Dividend Policy

Issued Date: August, 1997

Revised Dates: February, 2008; May 18, 2011; October 31, 2012; November 9, 2016

Authority:

The Crown Corporations Act, 1993
CIC Board Minute # 99/2011

Applicability:

This policy applies to all CIC subsidiary Crown corporations that meet the following general criteria:

- Subsidiaries that have the ability to pay dividends within legislative constraints (i.e. a Crown corporation can only pay dividends to the extent of retained earnings per O/C 1830/83); and
- Subsidiaries that have the ability to fund their operating cash flow requirements with internally generated cash on an ongoing basis (i.e. those that do not rely on operating subsidies or grant funding from CIC or from the General Revenue Fund (GRF)).

On an annual basis, CIC will review the applicability of the above criteria to each subsidiary Crown corporation to judge if the criteria for payment of dividends to CIC are met.

Purpose:

CIC requires that the dividend policy meet the following objectives:

- Prioritizes allocation of scarce capital within the CIC Crown corporation sector;
- Provides reasonable financial return to CIC as shareholder;
- Protects the long-term financial flexibility of CIC and subsidiary Crown corporations;
- Is consistent with commercial practices where appropriate; and
- Is transparent and provides accountability to the public.

Policy Statements:

CIC subsidiary Crown corporations shall, subject to the applicability criteria, provide an annual distribution to the shareholder, primarily through a dividend to CIC:

- in an amount ordinarily not to exceed 90 percent[1] of earnings from operations; and
- that considers reinvestment needs and capital structure targets over the medium term[2].

The annual dividend amount is to be determined by the CIC Board of Directors during its annual review of Crown Performance Management and Capital Allocation Plans with actual dividends declared for the year to be reviewed, and revised if required, upon Cabinet finalization of the Summary Budget.

[1] Saskatchewan Gaming Corporation's (SaskGaming) dividend payments to CIC combined with the legislated payments to the General Revenue Fund are not to exceed 90% of net earnings. Further discussion is provided in the Crown Specific Consideration section of the policy.

[2] Medium-term is defined as the current year and the next two years (i.e. rolling three years).

From time to time, Crown corporations may be requested to provide special dividends that exceed 90 percent of earnings from operations. This may be warranted due to transactions falling outside the ordinary course of business that generate significant amounts of cash. Further, extraordinary cash requirements of the Crown sector or the GRF may also necessitate a higher dividend.

Background:

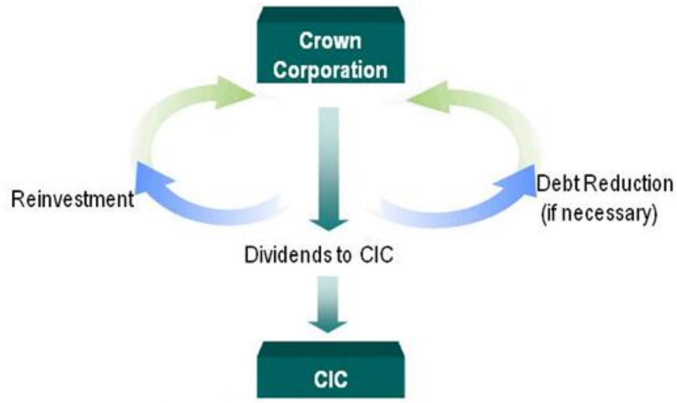
Dividends paid to CIC as shareholder represent both a return on invested capital and a mechanism for allocation of capital within the CIC Crown corporation sector. A decision by the CIC Board to require a particular level of dividend from each subsidiary Crown corporation is a reflection of the relative priorities of each competing use of cash generated by subsidiaries. In general, these alternative uses of cash generated by operating activities may be classified into three categories:

- reinvestment back into the subsidiary Crown corporation to sustain, grow or diversify the business (the investment decision);
- reducing debt (or increasing the level of equity capitalization in relation to liabilities in the case of SGI CANADA (SGI)) in order to maintain or to improve financial flexibility (the capital structure decision); or,
- returning cash to the shareholder in the form of a dividend (the dividend policy decision).

In general, dividends should be sustainable. That is, dividends should not be set so high as to erode the financial flexibility of the Crown corporations, or to unduly impair their ability to restore financial flexibility where debt (unpaid claims at SGI) is too high.

Each subsidiary Crown corporation requires a particular level of reinvestment to simply sustain operations referred to herein as “sustaining reinvestment”. Sustaining reinvestment is that amount which is required to maintain the infrastructure (particularly capital assets) to carry on business. Sustaining reinvestment is generally financed with internally generated funds (e.g. equity as opposed to debt) in order to avoid a deterioration of the subsidiary's financial flexibility. In turn, other reinvestment undertaken for purposes of growth or diversification should be financed in a manner which maintains financial flexibility. Such reinvestment is generally financed by debt and internally generated funds in proportions which reflect the target capital structure.

Dividends are based on earnings from operations which excludes any non-cash fair market value adjustments on items such as financial instruments and inventory. Taking dividends from non-cash gains or reducing dividends for non-cash losses would result in significant volatility to CIC’s earnings and potentially result in an inability to meet GRF dividend requirements despite sufficient cash available in the sector.



As indicated in the preceding figure, since dividends are an alternative use of subsidiary Crown corporations' cash profits, the dividend policy decision must be integrated with the investment and financing decisions. That is, dividends cannot be determined in isolation from decisions to reinvest in a subsidiary, or to apply cash profits to reducing debt (increasing equity capitalization at SGI) or otherwise increasing retained earnings to improve financial flexibility.

