



**LIQUOR
DISTRIBUTION
BRANCH**

2009/10 Annual Report



Vision

That our customers have the opportunity to discover, enjoy and share the evolving world of beverage alcohol.

Mission

To be a customer-focused, profitable retailer and wholesaler of beverage alcohol dedicated to innovation, exemplary service, helpful product knowledge and corporate responsibility.

Values

Exemplary Service

We take pride in the quality of our work. We strive for excellence in serving customers and coworkers.

Public Safety and Corporate Responsibility

We encourage and support the responsible use of beverage alcohol.

Integrity

We take responsibility and are fully accountable for our actions, decisions and behaviour. We are open, honest and fair.

Respect

We treat all individuals with fairness, dignity and respect.

Teamwork

We support one another to achieve corporate goals.

Innovation

We encourage our people to find innovative and creative ways to improve our business.

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General Manager's Message to the Minister Responsible

The Honourable Rich Coleman, Minister of Housing and Social Development



Fiscal 2009/10 was a year that was both challenging and exciting. The Liquor Distribution Branch (LDB) and many other businesses had to deal with one of the most significant global recessions in decades. Despite this, we achieved our 2009/10 sales budget of \$2.85 billion and our net income of \$877 million was only \$19 million or 2.1 per cent below budget. A recession-related shift in consumer purchases from higher margin products such as spirits to lower margin products such as beer was the main factor that prevented us from achieving our net income budget. We are confident that as the economy continues to improve, consumers will return to their normal purchasing patterns and thereby assist our sales and net income.

In February and March 2010, we were honoured to play a part in making the 2010 Olympic and Paralympic Winter Games a huge success. As a result of months of planning, we were able to provide an uninterrupted supply of liquor to the various Olympic venues and other liquor outlets and assisted various National Olympic Houses in importing special orders of liquor from their home countries. A number of LDB employees had the experiences of a lifetime providing support to the Games.

In fiscal 2009/10, we continued the process of standardizing the image and service levels in our BC Liquor Store retail chain by renovating and relocating a number of stores and providing our staff with advanced product knowledge training. We also made important strides in servicing our wholesale customers by increasing the number of direct shipments from our distribution centres and implementing an on-line order system.

BC Liquor Store customers continued to show their generosity by donating \$594,000 to the LDB's annual Dry Grad campaign that provides funding for high school dry grad celebrations throughout the province. BC Liquor Store customers also donated \$350,000 to the Canadian Red Cross's Haiti earthquake relief fund, a figure that was doubled by matching funds from the federal government.

Last year, the LDB received the distinction of being named by Mediacorp as one of British Columbia's Top 55 Employers that offer employees exceptional places to work. With our dedicated workforce, I am confident that the LDB will continue to achieve its goals going forward.

The 2009/10 LDB Annual Report was prepared under my direction, in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles.

I am accountable for the contents of this report, which reflects the actual performance of the LDB for the 12 months ended March 31, 2010, in relation to the September 2009 Service Plan. The performance measures presented are consistent with the LDB's mandate, goals and strategies, and focus on aspects critical to the organization's performance.

I am responsible for ensuring internal controls are in place to ensure performance information is measured and reported accurately and in a timely fashion.

All significant decisions, events and identified risks, as of June 4, 2010, have been considered in preparing the report. The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate, direction, goals, strategies, measures or targets made since the September 2009 Service Plan was released and any significant limitations in the reliability of the data are identified in the report.

A handwritten signature in black ink, appearing to read "Jay Chambers". The signature is stylized with a large, looping initial "J".

Jay Chambers
General Manager
June 4, 2010

Organizational Overview

Governance

In British Columbia, the Liquor Distribution Branch (LDB) is one of two branches of government responsible for the beverage alcohol industry. The *Liquor Distribution Act* gives the LDB the sole right to purchase beverage alcohol both within BC and from outside the province, in accordance with the federal *Importation of Intoxicating Liquors Act*.

Reporting to the Minister of Housing and Social Development, the LDB:

- handles importation and distribution of beverage alcohol in BC;
- operates government liquor stores (GLSs) and distribution centres; and
- has a General Manager who is responsible for administering the *Liquor Distribution Act*, which includes the oversight of GLSs, subject to direction from the minister.

The *Liquor Distribution Act* clarifies:

- LDB administration;
- GLS operation; and
- the role and powers of the LDB General Manager.

The LDB follows the Crown Agencies Resource Office guidelines for service plans and annual reports, and is reported out in public accounts in a manner similar to a commercial Crown corporation, on a modified equity basis.

Another branch of the Ministry of Housing and Social Development — Liquor Control and Licensing Branch (LCLB) — licenses private liquor stores, restaurants, pubs and manufacturers, and enforces regulations under the *Liquor Control and Licensing Act*. For more information, please visit hsd.gov.bc.ca/lclb/.

The LDB and LCLB have a shared responsibility to encourage the responsible consumption of beverage alcohol and work closely together to coordinate policies and programs to this end.

Visit bcldb.com and click on the *About Us* link for more about the LDB.

Business of the Liquor Distribution Branch

The LDB operates a province-wide, retail/wholesale beverage alcohol business, within a mixed public-private model.

As of March 31, 2010, the LDB:

- has a workforce of approximately 3,500 full- and part-time employees;
- operates 197 GLSs throughout the province;
- operates two distribution centres, in Vancouver and Kamloops; and
- has a Head Office facility in Vancouver.

As part of BC's mixed model retail system, the LDB is committed to providing customers with an enhanced shopping environment, increased product selection and a high level of service.

MEET THE LDB EXECUTIVE MANAGEMENT COMMITTEE

Jay Chambers

General Manager

Roger Bissoondatt

Chief Financial Officer

Kelly Wilson

Executive Director,
Wholesale and Retail Services

Gordon Zelenika

Executive Director,
Human Resources

Don Farley

Executive Director,
Information Services

Gordon Hall

Director,
Corporate Policy

Donna Morse

Director,
Corporate Security

Catherine Sloan

Legal Counsel

The LDB purchases beverage alcohol from more than 400 suppliers and manufacturers within the province, across the country and around the world. Licensed manufacturers in BC include 207 wineries, 31 breweries, 23 brew pubs, and 15 distilleries.

BC's beverage alcohol retail model includes:

- GLSs (government-owned and -operated stores selling beverage alcohol to retail and wholesale customers);
- licensee retail stores (LRSs – private stores licensed to sell all beverage alcohol products);
- rural agency stores (RASs – general merchandise stores in rural communities authorized to sell all beverage alcohol products);
- on-site manufacturer stores (stores at wineries, breweries and distilleries that sell the products that they manufacture);
- off-site manufacturer stores (stores operated by the BC wine industry that sell BC winery products);
- private wine stores; and
- duty-free stores.

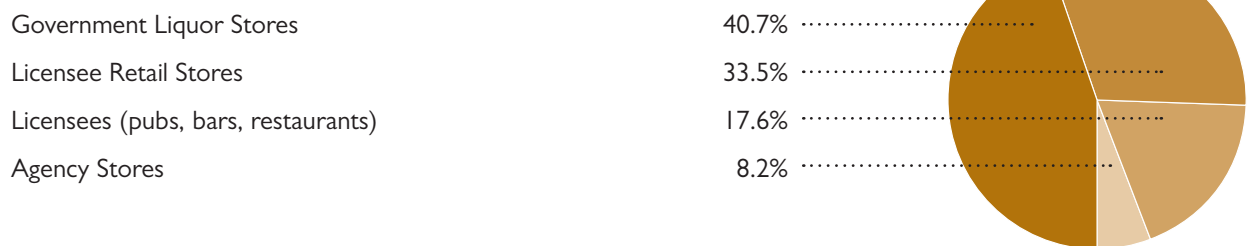
With more than 1,300 beverage alcohol retail outlets operating in BC, as of March 31, 2010, consumers have a variety of choices depending on their service needs:

- 197 GLSs;
- 670 LRSs;
- 224 RASs;
- 232 on-site manufacturer stores;
- 34 off-site manufacturer stores;
- 12 private wine stores; and
- 11 duty free stores

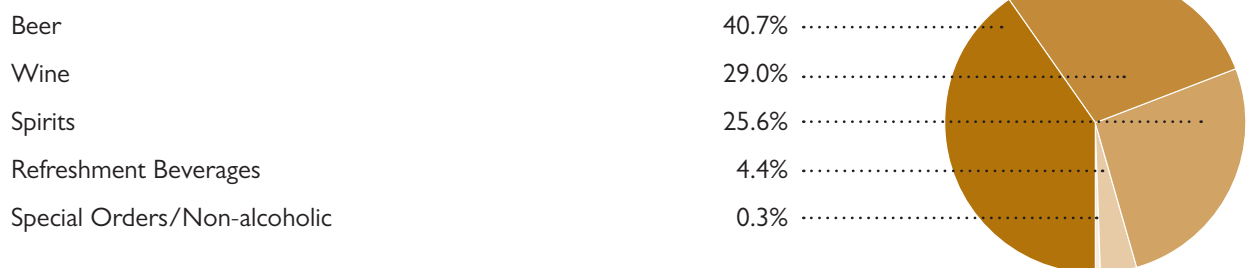
In addition to retail stores, there were 8,031 bars, restaurants and other licensed on-premise establishments as of March 31, 2010.

