British Columbia
Liquor Distribution Branch

2011/2012 Annual Report

BRITISH COLUMBIA | LIQUOR DISTRIBUTION BRANCH

CONTENTS

GENERAL MANAGER'S MESSAGE TO THE MINISTER RESPONSIBLE

The Honourable Rich Coleman, Minister of Energy and Mines

In 2011/12, the Liquor Distribution Branch's (LDB) sales were $2.89 billion, which was 2.8 per cent higher than the previous year. Net income for the year was $911.1 million, which was $20.9 million more than the previous year but 1.5 per cent below target. We are confident that consumer confidence will continue to improve and that we will once again be achieving our sales and net income objectives.

In fiscal 2011/12, the LDB completed its Payment Card Industry (PCI) compliance program to ensure that customer credit card information is protected.

The number of retirements in 2011/12 at the LDB continued to increase. In an effort to ensure a smooth transition and minimize operational impacts, we continued to focus on our succession planning. We were also pleased to have been recognized by Mediacorp as one of Canada's Top 100 Employers, as well as one of British Columbia's Top 55 Employers.

In 2011/12 the LDB launched a mobile app and mobile website to further enhance the high level of customer service in BC Liquor Stores. The app includes a store locator, product search and inventory function, as well as a personalized "my cellar." During fiscal 2011/12, the LDB mobile app had over 50,000 downloads.

The LDB continues to make reducing our environmental footprint a priority. In 2011/12, as part of the Power Smart partnership commitment with BC Hydro, the LDB initiated a number of energy-saving projects.

BC Liquor Store customers continued to show their generosity by supporting our annual Dry Grad fundraising campaign. This year, the campaign raised $540,700 for alcohol-free high school graduation events throughout the province. In 2011/12, BC Liquor Stores customers also contributed over $320,000 to the Canadian Red Cross relief efforts for the Horn of Africa drought.

In February 2012 government announced that it would seek proposals from the private sector to provide a more modernized and cost-effective way to warehouse and distribute liquor in British Columbia. This initiative, when completed, will result in the transfer of LDB warehousing and distribution services to the successful Proponent of a competitive Negotiated Request for Proposal process.

The 2011/12 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 the report, including what has been included in the report and how it has been reported.

The information presented reflects the actual performance of LDB for the twelve months ended March 31, 2012 in relation to the service plan published in February 2011.

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

All significant assumptions, policy decisions, events and identified risks, as of May 30, 2012, 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 2011/12 – 2013/14 service plan was released and any significant limitations in the reliability of data are identified in the report.

Jay Chambers
General Manager
May 30, 2012

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 Energy and Mines, 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 Energy and Mines — the 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 **pssg.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.

MEET THE LDB EXECUTIVE MANAGEMENT COMMITTEE

Jay Chambers
General Manager

Roger Bissoondatt
Chief Financial Officer

Kelly Wilson
Executive Director
Wholesale and Retail Services

Michael Procopio
Executive Director
Human Resources

Don Farley
Executive Director
Information Services

Gordon Hall
Director
Corporate Policy

Donna Morse
Director
Corporate Security

Catherine Sloan
Legal Counsel

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, 2012, 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.

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 243 wineries, 62 breweries, and 17 distilleries.

With more than 1,400 beverage alcohol retail outlets operating in BC, consumers have a variety of choices depending on their service needs, including:

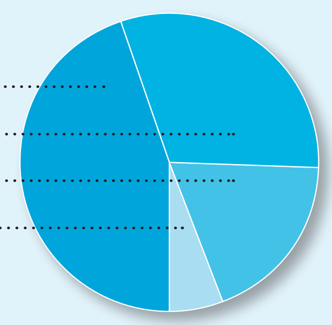
- 197 GLSs (government-owned and -operated stores selling beverage alcohol to retail and wholesale customers);
- 672 licensee retail stores (LRSs – private stores licensed to sell all beverage alcohol products);
- 220 rural agency stores (RASs – general merchandise stores in rural communities authorized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

In addition to retail stores, there were approximately 8,000 bars, restaurants and other licensed on-premise establishments.

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.

