Power Corporation Superannuation Plan

2017 ANNUAL REPORT

SaskPower
Powering the future®

YEAR AT A GLANCE

- A pension benefit increase of 0.75% became effective April 1, 2017, representing 70% of the increase in the consumer price index (CPI) for Saskatchewan for the prior year.
- During 2017, the Plan paid $62 million in pension benefits.
- The Plan's actual return in 2017 was 11.4% compared to 9.8% for the benchmark return.
- Net assets available for benefits were $759 million at the end of 2017, an increase of $13 million from 2016.
- The Plan ended 2017 with an actuarial accounting deficit of $163 million.

FACT

According to the 2017 Canadian Pension Fund Overview published by the Canadian Institutional Investment Network, the Plan is ranked 189th in Canada in net assets and is the 8th largest defined benefit pension plan in Saskatchewan.

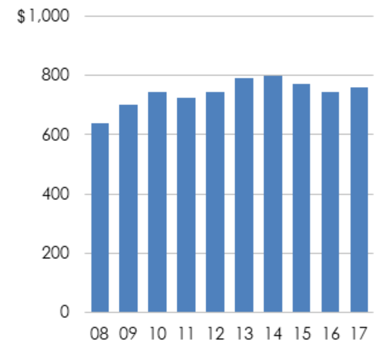
MISSION STATEMENT

To provide continuous pension benefits for Plan members through prudent stewardship of assets and liabilities, as well as effective plan administration in accordance with current legislation.

OVERVIEW

FINANCIAL HIGHLIGHTS

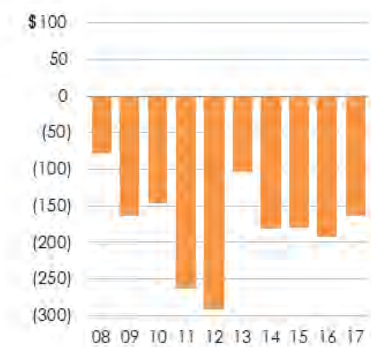
(in millions)		2017		2016
Investments				
Short-term	**$**	**2**	$	6
Bonds		**261**		251
Equities		**373**		362
Real estate		**75**		67
Infrastructure		**49**		58
Receivables		**4**		3
Cash		**1**		2
Total assets		**765**		749
Liabilities		**6**		3
Net assets available for benefits		**759**		746
Pension obligations		**922**		937
Deficit	**$**	**(163)**	$	(191)



NET ASSETS AVAILABLE FOR BENEFITS
AS AT DECEMBER 31 (millions)

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(in millions)		2017		2016
Increases:				
Investment income	**$**	**18**	$	20
Increase in fair value of investments		**57**		11
Increase in fair value of currency hedges		**4**		10
		79		41
Decreases:				
Benefit payments		**62**		63
Administration expenses		**4**		3
		66		66
Changes in net assets	**$**	**13**	$	(25)



DEFICIT
AS AT DECEMBER 31 (millions)

INVESTMENT PERFORMANCE

Rates of return (%)	2017	2016
Plan rate of return	**11.4**	5.5
Plan benchmark	**9.8**	5.2
Four-year rolling average return	**7.7**	8.6
Four-year rolling benchmark	**8.6**	9.2

CONTENTS

1 Chair’s message
2 The 2017 financial year
2 Plan profile
2 Plan demographics
3 Significant communications and events
4 Plan governance
5 Independent experts
6 Investment highlights
8 Financial highlights
8 Actuarial valuation
11 Report of Management
12 Independent Auditor’s Report
13 Statement of Financial Position
14 Statement of Changes in Net Assets Available for Benefits
15 Statement of Changes in Pension Obligations
16 Notes to the financial statements
31 Five-year review
33 Glossary

CHAIR'S MESSAGE

It is with pleasure that I present the 2017 Annual Report for the Power Corporation Superannuation Plan. The Report is intended to provide Plan members with relevant information about their pension plan.

2017 was another successful year for the Plan. First, the Board updated its Governance structure and approved a Governance Manual and Terms of Reference for the Plan. Second, on-line communication for the Plan became available in July 2017 via a separate section on SaskPower's website. This was the first on-line communication available to plan members. Both the Plan's Governance Manual and Terms of Reference have been posted to SaskPower's website in the section dedicated to the Plan. Third, annual investment returns for the Plan were 11.4% compared to the benchmark return of 9.8%. Fourth, the Plan's actuary completed an actuarial valuation for funding purposes at December 31, 2017 which shows the funded status of the Plan at 101%.

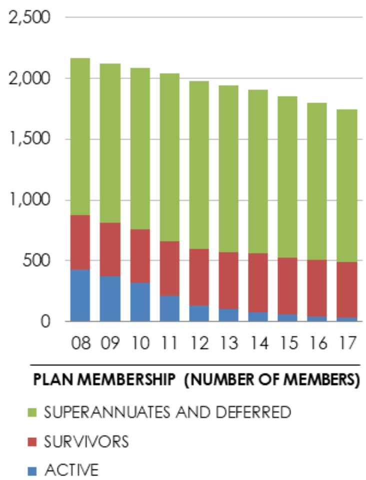
Over the past five years, the Plan had an increase in net assets available for benefits of $13 million while paying out $312 million in benefits. The current bull market has contributed tremendously to this increase in net assets and therefore the Plan's 101% funded status at December 31, 2017. While equity and alternative asset classes have had strong returns, fixed income returns are at historic lows. During the year, the Board implemented its decision to move further out on the risk spectrum by hiring a core plus fixed income manager. In the future, the Board will consider options for reducing the Plan's risk to capitalize on the Plan's strong funded position while balancing the challenge caused by low fixed income returns.

While the Plan has a strong funded position at December 31, 2017, markets can be volatile and there are risks the Board needs to consider. Economists predict the current bull market is in its final stage which is expected to temper future investment returns. While fixed income returns have started to improve, the expectation is at a slow pace. In the early stages of 2018, equity markets have experienced increased volatility. This environment will challenge the Plan's ability to achieve its target returns moving forward, however, the Plan's strong financial position has positioned it well to endure the market challenges that lie ahead.

I would like to thank the Board and staff for their continued dedication throughout the year and I look forward to working with them in 2018.

Power Corporation Superannuation Board

THE 2017 FINANCIAL YEAR

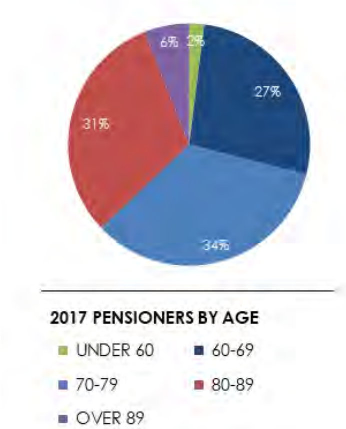


PLAN PROFILE

The Power Corporation Superannuation Plan (the Plan) originated with the passing of *The Power Commission Superannuation Act* in 1944. This defined benefit pension plan is governed by *The Power Corporation Superannuation Act* (the Act) and *The Superannuation (Supplementary Provisions) Act*. The Power Corporation Superannuation Board is responsible for administering the Act. The Plan comprises members who were hired prior to October 1, 1977, and who did not elect to transfer to the defined contribution plan before October 1, 1978.

In accordance with the Act, the Saskatchewan Power Corporation (SaskPower) shall pay each member's basic pension, regardless of the financial status of the Plan. The value of the basic pension depends on a number of factors, including salary and years of service at retirement. Pension options, such as joint life of 60%, 75% or 100% and enhanced bridging, require the consideration of additional factors, such as a member's age and the spouse's age.

The Plan holds a well-diversified portfolio of bonds, equity, real estate and infrastructure investments. Net assets totalled $759 million at year-end, an increase of $13 million over the previous year. Of this total, approximately $395 million or 52% of assets was invested in Canadian short-term investments, bonds, equities, and real estate while the remaining 48% was invested in 33 different countries throughout the world. This diversification helps to maximize the return on assets and minimize the impact of volatility in individual markets.



PLAN DEMOGRAPHICS

The Plan has been closed to new members since October 1, 1977. As a result, the number of active members has decreased steadily, primarily through retirement.

Approximately 98% of total members are receiving benefits. At December 31, 2017, there were 1,717 receiving a pension and 30 active members.

Included in the Plan's active membership are SaskPower employees, as well as employees of SaskEnergy and other corporations that have been designated institutions by the Lieutenant Governor in Council. Effective June 28, 2001, these institutions were required to make contributions at a rate recommended by the Plan actuary.

Both members and employers (SaskPower and designated institutions) have contributed to funding. Since inception, cumulative contributions total $329 million. Of this amount, cumulative employer contributions represent 39% or $130 million of the total; cumulative 2009 binding court settlement payments by SaskPower total 25%, or $81 million; and cumulative employee contributions total 36%, or $118 million. During the year, the Plan paid $62 million in benefits; $63 million was paid in 2016.

At a minimum, an actuarial valuation for funding purposes is prepared every three years in accordance with *The Pension Benefits Regulations, 1993*. The SaskPower Board approved a Power Corporation Superannuation Plan Funding Policy. SaskPower uses this policy as a guideline to ensure that the Plan is adequately funded. In accordance with the policy, no contributions were made by SaskPower during 2017.

SIGNIFICANT COMMUNICATIONS AND EVENTS

ANNUAL BENEFIT STATEMENTS

During 2017, benefit statements were distributed for the year ending March 31, 2017, to all members. These statements reflect basic pension information and are distributed annually.

