2015, SaskTel also paid $72.9M in Corporate Capital Tax (CCT) to the province. The CCT is effectively equivalent to a "dividend" paid to the province since it only applies to Saskatchewan's commercial crown corporations and financial institutions.

We note that TELUS has recently declared a quarterly dividend of $0.46 per share, on a stock price of approximately $40 per share, providing a 4.6% annual yield. BCE is currently paying a quarterly dividend of $0.6825 per share with a stock price of approximately $60 per share for an annual yield of 4.55%. Shaw pays monthly dividends of $0.09875 with a stock price of approximately $25 for an annual yield of 4.7%. Rogers pays quarterly dividends of $0.48 with a stock price of approximately $50 for a yield of 3.8%.[15]

Since SaskTel is not a publically traded company, in the absence of a formal valuation, it is difficult to accurately compare SaskTel's dividend payout with those observed in other Canadian communications companies. However, because of the other risks identified in this report, there is a risk that SaskTel's net income will not support the level of dividends that SaskTel's shareholder might expect.

SaskTel's geographic constraints, focusing on communications services opportunities in the province of Saskatchewan, limit opportunities for revenue growth. Wireless has provided growth but may be showing signs of plateauing. There remain opportunities in machine-to-

[13] Net income for years 2010-2014 from SaskTel 2014 Annual Report. Net income for 2015 from SaskTel 4Q 2015 report. Corporate Capital Tax for 2015 is an estimate.

[14] In 2010 and 2011, SaskTel divested certain out-of-province and non-core holdings which distort the trends for financial comparisons.

[15] Stock prices and dividends calculated using most current information public information on May 23, 2016.

machine connectivity and analytic services. For wireline telecommunications services, as of 2014, SaskTel still had 89% market share; no other province has an incumbent telecommunications company with more than 77% share.[16] SaskTel has 94% of the long distance market.[17]

There remains room for growth in certain markets. At 72%, broadband adoption in Saskatchewan is the lowest of all regions of Canada, and significantly below the national average of 80%.[18] Increasing the adoption rate of broadband provides an opportunity for revenue growth. In addition, while wireless adoption and average revenue per user in Saskatchewan are above the national average, both metrics are significantly below levels found in Alberta, potentially providing another revenue growth opportunity.

ACCESS TO TECHNOLOGY

As noted in its 2014 annual report, "SaskTel's extensive network and Information Systems (IS) architecture has evolved over the years to provide a variety of services from traditional wireline and wireless voice services to leading edge Internet, entertainment and data services."

As observed in "Market Environment" on page 2, SaskTel competes with much larger carriers. With far greater purchasing clout, these competitors could have access to technology, installation and support sooner and at lower unit cost than can be achieved by SaskTel.[19] However, SaskTel has negotiated agreements that provide the company with access to devices on favourable terms, generally being available to SaskTel customers at the same time as other carriers and at comparable costs.

SaskTel has identified "Vendor Management" as a known risk in its Annual Reports, stating:[20]

> There is a risk in not properly managing vendor relationships that could lead to failed timeline delivery, inefficient use of resources, increased costs, damaged reputation and decreased morale. This in turn could cause service interruptions and reduce customer service levels. SaskTel is reliant on vendors to supplement the workforce when specific skills are required or for flexibility to manage peak workloads.

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[16] CRTC Communications Monitoring Report, October 2015, Table 5.2.11. MTS has 77.4% share of the Manitoba market; Bell has 76.8% of the market in Newfoundland and Labrador.
[17] CRTC Communications Monitoring Report, October 2015, Table 5.2.13.
[18] CRTC Communications Monitoring Report, October 2015, Table 5.3.14.
[19] In the May 2, 2016 "BCE/MTS Joint Analyst Call to Discuss BCE's Acquisition of MTS", Bell noted "synergies are going to come out of our buying power that we quite frankly bring now to the province of Manitoba, both on the supplier side, handset side, access to all handsets; not having to use a middle distributor and those type of things will drive the type of synergies we expect."
[20] SaskTel 2014 Annual Report

As Bell and TELUS increase scale in neighbouring Manitoba, SaskTel is will be competing against much larger carriers in attracting attention from its suppliers of technology and services. To date, SaskTel has successfully managed this risk. However, it will be important to manage the relationships with third party installation forces; there is a risk that these crews could give a greater priority to work from a larger carrier, such as Bell, if labour force requirements conflict.

Further, SaskTel has identified "Technology" as a known risk area, stating:[21]

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

Similarly, suppliers could prioritize work from larger carriers in resolving service impacting problems.

Relationships with Other Carriers

SaskTel currently has numerous relationships with other carriers. In some cases, these carriers are competitors for retail customers but these same companies can be partners, suppliers and customers at a wholesale level.

