

# Introduction to CIC's Financial Reporting

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# Introduction to CIC's Financial Reporting

## **PREFACE**

The purpose of the following discussion is to provide the users of CIC's financial statements with an overview of the Corporation's financial performance and the various measures CIC uses to evaluate its financial health. This narrative on CIC's 2014 financial results should be read in conjunction with the audited consolidated and separate financial statements.

Producing two different views of CIC's operations and results, with consolidated and separate financial statements, is a cornerstone of our commitment to accountability and transparency. Explanations of the differing purposes of these statements are provided in the next pages.

In addition to the information on CIC's 2014 results, discussions also provide detailed information regarding performance relative to the business plan, and what this means for the CIC Crown sector in the future.

## **FORWARD-LOOKING INFORMATION**

Throughout the annual report, and particularly in the following discussion, are forward-looking statements. These statements can be recognized by terms such as "outlook", "expect", "anticipate", "project", "continue", or other expressions that relate to estimations or future events. By their nature, forward-looking statements require assumptions based on current information, management experience and historical performance. Forward-looking information is subject to uncertainties and, as a result, forward-looking statements are not a guarantee about the future performance of CIC and its subsidiary Crown corporations.

Readers should not place undue reliance on forward-looking statements, as a number of factors could cause actual results to differ materially from estimates, predictions and assumptions. Factors that can influence performance include, but are not limited to: weather conditions, commodity markets, general economic and political conditions, interest and exchange rates, performance, competition and regulatory environment. Given these uncertainties, assumptions contained in the forward-looking statements may or may not occur.

# Understanding CIC's Financial Statements

CIC prepares two sets of financial statements: consolidated financial statements and separate financial statements.

## **CIC CONSOLIDATED FINANCIAL STATEMENTS**

These statements illustrate CIC's results consolidated with the results of its subsidiary corporations. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and include:

- Financial results of subsidiary Crown corporations (SaskPower, SaskTel, SaskEnergy, SGI, SGC, STC, SaskWater, and SOCO);
- Financial results for CIC's wholly-owned subsidiaries (Gradworks Inc., CIC Economic Holdco Ltd., First Nations and Métis Fund Inc., Saskatchewan Immigrant Investor Fund Inc. and CIC Asset Management Inc.);
- Dividends paid by CIC to the General Revenue Fund (GRF); and
- CIC's operating results and public policy expenditures.

Consolidated earnings represent the total earnings in the Crown sector, taking into consideration the elimination of all inter-entity transactions (i.e. revenues and expenses between Crown corporations and dividends paid by Crown corporations to CIC).

## **CIC SEPARATE FINANCIAL STATEMENTS**

Separate earnings represent CIC's earnings as the Shareholder of the Saskatchewan Commercial Crown sector. These statements assist CIC in determining its capacity to pay dividends to the GRF. The separate statements have not been and are not intended to be prepared in accordance with IFRS. These statements are intended to isolate the Corporation's cash-flow, capital support for certain subsidiary corporations, and public policy expenditures. These financial statements include:

- Dividends from subsidiary corporations;
- Dividends paid by CIC to the GRF;
- Grants by CIC to subsidiaries; and
- CIC's operating results and public policy expenditures.

# CIC'S 2014 Financial Highlights

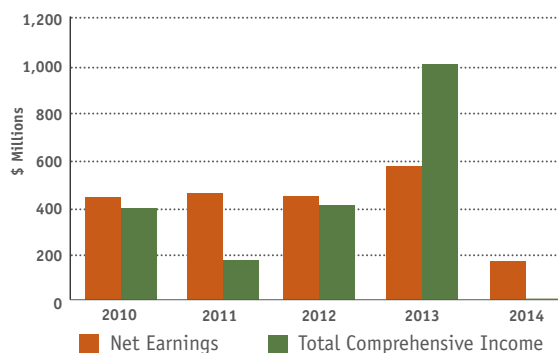
(millions of dollars)