The wholesale beverage alcohol distribution model in BC includes the two government distribution centres, GLSs and a number of manufacturers and private distributors that are authorized to distribute beverage alcohol as agents of the LDB.

Percentage of Gross \$ Sales by Sales Channel 2009/10



Percentage of Gross \$ Sales by Product Category 2009/10



Our Customers and Stakeholders

The LDB is one of the largest retailers in BC, with 38.4 million retail customer visits to BC Liquor Stores during fiscal 2009/10. We also processed 407,000 wholesale customer transactions. The LDB sources a wide selection of domestic and international beverage alcohol products for our retail and wholesale customers.

To serve the interests of our customers and stakeholders, we:

- deliver quality products and services;
- provide products and services to a variety of beverage alcohol outlets throughout British Columbia;
- manage the importation, warehousing and distribution of beverage alcohol;
- promote the safe and responsible use of beverage alcohol; and
- implement policies to ensure LDB workplaces are safe and free of harassment or discrimination.

To fulfill our responsibilities to the government and people of British Columbia, we:

- generate revenue to the government of British Columbia;
- manage the LDB's business risks;
- ensure accountability of key business partners; and
- develop and implement programs and services aimed at deterring the sale of beverage alcohol to minors, those who appear intoxicated, or those who are believed to be buying for either of these parties.

LDB CORE BUSINESS AREAS

Retail Services

Encompasses both the retail and the wholesale departments and includes Distribution, Store Operations, Purchasing, Marketing, Wholesale and Real Estate.

Corporate Security

Responsible for security policies and programs and is responsible for the LDB's Emergency Management and Business Continuity programs.

Legal Services

Provides legal advice to the LDB and directs the Information and Privacy program.

Corporate Policy

Researches and advises on corporate policy issues and is responsible for communications.

Finance

Manages revenue, expenditures, budgeting, reporting, auditing and administers policies related to the importation and distribution of beverage alcohol.

Information Services

Implements and maintains the LDB's information systems.

Human Resources

Provides services related to recruitment and selection, employee training and development, labour relations, classification and compensation, leave and benefit administration and organizational development.

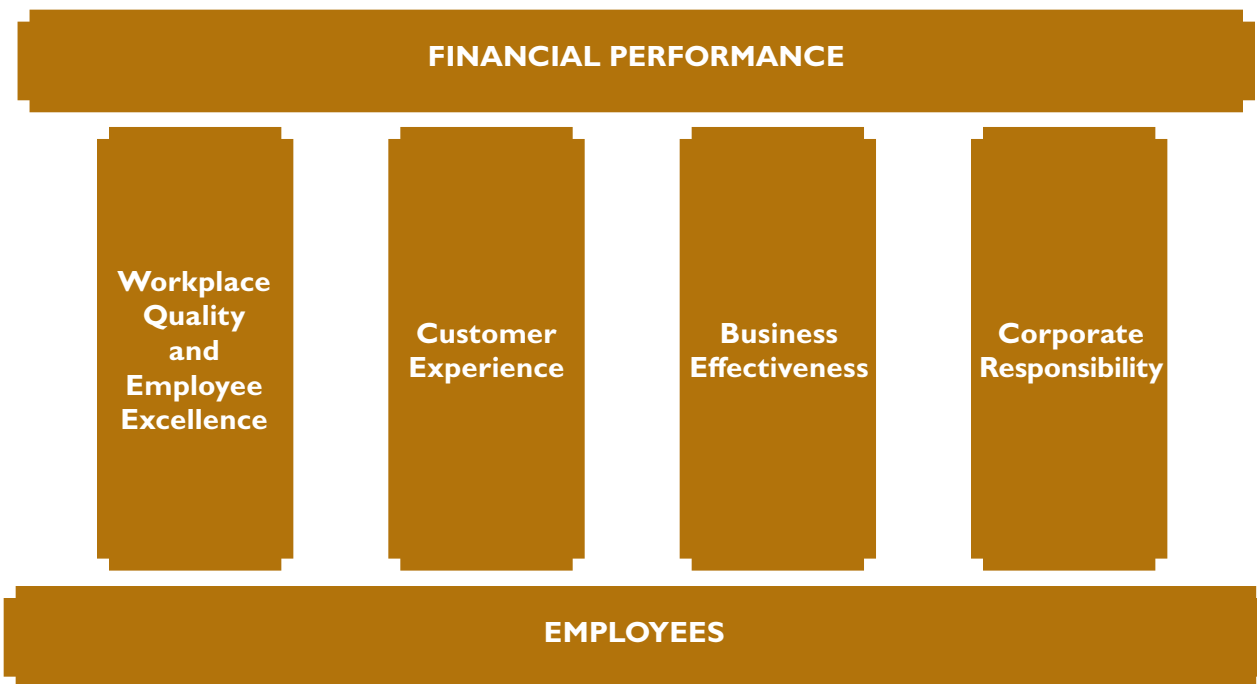
The Four Pillars Framework

The LDB organizes its strategic priorities and key objectives around the concept of four pillars. All four pillars support financial performance and at the foundation are the LDB's dedicated employees.

High-Level Goals

The five high-level goals are:

1	2	3	4	5
Financial Performance Meet financial objectives approved by government.	Workplace Quality and Employee Excellence Create a work environment that encourages greater employee engagement.	Customer Experience Maintain the high level of wholesale and retail customer satisfaction.	Business Effectiveness Maintain operating efficiencies in a climate of constant change.	Corporate Responsibility Encourage the responsible use of beverage alcohol.



Linking Goals to Performance Measures

GOALS	Goal 1 Financial Performance Meet financial objectives approved by government.	Goal 2 Workplace Quality and Employee Excellence Create a work environment that encourages greater employee engagement.	Goal 3 Customer Experience Maintain the high level of wholesale and retail customer satisfaction.	Goal 4 Business Effectiveness Maintain operating efficiencies in a climate of constant change.	Goal 5 Corporate Responsibility Encourage the responsible use of beverage alcohol.
STRATEGIES	<ul style="list-style-type: none"> • Grow sales and effectively monitor operating expense 	<ul style="list-style-type: none"> • Enhance staff skills and engagement through management development, employee training and increased communication • Implement succession management plans for the organization • Provide a safe, healthy and harassment-free workplace 	<ul style="list-style-type: none"> • Continuously refresh the store network • Continuously provide enhanced customer services 	<ul style="list-style-type: none"> • Maximize the potential efficiencies available through improved distribution operations • Increase the use of current and cost effective technology 	<ul style="list-style-type: none"> • Prevent sales to minors or intoxicated persons in BC Liquor Stores through increased staff education and enforcement of ID-checking requirements • Promote awareness of responsible use by continuing co-operative programs with suppliers and other stakeholders.
PERFORMANCE MEASURES	<ul style="list-style-type: none"> • Net income 	<ul style="list-style-type: none"> • Employee engagement 	<ul style="list-style-type: none"> • Retail customer satisfaction • Wholesale customer satisfaction 	<ul style="list-style-type: none"> • BC Liquor sales per square foot • Distribution Centre labour cost per case shipped • Distribution Centre order fill rate 	<ul style="list-style-type: none"> • Store compliance with ID-checking requirement • Customer awareness of LDB corporate responsibility programs

GOAL I: Financial Performance

Meet financial objectives approved by government.

2009/10 HIGHLIGHTS

Net income for fiscal 2009/10 was \$877.3 million which was \$18.8 million or 2.1 per cent below target. Compared to fiscal 2008/09, net income was \$13.8 million or 1.6 per cent lower. Despite this, the LDB met its total sales budget of \$2.85 billion which was \$60 million or 2.1 per cent higher than last year.

This reduction in net income performance relative to sales was caused by a shift in purchasing patterns from higher margin spirit products to lower margin beer and refreshment beverage products. The LDB believes that this consumer shift to lower cost products was related to the world recession which existed for most of the fiscal year and expects historical purchasing patterns to return as the economy improves.

In July 2010, LDB product mark-ups will be increased when the Harmonized Sales Tax (HST) is implemented in order to partially recover lost government revenue associated with the three per cent reduction in provincial liquor sales tax. The increase in mark-up revenue is reflected in the LDB's net income targets for 2010/11 and 2011/12.

The following charts show historical sales by the different product categories in dollars and litres.