Network Sharing & Reciprocity

For wireless services, SaskTel has long standing relationships with Bell and TELUS under a Three Party Agreement providing for network reciprocity. Under that agreement, SaskTel has access to the mobile networks of Bell and TELUS and those two companies have access to SaskTel's network.[22] Bell, TELUS, and SaskTel cooperate on a network level, while vigourously competing on a retail level. There is no reason to expect this to change as a result of the Bell-MTS transaction.

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[21] SaskTel 2014 Annual Report

[22] In the CRTC oral hearing during the proceeding that led to its Telecom Regulatory Policy 2015-177, oral testimony from Bell's VP, Roaming and Carrier Relations described the reciprocity agreement, beginning at line 5692:

> …the arrangement that we have with Telus is a network reciprocity agreement, not a network sharing agreement. Just from what I have been hearing over the last couple of days, I think it's a little bit different than what Rogers may have in place with their network partners. That word "reciprocity" means that we have a network and Telus has a network and we provide reciprocal access to those networks. But the bottom line on it is that we can't sell the Telus network to a third party that is not our end customer because it's not our asset. And similarly, they can't sell our network to another party because it is not their asset. I think that's what it kind of boils down to from a technology perspective, yes, it is possible, but it just is not from a contractual and a property ownership perspective, it wouldn't be right for us to sell their network. By the way, the same thing applies to the Three Party Agreement in Saskatchewan where we do not have the right to sell wholesale access to SaskTel's network because that is in fact their own asset.

However, MTS and Rogers customers also currently roam onto the SaskTel network when travelling in Saskatchewan under the terms of a three-party agreement that SaskTel has with MTS and Rogers. Rogers has built its own network, covering approximately 70% of the population of Saskatchewan, which currently handles most of the MTS and Rogers traffic in the province. As a result of the BCE/MTS transaction, MTS traffic may migrate to be covered under the network reciprocity agreement, with a resultant negative net impact on roaming revenues in the order of a few million dollars.

Barely two weeks after the announcement of the BCE/MTS transaction, Bell and MTS jointly announced[23] plans to upgrade the wireless network on Highway 75, the corridor linking Winnipeg to the US. This may signal the importance to Bell of providing its retail customers with higher quality service than MTS had built on its own. Under terms of the network reciprocity and roaming agreements, SaskTel customers will benefit from such investments.

Although the revenue will shift as traffic becomes reclassified under the Bell/TELUS network reciprocity agreement (versus the Rogers/MTS roaming agreement), as long as SaskTel continues to invest in capacity and upgrades to its network, there should be no new risks to the extensions of these agreements as a result of the Bell-MTS transaction.

Regulatory Risk

In the past, SaskTel's regulatory position was often similar to that espoused by MTS. While there are other regional service providers (such as TBayTel in Thunder Bay), there is a risk of federal regulators and policy makers, such as CRTC and Innovation, Science and Economic Development Canada, not understanding the unique characteristics of SaskTel, as a large, province-wide regional operator, or as a provincial crown corporation.

In many, if not most cases, federal policies and regulations are set with an objective for uniform application across the country. Unfortunately, this can lead to rules being implemented that are unable to accommodate local market and industry structures that evolved over more than a century and a half of telecommunications services being offered.

In some cases, SaskTel and MTS presented a common front to regulators to demonstrate different circumstances. For example, during the recent wireless wholesale proceeding, SaskTel, MTS and TBayTel (Thunder Bay) presented as a unified group.[24] The CRTC accepted the input from the "regional carriers" and did not impose mandated roaming rates on these companies, exempting them from that portion of the framework that was applied to the national carriers.

[23] Bell Canada press release dated May 20, 2016.

[24] SaskTel participated in the proceeding leading to the CRTC's Telecom Regulatory Policy 2015-177 under Telecom Notices of Consultation 2013-685 and 2014-76 as part of a collective known as the "Regional Carriers".

It does not always work as well when smaller carriers present unique circumstances. For example, the CRTC applied a common regulatory framework designed for the major incumbent telephone companies on Ontario Northland,[25] without accommodating the unique network architecture that had evolved over history.

Unfortunately, a myopic view of the national landscape can take place on both sides of the Ottawa River.[26] SaskTel was directly impacted by Industry Canada (now ISED) in its rules for the 2014 auction of spectrum in the 700 MHz band. As observed by SaskTel in its 2014 annual report, “bids from regional carriers were put at a disadvantage vis-a-vis those from national carriers.” As described in “Spectrum Position” on page 18 below, the results from 700MHz auction demonstrate the problems. According to SaskTel,[27] “Ongoing evolution of the regulatory environment currently represents one of the most disruptive and costly factors facing firms within the industry.”

There is a risk that the special case afforded by SaskTel operating as the “fourth carrier” in the province can be overlooked by federal agencies in creating broader national policy and regulatory frameworks.