ANNUAL REPORT

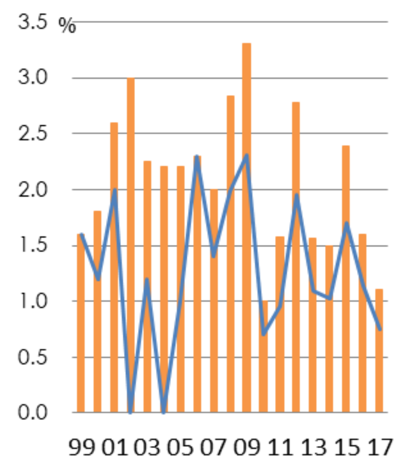
The Power Corporation Superannuation Plan Annual Report is made available to all members.

PENSION COMMUNICATIONS

A Pension Update newsletter is distributed to all members annually.

INDEXATION

In the fall of 2006, the provincial government introduced legislation to set indexing for the Plan and other related provincial plans to 70% of the increase in the Saskatchewan consumer price index (CPI). Based on this methodology, an increase of 0.75% was granted in 2017.



PENSION BENEFIT INCREASES

CONSISTENT INVESTMENT PERFORMANCE

The Plan's overall return in 2017 was 11.4% compared to the benchmark of 9.8%. The Plan's investment managers detracted value slightly over a 10-year cycle with a 6.1% return versus the benchmark return of 6.4%.

DEFICIT

The Plan's actuarial accounting deficit at the end of 2017 was $163 million. This is a decrease of $28 million from the previous year end.

PLAN INVESTMENT MANAGER CHANGES

During 2017, the Plan hired a new core plus bond manager, Phillips, Hager & North Investment Management (PH & N), a division of RBC Global Asset Management Inc., to manage plan assets via a pooled fund. The Plan transitioned $126 million to PH & N in March 2017 from Greystone Managed Investments Inc. The purpose of this change was to enhance returns for the Plan while taking on an acceptable level of risk.

PLAN GOVERNANCE

AUTHORITY

The Power Corporation Superannuation Board is responsible for the overall governance and administration of the Plan. Board Members are appointed by the Lieutenant Governor in Council pursuant to *The Power Corporation Superannuation Act*. The mandate of the Board is to ensure the Plan is administered in accordance with the provisions of *The Power Corporation Superannuation Act*, *The Superannuation (Supplementary Provisions) Act* and *The Superannuation Acts Uniform Regulations*.

ROLE OF THE BOARD

The Board selects the Plan's actuary, custodian and investment managers, and sets the Plan's investment policy. The Board is also responsible for stewardship; overseeing the identification and management of principal risks; reviewing investment policies and the performance of investment managers; evaluating the pension obligation; adopting policies that provide effective communication and maintain the integrity of internal controls; and ensuring that the financial statements are audited by an independent external auditor.

The Board bases its decisions on comprehensive research and input from expert advisors and staff. The Board serves as a vital check to ensure the prudent management of the Plan's assets and monitors the Plan's overall administration to ensure that members, superannuates and survivors receive the benefits to which they are entitled by governing legislation.

BOARD COMPOSITION ***AS AT DECEMBER 31, 2017***		
Grant Ring Chair Vice-president, Captial Projects and Procurement SaskPower	**Ken Pielak** Employee representative Unifor SaskEnergy (retired)	**Kerry Friesen** Superannuate Representative Power Pioneers Association Inc. SaskPower (retired)
Rachelle Verret Morphy Vice-chair Vice-president, Corporate and Regulatory Affairs SaskPower	**Dairen Beblow** Treasurer, Finance, SaskPower	
Robert Haynes SaskEnergy representative Senior Vice-president, Human Resources, Environment and Corporate Affairs SaskEnergy	**Brian Ross** Employee representative International Brotherhood of Electrical Workers (IBEW) SaskPower (retired)	

BOARD MEMBER TRAINING

Board Members bring forward the benefits associated with diverse experiences and a variety of professional attributes. However, it is important they are knowledgeable in pension related matters and that they remain current with respect to the many issues surrounding prudent management of a pension plan. To this end, annual training, development and maintenance for the Board (including travel and related costs) are paid for by the Plan. In 2017, Board Member training costs totalled $29 thousand.

These costs do not include any Board Member training that may have been paid by SaskPower or any other institution. Board Members do not receive compensation for their services.

BOARD AND MANAGEMENT

Although the Board is responsible for overseeing the administration of the Plan, SaskPower is responsible for its day-to-day operations. SaskPower staff that work with the Plan are expected to act within Board-approved policies and directives.

On a monthly basis, SaskPower staff members are involved in monitoring the activities of the investment managers and reviewing the asset mix. SaskPower staff report to the Board on a regular basis, providing summarized information relating to financial transactions, investments, retirement benefit activity and overall performance.

INDEPENDENT EXPERTS

The Plan's Statement of Investment Policies and Procedures (SIP&P) provides guidelines for investment and monitoring assets. These principles were established to optimize the Plan's return on investments based on a given level of risk acceptable to the Board. The Board reviews the policies annually and changes are made as necessary. The policies outline a governance structure that allows the Board to retain the services of independent experts to assist it in fulfilling its responsibilities. The Board contracts independent actuarial and investment professionals, as well as a custodian.

The Board is required to meet at least quarterly with the investment advisor and annually with each of the investment managers to discuss past performance, strategies and expected future performance, as required by the SIP&P. As well, the Board reviews valuation results with the actuary. It also meets with the Plan's external auditor before and after the annual audit of the financial statements. In 2017, the Board met quarterly to review financial results, performance and retirement benefit activity.

INVESTMENT MANAGERS

Investment managers at December 31, 2017, were:

ASSET CLASS	INVESTEMENT MANAGER
Canadian equity	BlackRock Asset Management Canada Limited
Canadian equity	Triasima Portfolio Management Inc.
Bonds and real estate	Greystone Managed Investments Inc.
Bonds	Phillips, Hager & North Investment Management
Global equity	Templeton Management Limited
Global equity	TD Asset Management Inc.
Global equity	Mawer Investment Management Limited
Infrastructure	Macquarie Capital Markets Canada Limited
Currency hedging	First Quadrant, L.P.

Investment managers are chosen based on their expertise and investment style within a particular asset class. The Board has a formal agreement with each investment manager that contains a mandate formulated to obtain an acceptable risk/return profile for each asset class. The investment managers report results to the Board on a regular basis.

INVESTMENT CONSULTANT

Aon Hewitt is the Plan's investment consultant and provides an analytical review of the total fund, asset classes and investment managers' performance. This assessment is completed relative to peer and plan benchmarks, as well as each manager's style and risk characteristics. The investment advisor subsequently comments on the acceptability of performance, while advising the Board on overall investment policy and management that would best achieve objectives.

CUSTODIAN

RBC Investor & Treasury Services (RBC I&TS) serves as custodian. In this role, RBC I&TS holds custody of assets and is responsible for executing investment transactions while collecting income. The custodian also provides record-keeping services and monitors investments to ensure they are in compliance with both individual investment manager mandates and the SIP&P.

ACTUARY

Aon Hewitt prepares actuarial valuations for accounting purposes every three years. Also every three years or as requested, Aon Hewitt provides valuations for funding purposes.

AUDITORS

An independent external auditor, Deloitte LLP, was contracted to perform the 2017 annual audit of the Plan's financial statements. The audit is conducted in accordance with Canadian generally accepted auditing standards. Deloitte LLP's professional opinion on the financial statements is found in its Independent Auditor's Report, attached to the financial statements. On an annual basis, the Provincial Auditor reviews the independent external auditor's work on the financial statements. The Independent Auditor's Report is found on page 12.

INVESTMENT HIGHLIGHTS

INVESTMENT STRATEGY

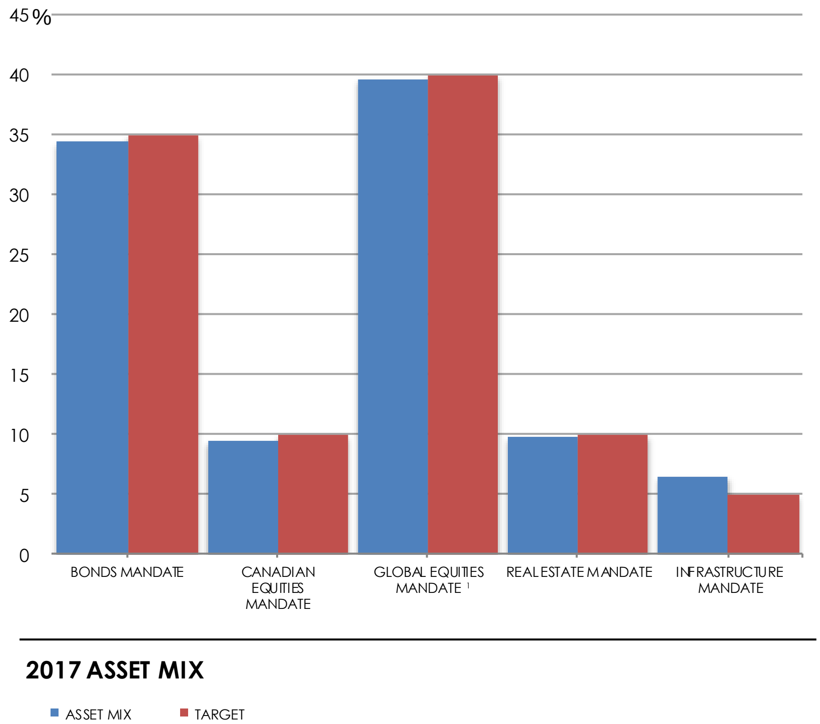
The investment objective of the Plan is to meet current and future pension payment obligations. Assets are invested in a diversified portfolio; the funds are placed with a number of investment managers for investment in a wide range of securities and asset classes. Managers are assigned specific mandates and their performance is monitored against pre-determined benchmarks. By holding a combination of different types of investments in a portfolio, the negative effect of fluctuations in the markets is minimized and the risk of having a large loss is reduced.