Sales by Major Category (\$000s)

	2009/10	2008/09	2007/08	2006/07	2005/06	Change vs Previous Year	
						\$	%
Domestic Spirits	411,227	426,101	410,071	389,181	366,999	(14,874)	(3.5)
Import Spirits	318,559	314,827	294,881	267,723	239,560	3,732	1.2
Total Spirits	729,786	740,928	704,952	656,904	606,559	(11,142)	(1.5)
Domestic Wine	373,279	354,793	330,221	304,000	277,431	18,486	5.2
Import Wine	455,269	460,576	444,745	386,835	338,881	(5,307)	(1.2)
Total Wine	828,548	815,369	774,966	690,835	616,312	13,179	1.6
Domestic Refreshment	104,350	91,467	89,656	90,878	85,749	12,883	14.1
Import Refreshment	20,827	23,467	18,454	12,681	9,950	(2,640)	(11.2)
Total Refreshment	125,177	114,934	108,110	103,559	95,699	10,243	8.9
Domestic Beer	918,399	897,135	885,342	868,997	839,227	21,264	2.4
Import Beer	243,785	213,917	195,536	177,598	149,111	29,868	14.0
Total Beer	1,162,184	1,111,052	1,080,878	1,046,595	988,338	51,132	4.6
Miscellaneous/Special Orders	8,377	12,247	10,560	11,232	11,735	(3,870)	(31.6)
Total Sales	2,854,072	2,794,530	2,679,466	2,509,125	2,318,643	59,542	2.1

Sales by Major Category in Litres (000s)

	2009/10	2008/09	2007/08	2006/07	2005/06	Change vs Previous Year	
						\$	%
Domestic Spirits	14,846	15,867	15,829	15,488	15,152	(1,021)	(6.4)
Import Spirits	9,858	9,877	9,502	8,909	8,216	(19)	(0.2)
Total Spirits	24,704	25,744	25,331	24,397	23,368	(1,040)	(4.0)
Domestic Wine	30,299	29,044	27,766	26,781	25,763	1,255	4.3
Import Wine	28,490	28,298	27,710	25,087	22,726	192	0.7
Total Wine	58,789	57,342	55,476	51,868	48,489	1,447	2.5
Domestic Refreshment	22,938	19,165	18,799	19,267	18,387	3,773	19.7
Import Refreshment	3,454	3,970	3,061	2,048	1,471	(516)	(13.0)
Total Refreshment	26,392	23,135	21,860	21,315	19,858	3,257	14.1
Domestic Beer	241,385	236,782	240,933	239,868	237,338	4,603	1.9
Import Beer	52,363	46,357	43,671	39,356	33,274	6,006	13.0
Total Beer	293,748	283,139	284,604	279,224	270,612	10,609	3.7
Miscellaneous/Special Orders	163	164	187	194	201	(1)	(0.6)
Total Sales	403,796	389,524	387,458	376,998	362,528	14,272	3.7

GOAL I: FINANCIAL PERFORMANCE TARGETS AND RESULTS 2009/2010

GOAL

- Meet financial objectives approved by government

STRATEGY

- Grow sales and effectively manage operating expenses

Performance Measure	Targets (000s)	Result
Net Income (\$ millions)	09/10 – \$896.1 10/11 – \$973.7 11/12 – \$1,013.5	Net income was \$877.3 million, \$18.8 million below target. This decrease was due to a shift in customer purchasing patterns from higher margin spirit products to lower margin beer and refreshment beverage products. The LDB's net income is the contribution made to the provincial government by the LDB from the total sales of liquor in the province and is audited by the BC Auditor General. LDB net income is an important source of funding for government programs and services and accounts for approximately 2.4 per cent of total government revenue. Previous years: 08/09 - \$891.1 million, 07/08 - \$857.2 million, 06/07 - \$840.3 million

GOAL 2: Workplace Quality and Employee Excellence

Create a work environment that encourages greater employee engagement.

2009/10 HIGHLIGHTS

Succession Management and Leadership Development

The LDB's succession management plan focuses on the development of internal employees so that they will be qualified to fill key position vacancies in the future. During 2009/10 the LDB began sending high performing potential successors to the UBC Sauder School of Business' Accelerated Leadership Program. The LDB also engaged the UBC Sauder School of Business to develop a Strategic Leadership Framework that the LDB will use to develop an Internal Leadership Development Program for LDB management.

Recruitment

In 2009, the LDB developed and implemented a recruitment campaign targeting two types of prospective employees. *JUMP* is designed to attract the younger workforce to retail career opportunities with BC Liquor Stores and *STEP* targets individuals interested in the LDB's administrative and management opportunities. The LDB was recognized as one of "BC's Top 55 Employers for 2009" by Mediacorp Canada. This distinction helps to attract skilled external candidates to opportunities with the LDB. In order to improve internal employee skills in applying for positions, a program was also developed to improve resume writing and interview skills.

Training

During 2009/10, LDB employees participated in over 5,000 internal and external training opportunities. An important focus of training for this year was customer service and product knowledge training for store employees. A customized training program titled "Serving World Citizens" was provided to employees that worked in stores close to the 2010 Olympic and Paralympic Winter Games venues.

Grapevine

In 2009/10, the LDB re-vamped the quarterly employee newsletter — *Grapevine* — to improve communications with employees, one of the identified areas of opportunity from the 2009 Workplace Environment Survey.

Employee Wellness

The LDB expanded its newsletter *Live Well – Work Well*, which provides employees with practical tips to improve their health. In the fall of 2009, 400 employees participated in a Wellness Challenge in order to improve their personal lifestyles and fitness levels.

GOAL 2: WORKPLACE QUALITY AND EMPLOYEE EXCELLENCE TARGETS AND RESULTS 2009/2010

GOAL

- Create a work environment that encourages greater employee engagement

STRATEGIES

- Enhance staff skills and engagement through management development, employee training and increased communication
- Implement succession management plans for the organization
- Provide a safe, healthy and harassment-free workplace

Performance Measure	Targets	Result
Employee Engagement	09/10 – 70 10/11 – 72 11/12 – 74	<p>The LDB's Employee Engagement score for fiscal 2009/10 was 71 compared to the target of 70 and last year's score of 68. The fiscal 2009/10 score for the provincial public service was 68. BC Stats, the central statistical agency of the provincial government, conducts the LDB's annual Workplace Environment Survey (WES). BC Stats conducts the same survey for the provincial public service. The survey asks employees approximately 70 questions focused on 12 themes. The scores for all the questions in the WES are summarized into a single "Employee Engagement" score. The LDB uses the WES survey to determine areas of employee concern that need attention.</p> <p>Previous years: 08/09 - 68, 07/08 - Target not measured, 06/07 - 66</p>

GOAL 3: CUSTOMER EXPERIENCE

Maintain the high level of wholesale and retail customer satisfaction.

2009/10 HIGHLIGHTS

Retail Customer Service

A number of retail customer service initiatives were implemented in fiscal 2009/10, many of which are associated with the LDB's on-going efforts to create a consistent brand image for the BC Liquor Store chain, including:

Store Upgrades

In order to maintain a consistent level of quality for the 197 store chain, the LDB upgrades a selection of stores each year. During fiscal 2009/10, the LDB completed 18 store remodels, some of which included relocations to more suitable premises, and made minor renovations to a further 35 stores.

Olympic-themed Stores

During the 2010 Olympic and Paralympic Winter Games, a celebratory winter theme welcomed the world to the 22 BC Liquor Stores located near venue sites. Employees who spoke languages other than English were identified with country of origin badges to provide the many international visitors with service in their own language. Employees in these stores were also given a customized training program titled "Serving World Citizens."

Staff Training

In fiscal 2009/10, a Signature Training Program was introduced to provide store employees with skills in customer service, basic and advanced selling, staff coaching and mentoring. In addition, all LDB employees have access to the internationally-recognized Wine and Spirit Education Trust product knowledge courses. Currently, more than 1,000 of our store employees are enrolled. Next year, a store management program to assist in the development of new managers will be introduced.

TASTE Magazine

TASTE is a publication distributed in BC Liquor Stores that includes articles on beverage alcohol products, food and entertaining ideas written by well known wine and food experts. *TASTE* is very well received by BC Liquor Store customers and in fiscal 2009/10 distribution volume increased by 25 per cent to 500,000 copies and magazine content increased by approximately 20 per cent. *TASTE* is also available on the LDB website: **bclldb.com**.

Wine Information

Savvy Sippers and *90 Point Wines* – In fiscal 2009/10, the LDB implemented two in-store wine information initiatives that use shelf talkers to identify wines of interest to customers. *Savvy Sippers* identifies wines priced under \$20 per bottle that offer an exceptional combination of price and quality and *90 Point Wines* identifies high quality wines that have received a 90 point or higher rating from internationally acclaimed wine experts.

Website

The BC Liquor Store's website **bcliquorstores.com** was re-launched in fiscal 2009/10 with enhanced content, improved appearance and a better search tool.

Wholesale Customer Service

With the significant expansion of private retailers in recent years, the LDB has been enhancing its service capability to wholesale customers out of its two wholesale centres in Vancouver and Kamloops. In fiscal 2009/10, the LDB served approximately 1,800 bars, restaurants and private retailers out of the two wholesale centres. Initiatives to improve customer service from the wholesale centres included:

LDB Webstore

In fiscal 2009/10, the LDB fully implemented its internet-based wholesale customer order system referred to as *LDB Webstore*. Orders are processed 24/7 and wholesale customers receive direct shipments from the LDB's Wholesale Centre. By fiscal year end, 108 wholesale customers registered with *LDB Webstore* and product orders totalled \$68 million.

Vancouver Call Centre

A new telephone system was implemented at the Vancouver Wholesale Centre in 2009/10 that more efficiently processes customer telephone orders and queries. The system also provides management with detailed usage data which results in more efficient scheduling of staff.

GOAL 3: CUSTOMER EXPERIENCE TARGETS AND RESULTS 2009/10

GOAL	STRATEGIES
<ul style="list-style-type: none"> Maintain the high level of wholesale and retail customer satisfaction 	<ul style="list-style-type: none"> Continuously refresh the store network Continuously provide enhanced customer services

Performance Measure	Targets	Result
Retail Customer Satisfaction	09/10 – N/A 10/11 – 90% 11/12 – N/A	The retail customer satisfaction rating is determined by a survey of BC Liquor Store retail customers conducted by a professional survey company. This survey is conducted once every two years to provide customers an adequate amount of time to experience LDB service initiatives which often take more than one year to fully implement. A survey was not conducted in 2009/10 and the next survey will be conducted in 2010/11. Previous years: 08/09 - 99%, 07/08 - 98%, 06/07 - 98%
Wholesale Customer Satisfaction	09/10 – N/A 10/11 – 90% 11/12 – N/A	The wholesale customer satisfaction rating is determined by a survey of a sample of wholesale customers (bars, restaurants and private retailers) conducted by a professional survey company. The survey is conducted every two years. The next survey will be conducted in 2010/11. Previous years: 08/09 - 80%, 07/08 - Target not measured, 06/07 - 90%

GOAL 4: BUSINESS EFFECTIVENESS

Maintain operating efficiencies in a climate of constant change.