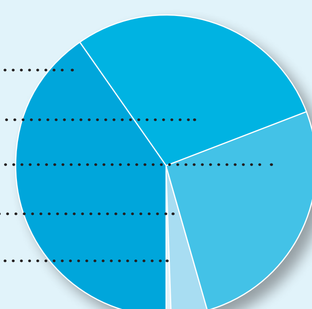
PERCENTAGE OF GROSS $ SALES BY SALES CHANNEL 2011/12

Government Liquor Stores	41.0%
Licensee Retail Stores	34.4%
Licensees (pubs, bars, restaurants)	16.5%
Agency Stores	8.1%



PERCENTAGE OF GROSS $ SALES BY PRODUCT CATEGORY 2011/12

Beer	38.3%
Wine	31.1%
Spirits	26.0%
Refreshment Beverages	4.3%
Special Orders/Non-alcoholic	0.3%



OUR CUSTOMERS AND STAKEHOLDERS

The LDB is one of the largest retailers in BC, with 36.9 million retail customer visits to BC Liquor Stores during fiscal 2011/12. We also processed 350,812 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 for 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 and those who appear intoxicated.

LDB CORE BUSINESS AREAS

Wholesale and Retail Services

Includes Distribution, Store Operations, Purchasing, Marketing, Wholesale and Real Estate.

Corporate Security

Responsible for security policies and programs and the LDB's Emergency Management program.

Legal Services

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

Corporate Policy

Responsible for Corporate Policy and 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.

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.

Corporate Social Responsibility

We encourage and support the responsible use of beverage alcohol and minimize the impact of our operations on the environment.

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.