In addition, the BCE/MTS transaction could result in additional regulatory intervention in the telecommunications marketplace with unpredictable impact on SaskTel. These new measures could take the potential of transactions such as the BCE/MTS deal into consideration, regardless of whether it is approved.

Operational Risk

Consumer Services

SaskTel is the only communications services provider in the province that offers a complete bundle of consumer services: home phone, internet, TV and mobile. It is one of the few carriers that also offers home security. As will be discussed below, its principal wireline competitors, Shaw and Access, do not currently offer mobile services and due to lack of radio spectrum, will continue to be unable to offer such services until Shaw acquires mobile spectrum.

[25] The Ontario Northland Transportation Commission (Ontario Northland) is an agency of the Province of Ontario that provides transportation services to Northeastern Ontario. In 2014, Ontario Northland sold its telecommunications unit, Ontera, to Bell Aliant.
[26] Canada’s telecommunications regulator, the CRTC, is located in Gatineau, Quebec on the north side of the Ottawa River; telecom policy and spectrum management is administered by Innovation, Science and Economic Development (ISED, formerly Industry Canada), located in Ottawa, Ontario, on the South side of the river.
[27] SaskTel, 2014 Annual Report

As a potential indication of the size of this risk, we note that Videotron launched its mobile services in Quebec in September 2010.[28] By the end of 2013, after 3 years of operations, Videotron had already gained 9% of the mobile market in the province of Quebec.[29] Videotron's annual financial results indicate that mobile subscribers grew by 25% in 2014 and a further 20% in 2015.

Many of the mobile customers captured by Shaw could be expected to move their entire residential bundle of services to the cable company.

While this could be interpreted as significant pent-up demand for a mobile alternative, mitigating the risk of subscriber erosion is SaskTel's history of excellence in customer service. For the past 5 years, SaskTel has been recognized as a leader in customer satisfaction among Canadian telecommunications services providers by JD Power Associates.

This is confirmed by SaskTel's record with the national telecommunications services ombudsman, the Commissioner for Complaints for Telecommunications Services (CCTS)[30] as shown in Figure 8.

Analysis of Complaints filed with CCTS

Carrier	CCTS Complaints	Access Connections	Complaints per M accesses
SaskTel	16	1.3M	12.3
Bell	1,677	18.6M	90.2
WIND Mobile	341	1M	341

FIGURE 8: ANALYSIS OF COMPLAINTS FILED WITH CCTS

SaskTel generated only 16 complaints in the latest review period across 1.3M accesses,[31] less than 1% of the number generated by Bell Canada customers, 1,677 across 18.6M accesses.[32] WIND Mobile, now part of Shaw, had 341 complaints with about 1 million wireless accesses: more than 20 times the complaints from less than double the total wireless connections. Applying WIND Mobile's complain rate to SaskTel's number of mobile customers, one might have expected 211 CCTS wireless complaints, that is, not including any complaints from wireline services such as internet and residential voice services; SaskTel's total of just 16 complaints is remarkably low; it is more than an order of magnitude better than Shaw's WIND Mobile.

[28] Videotron Press Release dated September 9, 2010: "Videotron launches new mobile service on the fastest network and introduces unprecedented offerings"

[29] Communications Monitoring Report, October 2014, Table 5.5.6.

[30] CCTS Mid Year Report, 2015-2016, covering the period August 1, 2015 through January 31, 2016.

[31] SaskTel 2014 annual report: 618,000 wireless, 437,000 wireline and 258,000 internet. We note that not all wireline accesses are eligible for CCTS reporting. However, the complaint rate is so dramatically different between Bell, WIND Mobile and SaskTel that the comparisons are still meaningful.

[32] Bell 1Q 2016 report for 2015 year-end figures: 8,236,000 wireless, 7,017,000 wireline and 3,298,000 internet

WIRELINE SERVICES

Although wireless and internet based services have been eroding the use of traditional wireline phone services, this still represents $282M in revenues for SaskTel, approximately 22% of total.[33] At year-end 2014, SaskTel still held 89% of the local phone market, down from 93% in 2010.[34]

Retail Market Share – Local Lines (2014)		
Area	**Residential**	**Business**
Regina	79.1%	95.1%
Saskatoon	69.8%	89.9%
Rest of Province	95.0%	99.0%

FIGURE 9: RETAIL MARKET SHARE - LOCAL LINES (2014)

Figure 9: Retail Market Share - Local Lines (2014)[35] shows that competition for business services is focused in the major urban markets and it also shows that competitors have made greater inroads in residential markets than in the business sector, where SaskTel holds market share in excess of 90%. The extremely high level of market share in the business market appears to make this segment particularly vulnerable. The relocation of Bell's western regional headquarters to neighbouring Manitoba could increase the focus on opportunities in Saskatchewan's business sector.