2009/10 HIGHLIGHTS

Preparing for the World

Preparing for the 2010 Olympic and Paralympic Winter Games required a significant amount of logistics and planning. Leading up to and during the Games, the LDB worked closely with a wide range of stakeholders including; VANOC, the Department of Foreign Affairs and International Trade, Canada Border Services Agency, Liquor Control and Licensing Branch, City of Vancouver, Vancouver Police and over 85 international delegations. This advanced planning and preparation ensured that our retail and wholesale customers were well served throughout the Games.

Recorded Information Management System

The LDB implemented an electronic records management system to manage corporate records in a digital rather than paper format. This system improves access and record sharing within a secure environment and reduces costs associated with record creation, storage and destruction. In addition, this initiative reduces the LDB's carbon footprint.

Point of Sale Register Upgrades

The LDB upgraded its aging Point of Sale (POS) cash register equipment in all BC Liquor Stores. This upgrade will ensure the ongoing reliability of the LDB's POS systems and enable a future software upgrade that will provide greater functionality. This new equipment accepts "chip and pin" credit cards and is an important milestone in achieving compliance with Payment Card Industry (PCI) standards to protect customer credit card information.

Business Continuity

The LDB established a data centre at its Kamloops Distribution Centre to ensure the LDB has back-up systems in the case of a major outage. This data centre is an important part of the LDB's business continuity and disaster recovery programs.

GOAL 4: BUSINESS EFFECTIVENESS TARGETS AND RESULTS 2009/10

GOAL	STRATEGIES
<ul style="list-style-type: none"> Maintain operating efficiencies in a climate of constant change 	<ul style="list-style-type: none"> Maximize the potential efficiencies available through improved distribution operations Increase the use of available, current and cost-effective technology

Performance Measure	Targets	Result
BC Liquor Stores Sales Per Square Foot	09/10 – \$1,301 10/11 – \$1,354 11/12 – \$1,391	In fiscal 2009/10 sales per square foot was \$1,270, 2.4 per cent below the target of \$1,301. This decline is attributable to a greater shift of wholesale customers from the store system to the Wholesale Customer Centres than was anticipated. This indicator is based on the annual dollar sales of the store system divided by total store system square footage. This measures how well the LDB converts its floor space into sales. Previous years: 08/09 - \$1,269, 07/08 - \$1,224, 06/07 - \$1,167

GOAL 4: BUSINESS EFFECTIVENESS TARGETS AND RESULTS 2009/10 *continued*

GOAL

- Maintain operating efficiencies in a climate of constant change

STRATEGIES

- Maximize the potential efficiencies available through improved distribution operations
- Increase the use of available, current and cost-effective technology

Performance Measure	Targets	Result
Distribution Centre Labour Cost Per Case Shipped	09/10 – \$1.69 10/11 – \$1.69 11/12 – \$1.69	This productivity measure is calculated by dividing total Distribution Centre labour expenses by total case shipments. For fiscal 2009/10 the result was \$1.73 per case, 2.4 per cent below the target of \$1.69 per case. The below target result is attributable to management’s decision to increase staffing levels during the 2010 Olympic and Paralympic Winter Games to minimize the possibility of product order delays. Previous years: 08/09 - \$1.70, 07/08 - \$1.67, 06/07 - \$1.70
Distribution Centre Order Fill Rate	09/10 – 90% 10/11 – 90% 11/12 – 90%	The result for fiscal 2009/10 was 92.2 per cent, exceeding the target of 90 per cent. This common distribution industry measure is calculated by dividing the number of ordered items that are filled completely by the total number of items ordered. It includes orders made by the LDB store system and by wholesale customers that are served out of the Distribution Centres. Previous years: 08/09 - Target not measured, 07/08 - Target not measured, 06/07 - Target not measured

GOAL 5: CORPORATE RESPONSIBILITY

Encourage the responsible use of beverage alcohol.

2009/10 HIGHLIGHTS

Support Dry Grad

BC Liquor Store customers donated \$594,000 in 2009/10 to support alcohol-free high school graduation events in their communities. During the campaign, customers are encouraged to donate one dollar or more. The LDB then provides 100 per cent of these funds to school districts for distribution to local Dry Grad event organizers. Since the inception of the program in 2001, a total of \$3.4 million has been raised.

Canadian Red Cross Haiti Earthquake Relief Fund

On behalf of the Canadian Red Cross, the LDB facilitated BC Liquor Store customer donations to the Haiti Earthquake Relief Fund. This month-long campaign raised \$350,000 for the Canadian Red Cross and the funds were eligible for the federal matching program.

Share-a-Bear

For 21 years, the LDB has sold plush teddy bears every November and December in its BC Liquor Stores. Every bear sold has a twin and this “twin” is donated by BC Liquor Stores to a children’s charity. Employees at BC Liquor Stores select the local charities to support, which include Christmas stocking funds, hospitals, police and ambulance services, and other community groups. In fiscal 2009/10, 30,500 bears were donated to charities.

Provincial Employee Community Services Fund

In 2009/10, LDB employees generously donated \$189,000 to the Provincial Employee Community Services Fund through personal contributions and fundraising events. Donated funds support charities throughout BC.

Easter Seal 24 Hour Relay for the Kids

The LDB’s Beer-O-Crats participate in this annual 24-hour relay to raise funds to support Easter Seal Camps in BC for children with disabilities. In 2009, the LDB team raised \$11,700, and over \$100,000 since joining the event in 1995.

Environment

The LDB worked on a number of initiatives to reduce its energy consumption and carbon footprint. Efforts to promote re-usable shopping bags or to encourage customers to take their purchase without a bag have reduced plastic bag usage by 25 per cent since 2008. The LDB began using the provincial government’s “Smart Tool” to measure its greenhouse gas emissions.

GOAL 5: CORPORATE RESPONSIBILITY TARGETS AND RESULTS 2009/10

<p>GOAL</p> <ul style="list-style-type: none"> Encourage the responsible use of beverage alcohol 	<p>STRATEGIES</p> <ul style="list-style-type: none"> Prevent sales to minors or intoxicated persons in BC Liquor Stores through increased staff education and enforcement of ID-checking requirements Promote awareness of responsible use by continuing co-operative programs with suppliers and other stakeholders
--	---

Performance Measure	Targets	Results
<p>Store Compliance with ID-Checking Requirement</p>	<p>09/10 – 100% 10/11 – 100% 11/12 – 100%</p>	<p>The provincial identification (ID) checking requirement for liquor purchases is to ask for two pieces of ID for persons that look to be 19 years of age or younger. Each year, the Liquor Control and Licensing Branch (LCLB) conducts an ID checking compliance program at a sample of LDB stores using young-looking “mystery shoppers.” The LDB uses the summarized results for its performance measure (the total number of purchases attempted divided by the number of times the proper ID was requested by staff). LCLB did not conduct an ID compliance program for fiscal 2009/10 because staff resources were fully engaged in preparations for the 2010 Olympic and Paralympic Winter Games. The program will resume in fiscal 2010/11.</p> <p>Previous years: 08/09 – 56%, 07/08 – 77%, 06/07 – Target not measured</p>
<p>Customer Awareness of LDB Corporate Responsibility Programs</p>	<p>09/10 – N/A 10/11 – 90% 11/12 – N/A</p>	<p>The LDB places posters and other promotional materials in its stores that encourage the responsible use of beverage alcohol. The themes, e.g. preventing drinking and driving and preventing underage drinking, change every month. The LDB measures customer recall of this promotional material through the same customer survey the LDB uses to rate its customer service performance (see Goal 3). This survey is conducted every two years. The next survey will be conducted in 2010/11.</p> <p>Previous years: 08/09 – 88%, 07/08 – 89%, 06/07 – 96%</p>

Benchmarking

In 2009, with the assistance of consultants PriceWaterhouseCoopers LLP, the LDB benchmarked itself against a number of other organizations including: four provincial liquor boards, three non-Canadian government liquor authorities, three private distribution organizations and two private retailers. A total of 15 different measures were reviewed and results from the five most commonly used ones are shown below.

There are important differences in the operations and mandate of the LDB compared to most of these organizations and this affects their comparability. The LDB's relative performance to these organizations is shown below. Certain performance measures were only relevant to a selection of the organizations.

Benchmark Criteria	Performance Trend Ranking		Comparable Organizations
	WORST ←	→ BEST	
Financial Performance			
Operating Costs as a Percentage of Total Sales	LDB		8
Net Income as a Percentage of Total Sales	LDB		11
Operating Efficiency – GLSs			
GLS Sales per GLS FTE	LDB		6
Operating Efficiency – Distribution Centres			
Distribution Centres Cost per Case per Year	LDB		5
People			
Vacancy Rate	LDB		5

Operating Costs as a Percentage of Total Sales

This measure indicates the overall operational efficiency of an organization and represents the per cent of each sales dollar that is used for operating costs.