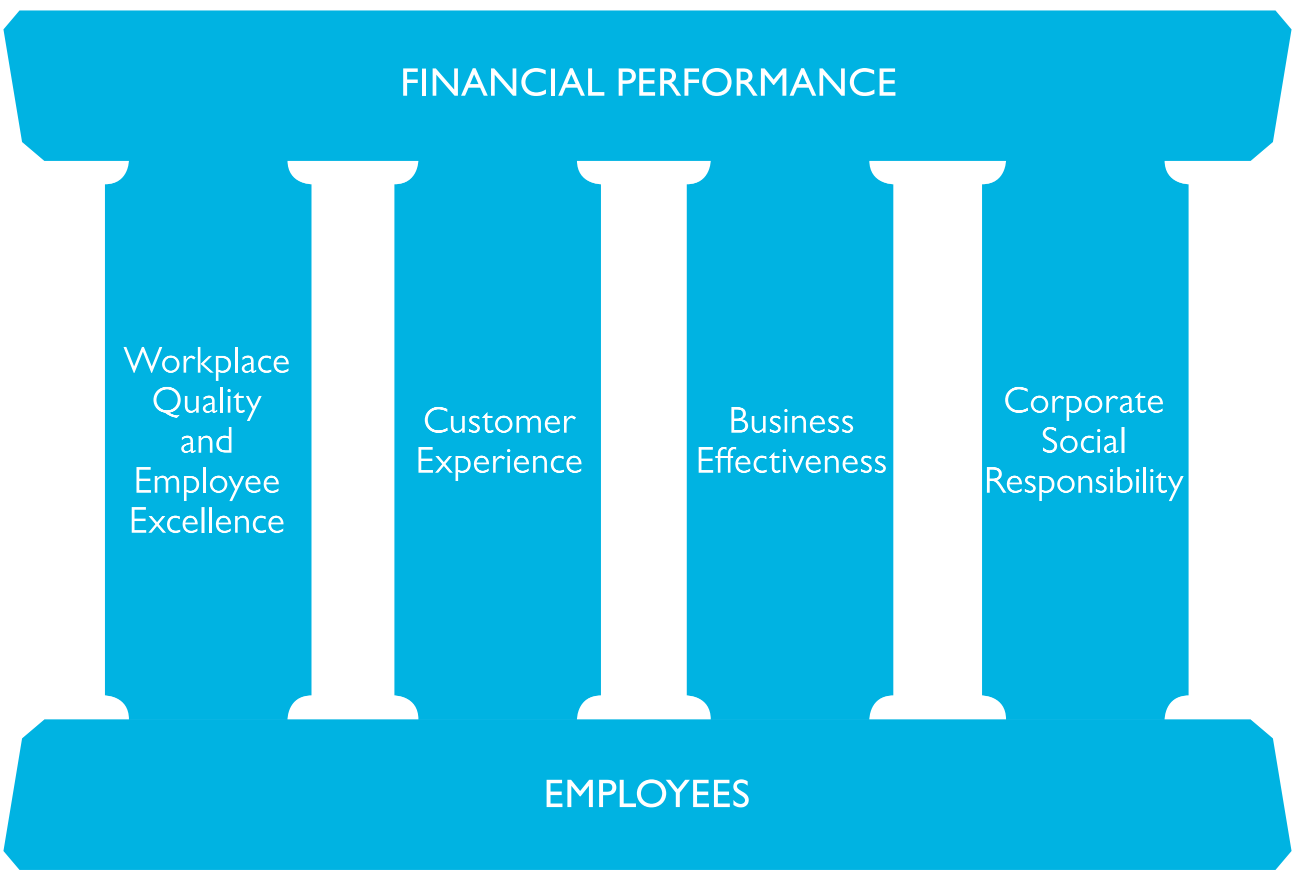
THE FOUR PILLARS FRAMEWORK

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:

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



LINKING GOALS TO PERFORMANCE MEASURES

	Goal 1	Goal 2	Goal 3	Goal 4	Goal 5
GOALS	**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 a high level of wholesale and retail customer satisfaction.	**Business Effectiveness** Maintain operating efficiencies in a climate of constant change.	**Corporate Social Responsibility** Encourage and support the responsible use of beverage alcohol and minimize the impact of operations on the environment.
STRATEGIES	• Grow sales and effectively manage operating expenses	• 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	• Continuously refresh the store network • Continuously provide enhanced customer services	• Maximize the potential efficiencies available through improved distribution operations • Increase the use of current and cost-effective technology	• Prevent sales to minors or intoxicated persons in BC Liquor Stores through staff education and enforcement of ID-checking requirements • Promote awareness of responsible use by continuing co-operative programs with suppliers and other stakeholders • Reduce the impact of operations on the environment
PERFORMANCE MEASURES	• Net income	• Employee engagement	• Retail customer satisfaction • Wholesale customer satisfaction	• BC Liquor Store sales per square foot • Distribution Centre labour cost per case shipped • Distribution Centre order fill rate	• Store compliance with ID-checking requirement • Customer awareness of LDB corporate social responsibility programs • Plastic shopping bag reduction

GOAL 1: FINANCIAL PERFORMANCE

Meet financial objectives approved by government

2011/12 HIGHLIGHTS

The LDB's net income for fiscal 2011/12 was $911.1 million, $13.7 million or 1.5 per cent below target. Net income was affected by weaker sales in the early part of the year. Compared to the prior year, net income was $20.9 million or 2.3 per cent higher.

Provincial liquor sales were $2.89 billion in 2011/12, 0.3 per cent lower than budgeted sales, however, sales were $79.7 million or 2.8 per cent higher than the prior year.

The following charts show historical sales by the different product categories in dollars and litres. Fiscal 2011/12 sales dollars are reported using International Financial Reporting Standards (IFRS). Fiscal 2010/11 sales dollars have been restated to IFRS for comparability. Fiscal 2009/10 and prior years are reported under Canadian generally accepted accounting principles (GAAP).

Sales by Major Category ($000s)

	2011/12	2010/11	2009/10	2008/09	2007/08	Change vs Previous Year $	%
Domestic Spirits	398,830	405,873	411,227	426,101	410,071	(7,043)	(1.7)
Import Spirits	353,914	329,999	318,559	314,827	294,881	23,915	7.2
Total Spirits	**752,744**	**735,872**	**729,786**	**740,928**	**704,952**	**16,872**	**2.3**
Domestic Wine	398,671	385,442	373,279	354,793	330,221	13,229	3.4
Import Wine	499,033	467,042	455,269	460,576	444,745	31,991	6.8
Total Wine	**897,704**	**852,484**	**828,548**	**815,369**	**774,966**	**45,220**	**5.3**
Domestic Refreshment	101,157	97,925	104,350	91,467	89,656	3,232	3.3
Import Refreshment	21,985	21,193	20,827	23,467	18,454	792	3.7
Total Refreshment	**123,142**	**119,118**	**125,177**	**114,934**	**108,110**	**4,024**	**3.4**
Domestic Beer	886,005	858,483	918,399	897,135	885,342	27,522	3.2
Import Beer	220,990	236,176	243,785	213,917	195,536	(15,186)	(6.4)
Total Beer	**1,106,995**	**1,094,659**	**1,162,184**	**1,111,052**	**1,080,878**	**12,336**	**1.1**
Miscellaneous/Special Orders	9,284	8,011	8,377	12,247	10,560	1,273	15.9
Total Sales	**2,889,869**	**2,810,144**	**2,854,072**	**2,794,530**	**2,679,466**	**79,725**	**2.8**