The primary source of direct competition for SaskTel wireline comes from the cable companies, Shaw and Access. Wireline services, defined as local and long distance phone services, internet and TV, are competitive with similar services being offered by cable companies and substitute services. In particular, wireline phone services are being replaced by wireless and TV distribution is being supplemented, if not fully replaced by internet-based services. These risks to SaskTel's revenues are largely unchanged by the BCE/MTS transaction.

However, as described in the section looking at "Spectrum Position", there may be an increased risk that Shaw could acquire mobile spectrum under more favourable conditions, enabling it to offer a more complete bundle of services to Saskatchewan residents, impacting consumer wireline revenues as well as wireless services. This could begin to have a meaningful impact in 2018 and beyond.

The section on "Spectrum Position" also discusses a scenario under which Shaw enters the wireless business through an arrangement with another carrier. The BCE/MTS transaction significantly improves the market position of both Bell and TELUS and will likely lead to

[33] SaskTel 4th quarter 2015 results.
[34] CRTC Communications Monitoring Report, October 2015, Table 5.2.11
[35] CRTC Communications Monitoring Report, October 2015, Table 5.2.12

significant capital expenditures being required by Rogers in order to unwind its network sharing relationship with MTS. There is a risk that Rogers may develop arrangements with cable companies in Manitoba and Saskatchewan to add Rogers wireless services to the cable product bundles, improving both companies' competitive position against SaskTel's consumer products.

National Sales

Bell's relocation of its Western Canadian headquarters to Winnipeg may create added pressure on national corporate and government accounts. Historically, SaskTel would be a local access partner in servicing national accounts for all of the carriers. With its new Western headquarters in neighbouring Manitoba, there is a longer term risk Bell could look at building its own accesses to service major accounts in Saskatchewan.

Wireless Services

At the end of 2013, SaskTel held more than 2/3 of Saskatchewan's wireless market (68%), compared to Bell with 12%, TELUS with 13% and Rogers with 8%.[36] This was a decline of 3% from 2012 (71% market share).[37] The CRTC reported that SaskTel had 78% of the market at the end of 2010.[38]

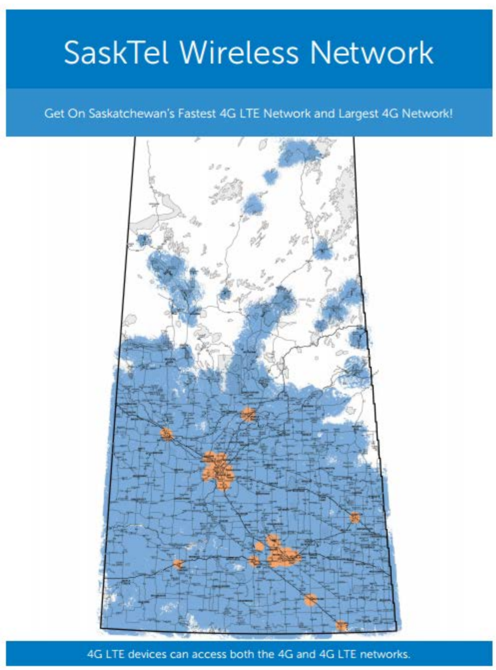

FIGURE 10: SASKTEL WIRELESS NETWORK COVERAGE

[36] CRTC Communications Monitoring Report, October 2014, Table 5.5.6.
[37] CRTC Communications Monitoring Report, September 2013, Table 5.5.5.
[38] CRTC Communications Monitoring Report, July 2011, Table 5.5.4.

It is important to recognize that the total wireless market has been increasing in size over time as well, driven by a number of factors: more individuals have adopted mobile wireless service; an increasing number of mobile subscriptions include data as well as voice and data consumption is increasing at a dramatic rate; more devices are being connected using mobile technology for machine-to-machine communications. As a result, despite market share erosion, SaskTel's wireless revenues have actually increased by nearly 25% between 2010 and 2015, from $408.5M to $492.4M. SaskTel's wireless customer accesses have grown as well, from 568,905 in 2010 to 618,083 in 2014.[39] The average revenue per user has grown, driven primarily by increased adoption of wireless data plans as add-ons to the subscription fees.

Figure 10, "SaskTel Wireless Network Coverage"[40] shows the extensive network that has been built by SaskTel.