Net Income as a Percentage of Total Sales

This is a measure of the overall health and profitability of the organization, and represents the per cent of each sales dollar that is generated for government in the case of the public organizations such as the LDB, or to shareholders in the case of private companies.

GLS Sales per GLS FTE

This measures the productivity of GLS staff in terms of sales generation. FTE stands for "Full Time Equivalent" and is equal to the number of person-years of employment worked by staff.

Distribution Centre Cost per Case per Year

This measures how cost effective distribution centres are on a volume basis.

Vacancy Rate

This is a measure of the number of vacant staff positions relative to the total number of FTEs. It is a reflection of an organization's people management as it is affected by employee morale and staff turnover.

Shareholder’s Letter of Expectations

A key component of the LDB’s governance framework is the Shareholder’s Letter of Expectations — an agreement between the Minister (on behalf of the Government of British Columbia) and the General Manager of the LDB.

This document establishes the LDB’s mandate and identifies the Government’s strategic priorities and performance expectations for the LDB. Selected direction from Government and the status of the LDB’s actions to implement this direction is shown in the attached chart. The full document is available on the LDB’s website at bcldb.com/annual-report.

GOVERNMENT DIRECTION	LDB ALIGNMENT
<p>Inform the Shareholder on a regular basis of any major changes occurring or likely to occur in the beverage alcohol market, or within the LDB itself, that may impact on the LDB’s achievement of its Service Plan targets either negatively or positively.</p>	<p>The LDB reports financial results to the Shareholder on a monthly basis and regularly notifies the Shareholder of major changes likely to affect the beverage alcohol market or the LDB’s achievement of its Service Plan targets.</p>
<p>Comply with the Shareholder’s and LCLB’s direction to rationalize and improve the regulatory framework for the importation, distribution and retailing of beverage alcohol products in British Columbia.</p>	<p>The LDB complies with the direction of the Shareholder and LCLB.</p>
<p>Comply with the Shareholder’s and LCLB’s direction to deliver social responsibility programs and service delivery rules and regulations.</p>	<p>The LDB complies with the direction of the Shareholder and LCLB.</p>
<p>Implement financial reporting that clearly segregates retail and distribution operations to enable transparent disclosure of costs at the retail and wholesale levels.</p>	<p>The LDB provides quarterly reporting to the Shareholder for segmented retail and wholesale operations.</p>
<p>Comply with the Shareholder’s requirements to make the Public Sector carbon neutral by 2010.</p>	<p>The LDB began using the Smart Tool greenhouse gas measurement system and worked on a number of initiatives to reduce its carbon footprint.</p>

2009/2010 Financial Report



MANAGEMENT DISCUSSION AND ANALYSIS

ACTUAL 2009/10 FINANCIAL RESULTS COMPARED TO 2008/09 ACTUAL RESULTS

Fiscal 2009/10 was the LDB's 18th consecutive year of sales growth. Gross sales were \$2.85 billion, an increase of \$59.5 million over last year.

Commissions and discounts were \$198.3 million, which was \$7.8 million higher than fiscal 2008/09. This is due to increased wholesale sales and more sales in the direct delivery channel.

Operating expenses were 9.7 per cent of sales for the fiscal year, which is the same as fiscal 2008/09. Operating expenses were \$5.9 million higher than fiscal 2008/09 and the largest changes occurred in the following areas:

- employment expenses increased \$7.2 million due to negotiated salary increases, higher benefit rates, and 34 more staff (full time staff equivalent hours);
- rents increased \$1.8 million due to existing lease contracts and higher rents in urban areas as leases are renewed;
- amortization increased \$1.1 million due to projects that were completed during the year and were put in use; and
- professional fees decreased \$2.2 million as planned programs were not started during fiscal 2009/10.

Compared to fiscal 2008/09, net income was \$877.3 million, a decrease of \$13.8 million. LDB net income as a percentage of sales decreased to 30.7 per cent from 31.9 per cent in the previous year. This decrease is due to the shift in sales from the retail channel (35.1 per cent) to the wholesale channel (27.8 per cent), the increase in direct delivered 100 per cent BC wine products which result in no markup to the LDB, and the shift in product mix from spirits to beer and refreshment beverages.

SUMMARY OF FINANCIAL RESULTS OVER 5 YEARS

For the five years ended March 31, 2010 (all dollar figures in \$000)

	Actual 2009/10	Budget 2009/10	Actual 2008/09	Actual 2007/08	Actual 2006/07	Actual 2005/06
Gross Sales	2,854,072	2,854,172	2,794,530	2,679,466	2,509,125	2,318,643
Cost of Sales	1,515,289	1,480,440	1,451,244	1,396,466	1,276,167	1,170,772
Gross Margin	1,140,494	1,180,721	1,152,762	1,103,040	1,090,834	1,022,929
Operating Expenses	275,875	291,811	269,954	256,058	256,302	242,428
Operating Income	864,619	888,910	882,808	846,982	834,532	780,501
Net Income	877,276	896,047	891,117	857,216	840,286	800,471
Gross Margin (%)	40.0%	41.4%	41.3%	41.2%	43.5%	44.1%
Operating Expenses to Sales (%)	9.7%	10.2%	9.7%	9.6%	10.2%	10.5%
Net Income to sales (%)	30.7%	31.4%	31.9%	32.0%	33.5%	34.5%
Inventory Turnover	17	16	17	18	19	19

Data source: LDB Oracle Financial System

Capital expenditures increased to \$18.9 million from \$16.9 million in the previous year. Capital expenditures included: the Kamloops data centre; the financial business improvement project; regulatory changes; and the completion of the recorded information management system. In addition, there were ongoing operational capital needs and tenant improvements for GLSs.

During fiscal 2009/10, the customer count at GLSs increased by 11.3 per cent, or 3.9 million customers to 38.4 million, partly due to the 2010 Olympic and Paralympic Winter Games. The average retail customer transaction value at GLSs increased marginally from \$31.35 to \$31.43. This marginal increase can be attributed to a change in product preference from spirits to beer and refreshment beverages.

Overall inventory turns for the LDB have remained constant at 17 times. This indicates that the average number of days that the LDB holds inventory has remained at 21 days. Inventory turns at the GLSs remained at 16 turns per year. The stability of the inventory turns reflects the LDB's close monitoring of warehouse and store inventories with the changing product mix during fiscal 2009/10.

SUMMARY OF OPERATIONS

(all \$ figures in \$000s)

	Actual 2009/10	Budget 2009/10	Change vs. 2009/10 Budget	Actual 2008/09	Change vs. 2008/09 Actual
Gross Sales	2,854,072	2,854,172	(100)	2,794,530	59,542
Net Income	877,276	896,047	(18,771)	891,117	(13,841)
Capital Expenditures	18,935	21,052	(2,117)	16,865	2,070
Gross Margin %	40.0%	41.4%	(1.4%)	41.3%	(1.3%)
Operating Income to Sales	30.3%	31.1%	(0.8%)	31.6%	(1.3%)
Operating Expenses to Sales	9.7%	10.2%	(0.5%)	9.7%	-
Net Income to Sales	30.7%	31.4%	(0.7%)	31.9%	(1.2%)
Inventory Turnover	17	16	1 time	17	-
Customer Count	38,403	N/A	N/A	34,516	3,887
Average Transaction \$ Value	\$ 31.43	\$ 31.05	\$ 0.38	\$ 31.35	\$ 0.08

Data source: LDB Oracle Financial System

Retail and Wholesale Channels

The segmented information provided below allocates the financial results into the retail and wholesale channels. The retail channels include all counter sales in GLSs, and wholesale represents all other sales.

An Activity-Based Costing analysis between the retail and wholesale channels, which allocates expenses between the two channels, was done based on activities in fiscal 2006/07. This analysis was updated during fiscal 2009/10 based on the previous fiscal year's activity and will be used in the fiscal 2010/11 segmentation.

For the retail channel, the net income as a percentage of sales increased from 34.6 to 35.1 per cent. The channel experienced a 2.1 per cent increase in sales. However, the cost of products only increased 1.5 per cent due to the mix of products sold through the retail channel. Operating expenses as a percentage of sales has remained constant.

RETAIL RESULTS

Retail <i>in millions \$</i>	Actuals 2009/10	%	Actuals 2008/09	%	% Change
Sales	1,160.3	100.0%	1,136.2	100.0%	2.1%
Cost of Sales	563.2	48.5%	554.9	48.8%	1.5%
Operating Expenses	196.4	16.9%	192.0	16.9%	2.3%
Other Income	6.4	0.6%	4.2	0.4%	52.4%
Net Income	407.1	35.1%	393.5	34.6%	3.5%

For the wholesale segment, the net income as a percentage of sales decreased to 27.8 per cent from 30.0 per cent. The segment experienced a 2.1 per cent increase in sales but a 4.1 per cent increase in discounts and 6.2 per cent increase in cost of sales. This increase in discounts reflects an increase in LRS market share. The wholesale segment has a higher proportion of beer sales than the retail segment which results in an overall lower return due to the lower mark-up rate on beer. In addition, direct delivery sales of 100 per cent BC wine products by BC wineries do not result in any mark-up to the Branch.