Sales by Major Category in Litres (000s)

	2011/12	2010/11	2009/10	2008/09	2007/08	Change vs Previous Year Litres	%
Domestic Spirits	13,779	13,980	14,846	15,867	15,829	(201)	(1.4)
Import Spirits	10,402	9,869	9,858	9,877	9,502	533	5.4
Total Spirits	**24,181**	**23,849**	**24,704**	**25,744**	**25,331**	**332**	**1.4**
Domestic Wine	31,779	31,298	30,299	29,044	27,766	481	1.5
Import Wine	29,892	28,702	28,490	28,298	27,710	1,190	4.1
Total Wine	**61,671**	**60,000**	**58,789**	**57,342**	**55,476**	**1,671**	**2.8**
Domestic Refreshment	22,347	21,927	22,938	19,165	18,799	420	1.9
Import Refreshment	3,681	3,535	3,454	3,970	3,061	146	4.1
Total Refreshment	**26,028**	**25,462**	**26,392**	**23,135**	**21,860**	**566**	**2.2**
Domestic Beer	227,110	221,023	241,385	236,782	240,933	6,087	2.8
Import Beer	45,715	51,516	52,363	46,357	43,671	(5,801)	(11.3)
Total Beer	**272,825**	**272,539**	**293,748**	**283,139**	**284,604**	**286**	**0.1**
Miscellaneous/Special Orders	131	134	163	164	187	(3)	(2.2)
Total Sales	**384,836**	**381,984**	**403,796**	**389,524**	**387,458**	**2,852**	**0.7**

Goal 1:	Targets and Results 2011/2012
GOAL:	Meet financial performance objectives approved by government
STRATEGY:	• Grow sales and effectively manage operating expenses

Measure	**Actual**			**Target**			
	09/10	10/11	11/12	11/12	12/13	13/14	14/15
Net income ($ millions)	877.3	890.3	911.1	924.8	906.1	843.9	851.2

Net income for fiscal 2011/12 and onwards have been prepared based on IFRS. Net income for fiscal 2010/11 has been restated to IFRS for comparability. Fiscal 2009/10 net income was prepared based on GAAP.

RESULTS AND MEASUREMENT DESCRIPTION

Net income was $911.1 million, $13.7 million below target. This was the result of poor sales in the early part of the fiscal year due to unfavourable economic conditions. The LDB has updated its sales forecasts and assumptions and has revised its net income targets in the 2012/13–2014/15 Service Plan.

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. The net income target is based on LDB forecasts and assumptions and is approved by the Ministry of Finance.

GOAL 2: WORKPLACE QUALITY AND EMPLOYEE EXCELLENCE

Create a work environment that encourages greater employee engagement

2011/12 HIGHLIGHTS

One of Canada's Top 100 Employers

In 2011/12, the LDB was recognized by Mediacorp as one of Canada's Top 100 and British Columbia's Top 55 Employers. This is the first time that the LDB has been recognized nationally, and the third consecutive year the organization has received provincial distinction.

Essential Skills Training Programs

Essential Skills training programs – which include Respect Matters and Labour Relations Principles and Practices – provide managers and supervisors with a management and supervisory skill development program that is specific to the LDB. To date, a total of 752 managers and supervisors have attended Respect Matters and 186 Managers have attended Labour Relations Principles and Practices.