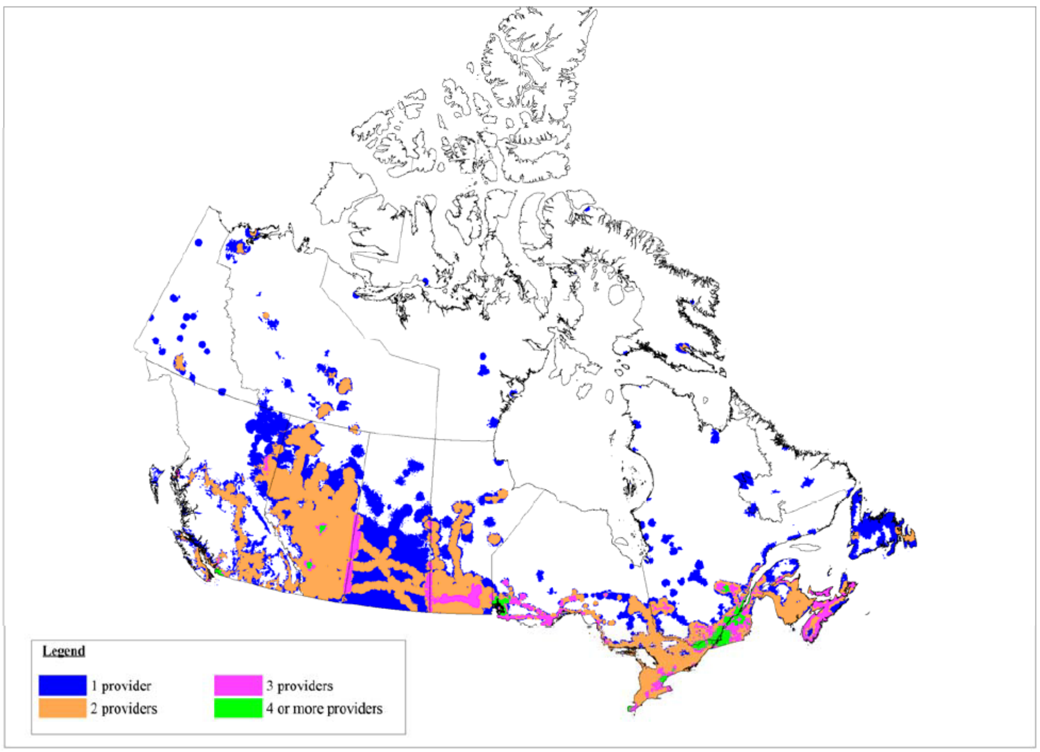

FIGURE 11: WIRELESS SERVICE AVAILABILITY BY NUMBER OF PROVIDERS (2014)

Figure 11 shows "Wireless Service Availability by Number of Providers (2014)" for all of Canada.[41] In Saskatchewan, it can be seen that another carrier (Rogers) has built extensively along the transportation corridors in the southern areas of the province, covering a significant proportion of the population.

[39] SaskTel 2014 Annual Report.

[40] The graphic was sourced from the SaskTel website on May 15, 2016

[41] The figure is Map 5.5.1 from the CRTC's Communications Monitoring Report, October 2015 (data from 2014).

According to the CRTC,[42] more than 70% of the population of Saskatchewan is covered by a competitor's wireless network; only 25% of the population has access to just the SaskTel wireless network. As of the end of 2014, less than 1% of the population had no wireless coverage.

Bell, TELUS and Rogers have all filed or already been approved for status as competitive local carriers in a number of communities in the province of Saskatchewan. This can sometimes be an indicator of plans to establish wireless network interconnection.[43]

Shaw does not currently have mobile wireless radio spectrum in Saskatchewan. SaskTel acquired the AWS-1 spectrum held by WIND Mobile in a deal approved in July, 2015.[44] Still, Shaw has been active in promoting wireless data services with managed WiFi access, enabling portable, if not mobile data service. For example, on May 4, the City of Saskatoon and Shaw announced the launch of free WiFi service[45] in 10 city facilities, with plans to expand to additional locations. Under the program, Shaw will be able to market its complete range of services to people who use the complimentary WiFi service.

Roaming and Network Sharing

Certain of SaskTel's relationships with national carriers may be at risk as a result of the BCE/MTS transaction. SaskTel built a network that covers 99.3% of the province's population[46] with an expectation that revenue would continue to be available to offset costs in less densely populated areas. Already, three quarters of Saskatchewan's population is covered by wireless networks competing with SaskTel.[47] As can be seen in Figure 11, Rogers has strategically focused on larger population centres and coverage along main transportation corridors in the province.[48]

Mandated roaming rules were implemented in order to ensure customers of new entrant carriers are able to have continuous service in areas that have no coverage by their service provider. However, the implementation of these rules has enabled more established national carriers to avoid building network capabilities in lower density or higher cost markets, especially in cases where the national carrier has a weak market presence in a certain area.

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[42] CRTC Communications Monitoring Report, October 2015, Table 5.5.15.

[43] As a competitive local exchange carrier (CLEC), the cost of interconnecting facilities are shared by the incumbent (SaskTel) and the competitor; for wireless interconnection, the wireless carriers pay for the network connections.