	2014	2013 <sup>1</sup>	2012 <sup>1</sup>	2011	2010
<b>CIC Consolidated</b>					
Earnings	\$ 162.7	\$ 566.9	\$ 438.6	\$ 450.9	\$ 436.3
Assets	16,542.3	15,136.8	13,092.0	11,962.4	11,066.3
Debt <sup>2</sup>	7,716.1	6,624.0	5,709.7	4,772.1	4,440.9
Dividend to the GRF	206.0	361.4	280.1	128.5	471.0
Debt Ratio (per cent)	60.1%	56.3%	52.5%	48.6%	49.7%
Return on Equity (per cent)	3.5%	12.1%	9.6%	10.5%	10.5%
<b>CIC Separate</b>					
Dividend Revenue	\$ 173.6	\$ 202.5	\$ 346.4	\$ 213.9	\$ 276.1
Earnings	149.7	330.4	314.0	167.1	236.0
Cash Return on Equity (per cent)	13.3%	21.7%	16.1%	7.8%	27.1%

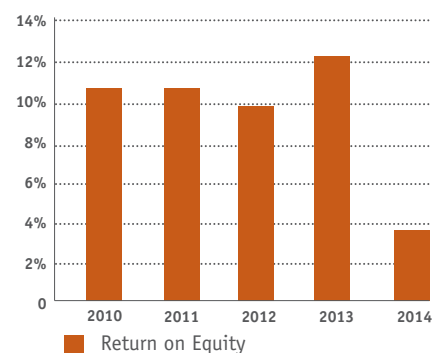
<sup>1</sup> Results in 2013 and 2012 have been restated to comply with a change in revenue recognition.

<sup>2</sup> Consolidated debt includes long-term debt, long-term debt due within one year and notes payable.

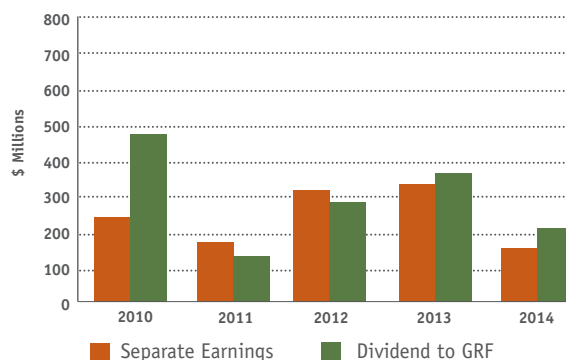
## CONSOLIDATED EARNINGS



## CONSOLIDATED RETURN ON EQUITY



## SEPARATE EARNINGS AND DIVIDENDS TO THE GRF



# Achieving Corporate Priorities in 2014

## A BALANCED APPROACH TO SHAREHOLDER RETURN

- CIC is focused on providing a reasonable return to the Province. This priority must be balanced with its public policy initiatives and reinvestment in sustaining infrastructure to meet the growth of the province.
- CIC declared and paid dividends of \$206.0 million to the GRF.
- CIC's consolidated return on equity was 3.5 per cent.
- These returns were accomplished while supporting the following public policy initiatives:
  - Saskatchewan EnerGuide for Houses program;
  - Gradworks Inc., an internship program for CIC Crown corporations;
  - STC transportation routes in the province;
  - First Nations and Métis Fund Inc., a venture capital fund focusing on the Aboriginal small business sector; and
  - Saskatchewan Immigrant Investor Fund Inc. (SIIF), a corporation established to participate in the Government of Canada's Immigrant Investor Program (IIP). SIIF uses IIP funds to deliver the HeadStart on a Home program that assists builders and developers in building affordable housing in Saskatchewan communities.

## FINANCIAL SUSTAINABILITY

- CIC monitors the financial management of the CIC Crown sector to ensure that financial performance targets are achieved in the current year and that the financial sustainability of the CIC Crown sector is maintained for the future. This includes important functions such as:
  - Ensuring CIC Crown corporations have sufficient capital available to maintain and/or expand existing infrastructure;
  - Examining capital structures of CIC Crown corporations (generally consisting of debt and equity) to maintain financial health; and
  - Forecasting available cash flows over the planning horizon to analyze and advise on future dividend payments to the GRF.
- All decisions that impact financial resources, such as dividends from the CIC Crown sector, dividends to the GRF, or funding of a public policy initiative, are assessed within the context of financial self-sufficiency, while contributing to the Government's priorities for the CIC Crown sector.
- During 2014, CIC's allocation of financial resources included the following:
  - Support of the above-noted public policy initiatives;
  - Declaration and payment of dividends to the GRF of \$206.0 million; and
  - Authorizing capital spending plans of subsidiary Crown corporations that resulted in capital expenditures of \$1,917.0 million to meet the reinvestment requirements of a growing province.