INVESTMENT POLICIES

The Plan's SIP&P is approved by the Power Corporation Superannuation Board, and is consistent with *The Power Corporation Superannuation Act, The Superannuation (Supplementary Provisions) Act,* and *The Superannuation Acts Uniform Regulations*. The SIP&P communicates a philosophy of diversification and protection of capital to investment managers with an objective of optimizing the Plan's risk/return relationship. To achieve acceptable levels of diversification and risk control, the SIP&P sets out guidelines for asset mix, individual equity/bond holdings, industrial sector holdings, bond ratings and bond duration.

At present, the target asset mix for the Plan is 50% equity, 35% bonds, 10% real estate and 5% infrastructure. The 50% target for equities is comprised of two equity mandates: 10% Canadian and 40% Global. The actual mix at any one time, however, may differ from this target due to fluctuations in the market. The Plan's asset mix at the end of the year was in compliance with the guidelines laid out in the SIP&P.

The Plan's primary investment objective is to achieve a return higher than the asset mix benchmark return. A secondary objective is to achieve a long-term rate of return of the average increase in the CPI for Canada plus 4% per annum. These two objectives should be viewed as an average annual compound rate to be sought over one or more complete capital market cycles or over a four to 10-year period.



2017 ASSET MIX

1. The Global equities mandate includes $16,940 thousand in Canadian equities. This amount is not included in the Canadian equities mandate as the Canadian equities mandate only includes assets managed by managers who have been hired for designated mandates in Canada.

A benchmark return, based on the actual return of a market index, is identified in the SIP&P for each of the Plan's investment mandates. The market index used for each mandate is as follows:

- 50% FTSE TMX Universe Bond Index, 50% FTSE TMX Long Term Bond Index for the bonds mandate;
- S&P/TSX Composite Index for the Canadian equity mandate;
- Morgan Stanley All Country World Index for the global mandate;
- Investment Property Databank for the real estate mandate; and
- Consumer Price Index plus acceptable return approach for the infrastructure mandate.

The Plan's benchmark return has been determined using the actual returns of the above noted market indices, weighted based on the target asset mix for the investment mandate for which each index serves as a benchmark.

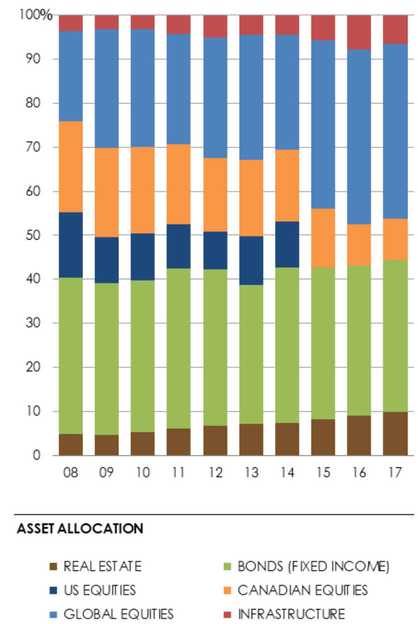
Monitoring performance is a key activity in supporting the investment objectives. The policies outline a benchmark portfolio comprising market index assets weighted at the same asset allocation of the Plan. While broadly diversified, the benchmark portfolio emphasizes equity over bond investments on the basis of substantial evidence that, over time, equities provide superior returns.

INVESTMENT PERFORMANCE

The Plan's performance is measured by comparing its return to the benchmark portfolio. During 2017, the Plan achieved a rate of return of 11.4%, compared to the benchmark return of 9.8%.

A common standard within the pension fund industry is to calculate performance on a four-year cycle and, where possible, on a 10-year cycle. These longer-term measures have greater relevance and lower volatility than a one-year measurement. Over the period 2014-2017, the Plan averaged an annual return of 7.7%, compared to the benchmark average of 8.6%. Over the past 10 years, the Plan has averaged an annual return of 6.1% compared to the benchmark of 6.4%.

While returns fluctuate from year to year, the underlying volatility of individual asset class returns is even more pronounced. Because the investment policies set out a diversification strategy designed to mitigate the effects of volatility, the Plan's returns have historically been more stable than the returns of any single asset class.



FINANCIAL HIGHLIGHTS

Overall, the Plan ended the year with net assets available for benefits totalling $759 million, an increase of $13 million over the previous year. Over the past five years, the Plan had an increase in net assets available for benefits of $13 million while paying out $312 million in benefits.

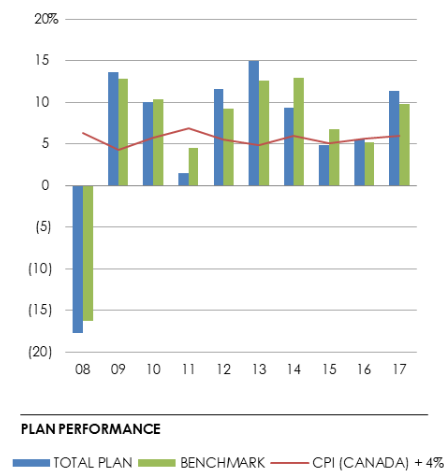
In 2017, the Plan paid $62 million in benefits and $4 million in administrative expenses. The administrative expenses represent fees paid to the investment managers and custodian for managing and recording investments. These fees are based on the fair value of assets under management.

ACTUARIAL VALUATION

The obligation of any defined benefit pension plan is to fulfill its pension promise — a commitment to provide lifetime periodic payments to eligible retired members. Meeting this pledge within the Plan requires a sound financial base. To assess the financial status of the Plan, two methods are used to value the Plan:

- An actuarial valuation for accounting purposes is performed every three years at September 30 and extrapolated to December 31 annually. The valuations and extrapolations are based on best estimates in accordance with Chartered Professional Accountants (CPA) Handbook Section 4600.

- An actuarial valuation for funding purposes is prepared every three years. It determines the long-term financial health of the Plan at current contribution rates. In preparing the funding valuation, the actuary projects the Plan's benefit costs (including inflation protection) and compares them to plan assets.



In 2017, the Plan recognized an actuarial accounting deficit of $163 million (financial statement reporting), compared to a $191 million deficit at the previous year end. The pension obligations decreased by $15 million as members are retiring later than expected, the increase in member pensions for indexation was lower than expected and the plan recognized higher mortality than expected. When combined with the benefits paid during the year, the total of these decreases to the pension obligations more than offset the increase in liabilities resulting from the discount rate falling from 3.6% at the beginning of the year to 3.3% at December 31, 2017.

Net assets available for benefits have increased by $13 million.

Actuarial accounting deficit (in millions)		**2017**		2016
Net assets available for benefits	**$**	**759**	$	746
Pension obligations		**922**		937
Deficit	**$**	**(163)**	$	(191)

ACTUARIAL METHODOLOGY AND ASSUMPTIONS

In completing an actuarial valuation, certain future events must be considered. A number of assumptions are made and future events are deemed to occur according to these assumptions. The actuarial assumptions are management's best estimate and attempt to arrive at the most likely outcome. The discount rate has been determined in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standard (IAS) 19. The discount rate is prescribed to approximate the long term high quality Canadian Corporate bond yield as at December 31, 2017.

The mortality assumption uses the 2014 Private Sector Mortality Table (CPM2014Priv) with 95% scaling for male mortality rates, 110% scaling factor for female mortality rates and two-dimensional generational mortality improvements using Improvement Scale B (CPM-B).

The actuarial assumptions are based on published five-year forecasts, investment policy and specific characteristics of the Plan membership, with extrapolation to the end of the benefit period. To value the liabilities, the actuary examines the Plan's demographics — the age, length of service and salary ranges of the membership. Information is processed on active members, pensioners, and surviving spouses who receive benefits. In addition, mortality, disability and termination of employment data are reviewed and factored into the valuation assumptions.

Actuarial assumptions	**2017**	2016
Discount rate, beginning of year	**3.60%**	3.75%
Discount rate, end of the year	**3.30%**	3.60%
Long-term inflation rate	**2.00%**	2.00%
Assumptions for benefit increases (% of CPI)	**70.00%**	70.00%

The following illustrates the sensitivity of some of the major assumptions used in preparing the December 31, 2017, actuarial extrapolation:

Retirement age: Assuming a retirement age equal to the earliest age that a member can retire with a reduced pension would not change the deficit.

Discount rate: An increase in the discount rate of 1.00% (from 3.30% to 4.30%) would decrease liabilities, reducing the plan deficit by $91 million.

Inflation: An inflation rate assumption that is 1.00% lower than the assumed rate (from 2.00% to 1.00%) would increase the deficit by $33 million. A lower inflation rate assumption reduces both the discount rate and future pension obligation increases.

Mortality: A change in the mortality assumption so that each member is one year older would decrease liabilities, reducing the plan deficit by $33 million.

ACTUARIAL VALUATION FOR FUNDING PURPOSES

The actuarial assumptions for the funding valuation are management's best estimate and attempt to arrive at the most likely outcome. With the exception of the discount rate, the assumptions for the funding valuation are consistent with the assumptions for the accounting valuation. The discount rate for the funding valuation is management's estimate of the return on the Plan's assets.