[44] Press release, July 31, 2015: "SaskTel acquires AWS-1 Spectrum from WIND Mobile"

[45] See: http://j.mp/1XfUGXA linking to "WiFi in Civic Facilities" on the Saskatoon city website.

[46] CRTC Communications Monitoring Report, October 2015, Table 5.5.14

[47] CRTC Communications Monitoring Report, October 2015, Table 5.5.15

[48] Figure 11: Wireless Service Availability by Number of Providers shows the presence of 3 providers along the eastern and western borders of Saskatchewan. This line is created by incidental overlap of networks built to provide Alberta and Manitoba with coverage.

Bell and TELUS had a weak market position in Manitoba prior to the MTS deal. If the transaction proceeds as planned, these two carriers will move from the number 3 and 4 market positions to be the number 1 and 2 players in Manitoba.[49] With a reinvigorated western presence by Bell, there is a possibility that other carriers may consider targeting key Saskatchewan markets, such as Regina and Saskatoon, leaving SaskTel with a dominant position in higher cost serving areas but with lower revenues and margins in major centres to offset those costs.

However, we believe that the terms of the current Network Reciprocity Agreement offers substantial benefits to preservation of the status quo for TELUS and Bell to continue to derive mutual benefits, sharing the costs of building and enhancing the mobile network.

The reciprocity and sharing agreements mean that from a technological perspective, customers of all of the competing wireless carriers effectively have access to the full SaskTel network, despite the limited geographic reach of their own carrier's network facilities. It is difficult to predict the impact on mobile services retail pricing in Saskatchewan as a result of the BCE/MTS transaction. It is possible that discounting may ease as carriers find other opportunities for market share growth; it is also possible that rationalization of the market in Manitoba could enable carriers to focus on acquisition of market share in Saskatchewan, putting additional pressure on SaskTel revenues, and by extension, impacting Net Income, dividends and the ability to invest.

Spectrum Position

SaskTel acquired all of the AWS-1 spectrum held by WIND Mobile in a deal approved last year.[50]

Mobile Spectrum Holdings

	MHz	Percentage
SaskTel	190	33%
Bell	30	5%
TELUS	176	30%
Rogers	157	27%
Xplornet	10	2%
Inukshuk	5	1%
Unassigned	15	3%

FIGURE 12: SASKATCHEWAN MOBILE SPECTRUM HOLDINGS

As a result, there is currently extremely low risk of another mobile wireless carrier emerging in Saskatchewan. Most significantly, this means that in the short term, Shaw will not be able to launch wireless services in Saskatchewan until it acquires mobile spectrum. Shaw presents the greatest risk because of its broad portfolio of wireline services (TV, phone and internet); the

[49] As described in Footnote 3, on page 1
[50] SaskTel News release, July 31, 2015: "SaskTel acquires AWS-1 Spectrum from WIND Mobile"

absence of mobile services helps SaskTel's competitive position across the entire range of services.

As shown in Figure 12, of 583MHz of mobile spectrum in the province, SaskTel holds 190MHz; Rogers has 157MHz, TELUS has 176 MHz and Bell has 30 MHz. This can be seen graphically in Figure 13.

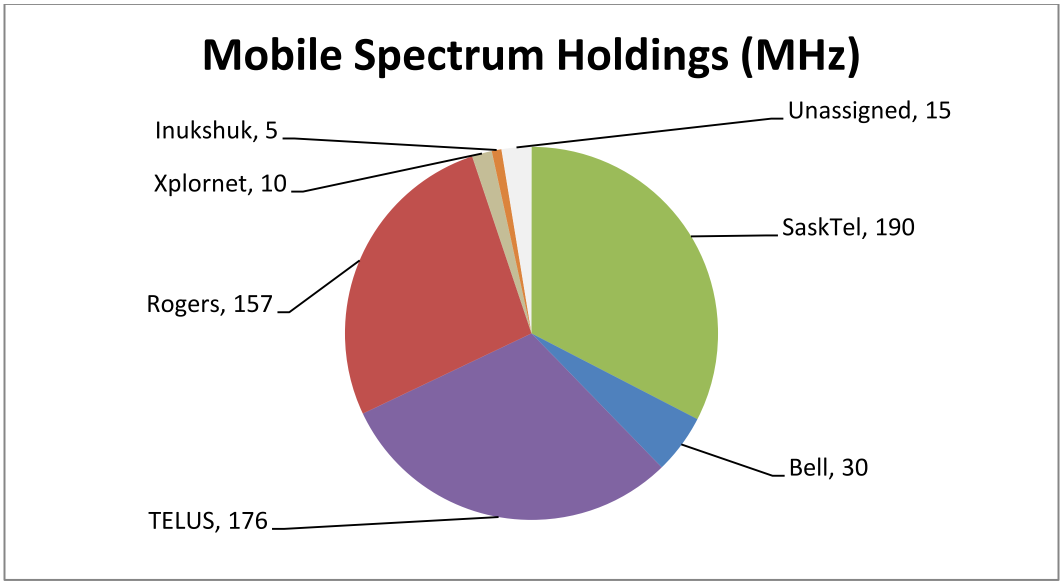

FIGURE 13: SASKATCHEWAN MOBILE SPECTRUM HOLDINGS (MHZ)