Succession Management and Leadership Development

The LDB's succession management plan focuses on the development of internal employees to ensure they are qualified for future vacancies. The Signature Leadership program provides high-performing, mid-level supervisors and managers with an opportunity to enhance their existing leadership capabilities and capacity. The Signature Leadership Program has been run for two cycles, with a total of 37 participants completing the program thus far.

Goal 2:	Targets and Results 2011/2012
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

Measure	Actual			Target			
	09/10	10/11	11/12	11/12	12/13	13/14	14/15
Employee Engagement	70	69	69	71	N/A	70	N/A

RESULTS AND MEASUREMENT DESCRIPTION

The LDB's Employee Engagement score for fiscal 2011/12 was 69, slightly below the target of 71. The 2011/12 engagement score for the BC Public Service was 65. The LDB continues to develop initiatives to address specific areas for improvement from the 2011/12 survey. The LDB believes that its target WES score of 70, on balance, reflects a healthy work environment.

Employee engagement is a measure of employees' level of commitment to, and satisfaction with, their job and the organization. The LDB's employee engagement score is based on an annual Workplace Environment Survey (WES) conducted for the LDB by BC Stats. The WES asks a number of questions about the work environment and the results are summarized into a single engagement score. Beginning in 2012/13, the Work Environment Survey (WES) is being administered every two years, instead of yearly. The next WES will take place in 2013/14.

GOAL 3: CUSTOMER EXPERIENCE

Maintain a high level of wholesale and retail customer satisfaction

2011/12 HIGHLIGHTS

Store Upgrades

In order to provide a consistently high level of customer experience in the 197-store chain, the LDB upgrades a selection of stores each year. During fiscal 2011/12, the LDB completed 10 major store remodels, five minor remodels, one relocation and made minor renovations to a further 32 stores.

TASTE Magazine

TASTE is a magazine produced by the LDB that includes articles on beverage alcohol products, recipes and entertaining ideas written by well-known wine and food experts. TASTE is distributed through BC Liquor Stores and has an annual circulation of approximately 520,000. TASTE is also available online at **bcliquorstores.com**.

Wine Education

The LDB launched a number of successful product education programs, including a sold-out Product Consultant Wine Seminar at the 39th & Cambie flagship store. The 39th & Cambie store also holds regular wine and food pairing events in partnership with suppliers and the hospitality industry.

Product Releases

The LDB had a number of successful special releases for customers looking for unique, quality products. These included the 2008 Bordeaux wines, Best of BC Wines, and special rum and whiskey releases.

Website

BC Liquor Stores' website **bcliquorstores.com** continued to evolve in fiscal 2011/12 with upgrades to search functions and improved access to content from the LDB's TASTE magazine.

Mobile App

The increasing consumer popularity of mobile technology led the LDB to launch an app and mobile website in 2011/12. The application includes store locator, product search and inventory as well as a personalized "my cellar." Since the beginning of fiscal 2011/12, the app has had over 50,000 downloads.

Goal 3:	Targets and Results 2011/2012
GOAL:	Maintain a high level of wholesale and retail customer satisfaction
STRATEGIES:	• Continuously refresh the store network • Continuously provide enhanced customer services

Measure	**Actual**			**Target**			
	09/10	10/11	11/12	11/12	12/13	13/14	14/15
Retail Customer Satisfaction	N/A	98%	N/A	N/A	90%	N/A	90%
Wholesale Customer Satisfaction	N/A	82%	N/A	N/A	90%	N/A	90%

RESULTS AND MEASUREMENT DESCRIPTION

Retail Customer Satisfaction

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 so that customers have an adequate amount of time to experience LDB service initiatives which often take more than one year to fully implement. The high targets established for both retail and wholesale customer satisfaction reflect the LDB's commitment to customer service.

A retail customer satisfaction survey was not conducted in 2011/12.

Wholesale Customer Satisfaction

The wholesale customer satisfaction rating is determined through a survey of a sample of wholesale customers — bars, restaurants and private retailers— conducted by a professional survey company. This survey is conducted once every two years so that customers have an adequate amount of time to experience LDB service initiatives which often take more than one year to fully implement.

A wholesale customer satisfaction survey was not conducted in 2011/12.