Actuarial funding surplus (deficit) (in millions)		**2017**		2014
Actuarial value of assets	**$**	**738**	$	745
Total liabilities		**730**		783
Surplus (deficit)	**$**	**8**	$	(38)

SaskPower has a funding policy which specifies the amount of funding into the Plan by SaskPower in a given year shall be a range. The minimum amount, when the Plan's funded status is 95% or greater, is zero and when the Plan's funded status is less than 95%, is the funding deficit divided by 10. The maximum amount of funding into the Plan is the funding deficit. Funding into the Plan in a given year shall take place within 3 months following the actuary finalizing its Funding Valuation for the Plan.

At December 31, 2017, the Plan's funded status was 101.1%. An actuarial valuation for funding purposes is prepared every three years and is the basis for the funding policy. Therefore, in accordance with the funding policy, SaskPower will not contribute to the plan in 2018.

REPORT OF MANAGEMENT

The financial statements of the Power Corporation Superannuation Plan (the Plan) are the responsibility of management and have been prepared in accordance with Canadian accounting standards for pension plans. The preparation of financial statements necessarily involves the use of estimates based on management's best judgment, particularly when transactions affecting the current period cannot be finalized with certainty until future periods. In management's opinion, the financial statements have been properly prepared within the framework of selected accounting policies summarized in the financial statements and incorporate, within reasonable limits of materiality, information available up to March 8, 2018. The financial information presented in the Management's Discussion & Analysis (MD&A) and elsewhere in this report is consistent with that in the financial statements.

Management maintains appropriate systems of internal control which provide reasonable assurance that the Plan's assets are safeguarded and appropriately accounted for, that financial records are relevant, reliable, and accurate and that transactions are executed in accordance with management's authorization. This system includes policies and procedures, as well as the appropriate delegation of authority and segregation of responsibilities. SaskPower's internal audit function independently evaluates the effectiveness of these controls.

The Power Corporation Superannuation Board is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. At regular meetings, the Board reviews audit, internal control and financial matters with management and the external auditors to satisfy itself that each is properly discharging its responsibilities. The annual report, financial statements and the Independent Auditor's Report have been reviewed and approved by the Board. The external auditor has full and open access to the Board with and without the presence of management.

The financial statements have been examined by Deloitte LLP, Chartered Professional Accountants, as appointed by the Lieutenant Governor in Council. The independent external auditor's responsibility is to express its opinion on whether the financial statements are fairly presented in accordance with Canadian accounting standards for pension plans.

On behalf of management,

Troy King
Vice-president Finance and Business
Performance and Chief Financial Officer
SaskPower
March 8, 2018

Jolene Beblow

Jolene Beblow
Manager, Pension Administration
SaskPower

INDEPENDENT AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan:

We have audited the accompanying financial statements of the Power Corporation Superannuation Plan which comprise the statement of financial position as at December 31, 2017, and the statement of changes in net assets available for benefits and the statement of changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Power Corporation Superannuation Plan as at December 31, 2017, and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Professional Accountants
March 8, 2018
Regina, Saskatchewan

STATEMENT OF FINANCIAL POSITION
(in thousands)

As at December 31	**2017**	2016
Assets		
Investments *(Note 4)*		
Short-term	**$ 2,139**	$ 5,805
Bonds	**261,139**	250,885
Equities	**372,635**	362,437
Real estate	**74,392**	67,240
Infrastructure	**49,439**	57,843
	759,744	744,210
Receivables		
Accrued investment income	**965**	1,857
Currency hedging *(Note 6)*	**2,761**	778
Other receivables	**335**	82
	4,061	2,717
Cash	**1,083**	1,503
Total assets	**764,888**	748,430
Liabilities		
Accounts payable and other liabilities	**5,893**	2,640
	5,893	2,640
Net assets available for benefits	**$ 758,995**	$ 745,790
Pension obligations and deficit		
Pension obligations	**$ 921,573**	$ 936,994
Deficit	**(162,578)**	(191,204)
Pension obligations and deficit	**$ 758,995**	$ 745,790

See accompanying notes

On behalf of the Board:

Grant Ring
Chair

Dairen Beblow
Member

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(in thousands)

For the year ended December 31	**2017**	2016
Increase in net assets		
Investment income		
Interest		
Short-term	**$ 311**	$ 297
Bonds	**8,709**	6,494
	9,020	6,791
Dividends	**9,562**	13,303
	18,582	20,094
Increase in fair value of investments	**56,630**	11,230
Increase in fair value of currency hedges	**4,014**	9,265
	60,644	20,495
Total increase in net assets	**79,226**	40,589
Decrease in net assets		
Benefit payments	**62,273**	62,756
Administrative expenses *(Note 10)*	**3,748**	3,637
Total decrease in net assets	**66,021**	66,393
Changes in net assets	**13,205**	(25,804)
Net assets available for benefits, beginning of year	**745,790**	771,594
Net assets available for benefits, end of year	**$ 758,995**	$ 745,790

See accompanying notes

STATEMENT OF CHANGES IN PENSION OBLIGATIONS
(in thousands)

For the year ended December 31	2017	2016
Increase in pension obligations		
Actuarial losses	**$ 29,272**	$ 16,578
Interest on obligations	**32,394**	32,628
Experience losses	**-**	312
	61,666	49,518
Decrease in pension obligations		
Benefits paid	**62,273**	62,756
Experience gains	**14,814**	-
	77,087	62,756
Pension obligations, beginning of year	**936,994**	950,232
Pension obligations, end of year	**$ 921,573**	$ 936,994

See accompanying notes

NOTES TO THE FINANCIAL STATEMENTS

1. DESCRIPTION OF THE PLAN

The following description of the Power Corporation Superannuation Plan (the Plan) is a summary only. For more complete information, reference should be made to *The Power Corporation Superannuation Act, The Superannuation (Supplementary Provisions) Act* and *The Superannuation Acts Uniform Regulations*.

(a) General

The Plan is a defined benefit pension plan maintained by Saskatchewan Power Corporation (the Corporation; SaskPower) for those employees who were hired prior to October 1, 1977, and who did not elect to transfer to the Public Employees Pension Plan, a defined contribution plan, before October 1, 1978. The Plan is administered by a seven-person Board appointed by the Lieutenant Governor in Council.

(b) Funding policy

In accordance with *The Power Corporation Superannuation Act* (Act), the Corporation contributes such amounts as are necessary to fund the payments provided by the Plan. The Act does not require the Plan to be funded but states that SaskPower is responsible for funding any deficiency.

The Corporation hires an actuary to determine the funded status of the Plan every three years. The most recent funding valuation was completed for the year ended December 31, 2017.

The Corporation has a funding policy which specifies the amount of funding into the Plan by the Corporation in a given year shall be a range. The minimum amount, when the Plan's funded status is 95% or greater, is zero and when the Plan's funded status is less than 95%, is the funding deficit divided by 10. The maximum amount of funding into the Plan is the funding deficit. Funding into the Plan in a given year shall take place within 3 months following the actuary finalizing its Funding Valuation for the Plan.

(c) Employee and employer contributions

By December 31, 2013 all plan members reached the maximum pensionable years of service (35 years) and are no longer required to contribute to the Plan. As a result, employer current service contributions have also ceased.

(d) Retirement allowances

The Plan provides an unreduced retirement allowance at age 65 with at least five years pensionable service, at age 60 with at least 20 years pensionable service, or upon completion of 35 years pensionable service. Retirement allowances are based on 2% of the best five-year average annual salary multiplied by the years of pensionable service, up to a maximum of 35 years, subject to Canada Revenue Agency maximums. At age 65, the retirement allowance is reduced due to integration with the Canada Pension Plan for pensionable service from January 1, 1966.

Pension obligations are increased at a rate equal to 70% of the increase in the consumer price index (CPI) for Saskatchewan in the preceding calendar year. Increases are subject to the maximum increase permitted under the *Income Tax Act* (Canada).

(e) Survivors' allowances

Death benefits are available to a qualifying surviving spouse in the form of a survivor allowance. A qualifying surviving spouse is the spouse at the time of retirement. The retirement allowance paid to the spouse will be based upon the member's selection at retirement. Effective June 27, 2003, retired members who have had a change in marital status after retirement may apply to convert their retirement allowance to recognize their new spouse, provided certain criteria are met. The revised retirement allowance for the member and the retirement allowance paid to the new spouse will be based on data at the time of conversion.

Members may select the basic retirement allowance that will pass 60% of the retirement allowance to their spouse upon their death. For death prior to age 65, the surviving spouse will receive 60% of the deceased member's lifetime retirement allowance, plus 60% of the bridge benefit (the amount due to Canada Pension Plan integration payable until the member would have turned age 65).

Alternatively, members may select the 75% (effective April 1, 2002) or the 100% option. The spouse will receive 75% or 100% of the lifetime retirement allowance, plus 75% or 100% of the bridge benefit, until the member would have turned age 65.

On and after June 28, 2001, and in the event of pre-retirement death, the spouse will receive a retirement allowance based upon the member's credited service as of the date of death. The survivor's allowance would be based on the greater of the basic retirement allowance of 60% plus any children's payments, or 100% actuarial equivalent. The spouse would receive the applicable percentage of the members' lifetime pension plus the bridge benefit.

Additional survivor benefits for dependent children may apply.

If no one is eligible to receive a survivor's allowance from the Plan, then the total of the member's contributions, plus legislated interest, less any retirement allowances paid up to the member's time of death, will be paid to the member's estate.