WHOLESALE RESULTS

Wholesale <i>in millions \$</i>	Actuals 2009/10	%	Actuals 2008/09	%	% Change
Sales	1,693.8	100.0%	1,658.3	100.0%	2.1%
Commissions & Discounts	198.3	11.7%	190.5	11.5%	4.1%
Cost of Sales	952.1	56.2%	896.3	54.1%	6.2%
Operating Expenses	79.5	4.7%	78.0	4.7%	1.9%
Other Income	6.3	0.4%	4.1	0.3%	53.7%
Net Income	470.2	27.8%	497.6	30.0%	(5.5%)

Product Categories

Overall, the product mix shifted from spirits and wines to beer and refreshment beverages.

With the exception of spirits, all major product categories experienced growth in dollar sales. The largest percentage dollar increase was in the refreshment beverage category at 8.9 per cent or \$10.2 million. Sales in the beer category increased by 6 per cent with packaged beer increasing by \$45.2 million or 4.6 per cent and draught beer increasing by \$5.9 million or 4.4 per cent. Sales in the wine category increased by \$13.2 million or 1.6 per cent. Spirits decreased by \$11.1m or 1.5 per cent. Specialty and non alcoholic sales decreased by \$3.9 million or 31.6 per cent from the previous year.

Sales volume increased in all major categories except spirits and specialty and non-alcoholic. The refreshment beverage category had the largest percentage volume increase at 14.1 per cent over the previous year, followed by beer at 3.7 per cent—packaged (4 per cent) and draught (2.2 per cent)—and wine at 2.5 per cent. Spirits decreased by 4 per cent and non-alcoholic volumes decreased by 0.6 per cent.

PRODUCT CATEGORY CHANGES

	% Change in Sales \$ from Previous Year		% Change in Sales Volume (Litres) from Previous Year	
	Domestic	Import	Domestic	Import
Spirits	(3.5)	1.2	(6.4)	(0.2)
Wine	5.2	(1.2)	4.3	0.7
Beer	2.4	14.0	1.9	13.0
Refreshment	14.1	(11.2)	19.7	(13.0)

Market Share

LRSs and agency stores purchase their product from the LDB at discounts ranging from 10 to 30 per cent. During the year, the share of the liquor market accounted for by these outlets increased to 41.7 per cent from 41.3 per cent.

PROVINCIAL SALES BY SOURCE

For the five years ended March 31, 2010 (as a percentage of total dollar sales)

	2009/10	2008/09	2007/08	2006/07	2005/06
Counter Sales					
Government Liquor Stores (%)	40.7	40.7	40.5	42.7	45.3
Licensee Retail Stores (%)	33.5	33.0	32.3	30.1	28.0
Agency Stores (%)	8.2	8.3	8.1	8.3	7.5
Total Counter Sales (%)	82.4	82.0	80.9	81.1	80.8
Licensed Establishments (%)	17.6	18.0	19.1	18.9	19.2
Total Sales (%)	100.0	100.0	100.0	100.0	100.0

Data source: LDB Oracle Financial System

COUNTER SALES BY SOURCE

For the five years ended March 31, 2010 (as a percentage of total dollar sales)

	2009/10	2008/09	2007/08	2006/07	2005/06
Counter Sales					
Government Liquor Stores (%)	49.3	49.6	50.0	52.7	56.0
Licensee Retail Stores (%)	40.7	40.3	39.9	37.1	34.7
Agency Stores (%)	10.0	10.1	10.1	10.2	9.3
Total Counter Sales Market (%)	100.0	100.0	100.0	100.0	100.0

Data source: LDB Oracle Financial System

FUTURE OUTLOOK

The table below outlines the LDB's financial forecast for the next three years. The financial forecast incorporates several key assumptions:

Sales assumptions, based on market trends by product categories, include:

- increases of 4.4 per cent, 2.9 per cent and 2.3 per cent over the next three years due to inflationary trends and HST markup adjustments; and
- growth in sales is expected to be realized in both the wholesale and retail segments and the market share between retail to wholesale is expected to be stable for 2010/11 and the following two years.

Overall volume changes for all product categories are expected to be less than 1 per cent from the levels in fiscal 2009/10.

Continued growth in direct delivered 100 per cent BC wine products and the shift in market between product categories is expected to result in a lower return on total sales.

Cost of sales as a percentage of sales is estimated to decline in 2010/11 to 50.8 per cent and in 2011/12 to 50.5 per cent due to the HST markup adjustment which becomes effective July 1, 2010.

Operating expense assumptions include:

- no labour cost increases for fiscal 2010/11 or 2011/12;
- higher rents especially in the urban regions;
- greater amortization due to implementation of capital projects and store improvements; and
- increased costs due to compliance with PCI standards and increasing credit card charges (premium cards and merchant fees).

Capital requirements reflect expenditures for updating and improving stores, technology-related projects and ongoing equipment replacement. The increase in capital requirements for 2011/12 and 2012/13 reflects funding for the replacement of the POS system in the GLSs.

The financial forecasts reflect accounting treatment that is consistent with current Canadian generally accepted accounting principles.

BUDGET AND FORECASTS

(in \$millions)

	Budget 2010/11	Forecast 2011/12	Forecast 2012/13
Total Sales	2,969.4	3,056.7	3,126.3
Commissions and Discounts	198.0	203.6	208.1
Cost of sales	1,507.9	1,544.2	1,580.0
Operating Expenses	296.9	302.9	306.5
Other income	7.1	7.5	7.5
Net Income	973.7	1,013.5	1,039.2
Capital	23.9	32.2	34.9

The tables below reflect the LDB's forecast for the retail and wholesale channels for the next three years.

Retail and Wholesale Channels Budget and Forecasts

SUMMARY FINANCIAL OUTLOOK (RETAIL)

(in \$millions)

	Projection Fiscal 2010/11	Projection Fiscal 2011/12	Projection Fiscal 2012/13
Total Sales	1,235.0	1,271.2	1,299.6
Cost of Sales	593.2	610.5	624.0
Operating Expenses	209.3	213.5	216.1
Other Income	3.6	3.8	3.8
Net Income	436.1	451.0	463.3

SUMMARY FINANCIAL OUTLOOK (WHOLESALE)

(in \$millions)

	Projection Fiscal 2010/11	Projection Fiscal 2011/12	Projection Fiscal 2012/13
Total Sales	1,734.4	1,785.5	1,826.7
Commissions and Discounts	198.0	203.6	208.1
Cost of Sales	914.7	933.7	956.0
Operating Expenses	87.6	89.4	90.4
Other Income	3.5	3.7	3.7
Net Income	537.6	562.5	575.9

Risk Management

The LDB Executive Management Committee meets monthly to discuss service plan performance, risks and mitigating strategies.

In view of the uncertainty of the economic climate, the LDB will be more closely monitoring its financial performance by comparison to previous year and budget in order to ensure that actions are taken to mitigate any risk as soon as possible.

In 2009, the LDB reviewed the Enterprise Wide Risk Assessment done in 2008 and confirmed the key risks which are being addressed. The LDB currently has a number of projects in progress to address the business and technology risks. These include the Financial Business Improvement Project, the Payment Card Industry Data Security Standards (PCI DSS) Compliance Program and the conversion to International Financial Reporting Standards. The PCI DSS project is being done as part of the overall provincial government program.

RISK FACTORS AND SENSITIVITIES	MITIGATING STRATEGIES
<p>ECONOMY</p> <p>Liquor is a discretionary consumer product and sales are negatively impacted by poor economic conditions.</p>	<p>> The LDB will carefully monitor sales and operating expenses and will make the necessary adjustments in order to achieve net income target.</p>
<p>INFORMATION TECHNOLOGY</p> <p>The upgrading of information systems and reviewing of business processes are key in the delivery of efficient and effective services to all of the LDB’s customers. The replacement of older, difficult-to-maintain systems with new systems creates challenges in ensuring integration of applications and ensuring accurate information.</p>	<p>> The LDB is replacing older systems on a scheduled basis and is working to improve the overall integration of systems.</p>
<p>PAYMENT CARD INDUSTRY COMPLIANCE</p> <p>In order for the LDB to provide credit card service in BC Liquor Stores, it must comply with the new PCI DSS.</p>	<p>> The LDB is developing and implementing a PCI compliance program that coordinates with the government-wide efforts currently underway.</p>
<p>RECRUITING AND RETENTION OF SKILLED EMPLOYEES</p> <p>The LDB and many other organizations are experiencing difficulties in staffing key positions due to retirements.</p>	<p>> The LDB has a focus on succession planning in order to recruit skilled employees from outside the organization and to support the career development of employees within the organization.</p>

Management's Responsibility For Financial Reporting

The financial statements of the British Columbia Liquor Distribution Branch have been prepared by management in accordance with Canadian generally accepted accounting principles. Any financial information contained elsewhere in the annual report has been reviewed to ensure consistency with the financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records are properly maintained to facilitate the preparation of financial statements in a timely manner.

The Office of the Auditor General of British Columbia has performed an independent audit of the financial statements of the Liquor Distribution Branch. The Auditor's Report outlines the scope of this independent audit and expresses an opinion on the financial statements of the Liquor Distribution Branch.