## ENHANCING ACCOUNTABILITY

- CIC continues to advance its financial reporting practices in support of transparency and accountability. Examples of current practices to facilitate accountability include:
  - Quarterly reports for CIC (Consolidated and Separate) and its subsidiary Crowns, available to the public via CIC's website;
  - Disclosure of budget information in the Government's Summary Financial Plan;
  - Detailed disclosure of CIC and its subsidiary Crowns' payments via CIC's website;
  - Within the annual reports, comparisons of CIC's subsidiary corporations' results to business plan targets;
  - Providing internal audit services to certain CIC subsidiary Crown corporations;
  - Requiring CEO/CFO certification of internal controls over financial reporting; and
  - Ensuring appropriate and consistent risk management frameworks for all CIC subsidiary Crown corporations.
- CIC continuously evaluates new standards and leading practices for financial reporting and corporate governance.

# Managing Capital Resources in the CIC Crown Sector

CIC has a diverse range of holdings. A key priority for CIC is to manage the capital resources employed within the consolidated group of entities to optimize value in the Crown sector and also provide a return to the Province's GRF.

CIC manages this priority through its capital allocation framework, which is based on two integrated policies. These policies are based on the principle that there are three potential uses for cash flows:

- **Reinvestment** in our businesses to sustain infrastructure and operations, to grow and diversify revenues, and support public policy initiatives and economic development;
- **Debt reduction** to support the financial flexibility of CIC's operations; and
- **Dividends** to the holding company to be used in accordance with the CIC Dividend Policy.

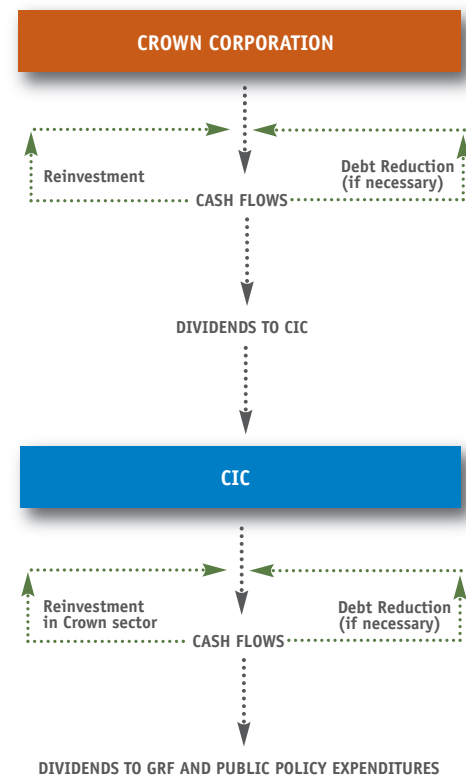
## SUBSIDIARY DIVIDEND POLICY

The Subsidiary Dividend Policy focuses on managing capital resources to support the investment needs and business viability of the various business segments over the medium term. The policy ensures that the investments provide a return to Saskatchewan residents in support of programs paid for from the GRF.

Each commercial Crown's ability to pay dividends is determined after the CIC Board allocates a portion of cash profits to reinvestment and debt reduction. The CIC Board has approved debt and capital structure targets for CIC's subsidiaries based on industry benchmarks. Therefore, for subsidiaries that pay dividends, the amount paid is determined in relation to the target capital structure compared to the actual capital structure.

## CIC DIVIDEND POLICY

In a similar way, cash paid by subsidiary Crown corporations is used by CIC for reinvestment and dividends to the GRF. CIC, as the holding company, does not have any debt. As well, CIC uses funds to support public policy initiatives.



# Managing Capital Resources in the CIC Crown Sector

In 2014, CIC allocated \$221.9 million of capital as follows:

## REINVESTMENT AND PUBLIC POLICY EXPENDITURES:

- \$15.6 million in grant funding to SaskEnergy, STC and Gradworks; and
- \$0.3 million to First Nations and Métis Fund Inc. to provide venture capital to qualifying First Nations and Métis businesses.

## DIVIDEND:

- GRF dividend of \$206.0 million in 2014.

## DEBT REDUCTION:

- No funds were used for debt repayment. CIC (separate) does not carry debt.