(f) Income taxes

The Plan is a registered pension plan as defined in the *Income Tax Act* (Canada) and is not subject to income taxes. Retirement allowances paid from the Plan are subject to source deductions that are withheld and remitted to the Canada Revenue Agency.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements for the year ended December 31, 2017, have been prepared in accordance with Canadian accounting standards for pension plans as outlined in Part IV of the Chartered Professional Accountants (CPA) Handbook Section 4600, *Pension Plans.* For matters not addressed in Section 4600, the Plan follows the requirements of International Financial Reporting Standards (IFRS). The financial statements were authorized for issue by the Board on March 8, 2018.

(b) Functional and presentations currency

These financial statements are presented in Canadian dollars, which is the Plan's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(c) Use of estimates and judgments

The preparation of the Plan financial statements in conformity with Canadian accounting standards for pension plans requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of the pension obligation, the fair value of investments and investment related receivables and liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(d) New standards not yet adopted
An amendment to standards and interpretations, IFRS 9, *Financial Instruments*, is not yet effective for the year ended December 31, 2017 and has not been applied in preparing these financial statements. IFRS 9 is effective January 1, 2018. Management is reviewing the standard to determine the potential impact, if any.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Investment income
Investment income includes dividend income and interest on bonds and short-term securities. Income is recognized as interest is earned and at the record date for declared dividends.

(b) Transaction costs
Broker commissions and other transaction costs are included in the cost of the investment for purchases and for dispositions, a reduction in the sales proceeds.

(c) Foreign currency translation
Transactions in foreign currencies are translated into Canadian dollars using the exchange rate in effect at the transaction date. Financial assets and liabilities denominated in foreign currency are adjusted to reflect exchange rates at the reporting date. Foreign currency translation gains and losses are included in the increase or decrease in fair value of investments.

(d) Financial instruments
<u>Classification and measurement</u>
The Plan classifies its financial instruments at fair value through profit or loss. All financial instruments are measured at fair value on initial recognition and recorded on the statement of financial position.

Financial instruments classified as fair value through profit or loss are subsequently measured at fair value, with changes in fair value recognized in the statement of changes in net assets available for benefits in increase/decrease in fair value of investments.

Derivative financial instruments, including forward exchange contracts are recognized as a financial asset or a financial liability on the trade date. All derivative financial instruments are classified as fair value through profit or loss and recorded at fair value on the statement of financial position as currency hedges. Subsequent changes in fair value of these derivative financial instruments are recognized in the statement of changes in net assets available for benefits as increase/decrease in fair value of currency hedges.

<u>Fair value</u>
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market at the measurement date.

The Plan has classified the fair value of its investments as level 1, 2, or 3 *(Note 5)* as defined below:

Level 1 – Fair values are determined using inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities to which the Plan has immediate access.

Investments in equities are recorded at fair value which is determined using year-end market prices from recognized security dealers. Transactions in equities are recorded as of the trade date.

Level 2 – Fair values are determined using inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.

Investments in bonds are recorded at fair value which is determined using year-end mid-market prices from a recognized security dealer. Transactions in bonds are recorded as of the trade date.

Derivative financial instruments, including forward exchange contracts, are valued at year-end quoted market prices.

Pooled funds are recorded based on the net asset value per unit of the underlying investments determined using year-end market prices.

Level 3 – Fair values are determined based on inputs for the asset or liability that are not based on observable market data.

Real estate is in a pooled fund and is recorded based on the net asset value per unit of the underlying investments determined using independent appraisals.

Infrastructure investments are valued by the infrastructure manager using one or more valuation techniques (e.g., the market approach or the income approach) for which sufficient and reliable data is available. The use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. The discounted cash flow model is the primary valuation method to estimate the fair value of the infrastructure investments.

4. INVESTMENTS

Schedule of investments

The primary investment objective is to ensure the Plan has sufficient assets to meet pension payments. The second objective is to optimize the risk/return relationship of the Plan. Due to the long-term horizon of the Plan's liabilities, the Plan takes a long-term investment perspective. The strategy employed to achieve these objectives is to invest the Plan's assets into a diversified pool of investments, such as Canadian and global equities, money market securities, bonds and alternative investments. The Plan's target asset mix is 50% equity, 35% bonds, 10% real estate and 5% infrastructure.

The schedule below summarizes the Plan's investments as at December 31:

(in thousands)		**2017**		2016
Short-term				
Canadian	**$**	**2,139**	$	5,805
		2,139		5,805
Bonds				
Government of Canada and federally-guaranteed		**77,496**		61,893
Provincial and provincially-guaranteed *(Note 9)*		**107,945**		119,149
Corporate (Canadian)		**61,602**		69,843
Corporate (Global)		**1,325**		-
Other		**12,771**		-
		261,139		250,885
Equities				
Canadian		**71,836**		69,580
Global[1]		**300,799**		292,857
		372,635		362,437
Alternatives				
Real estate		**74,392**		67,240
Infrastructure		**49,439**		57,843
		123,831		125,083
Total investments	**$**	**759,744**	$	744,210

1. Global equities are exclusive of Canadian equities that are managed by BlackRock Asset Management Canada Limited and Triasima Portfolio Management Inc., which the Plan has hired for designated mandates in Canada. The All Country World Index (the Plan's global equity index) includes an allocation to Canada. Global equities include $16,940 thousand in Canadian equities at December 31, 2017 (2016 - $13,895 thousand).

Short-term

The Plan's short-term investments are highly rated by a rating agency with respect to likelihood of repayment (R1 rated by Dominion Bond Rating Service or equivalent for other rating agencies) in accordance with the Plan's Statement of Investment Policies and Procedures (SIP&P). At December 31, 2017, the Plan's short-term investments mature within 15 to 109 days (2016 – 3 to 166 days) at an average yield of 0.7% (2016 – 0.2%).

Bonds
The Plan's bond portfolio consists of both segregated and pooled fund investments and is invested as follows at December 31:

(in thousands)		2017			2016	
	Years to maturity		**Fair value**	**Average yield to maturity (%)**	Fair Value	Average yield to maturity (%)
Federal bonds	0-5	**$**	**31,403**	**1.96**	$ 39,917	0.86
	6-10		**24,111**	**2.02**	4,590	1.72
	11-15		**1,269**	**2.17**	-	-
	16-20		**731**	**2.17**	-	-
	20+		**19,982**	**2.29**	17,386	2.34
			77,496		61,893	
Provincial bonds	0-5		**1,489**	**2.14**	49,062	0.96
	6-10		**8,696**	**2.54**	1,353	2.68
	11-15		**18,905**	**2.78**	7,002	3.01
	16-20		**19,054**	**2.87**	24,566	3.10
	20+		**59,801**	**2.99**	37,166	3.28
			107,945		119,149	
Canadian Corporate bonds	0-5		**10,249**	**2.50**	36,821	1.29
	6-10		**11,950**	**3.29**	2,482	3.79
	11-15		**5,941**	**3.66**	2,756	3.41
	16-20		**8,403**	**3.76**	6,175	3.82
	20+		**25,059**	**3.81**	21,609	4.10
			61,602		69,843	
Global Corporate bonds	0-5		**330**	**4.48**	-	-
	6-10		**725**	**5.19**	-	-
	11-15		**37**	**5.34**	-	-
	16-20		**6**	**5.05**	-	-
	20+		**227**	**4.64**	-	-
			1,325		-	
Other bonds	0-5		**10,110**	**1.70**	-	-
	6-10		**2,030**	**4.14**	-	-
	11-15		**197**	**4.40**	-	-
	16-20		**18**	**8.70**	-	-
	20+		**416**	**3.93**	-	-
			12,771		-	
Total bonds		**$**	**261,139**		$ 250,885	

The bond portfolio breakdown is as follows at December 31:

(in thousands)			2017			2016	
	Bond Asset class		**Fair value**	**% of Plan investments**		Fair value	% of Plan investments
Phillips Hager & North Investment Management	Pooled	**$**	**131,806**	**17.3**	$	-	-
Greystone Managed Investments	Segregated		**129,333**	**17.0**		250,885	33.7
Total bond assets		**$**	**261,139**	**34.3**	$	250,885	33.7

Equities

The Plan's equity investments consist of both segregated and pooled fund investments. Equity investments are generally limited to stocks that are publicly traded on a recognized stock exchange. In 2017, the Plan held $372,635 thousand (2016 – $362,437 thousand) in equities. Of this total, 19% or $71,836 thousand (2016 – 19% or $69,580 thousand) of the Plan's equities were in Canadian mandates, with the remaining 81% or $300,799 thousand (2016 – 81% or $292,857 thousand) in global mandates.

Dividends are generally declared on a quarterly basis. These investments have no fixed maturity date. The segregated equities breakdown is as follows at December 31:

Segregated

(in thousands)		**2017**		2016	
	Asset class	**Fair value**	**% of Plan investments**	Fair value	% of Plan investments
Templeton Management Limited	Global equity	**$ 112,408**	**14.8**	$ 108,424	14.6
Triasima Portfolio Management Inc.	Canadian equity	**43,899**	**5.8**	43,992	5.9
Total segregated equity assets		**$ 156,307**	**20.6**	$ 152,416	20.5

Pooled funds

A pooled fund contains funds from many individual investors that are aggregated for the purpose of investment. The unit price of the pooled fund is determined by the fair value of the assets in the fund. The equity pooled fund breakdown is as follows at December 31:

(in thousands)		**2017**		2016	
	Asset class	**Fair value**	**% of Plan investments**	Fair value	% of Plan investments
TD Asset Management Inc.	Global equity	**$ 74,153**	**9.8**	$ 75,651	10.2
Mawer Investment Management	Global equity	**114,238**	**15.0**	108,782	14.6
BlackRock Asset Management Canada Limited	Canadian equity	**27,937**	**3.7**	25,588	3.4
Total pooled fund equity assets		**$ 216,328**	**28.5**	$ 210,021	28.2

Real estate

The Plan's real estate portfolio is a Canadian-based pooled fund that is diversified through all parts of Canada and holds office, retail and industrial properties.