Under its network reciprocity agreement providing service to Bell and TELUS customers, SaskTel provides service to upwards of 92% of the wireless subscribers in Saskatchewan,[51] with just one third of the total spectrum. With mandated roaming, even more traffic is carried on SaskTel's network as customers of other carriers travel to parts of Saskatchewan for which SaskTel is the only mobile carrier. As indicated, about 25% of Saskatchewan's population has only SaskTel's mobile service coverage. However, just focusing on major cities and transportation corridors, Rogers built wireless network facilities that cover almost three quarters of the population.

There will be up to 100MHz of newly repurposed broadcast spectrum in the 600MHz band being made available for mobile service in next few coming years. The 600MHz band has extremely attractive propagation characteristics for mobile services. The band requires as few as a quarter of the number of sites for coverage, compared to AWS spectrum, and 600MHz signals are much better at penetrating buildings. Because of the limited number of broadcasters in the province, this band should be fully available in Saskatchewan. It represents a significant amount of prime spectrum that could potentially cause shifts in the marketplace and higher costs to acquire for SaskTel.

[51] CRTC Communications Monitoring Report, October 2014 Table 5.5.6

Regardless of whether the BCE/MTS transaction is approved, its possibility could increase the risk that the rules for 600MHz could be unfavourable for SaskTel, either by facilitating the creation of a new wireless competitor, or again favouring national bids, as was experienced in the 700MHz auction.[52] The 600MHz auction could be conducted as early as mid-2017, impacting spectrum acquisition costs in 2017 and creating longer term competitive losses.

For the past 3 years, Canada has had a stated objective to have four wireless carriers operating in every market.[53] Currently, most Canadians have access to four wireless carriers. In Manitoba, the four carriers are MTS, Rogers, Bell and TELUS. Similar to its sale of spectrum to SaskTel last year, WIND Mobile sold its AWS spectrum in Manitoba to MTS, prior to its acquisition by Shaw. As a result, Shaw does not have mobile spectrum to complement its cable services bundles in its operations in either Manitoba or Saskatchewan.

A contraction in the number of competitors in Manitoba, resulting from the BCE/MTS transaction, could motivate policy makers to enact rules that facilitate new spectrum (such as the 600MHz band) being acquired by carriers other than SaskTel. There is a risk that Shaw could enter the Saskatchewan mobile market under such favourable terms, becoming a more formidable competitor for total consumer bundles.

An alternative scenario could be the removal of a national fourth carrier objective, reflecting a change in the federal government position from that espoused by the previous government. A report from Canaccord Genuity viewed approval of the BCE/MTS transaction as setting "a significant precedent, as it would reduce Manitoba to a 3-player wireless market from four."[54] Canaccord Genuity suggested this could provide a potential exit strategy in wireless to Shaw should it decide to sell WIND and could reduce regulatory opposition to Quebecor selling its spectrum holdings outside the province of Quebec. Under such a scenario, Shaw might enter into a service agreement with a national carrier, such as Rogers, to include wireless services in its residential product bundle.

Once Shaw launches a technically competitive mobile service, on its own or through a partnership arrangement, the entire portfolio of SaskTel's consumer communications services will face significant pressure. Already, the significant difference in market share erosion between business and residential wireline services[55] demonstrates that the cable companies

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[52] In the 2014 auction of 700MHz spectrum, of the 7 blocks of spectrum (totalling 68MHz), all but the 10MHz C1 ended up being acquired by one of Rogers, Bell or TELUS in virtually every region. The only exception was the C2 block in the Yukon, NWT, Nunavut service area.

[53] The four carriers objective was first set out on March 7, 2013 in an address by then Minister of Industry Christian Paradis "New measures to increase competition in the wireless sector".

[54] Canaccord Genuity, Canadian Equity Research, "BCE to acquire MBT", May 2, 2016.

[55] Figure 9: Retail Market Share - Local Lines (2014) on page 14 shows a 15-20% difference in market share losses between business and residence.

are able to effectively sell telecommunications products to consumers. As a result, there is a risk that Shaw could quickly capture a substantial share of the mobile market under any of these entry scenarios.

Under these mobile entry scenarios for Shaw, there could be increased incentives for the cable market to consolidate in Saskatchewan, or find other means to offer a bundle of services that include wireless. Traditional cable revenues are declining as consumer viewing patterns shift to online platforms and away from bundled channels. As such, independent of changes in policy, there is a risk that Shaw and Access could choose to align with a wireless provider, increasing its competitive position in the markets in which it operates. Because of the risks to Rogers driven by the BCE/MTS transaction, Rogers could be more motivated to explore the use of other cable companies as retail partners for its mobile services.