CIC's ability to pay dividends to the GRF depends mainly on the level of Crown dividends to CIC, less CIC's operating costs. These costs include support to non-dividend paying Crown corporations and public policy expenditures. Crown dividend levels depend on earnings and capital structure. In addition to cash constraints, CIC's ability to declare dividends to the GRF depends on its retained earnings (a company's retained earnings are the aggregate amount of undistributed earnings since its inception). CIC's earnings and hence, dividend capacity outlook, are sensitive to adverse developments in its operating expenditures and Crown earnings forecasts.

## CAPITAL STRUCTURES OF SUBSIDIARY CORPORATIONS

The following table summarizes the target capital structure of CIC's subsidiary corporations that declared dividends to CIC in 2014:

	Capital Structure Measure	Capital Structure Target	2014 Actual Capital Structure	2014 Dividend Payout Rate
SaskTel	Debt Ratio	50.0%	52.8%	70.0%
SaskEnergy	Debt Ratio	57.0%	62.6%	38.0%
SGI <sup>1</sup>	Minimum Capital Test	250.0%	227.0%	77.0%
CIC AMI <sup>2</sup>	Cash Availability	At target	At target	N/A
SGC	Debt to EBITDA	25.0%	16.0%	80.0%
SOCO	Debt Ratio	60.0%	15.4%	90.0%

<sup>1</sup> Minimum Capital Test (MCT) is an indicator of financial flexibility used in the insurance industry.

<sup>2</sup> CIC AMI dividend is determined by cash availability and CIC's cash requirements which is not dependent on earnings.

# Managing Capital Resources in the CIC Crown Sector

## LIQUIDITY

CIC and its subsidiary Crown corporations borrow from the GRF, which in turn borrows in the capital markets. With strong credit ratings, the GRF has ample access to capital for anticipated borrowing requirements.

### PROVINCE OF SASKATCHEWAN CREDIT RATINGS

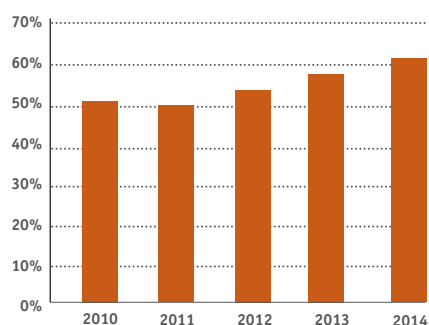
Moody's Investor Service (Moody's)	Aaa
Standard & Poor's (S&P)	AAA
Dominion Bond Rating Service (DBRS)	AA

There are three credit rating agencies in Canada that evaluate and rate the credit worthiness of the Province's sovereign debt. Credit worthiness affects the interest rate at which the Province, including the CIC Crown sector, can borrow. As the credit ratings improve, the interest rates at which the Province can borrow decreases, thereby reducing the costs of borrowing. During 2014, Moody's upgraded the Province of Saskatchewan's credit rating from Aa1 to Aaa. All other credit rating agencies confirmed the Province's credit rating and outlook.

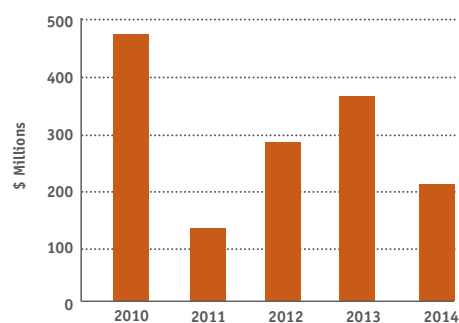
### FINANCIAL HEALTH AND DIVIDENDS TO THE GRF

In 2014, and over the last five years, CIC has maintained sustainable debt levels while reinvesting in infrastructure, as well as providing a return to the shareholder.

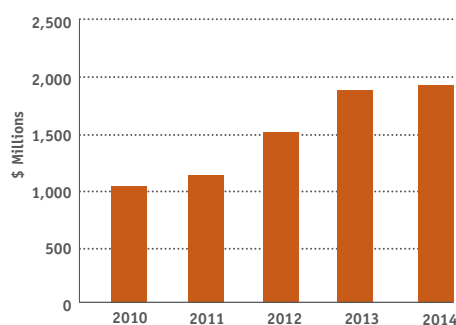
**CONSOLIDATED DEBT RATIO**



**DIVIDENDS DECLARED TO THE GRF**



**CAPITAL EXPENDITURES**







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