		2017		2016	
	Asset class	**Fair value**	**% of Plan investments**	Fair value	% of Plan investments
Greystone Managed Investments Inc.	Real estate	**$ 74,392**	**9.8**	$ 67,240	9.0
Total real estate assets		**$ 74,392**	**9.8**	$ 67,240	9.0

Infrastructure
The Plan's infrastructure portfolio is comprised of three funds managed by Macquarie Capital Markets Canada Limited. One fund is based primarily in Europe and the other two are focused on the United States and Canada, as follows at December 31:

(in thousands)	2017								2016
	Capital commitment		Cash contributed		Undrawn capital commitment		Undrawn capital commitment CDN	Fair value of investment CDN	Fair value of investment CDN
MIP II Fund[1]	$ 15,000	USD	$ 14,240	USD	$ 760	USD	$ 953	$ 18,132	$ 17,494
MIP III Fund[2]	15,000	USD	11,145	USD	3,855	USD	4,836	15,849	14,552
MEIF III Fund[3]	11,250	EUR	11,250	EUR	-	EUR	-	15,458	25,797
Total							$ 5,789	$ 49,439	$ 57,843

1. Macquarie Infrastructure Partners II
2. Macquarie Infrastructure Partners III
3. Macquarie European Infrastructure Fund III

The infrastructure manager requests capital from the Plan as needed. The Plan is contractually obligated to honour the manager's capital calls until the undrawn capital commitment is depleted. The Plan has adequate liquidity to honour its undrawn capital commitments.

The infrastructure manager uses internal valuation policies to establish a fair value for the underlying assets. The valuations are prepared quarterly and take into account various economic, operational and financial assumptions.

5. FINANCIAL INSTRUMENTS

The following table categorizes the Plan's financial instruments, by level (refer to *Note 3d*) as at December 31:

(in thousands)	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash	$ 1,083	$ -	$ -	$ 1,083	$ 1,503	$ -	$ -	$ 1,503
Short-term	2,139	-	-	2,139	5,805	-	-	5,805
Bonds	-	261,139	-	261,139	-	250,885	-	250,885
Equities	156,307	216,328	-	372,635	152,416	210,021	-	362,437
Real estate	-	-	74,392	74,392	-	-	67,240	67,240
Infrastructure	-	-	49,439	49,439	-	-	57,843	57,843
Currency hedges	-	2,761	-	2,761	-	778	-	778
Total	$ 159,529	$ 480,228	$ 123,831	$ 763,588	$ 159,724	$ 461,684	$ 125,083	$ 746,491

Note: Receivables, accounts payable and other liabilities are all short-term in nature and as such their carrying value approximates fair value.

During the year ended December 31, the reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

(in thousands)	2017			2016		
	Real estate	**Infrastructure**	**Total**	Real estate	Infrastructure	Total
Beginning balance, January 1	**$ 67,240**	**$ 57,843**	**$ 125,083**	$ 62,424	$ 44,244	$ 106,668
Purchases	**-**	**453**	**453**	-	12,573	12,573
Sales	**-**	**(17,721)**	**(17,721)**	-	-	-
Return of capital	**-**	**(1,744)**	**(1,744)**	-	(3,971)	(3,971)
Realized gains[1]	**-**	**8,781**	**8,781**	-	-	-
Change in unrealized gains (losses)	**7,152**	**1,827**	**8,979**	4,816	4,997	9,813
Ending balance, December 31	**$ 74,392**	**$ 49,439**	**$123,831**	$ 67,240	$ 57,843	$ 125,083

1. The realized gains resulted from a sale of one of the assets in Macquarie European Infrastructure Fund (MEIF III) by the Limited Partner. The Plan did not dispose of any of its investment in MEIF III.

6. CURRENCY HEDGES

The Plan has entered into foreign exchange forward contracts to hedge some of its foreign currency exposure in global equity and infrastructure. Foreign exchange forward contracts are obligations in which two counterparties agree to exchange one currency for another at a specified exchange rate for settlement on a predetermined date in the future.

The Plan's objective for the active currency manager is to mitigate the impact of a change in foreign exchange rates on the Plan. The Plan updates its managed portfolio monthly by communicating a minimum of 85% of the Plan's total foreign currency exposure to the currency manager. The Board has approved a benchmark hedge ratio of 50% of the managed portfolio, although the manager has the discretion to hedge between 0% and 100% of the managed portfolio.

At December 31, 2017, the Plan's total foreign currency exposure, before currency hedges, was $321,432 thousand (2016 – $328,078 thousand). Based on the forward exchange rates at December 31, 2017, the forward contracts fair value results in an unrealized gain of $2,761thousand (2016– unrealized gain of $778 thousand). All contracts at December 31, 2017, have a maturity date of March 21, 2018.

The following summarizes the Plan's use of foreign exchange forward contracts within the currency hedging program as at December 31:

(in thousands)	2017			2016		
	Notional value	**Fair value gain (loss)**	**Managed portfolio net exposure %**	Notional value	Fair value gain (loss)	Managed portfolio net exposure %
United States dollar	**$ 70,926**	**$ 1,873**	**55.5**	$ 76,028	$ 89	55.1
Euro	**12,813**	**183**	**68.6**	21,572	129	49.5
British pound sterling	**10,555**	**227**	**56.7**	14,585	176	35.3
Japanese yen	**9,944**	**278**	**52.0**	11,768	317	45.8
Singapore dollar	**5,271**	**92**	**34.9**	-	-	-
Danish krone	**55**	**55**	**-**	6,307	52	49.4
Swiss franc	**3,197**	**53**	**52.0**	5,114	15	49.1
Total	**$ 112,761**	**$ 2,761**		$ 135,374	$ 778	

Notional value represents the contractual amount to which a rate or price is applied in order to calculate the exchange of cash flows and is therefore not recorded in the financial statements.

Net exposure is the percentage of investments denominated in foreign currency that are not hedged through forward exchange contracts.

7. FINANCIAL RISK MANAGEMENT

(a) Market risk

The Plan invests in publicly traded equities and bonds available on domestic and foreign exchanges. The value of these securities is affected by market changes and fluctuations. The Plan manages market risk by diversifying its investments in both domestic and foreign markets and through the establishment and review of asset mix ranges and limits for various investments.

<u>Interest rate risk</u>

Interest rate risk refers to the adverse impact that interest rate changes have on the Plan's investment returns and financial position. On the investment side, when interest rates fall the fair value of bonds rise, while the yields on new investments in bonds fall.

As at December 31, 2017, had prevailing interest rates increased or decreased by 1.0%, assuming a parallel shift in the yield curve and all other variables held constant, the fair value of the Plan's bond holdings would have decreased or increased (respectively) by approximately 10.8%, or $28,261 thousand (2016 – 7.1%, or $17,890 thousand). The bond holdings' sensitivity to interest rate fluctuations was estimated using the weighted average duration of the bond holdings. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

<u>Foreign currency risk</u>

Foreign currency exposure arises from the Plan holding assets denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies result in a positive or negative effect on the fair value of the Plan's net assets.

To manage the Plan's foreign currency risk, in 2009 the Board approved currency management to manage a portion of the Plan's exposure to changes in the value of foreign currencies. Currency exposure management began in the first quarter of 2010 (refer to *Note* 6).

At December 31, the Plan's foreign currency exposure expressed in equivalent Canadian dollars and excluding the impact of currency hedges is as follows:

(in thousands)	**2017**		2016	
	Fair value	**% of Plan assets**	Fair value	% of Plan assets
Global[1]	**$ 272,309**	**35.6**	$ 272,273	36.4
Infrastructure[2]	**46,779**	**6.1**	55,805	7.5
Core plus bonds[3]	**2,344**	**0.3**	-	-
Total foreign currency exposure	**$ 321,432**	**42.0**	$ 328,078	43.9

1. Templeton Management Limited was retained to invest Plan assets in global equities on a segregated basis. TD Asset Management Inc. and Mawer Investment Management Limited were retained to invest Plan assets in global equities via pooled funds.
2. Macquarie Capital Markets Canada Limited manages the infrastructure assets for the Plan. There are three funds, one European based and the other two focused on the United States and Canada.
3. Philips, Hager & North Investment Management was retained to invest Plan assets in core plus bonds on a pooled basis.