IMPACT ON OTHER BUSINESS UNITS

SECURTEK

Security monitoring is an attractive business adjacency for a telecommunications service provider. Various wireline companies have entered such businesses at various times, seemingly falling in and out of favour. Security systems are typically connected with wireline connections and increasingly, use wireless as backup or primary connectivity. The alarm systems typically use telephone-type, low voltage wiring and installers have skill sets that are similar and complementary to telecom work forces. Central monitoring of alarms is similar to other operator call centre activities that have historically been a strength of telecom companies. Smart applications for home automation and video monitoring are bringing security businesses into the internet era. Historically, security monitoring services have very low churn rates.

MTS operates an alarm company, AAA, which competes with SecurTek in Manitoba. It is not known how BCE will deal with the AAA side of MTS. Will it form the nucleus or any part of a security alarm service for Bell or will it be spun out? There may be an opportunity for SaskTel to increase its scale in this sector through acquisition.

SASKTEL INTERNATIONAL

We do not see any changes or additional risks associated with the operations of SaskTel International as a result of the BCE/MTS transaction.

DIRECTWEST

We do not see any changes or additional risks associated with the operations of DirectWest as a result of the BCE/MTS transaction.

ICT BUSINESS SOLUTIONS

In its 2014 annual report, SaskTel identifies a new division dedicated to developing new ICT products and services for the business market. As part of the BCE/MTS transaction, Bell plans to locate its headquarters for Bell West in Winnipeg and integrate MTS' Winnipeg datacentre into "Bell's existing national network of 27 data and cloud computing centres". As noted in the section "Wireline Services" on page 14, this could result in increased competition for SaskTel's new ICT Business Solutions division.

The carriers with which SaskTel competes operate sophisticated integration test labs. While SaskTel operates its own laboratory environment, its single test environment may limit the ability to perform testing in as timely a manner as the labs of the national competing carriers. The specific technology risk may not change as a result of the BCE/MTS transaction; however, with a potentially heightened level of competitive intensity in the enterprise sector, it will be important to ensure major account customers remain confident with SaskTel's test facilities.

As more businesses adopt "cloud" strategies for ICT architectures, the geographic location of data services are less meaningful. This represents both an opportunity and a threat.

CONCLUSION

We believe the most fundamental risk arising from the BCE/MTS transaction to SaskTel is the possibility that reduced numbers of facilities-based carriers in Manitoba could lead government policy makers to create incentives for additional wireless competition to develop through lowered costs for new entrant spectrum or other measures. Such measures could reduce the costs for competitors and increase costs or restrict capacity expansion for SaskTel. The first manifestation of this risk could be in establishing the rules for the 600MHz band in the next 12 months.

An alternate scenario could see removal of the four carriers objective by the government, possibly enabling Shaw to sell its newly acquired WIND Mobile business. Shaw could still offer mobile services, perhaps entering the retail mobile space through a partnership. Whether on its own or through a partnership arrangement, once Shaw launches a technically competitive mobile service, there is a risk that the entire portfolio of SaskTel's consumer communications services will face significant pressure.

Even without the elimination of the four carriers objective, there is an immediate risk that Rogers will look to replace its lost partnership with MTS by developing retail partnerships with cable companies in Manitoba and Saskatchewan. This would improve the competitive positions of the national wireless company as well as the local cable firms.

There is a risk the establishment of Winnipeg as a western headquarters for Bell could lead to erosion in the market for business services, a segment in which SaskTel holds market share well in excess of 90%.

For all of the reasons identified in this report, there is a risk that SaskTel's net income will not support the level of dividends that have been returned to the province in recent years. We also observe that continued investments in network and information systems are critical to preserving SaskTel's competitive edge.

We note that the various government agencies' reviews of the BCE/MTS transaction are not expected to be completed for 9-12 months. As such, most of the risks identified are expected to be longer term, with financial impact beyond 2016 and 2017. However, it is possible that the risks associated with the 600MHz auction could be felt with an auction as early as mid-2017, impacting spectrum acquisition costs in 2017 and creating longer term competitive losses.

In addition, the BCE/MTS transaction could result in changes to the regulatory and policy framework, potentially leading to increased intervention in the telecommunications marketplace with unpredictable impact on SaskTel. Regardless of whether the transaction is approved, there is a risk that policy makers may account for the possibility of such transactions in setting rules (such as those for spectrum auctions) and some of the resultant measures may not be favourable to SaskTel. The impact could be felt immediately in all regulatory decisions and policy determinations from the CRTC and the federal department of Innovation, Science and Economic Development.