GOAL 4: BUSINESS EFFECTIVENESS

Maintain operating efficiencies in a climate of constant change

2011/12 HIGHLIGHTS

Payment Card Industry (PCI) Data Security Compliance

In fiscal 2011/12, the LDB completed its Payment Card Industry (PCI) compliance program to ensure that customer credit card information is protected. The LDB also implemented sustainment measures in order to maintain PCI compliance going forward.

Financial Business Improvement Project

The LDB completed a Financial Business Improvement Project in fiscal 2011/12. This initiative streamlines business and financial processes and improves the accuracy of inventory and financial transaction data.

Goal 4:	Targets and Results 2011/2012						
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						
Measure	**Actual**			**Target**			
	09/10	10/11	11/12	11/12	12/13	13/14	14/15
BC Liquor Store Sales per Square Foot	$1,270	$1,259	$1,262	$1,281	$1,286	$1,278	$1,303
Distribution Centre Labour Cost per Case Shipped	$1.73	$1.74	$1.73	$1.75	$1.74	$1.74	$1.74
Distribution Centre Order Fill Rate	92%	93%	93%	90%	93%	93%	93%

RESULTS AND MEASUREMENT DESCRIPTION

BC Liquor Store Sales per Square Foot

Fiscal 2011/12 sales per square foot were $1,262, slightly below the target of $1,281. In the first half of the year, store sales were lower than expected.

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. The annual targets are based on a philosophy of continuous improvement.

Distribution Centre Labour Cost per Case Shipped

Fiscal 2011/12 labour cost per case was $1.73, better than the target of $1.75 per case.

This productivity measure is calculated by dividing Distribution Centre labour expenses by total case shipments.

Distribution Centre Order Fill Rate

The result for fiscal 2011/12 was 93 per cent, exceeding the target of 90 per cent.

Based on a common distribution industry standard, this 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 stores and wholesale customers serviced out of the Distribution Centres in Vancouver and Kamloops.

GOAL 5: CORPORATE SOCIAL RESPONSIBILITY

Encourage and support the responsible use of beverage alcohol and minimize the impact of operations on the environment

2011/12 HIGHLIGHTS

Monthly Responsible Use Awareness Programs

Throughout the year, the LDB encourages the responsible use of beverage alcohol through posters displayed in all BC Liquor Stores. In 2011/12, these awareness programs included: Don't Buy for Minors; You're a Hit When You Know Your Limit (anti-binge drinking); Don't Drink and Drive; Boating and Alcohol Don't Mix; Summer Safety (drinking and driving); Alcohol and Pregnancy Don't Mix; Halloween – Get Home Safe, Heading to a Party? – Make a Plan; CounterAttack; and Keep Alcohol Off the Slopes.

Support Dry Grad

Support Dry Grad collects customer donations that help fund local high school alcohol-free graduation events in 55 school districts throughout British Columbia. In 2011/12, the LDB conducted its 12th Support Dry Grad campaign and raised $540,700. Since inception, Support Dry Grad has raised over $4.4 million for alcohol-free graduation events.

Share-a-Bear

For over two decades, 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 2011/12, over 26,000 bears were donated to charities.

Canadian Red Cross Disaster Relief

The LDB is an official disaster relief partner of the Canadian Red Cross and collects Red Cross donations from BC Liquor Store customers throughout the province after major disasters. In 2011/12, customers generously donated over $320,000 in Red Cross disaster relief funds for the Horn of Africa drought.

Environment

As part of the Power Smart Partnership commitment with BC Hydro, the LDB initiated a number of energy-saving projects in 2011/12. These included lighting upgrades at LDB retail outlets during renovations (saving 128,000 kWh per year) and the installation of power management software on computers at head office so that they shut down automatically overnight (saving 200,000 kWh per year). The LDB also retired 51 existing servers as part of the ongoing server virtualization initiative – with total savings now reaching 444,700 KWh a year. Cumulatively, all of these projects will save the same amount of electricity as 70 B.C. homes each year.