Jay Chambers
General Manager



Roger M. Bissoondatt, CA, CMA
Chief Financial Officer

Vancouver, British Columbia
June 4, 2010



Report of the Auditor General of British Columbia

*To the Minister of Housing and Social Development
Province of British Columbia:*

I have audited the balance sheet of the *British Columbia Liquor Distribution Branch* as at March 31, 2010, and the statements of operations, advance due to Province of British Columbia and cash flows for the year then ended. These financial statements are the responsibility of the Branch's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *British Columbia Liquor Distribution Branch* as at March 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia
June 4, 2010*

John Doyle, MBA, CA
Auditor General

Audited Financial Statements

British Columbia Liquor Distribution Branch

BALANCE SHEET

(in \$000s)

As at March 31,

	2010	2009
		(note 17)
ASSETS		
CURRENT ASSETS		
Cash	6,724	502
Accounts receivable	5,307	7,444
Inventories (note 3)	89,974	91,202
Prepaid expenses (note 4)	4,294	4,332
	<u>106,299</u>	<u>103,480</u>
LONG TERM ASSETS		
Prepaid expenses – long term (note 4)	2,090	2,855
Intangible Assets (note 5)	4,560	2,928
Property, plant and equipment (note 6)	57,622	53,010
	<u>170,571</u>	<u>162,273</u>
LIABILITIES		
CURRENT LIABILITIES	155,451	159,950
Accounts payable and accrued liabilities	85	96
Current portion of deferred tenant allowances (note 7)	361	436
Current portion of tenant improvement loans (note 8)	74	68
Current portion of obligation under capital lease (note 9)	13,773	375
Due to Province of British Columbia (note 10)	169,744	160,925
LONG TERM LIABILITIES	432	517
Deferred tenant allowances (note 7)	219	581
Tenant improvement loans (note 8)	176	250
Obligation under capital lease (note 9)	<u>170,571</u>	<u>162,273</u>

Commitments and contingent items (notes 11 & 12)

Approved by:



Jay Chambers
General Manager



Roger M. Bissoondatt, CA, CMA
Chief Financial Officer

The accompanying notes and supplementary schedule are an integral part of these financial statements.

British Columbia Liquor Distribution Branch

STATEMENT OF OPERATIONS

(in \$000s)

Year Ended March 31,	2010	2009
Sales (note 13)	2,854,072	2,794,530
Less commissions & discounts	198,289	190,524
	2,655,783	2,604,006
Cost of merchandise sold	1,515,289	1,451,244
Gross margin	1,140,494	1,152,762
Operating expenses (schedule)	275,875	269,954
	864,619	882,808
Other income	12,657	8,309
Net income	877,276	891,117

STATEMENT OF ADVANCE DUE (TO) FROM PROVINCE OF BRITISH COLUMBIA

(in \$000s)

Year Ended March 31,	2010	2009
Balance beginning of year	(375)	34,976
Net income	(877,276)	(891,117)
Payments to the Province of British Columbia	863,878	855,766
Balance end of year	(13,773)	(375)

The accompanying notes and supplementary schedule are an integral part of these financial statements.

British Columbia Liquor Distribution Branch

STATEMENT OF CASH FLOWS

(in \$000s)

Year Ended March 31,	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	2,657,921	2,517,522
Cash payments to the Province of British Columbia	(863,878)	(855,766)
Cash paid to suppliers and employees	(1,780,945)	(1,629,483)
Cash receipts from other income	12,595	8,096
Interest paid on capital lease and loans	(93)	(209)
CASH FLOWS FROM OPERATING ACTIVITIES	<u>25,600</u>	<u>40,160</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant & equipment	(11,890)	(11,024)
Acquisition of capital project assets	(6,134)	(5,528)
Additions to intangible assets	(909)	0
Proceeds from disposal of property, plant & equipment	59	203
CASH FLOWS (USED IN) INVESTING ACTIVITIES	<u>(18,874)</u>	<u>(16,349)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on capital lease	(68)	(61)
Tenant improvement loans	(436)	(601)
CASH FLOWS (USED IN) FINANCING ACTIVITIES	<u>(504)</u>	<u>(662)</u>
NET INCREASE IN CASH	6,222	23,149
CASH (BANK INDEBTEDNESS) BEGINNING OF YEAR	502	(22,647)
CASH END OF YEAR	<u>6,724</u>	<u>502</u>

The accompanying notes and supplementary schedule are an integral part of these financial statements.

British Columbia Liquor Distribution Branch

SCHEDULE OF OPERATING EXPENSES

(in \$000s)

Year Ended March 31,	2010	2009
Salaries, wages and benefits (note 14)	163,326	156,109
Rents	33,662	31,845
Bank charges	19,590	18,968
Amortization	12,692	11,598
Freight to stores	9,558	9,707
Repairs and maintenance	6,780	7,569
Other operating expenses	5,666	6,234
Professional services	4,140	6,374
Data processing	3,801	4,302
Merchandising	3,743	4,343
Loss prevention	2,997	2,642
Light, water and fuel	2,644	2,706
Telephone	2,583	2,432
Stationery and supplies	2,275	2,336
Warehouse equipment costs	1,583	1,700
Travel	742	880
Interest on long term liabilities	93	209
	275,875	269,954

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

March 31, 2010

(Tabular amounts in \$000s)

1. PURPOSE OF THE BRANCH

The British Columbia Liquor Distribution Branch (Branch) obtains its authority for operation from the *British Columbia Liquor Distribution Act (Act)*. As stated in Section 2 of this *Act*, the Branch has the exclusive right to purchase liquor for resale and reuse in the Province in accordance with the provisions of the *Importation of Intoxicating Liquors Act (Canada)*.

2. SIGNIFICANT ACCOUNTING POLICIES

As prescribed by Section 30(3)(b) of the *Act*, the financial statements of the Branch are prepared in accordance with Canadian generally accepted accounting principles.

Significant accounting policies are as follows:

Financial Instruments

The Branch has designated its financial instruments as follows:

Cash is classified as held for trading and measured at fair value. Accounts receivable are classified as loans and receivables and are measured at amortized cost. Bank indebtedness, accounts payable and accrued liabilities are classified as other financial liabilities and are also measured at amortized cost.

The Branch is exposed to various risks related to its financial assets and liabilities. It is management's opinion that the Branch is not exposed to significant market, credit or liquidity risk arising from these instruments.

Market Risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the Branch's income or the value of its financial instruments. The Branch's exposure to foreign currency risk is only related to the value of foreign exchange transactions in the normal course of business, and manages this risk by minimizing the amount of the transactions in foreign funds.

Liquidity Risk

Liquidity risk is the risk that the Branch will be unable to meet its financial obligation as they become due. The Branch manages liquidity risk primarily by monitoring cash flows and by maintaining the ability to borrow funds through the Province.

Credit Risk

Credit risk is the risk of financial loss to the Branch due to customer inability to pay for product or counterparty to a financial instrument fails to meet its contractual obligations. The Branch's exposure to credit risk is only related to the value of accounts receivable in its normal course of business, and manages this risk by minimizing the amount of transactions which require recovery. The Branch continually monitors and manages the collection of receivables.

Notes to the Financial Statements

March 31, 2010

(Tabular amounts in \$000s)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Foreign Currency Translation

The Branch in the normal course of business purchases product in foreign currency. Any foreign currency transactions are translated into Canadian dollars at the rate of exchange in effect at transaction date. Any foreign currency denominated monetary assets and liabilities are stated using the prevailing rate of exchange at the balance sheet date.

Inventories

The Branch's inventories are valued at the lower of cost and net realizable value. Store inventories are determined on a first-in, first-out basis. Warehouse inventories are determined on a weighted average cost basis. Cost is comprised of supplier invoiced value, freight, duties and taxes. Net realizable value represents the estimated selling price for inventories less the costs to sell.

Intangible Assets

On April 1, 2009 the Branch adopted, on a retrospective basis with restatement, section 3064 Goodwill and Intangible Assets which provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangibles assets acquired in a business combination. This standard is effective for fiscal years beginning on or after October 1, 2008 and requires retroactive application to prior period financial statements.

Under the new standard, costs related to development projects can be recorded as assets only if they meet the definition of an intangible asset. Intangible assets include purchased/customized software and the capitalized cost of internal and external IT professionals developing and tailoring software used in the business. Additionally, computer software that is not an integral part of the related hardware and was previously included in property and equipment is required under the new standard to be included in intangible assets. As these costs have a limited useful life, they continue to be amortized at a rate of 25 per cent per annum.

The adoption of this new standard did not have any impact on net income.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and are amortized over the estimated useful lives of the assets as expressed as follows:

Buildings

7.5 per cent per annum.

Leasehold Improvements

A minimum of 10 per cent per annum or a rate sufficient to amortize the cost over the remaining life of the respective lease.

Furniture, Fixtures, Vehicles and Equipment

25 per cent per annum.

Information Systems

25 per cent per annum.

Notes to the Financial Statements

March 31, 2010

(Tabular amounts in \$000s)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Leasehold improvements and capital projects

All material costs of construction and development for leasehold improvements and capital projects are treated as assets under Construction in Progress accounts. At the point in time when the project is substantially completed the costs are capitalized into their applicable categories and amortized at the asset category rate.

Leases

Assets recorded as capital leases are capitalized and amortized at the applicable asset category rate. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

Revenue Recognition

Revenue is recognized when the sale of product is made to customers. Customers include retail customers, licensed establishments, licensee retail stores, and agency stores.

Employee Future Benefits

Liabilities are recorded for employee retiring allowance benefits as employees render services to earn those benefits.