At December 31, the foreign currency exposure in the Plan, in Canadian dollars, can be further broken down as follows:

(in thousands)	2017			2016		
	Exposure prior to hedging	**Currency hedging**	**Net exposure**	Exposure prior to hedging	Currency hedging	Net exposure
United States dollar	**$ 159,226**	**$ (70,926)**	**$ 88,300**	$ 169,141	$ (76,028)	$ 93,113
Euro	**40,776**	**(12,813)**	**27,963**	42,738	(21,572)	21,166
British pound sterling	**24,399**	**(10,555)**	**13,844**	22,554	(14,585)	7,969
Japanese yen	**20,709**	**(9,944)**	**10,765**	21,717	(11,768)	9,949
Singapore dollar	**8,094**	**(5,271)**	**2,823**	-	-	-
Swiss franc	**6,659**	**(3,197)**	**3,462**	10,041	(5,114)	4,927
Danish krone	**-**	**(55)**	**(55)**	12,456	(6,307)	6,149
Other	**61,569**	**-**	**61,569**	49,431	-	49,431
Total	**$ 321,432**	**$(112,761)**	**$ 208,671**	$ 328,078	$(135,374)	$ 192,704

As at December 31, assuming the Canadian dollar appreciated or depreciated by 10% compared to the following foreign currencies, the fair value of the Plan's net assets would have decreased or increased (respectively) by the following amounts (assuming all other variables held constant):

(in thousands)	Change in value of Canadian dollar		2017		2016
United States dollar	+/- 10%	**+/-**	**$ 8,830**	+/-	$ 9,311
Euro	+/- 10%	**+/-**	**2,796**	+/-	2,117
British pound sterling	+/- 10%	**+/-**	**1,385**	+/-	797
Japanese yen	+/- 10%	**+/-**	**1,077**	+/-	995
Singapore dollar	+/- 10%	**+/-**	**282**	+/-	-
Swiss franc	+/- 10%	**+/-**	**346**	+/-	493
Danish krone	+/- 10%	**+/-**	**(6)**	+/-	615
Other	+/- 10%	**+/-**	**6,157**	+/-	4,942
Total fair value impact		**+/-**	**$ 20,867**	+/-	$ 19,270

Equity price risk

The Plan is exposed to changes in equity prices in Canadian and global markets. Equities comprise 49% (2016 – 49%) of the carrying value of the Plan's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity.

The following table indicates the approximate increase or decrease in net assets available for benefits had equity values at December 31, increased or decreased (respectively) by 10% assuming all other variables held constant. Due to active management, the Plan's portfolio does not correlate directly to any market indices.

(in thousands)	Change in market prices		2017		2016
Canadian equities	+/- 10%	**+/-**	**$ 8,878**	+/-	$ 8,348
Global equities[1]	+/- 10%	**+/-**	**28,386**	+/-	27,896
Total fair value impact on equities	+/- 10%	**+/-**	**$ 37,264**	+/-	$ 36,244

1. Global equities are exclusive of Canadian equities.

Securities collateral

At December 31, 2017, no Plan assets have been deposited or pledged as collateral or margin. As part of the Plan's securities lending activity, collateral has been pledged to the

Plan by various counterparties for securities out on loan to the counterparties. At December 31, 2017, the total amount of collateral pledged to the Plan amounted to $91,715 thousand (2016 – $108,551 thousand). Security lending obtains collateral of a minimum of 102% of the fair value of the securities lent. Such security loans must be secured by cash and/or readily marketable government bonds, treasury bills and/or letters of credit, discount notes and banker's acceptances of Canadian chartered banks.

Real estate and infrastructure price risk
Risk in the real estate portfolio is managed through diversification across types and locations. Adverse impacts in any one segment of the market or geographic location are minimized by having holdings diversified across property type, geographic location and investment size. Risk in the infrastructure portfolio is also managed through diversification across types and locations.

(b) Credit risk

Credit risk arises from the potential for a debtor or for a counterparty to default on its contractual obligation to the Plan. The Plan limits the credit risk by diversifying its fixed income investment portfolio and dealing with counterparties that are considered to be high quality. The credit ratings used to describe these securities are based on the Dominion Bond Rating Service or other recognized rating agencies.

The maximum credit risk to which the Plan is exposed at December 31, is limited to the carrying value of the financial assets summarized as follows:

(in thousands)	**2017**	2016
	Carrying value	Carrying value
Short-term	**$ 2,139**	$ 5,805
Bonds	**261,139**	250,885
Receivables	**4,061**	2,717
Cash	**1,083**	1,503
Securities lending	**87,302**	103,356
Total credit risk	**$ 355,724**	$ 364,266

Credit risk for bonds and short-term investments is managed through the investment policy that limits the majority of debt instruments to those of high credit quality (minimum rating for short-term investments is R1) along with limits to the maximum notional amount of exposure with respect to any one issuer. Phillips, Hager & North Investment Management manages the Plan's core plus pooled fund which allows a portion of the pooled fund to invest in unrated debt instruments. Credit exposure and counterparty ratings in the pooled fund are monitored daily.

Greystone Managed Investments Inc. invests in bonds that are investment grade (minimum credit rating of BBB) as rated by a recognized rating agency which reflects a high likelihood of repayment. Phillips, Hager & North Investment Management invests primarily in bonds that are investment grade (92.8% of the pooled fund at December 31, 2017). Phillips, Hager & North Investment Management's investment policy for the Core Plus Bond Fund specifies: 25% as the maximum that is to be invested in BB+ and below (non-investment grade) credit quality; 5% as the maximum that is to be invested in CCC+ and below credit quality and 5% is the maximum that is to be invested in unrated credit quality. At December 31, the debt rating on the Plan's bonds is as follows:

(in thousands)	2017			2016	
Debt rating	**Fair value**	**% of bond portfolio**		Fair value	% of bond portfolio
AA or higher	**$ 181,258**	**69.4**	$	152,152	60.7
A	**45,428**	**17.4**		84,621	33.7
BBB	**24,963**	**9.6**		14,112	5.6
BB & Below	**2,241**	**0.9**		-	-
Unrated	**1,054**	**0.4**		-	-
Other	**6,195**	**2.3**		-	-
Total bonds	**$ 261,139**	**100.0**	$	250,885	100.0

Receivables are primarily made up of accrued investment income and investment disposal proceeds. Accrued investment income is received on the next scheduled payment date, generally either annually or semi-annually. Proceeds of investment disposals are generally received within three days.

For securities lent, the Plan receives a fee and the borrower provides cash or readily marketable securities of higher value as collateral which mitigates the credit risk associated with the securities lending program. At year-end, securities loaned out had an estimated fair value of $87,302 thousand (2016 – $103,356 thousand), while collateral held had an estimated fair value of $91,715 thousand (2016 – $108,551 thousand).

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its financial commitments as they become due or can do so only at excessive cost. The Plan manages liquidity risk by maintaining adequate cash and short-term investments and monitoring actual and forecasted cash flows to support the Plan's operating needs.

8. PENSION OBLIGATIONS

The present value of pension obligations is determined using the projected benefit actuarial cost method prorated on services and reflects management's best estimates of inflation, future pension indexing and mortality. The valuation for accounting purposes was prepared as at September 30, 2017 by Aon Hewitt and extrapolated to December 31, 2017. The effective date of the next valuation for accounting purposes will be September 30, 2020.

The actuarial assumptions used in determining the value of pension obligations may change from year to year depending on current and long-term market conditions. The actuarial assumptions are based on management's expectations, independent actuarial advice and guidance provided by IFRS. The following is a summary of the actuarial assumptions:

	2017	2016
Discount rate, beginning of year	**3.60%**	3.75%
Discount rate, end of the year	**3.30%**	3.60%
Long-term inflation rate	**2.00%**	2.00%
Assumptions for benefit increases (% of CPI)	**70.00%**	70.00%

The salary increase assumption is no longer necessary due to the fact that all active members as at the valuation date are assumed to retire immediately given their age and service levels.

The discount rate was based on the nominal forward curve for high-grade, long-term Canadian corporate bonds as at December 31, 2017 with cash flows that match expected benefit payments.

The mortality assumption used the 2014 Private Sector Mortality Table (CPM2014Priv) with 95% scaling factor for male mortality rates, 110% scaling factor for female mortality rates and two-dimensional generational mortality improvements using Improvement Scale B (CPM-B).

The actuarial present value of pension obligations is deducted from the net assets available for benefits to calculate the actuarial deficit for accounting purposes.

The following illustrates the sensitivity of some of the major assumptions used in preparing the December 31, 2017, actuarial extrapolation:

Retirement age: Assuming a retirement age equal to the earliest age that a member can retire with a reduced pension would not change the deficit.

Discount rate: An increase in the discount rate of 1.00% (from 3.30% to 4.30%) would decrease liabilities, reducing the plan deficit by $91 million.

Inflation: An inflation rate assumption that is 1.00% lower than the assumed rate (from 2.00% to 1.00%) would increase the deficit by $33 million. A lower inflation rate assumption reduces both the discount rate and future pension obligation increases.

Mortality: A change in the mortality assumption so that each member is one year older would decrease liabilities, reducing the plan deficit by $33 million.

9. RELATED PARTY TRANSACTIONS

(a) Administration

As indicated in *Note 10*, certain administration costs are paid by the Corporation.

(b) Investments

(in thousands)	**2017**		2016	
	Investment fair value	**Investment income**	Investment fair value	Investment income
Province of Saskatchewan bonds	**$ 3,758**	**$ 738**	$ 2,290	$ 96

10. ADMINISTRATIVE EXPENSES

The Superannuation (Supplementary Provisions) Act permits the Board to engage technical and professional advisers, specialists and consultants for the purposes of managing, investing and disposing of Plan assets, with the related costs to be paid by the Plan.

The costs to administer the Plan are borne by the Corporation and are therefore not reflected in the Plan financial statements. The costs typically paid for by the Corporation include audit and actuarial fees as well as general administration costs. In 2017, the Corporation paid $292 thousand (2016 – $283 thousand) for costs relating to the Plan. These figures do not include salaries paid to employees of the Corporation who serve as staff advisors or administrators of the Plan and are not included in the table below:

(in thousands)	**2017**	2016
Investment manager fees	**$ 3,450**	$ 3,297
Custodian fees	**203**	184
Consulting fees	**66**	124
Board member training and development	**29**	32
Total administrative expenses	**$ 3,748**	$ 3,637

11. INVESTMENT PERFORMANCE

The investment manager makes the day-to-day decisions on buying or selling specific investments in order to achieve the long-term performance objectives set by the Board. The Board reviews the investment performance of the Plan in terms of the performance of the benchmark portfolio over a rolling four-year period. The Plan's benchmark has been determined using the actual returns of market indexes such as the FTSE TMX Universe Bond Index; FTSE TMX LT Index; S&P/TSX Composite Index; Morgan Stanley Capital All Country World Index; Investment Property Databank; and a Consumer Price Index plus acceptable return approach.