Goal 5:	Targets and Results 2011/2012
GOAL:	Encourage and support the responsible use of beverage alcohol and minimize the impact of operations on the environment
STRATEGIES:	• Prevent sales to minors or intoxicated persons in BC Liquor Stores through staff education and enforcement of ID-checking requirements • Promote awareness of responsible use by continuing co-operative programs with suppliers and other stakeholders

Measure	**Actual**			**Target**			
	09/10	10/11	11/12	11/12	12/13	13/14	14/15
Store Compliance with ID-Checking Requirement	N/A	N/A	96%	100%	100%	100%	100%
Customer Awareness of LDB Corporate Responsibility Programs	N/A	90%	N/A	N/A	90%	N/A	90%
Plastic Shopping Bags (millions)	19.2	18.2	16.1	14.0	11.4	8.8	8.8

RESULTS AND MEASUREMENT DESCRIPTION

Store Compliance with ID-Checking Requirement

The result for fiscal 2011/12 was 96 per cent, slightly below the target of 100 per cent. The LDB will continue to focus on staff training to drive towards its goal of 100 per cent compliance.

The legal age to purchase liquor in British Columbia is 19. In fiscal 2011/12 the Liquor Control and Licensing Branch (LCLB) implemented an ID-checking program for government and private liquor stores that uses underaged agents to test compliance. The LDB uses LCLB's compliance statistics for this measure. The target of 100 per cent reflects the importance to the LDB of preventing sales to minors.

Customer Awareness of LDB Corporate Social Responsibility Programs

The LDB displays messaging in its stores that encourages the responsible use of beverage alcohol. The themes (e.g. prevention of drinking/driving or sales to minors) change monthly. The LDB measures customer recall of this messaging through the same survey the LDB uses to rate its retail customer service performance (See Goal 3). This survey is conducted once every two years so that customers have an adequate amount of time to experience LDB service initiatives which often take more than one year to fully implement. This target reflects the LDB's desire to have a high customer recall of its responsible-use messaging.

A retail customer satisfaction survey was not conducted in 2011/12.

Plastic Shopping Bags

The result for fiscal 2011/12 was 16.1 million, which is above the target of 14 million. The LDB will continue to work together with customers and staff to reduce this number of plastic shopping bags used.

The LDB has a program to reduce the number of plastic shopping bags that are issued to customers. This program encourages customers to use re-usable bags or to take their purchases without a bag. The targets reflect the LDB's ongoing efforts to change customer behaviour.

BENCHMARKING

In 2011, the LDB benchmarked itself against a number of other organizations including: four provincial liquor boards; three non-Canadian government liquor authorities; two private distribution organizations and two private retailers. A total of 15 different measures were compared and results from the four that are most relevant to the LDB 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.

Performance Measures	Ranking WORST ← → BEST	Number of Comparable Entities
Operating Costs as a Percentage of Total Sales	LDB	10
Net Income as a Percentage of Total Sales	LDB	10
GLS Sales per GLS FTE	LDB	6
Distribution Centres Cost per Case	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 an organization, and represents the per cent of each sales dollar that is generated for government in the case of public liquor authorities such as the LDB, or to shareholders in the case of private companies.

GLS Sales per GLS FTE

This is a measure of productivity of government liquor store employees. FTE stands for "Full Time Equivalent" and is equal to one person-year of employment.

Distribution Centre Cost per Case

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

GOVERNMENT'S LETTER OF EXPECTATIONS

A key component of the LDB's governance framework is the Government's Letter of Expectations (GLE). The GLE is an agreement between the Government of British Columbia and the LDB that sets out the roles of each, the corporate mandate, high-level performance expectations and strategic priorities.

The GLE also provides direction from Government to the LDB to take specific actions. These specific actions from the 2011/12 GLE and the LDB's response to them are identified in the following table. The complete GLE is available on the LDB's website at **bcldb.com/annual-report**.