Defined contribution plan accounting is applied to the multi-employer defined benefit pension plan because sufficient information is not available to apply defined benefit accounting. Accordingly, contributions are expensed as they become payable.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Future Accounting Standards

International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board (AcSB) has confirmed that, on January 1, 2011, International Financial Reporting Standards (IFRS) will replace Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable enterprises. The Public Sector Accounting Board (PSAB) has amended the Introduction to the Public Sector Accounting Handbook to confirm the direction previously provided to Government Business Enterprises, which the Liquor Distribution Branch is classified as, to adhere to the standards for publicly accountable enterprises.

The Branch has embarked on a project to determine the changes required to comply with the direction of PSAB. The Branch will continue to review changes to standards and apply them, as applicable. Throughout the year, the Branch will revisit its timelines, processes and accounting policy choices or elections to ensure it is fully prepared to comply with PSAB directions.

3. INVENTORIES

At March 31, 2010, store inventories were \$59.1 million (2009 - \$57.6 million) and warehouse inventories were \$30.9 million (2009 - \$33.6 million).

Notes to the Financial Statements

March 31, 2010

(Tabular amounts in \$000s)

4. PREPAID EXPENSES

Prepaid expenses include wine purchases. The Branch as part of its on-going business practices purchases select products in advance to secure delivery of these products up to three years in advance. These products are normally purchased in foreign currency and are translated to Canadian dollars at the rate of exchange in effect at the transaction date. At March 31, 2010, the Branch has recorded \$5.6 million (2009 - \$7.0 million) of prepaid wine futures for delivery in the following years:

Year Ending March 31	2011	3,466
	2012	2,068
	2013	22
		<u>5,556</u>
	Current portion	<u>(3,466)</u>
	Long term	<u>2,090</u>

5. INTANGIBLE ASSETS

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Intangible Assets	3,242	1,556	1,686	921
Construction in process	2,874	-	2,874	2,007
	6,116	1,556	4,560	2,928

6. PROPERTY, PLANT AND EQUIPMENT

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	1,068	-	1,068	1,068
Buildings	20,256	17,966	2,290	1,185
Leasehold improvements	55,670	27,278	28,392	26,156
Furniture, fixtures, vehicles & equipment	29,858	20,580	9,278	8,370
Office furnishings under capital lease	3,900	3,755	145	213
Information systems	85,078	74,890	10,188	10,636
Construction in process	6,261	-	6,261	5,382
	202,091	144,469	57,622	53,010

Notes to the Financial Statements

March 31, 2010

(Tabular amounts in \$000s)

7. DEFERRED TENANT ALLOWANCES

Certain leasing agreements include incentives or landlord funding to be used towards expenditures such as tenant improvements or relocation expenses. The value of these benefits are recorded and amortized over the term of the lease.

Year Ending March 31	2011	85
	2012	85
	2013	85
	2014	85
	2015	79
	Subsequent years	<u>98</u>
		517
	Current portion	<u>(85)</u>
	Long term	<u><u>432</u></u>

8. TENANT IMPROVEMENT LOANS

As at March 31, 2010, the Branch has tenant improvements loans of \$0.6 million financed through landlords. The range of interest rates is 8% to 11.75% with loans expiring from May 2010 to June 2014. The principal payments due are as follows:

Year Ending March 31	2011	361
	2012	158
	2013	30
	2014	24
	2015	7
	Subsequent years	<u>7</u>
		580
	Current portion	<u>(361)</u>
	Long term	<u><u>219</u></u>

Notes to the Financial Statements

March 31, 2010

(Tabular amounts in \$000s)

9. OBLIGATIONS UNDER CAPITAL LEASES

The following schedule includes the future minimum lease payments for vehicles and operating equipment.

		Vehicles	Equipment	Total
Year ending March 31	2011	59	32	91
	2012	58	-	58
	2013	58	-	58
	2014	53	-	53
	2015	28	-	28
	Subsequent years	4	-	4
	Total	260	32	292
	Imputed interest rate	8%	9%	
	Interest	(40)	(2)	(42)
	Current Portion	(44)	(30)	(74)
	Long term	176	-	176

10. DUE TO PROVINCE OF BRITISH COLUMBIA

The Branch does not maintain a separate bank account and uses the Province of British Columbia's financial and banking systems to process and record its transactions. The amount due to the Province of British Columbia represents the accumulated net financial transactions with the Province.

11. COMMITMENTS

Future commitments for operating leases for Branch premises and equipment are as follows:

Year Ending March 31	2011	25,435
	2012	22,539
	2013	19,592
	2014	15,773
	2015	12,072
	Subsequent years	25,210
		120,621

Government Liquor Store Fees

In fiscal 2008, the Branch entered into an agreement with the Liquor Control Licensing Board (LCLB) to provide the LCLB a fee in the amount of \$1,400 per Government Liquor store, on an annual basis, plus administration costs. This amount is subject to an adjustment relative to the number of government liquor stores in operation. The term of this agreement is for five years. For fiscal 2009/10, the Branch paid \$275,800 for fees plus administration costs. Effective April 1, 2010, the LCLB fee structure will be based upon annual sales in each government liquor store. For fiscal 2010/11, the Branch will be required to pay approximately \$423,000 in fees, plus administration costs.

Notes to the Financial Statements

March 31, 2010

(Tabular amounts in \$000s)

12. CONTINGENT ITEMS

The Branch is the defendant in legal actions and it is not expected that the ultimate outcome of these claims will have a material effect on the financial position of the Branch.

13. SALES

Total sales reported include sales to retail customers, licensed establishments, licensee retail stores and agency stores. These amounts do not include subsequent resale by licensed establishments, licensee retail stores and agency stores.

Year Ending March 31	2010	2009
Retail customers	1,160,255	1,136,225
Licensee retail stores	958,682	923,008
Agency stores	234,101	231,416
Licensed establishments	501,034	503,881
	<u>\$ 2,854,072</u>	<u>\$ 2,794,530</u>

14. EMPLOYEES' BENEFIT PLANS

The Branch and its employees contribute to the Public Service Pension Plan in accordance with the *Public Sector Pension Plans Act*. The British Columbia Pension Corporation administers the plan, including payment of pension benefits to employees to whom the act applies. The Public Service Pension Plan is a multi-employer, defined benefit plan. Under joint trusteeship, the risk and reward associated with the Plan's unfunded liability or surplus is shared between the employers and the plan members and will be reflected in their future contributions. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation (March 31, 2008) determined that the Plan needed to implement a contribution rate increase to meet funding requirements of the *Pension Benefits Standards Act*. As a result, rates for employees and employers increased by 0.15 per cent as of April 1, 2009. The total amount paid into this pension plan by the Branch for the 2009/10 fiscal year was \$10.7 million for employer contributions (2009 - \$10.0 million).

Employees are also entitled to specific retirement benefits as provided for under collective agreements and terms of employment. The future liability for this obligation amounts to \$9,900,358 (2009 - \$9,790,708), which represents future employees' retirement benefits outside of The Plan and is included in accounts payable. The expense adjustment recorded in the year is \$109,650 (2009 - \$99,192).

15. CAPITAL MANAGEMENT

The Branch does not retain any equity – which is what the Branch considers to be its capital. Net income is returned to the Province of British Columbia. The Branch's objectives when managing capital are to optimize the use of capital to provide an appropriate return to the Province.

The Branch manages its capital based on the funds available to the Branch. The Branch has policies and processes in place that provides direction for the management of the funds. There has been no change to the Branch's capital management approach during the year. The Branch has no externally imposed capital requirements.

Notes to the Financial Statements

March 31, 2010

(Tabular amounts in \$000s)

16. RELATED PARTY TRANSACTIONS

The Branch is related through common ownership to all Province of British Columbia ministries, agencies and Crown corporations. Transactions with these entities are generally considered to be in the normal course of operations and are recorded at the exchange amount, unless disclosed separately in these financial statements.

The Branch acts as an agent for the Ministry of Finance regarding the collection of social service taxes on liquor sales.

The financial statements include the following transactions with related parties of the Province of British Columbia and Crown corporations:

Year Ending March 31	2010	2009
Liabilities at March 31 with related parties include:		
Accounts payable	<u>\$389</u>	<u>\$89</u>
Payments to related parties were made for the following:		
Salaries, wages and benefits	30,670	26,852
Data processing	2,297	1,378
Light, water and fuel	1,581	1,684
Stationary and supplies	1,039	1,004
Telephone	893	2,558
Other operating expenses	770	1,029
Professional fees	497	432
Travel	95	6
Repairs and maintenance	92	48
Merchandising	86	100
Loss prevention	19	17
Rents	8	17
Warehouse equipment costs	2	2
	<u>\$ 38,049</u>	<u>\$ 35,127</u>
Payments from related parties were received for the following:		
Other income	<u>\$ -</u>	<u>\$62</u>

Other related party transactions have been disclosed elsewhere in the notes to the financial statements.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

The balance sheet for the prior year has been reclassified to conform with the presentation in the current year as a result of the retrospective implementation of CICA HB 3064 – Goodwill and Intangible Assets. As a result, property plant and equipment decreased by \$2.9 million which was offset by an increase in intangible assets. There was no impact to net income.

CONTACT INFORMATION

For more information about the Liquor Distribution Branch, or to request more copies of this Annual Report, please contact the LDB Communications department:

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The British Columbia Liquor Distribution Branch 2009/2010 Annual Report is available online at **bcldb.com/annual-report**

For further information on the LDB's **Store Sales by Region** and **Top 10 Sales Results** please visit **bcldb.com/annual-report**