General Provisions:

In assessing current year dividend recommendations for individual Crown corporations, CIC will take into consideration the reinvestment and financing decisions to be made by Crown corporations over the medium term. That is, on a rolling three year basis, each Crown corporations' projected capital needs and projected capital structure targets will be reviewed to determine its ability to meet current year dividend requirements and maintain or work toward achievement of its medium term financial targets. In this way, future capital needs are considered in current year dividend decisions.

In the case where a Crown corporation has achieved its target capital structure and projects that it will maintain its target capital structure over the medium term, a sustainable dividend payout rate is one which first allocates sufficient capital to carry out approved capital spending, while allowing the target debt to equity mix (capital adequacy at SGI as defined by the Minimum Capital Test, financial leverage target at SaskGaming as defined by debt to EBITDA[3]) to be maintained. When subsidiary Crown corporations have reached this point, a dividend at or near the 90 percent maximum would be expected. If a subsidiary Crown corporation has not achieved its capital structure target currently, projects that it will move away from its target capital structure over the medium term, or has re-investment and growth needs in excess of its financial flexibility, a lower dividend would be recommended that balances a Crown corporation's needs with those of CIC and the GRF.

From time to time, Crowns may be requested to provide special dividends that exceed 90 percent of earnings from operations. This may be warranted due to transactions falling outside the ordinary course of business that generate significant amounts of cash. Further, extraordinary cash requirements of the Crown sector or the GRF may also necessitate a higher dividend.

In assessing the relative priority of alternative uses for available cash profits from subsidiary Crown corporations, the CIC Board will consider the need to protect CIC's financial flexibility. That is, the CIC

[3] EBITDA defined as earnings before interest, taxes, depreciation and amortization

Board will consider the need to allocate available cash flows to CIC's priority needs such as public policy initiatives or dividends to the GRF.

Crown Corporation Specific Considerations

SaskGaming is required, via legislation, to transfer 50% of its earnings to the GRF for payments to the First Nations Trust and Community Initiatives Fund. In determining the dividend payable to CIC, dividends are based on SaskGaming's net earnings after the legislated payments to the GRF, and are not to exceed 80% of adjusted net earnings. The payment to the GRF combined with the dividend to CIC are not to exceed 90% of SaskGaming's net earnings.

CIC Asset Management Inc. shall, when applicable, provide an annual dividend and/or capital repayment to CIC in an amount based on residual cash after other obligations are satisfied and that ensures an appropriate cash reserve is maintained. The annual dividend target and the appropriate cash reserve is to be determined by the CIC Board of Directors.

SGI's earnings from operations are determined, consistent with this policy, as net income less non-cash fair market value adjustments on its investment portfolio. SGI's investment portfolio is comprised of fixed income and equity investments. The fixed income component of the portfolio is structured to match investment assets to the associated unpaid claim liabilities such that valuation adjustments of both the assets and liabilities, due to changes in prevailing market interest rates, essentially offset and have no net impact on the calculation of earnings from operations. As a result, only fair value changes on equity investments will have an impact on the calculation of earnings from operations.

Consistency with Commercial Practice

In general, dividends should be consistent with each subsidiary's industry practice. However, caution must be used to ensure that both similarities and differences with industry peers are given due consideration. For example, industry average dividend payout rates reflect a variety of factors, including the overall state of health within an industry, the unique circumstances of each participant, and tax considerations in the case of private sector industry participants, among others. Accordingly, industry practice may be used as a "reasonableness check" in establishing dividend amounts.

Transparency to the Public

CIC should inform the public annually on the method used to determine dividend amounts through CIC's annual reports and other appropriate means. Public communications should explain the major elements of the dividend policy.

Application of the Policy

As specific issues arise that are not explicitly addressed within this policy, judgment must be used to apply this policy in a fashion which is consistent with overall principles described herein. In the event new issues arise which represent a material departure from the principles addressed in this policy, the CIC Board will consider recommendations from CIC concerning how to most effectively address them.

Quarterly Dividend Installments

Unless otherwise directed by the Vice President & Chief Financial Officer of CIC, annual dividends shall be paid by subsidiary Crown corporations to CIC in quarterly installments on September 30, December 31, March 31, and June 30 (or on the preceding business day where any of these days falls on a non-business day). Payments should be rounded to the nearest thousand.

Dividends on each three months net earnings will be paid quarterly with a one quarter lag. For example, the dividend on a subsidiary's first quarter net earnings would be paid on September 30. The purpose of the one quarter lag is to allow sufficient time for year-end figures to be audited, such that the final dividend payment reflects audited actual results. The calculation of earnings from operations for dividend purposes should be included in the regular quarterly reporting package to CIC.

Dividends will be paid in quarterly installments as described in further detail below:

- A dividend payout rate for the upcoming year, based on the dividend policy and subject to other relevant considerations, will be authorized in conjunction with each Crown corporation's Performance Management and Capital Allocation Plan approval by the CIC Board of Directors, typically in January of each year.

- The first quarter installment, payable on September 30, will be 25 percent of the estimated dividend approved for the year by the CIC Board of Directors based on the approved dividend rate and the corporation's budgeted earnings from operations.

- Subsequent quarterly installments will be calculated based on a proportionate share of the updated earnings from operations forecast. For example, the third installment payable would be 75 percent of the most recent annual dividend forecast, less installments previously paid in the first and second quarters.

- In the event that a Crown corporation's actual cumulative installments paid exceed an amount that should have been payable under a current forecast (e.g. if forecasted earnings from operations drop substantially in the fourth quarter, but dividend installments that were paid exceed what should have been paid under the current forecast), CIC will consider those payments as credits toward the next installment(s) payable or reimburse the payment to the Crown corporation.

Administrative Information:

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Reviewed: November 9, 2016