The Plan's objective for the active currency manager is to partially mitigate the impact foreign exchange rates have on the Plan. The Board has approved a benchmark hedge ratio of 50% of the managed portfolio (refer to *Note 6*) although the Manager has the discretion to hedge between 0% and 100% of the managed portfolio.

The primary long-term investment objective for the entire portfolio is to out-perform a benchmark portfolio. The following is a summary of the Plan's investment performance as provided by Aon Hewitt:

	2017		2016	
Rates of return (%)	**Investment return**	**Investment benchmark return**	Investment return	Investment benchmark return
Bonds	**4.7**	**4.2**	2.3	1.5
Canadian equities	**7.6**	**9.1**	14.9	21.1
Global equities	**14.7**	**15.8**	1.1	4.1
Real estate	**10.6**	**7.2**	7.7	5.7
Infrastructure	**20.5**	**7.0**	10.2	6.6
Annual rate of return (unhedged)	**10.8**	**9.8**	4.2	5.2
Currency hedging[1]	**0.6**	**n/a**	1.3	n/a
Annual rate of return (hedged)	**11.4**	**n/a**	5.5	n/a
Four-year rolling average return (hedged)	**7.7**	**8.6**	8.6	9.2

1. This represents the impact of hedges on the total portfolio (calculated as the difference between the hedged and unhedged return).

12. CAPITAL MANAGEMENT

The Plan's capital is invested in a number of asset classes including short-term investments, bonds, mortgages, equities, real estate, infrastructure, and currency hedging. The Plan periodically receives new capital from contributions that are required by the Corporation's Funding Policy (refer to *Note 1b*). The Plan also receives investment income and market value increases on its invested capital.

The Board's objective for managing its capital is outlined in the Plan's SIP&P. The SIP&P communicates a philosophy of diversification and protection of capital to investment managers with an objective of optimizing the Plan's risk/return relationship. To achieve acceptable levels of diversification and risk control, the SIP&P sets out guidelines for asset mix, individual equity/bond holdings, industrial sector holdings, debt ratings and bond duration.

The Board delegates the operational investment decisions to a number of investment managers through different investment mandates as defined in the SIP&P.

FIVE-YEAR REVIEW

FINANCIAL POSITION
(in thousands)

As at December 31	**2017**	2016	2015	2014	2013
Assets					
Investments					
Short-term	**$ 2,139**	$ 5,805	$ 4,721	$ 3,227	$ 2,429
Bonds	**261,139**	250,885	267,767	280,392	248,480
Equities	**372,635**	362,437	397,721	420,476	446,850
Real estate	**74,392**	67,240	62,424	58,707	55,231
Infrastructure	**49,439**	57,843	44,244	35,969	34,994
	759,744	744,210	776,877	798,771	787,984
Receivables					
Accrued investment income	**965**	1,857	1,194	1,393	2,079
Currency hedges	**2,761**	778	-	-	-
Other receivables	**335**	82	126	586	189
	4,061	2,717	1,320	1,979	2,268
Cash	**1,083**	1,503	1,465	2,975	1,333
Total assets	**764,888**	748,430	779,662	803,725	791,585
Liabilities					
Currency hedges	**-**	-	6,488	2,224	86
Accounts payable and other liabilities	**5,893**	2,640	1,580	1,272	902
	5,893	2,640	8,068	3,496	988
Net assets available for benefits	**$ 758,995**	$ 745,790	$ 771,594	$ 800,229	$ 790,597
Pension obligations and deficit					
Pension obligations	**$ 921,573**	$ 936,994	$ 950,232	$ 980,021	$ 893,618
Deficit	**(162,578)**	(191,204)	(178,638)	(179,792)	(103,021)
Pension obligations and deficit	**$ 758,995**	$ 745,790	$ 771,594	$ 800,229	$ 790,597

FIVE-YEAR REVIEW

CHANGES IN NET ASSETS AVAILABLE FOR PENSION OBLIGATIONS

(in thousands)

For the year ended December 31	2017	2016	2015	2014	2013
Increase in net assets					
Investment income					
Interest					
Short-term	**$ 311**	$ 297	$ 325	$ 304	$ 355
Bonds	**8,709**	6,494	7,281	9,455	10,653
	9,020	6,791	7,606	9,759	11,008
Dividends	**9,562**	13,303	10,933	10,820	14,879
	18,582	20,094	18,539	20,579	25,887
Increase in fair value of investments	**56,630**	11,230	41,332	62,179	91,238
Increase in fair value of currency hedges	**4,014**	9,265	-	-	-
	60,644	20,495	41,332	62,179	91,238
Contributions					
Employees'	**-**	-	-	-	3
Sponsors'	**-**	-	-	-	4
	-	-	-	-	7
Total increase in net assets	**79,226**	40,589	59,871	82,758	117,132
Decrease in net assets					
Benefit payments	**62,273**	62,756	62,628	62,009	60,848
Decrease in fair value of currency hedges	**-**	-	21,091	7,388	8,083
Refunds and transfers	**-**	-	828	302	-
Death benefit payments	**-**	-	397	-	106
Administrative expenses	**3,748**	3,637	3,562	3,427	3,499
Total decrease in net assets	**66,021**	66,393	88,506	73,126	72,536
Changes in net assets	**13,205**	(25,804)	(28,635)	9,632	44,596
Net assets available for benefits, beginning of year	**745,790**	771,594	800,229	790,597	746,001
Net assets available for benefits, end of year	**$ 758,995**	$ 745,790	$ 771,594	$ 800,229	$ 790,597

GLOSSARY

Active Plan member
Plan member making (or deemed to be making) regular contributions to the Plan, including those on an approved leave of absence (with or without pay), those receiving benefits from a short-term illness and injury plan or approved long-term disability plan, and those who are no longer required to contribute.

Actuarial assumptions
Estimates of future events that will affect a plan's obligation for future employee's benefits. Examples of these estimates are: discount rate, inflation, termination rates, retirement age, mortality, dependency status, future salary and benefit levels.

Actuarial valuation
Prepared by an actuary to determine the financial status of the Plan. It considers the value of Plan assets and determines whether the contribution rates are adequate.

Actuary
Professional trained in technical aspects of pensions.

Asset allocation
The dividing of assets among different categories such as equities, bonds and international investments.

Bridge benefits
A temporary pension to supplement the regular lifetime pension. Payable from the early retirement age to the end of the month in which the member turns 65.

Bonds
Long-term debt instrument from a company that provides regular interest payments to the bond-holder and repays the face value at maturity.

Consumer price index (CPI)
The consumer price index measures monthly and yearly changes in the cost of 300 goods and services commonly bought by Canadians. If the combined cost of this "basket" of items goes up, then there has been inflation. The greater the increase, the higher the inflation rate has become. The pension is indexed to the cost of living, and the consumer price index is one of the factors used to calculate annual cost of living increases for pension benefits.

Counterparty
An individual or organization with whom one transacts business.

Custodian
Holds assets for safekeeping for the Plan, may collect income and dividends and do simple reporting on assets. The custodian does not have fiduciary responsibility.

Deferred pension
A pension payable at a later date, either because the Plan member terminates employment before the earliest date at which the pension may begin, or because the Plan member chooses to have the pension commence at a later date. For example, a Plan member may choose to defer a pension in order to later receive an unreduced pension.

Defined benefit plan
Pension plan that provides a defined benefit based on a formula including factors such as years of service and average earnings.

Equities
Common stock or ownership in a company.

Fair value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market at the measurement date.

Funding
The systematic depositing of current service contributions and special payments into the pension fund.

Futures
Contractual agreements to either buy or sell an asset at a specified price and date in the future.

Governance
The decision-making structures and supporting policies and procedures that enable an organization to achieve its pension objectives and discharge its pension obligations to its legal owners and others.

Index
Method of measuring the investment manager's performance through benchmarks of similar assets.

Investment advisor
Provides analytical review of the total fund, asset classes and the investment managers' performance, relative to peers and Plan benchmarks.

Investment manager
Devises and implements an investment strategy within mandates.

Median
The middle of a distribution: half the scores are above the median and half are below the median.

Money market
A market for short term debt instruments.

Notional value
Amount to which a rate or price is applied in order to calculate the exchange of cash flows.

Plan
Power Corporation Superannuation Plan.

Plan sponsor
Employer sponsoring the pension plan.

Pooled funds
Group of individual securities managed by an investment manager.

Securities
Stocks, bonds and notes that give evidence to and assure the fulfillment of a commitment.

THIS PAGE LEFT INTENTIONALLY BLANK.

SaskPower
Tanya Romanow
Total Rewards
Phone: (306) 566-2177
Fax: (306) 566-2590
E-mail: tromanow@saskpower.com
Mail: 10W – 2025 Victoria Avenue
Regina, Saskatchewan
Canada S4P 0S1
saskpower.com

SaskEnergy
Bonnie Favreau
Compensation & Benefits
Phone: (306) 777-9957
Fax: (306) 781-7050
E-mail: bfavreau@saskenergy.com
Mail: 800 – 1777 Victoria Avenue
Regina, Saskatchewan
Canada S4P 4K5