GOVERNMENT DIRECTION	LDB ALIGNMENT
Meet the LDB 2011/12 – 2013/14 Service Plan budget and performance targets, including net income.	Provide regular monthly financial updates to the Government and regularly notify the Government of major changes likely to affect the LDB's achievement of its Service Plan targets.
Comply with the financial policies/guidelines provided by the Government for mark-up, taxation, the extent to which LDB may own capital assets, and LDB contributions to the Government.	The LDB complies with the Government's financial policies and guidelines.
Maintain financial reporting that clearly segregates retail and distribution operations to enable transparent disclosure of costs at the retail and wholesale levels.	The LDB maintains and publishes financial reporting that clearly segregates retail and wholesale operations.
Comply with the Government's and the LCLB's direction to rationalize and improve the regulatory framework for the importation, distribution and retailing of beverage alcohol products in British Columbia.	The LDB complies with the Government's and LCLB's direction.
Comply with the Government's requirements to be carbon neutral under the *Greenhouse Gas Reduction Targets Act*, including: accurately defining, measuring, reporting on and verifying the greenhouse gas emissions from the LDB's operations; implementing aggressive measures to reduce those emissions and reporting on these reduction measures and reduction plans; and offsetting any remaining emissions through investments in Pacific Carbon Trust, which will invest in greenhouse gas reduction projects outside of the LDB's scope of operations.	The LDB is accurately measuring and reporting on its greenhouse gas emissions as required by government, and is implementing measures to reduce those emissions. The LDB is offsetting emissions through payments to Pacific Carbon Trust.


British Columbia
Liquor Distribution Branch
2011/2012 Financial Report

BRITISH COLUMBIA

LIQUOR DISTRIBUTION BRANCH

MANAGEMENT DISCUSSION AND ANALYSIS

ACTUAL 2011/12 FINANCIAL RESULTS COMPARED TO 2010/11 ACTUAL RESULTS

The 2011/12 financial statements are the first financial statements prepared in accordance with International Financial Reporting Standards (IFRS). For comparative purposes, fiscal 2010/11 financial results have been restated to IFRS unless otherwise noted. There was no material impact to the 2010/11 financial results. More details of the impacts to the LDB of converting to IFRS are highlighted in note 22 of the financial statements.

Fiscal 2011/12 saw sales growth returning as economic conditions improved in British Columbia in the later part of the year. Gross sales were $2.89 billion, an increase of $79.7 million from the previous year.

Commissions and discounts were $187.6 million, which was $7.8 million higher than fiscal 2010/11. This is due to increased sales to wholesale customers with higher purchase discounts and more sales in the direct delivery channel.

Operating expenses were 10.1 per cent of sales for the fiscal year, which is comparable to the prior year. Expenses were $9.4 million higher than fiscal 2010/11 with the largest changes occurring in the following areas:

- Employment expenses increased $4.5 million due to higher sales and an actuarial adjustment for employment liabilities.
- Bank charges increased by $1.7 million due to increased use of credit cards.
- Freight costs for delivery to stores increased $1.3 million due to increased beer products shipped from LDB warehouses and case configuration changes.
- Data processing increased $1.7 million mainly due to additional costs relating to ongoing compliance with Payment Card Industry (PCI) standards.

Compared to fiscal 2010/11, net income increased $20.9 million to $911.1 million. LDB net income as a percentage of sales decreased slightly to 31.5 per cent from 31.7 per cent in the previous year. This decrease is due to higher commissions and discounts and higher operating costs.

TABLE 1: SUMMARY OF FINANCIAL RESULTS OVER 5 YEARS

For the five years ended March 31, 2012 (all dollar figures in $000)

	Actual 2011/12	**Budget 2011/12**	**Actual 2010/11**	**Actual 2009/10**	**Actual 2008/09**	**Actual 2007/08**
Sales	2,889,869	2,899,532	2,810,145	2,854,072	2,794,530	2,679,466
Cost of Sales	1,510,744	1,503,316	1,469,819	1,515,289	1,451,244	1,396,466
Gross Profit	1,191,542	1,212,461	1,160,577	1,140,494	1,152,762	1,103,040
Operating Expenses - Employment	164,314	160,792	159,800	163,326	156,109	151,396
Operating Expenses - Rent	37,026	37,077	36,002	33,662	31,845	30,944
Operating Expenses - Administration	89,651	97,113	85,727	78,887	82,000	73,718
Operating Income	900,551	917,537	879,049	864,619	882,808	846,982
Net Income	911,145	924,808	890,270	877,276	891,117	857,216
Gross Margin (%)	41.2%	41.8%	41.3%	40.0%	41.3%	41.2%
Operating Expenses to Sales	10.1%	10.2%	10.0%	9.7%	9.7%	9.6%
Net Income to Sales (%)	31.5%	31.9%	31.7%	30.7%	31.9%	32.0%
Inventory Turnover	18	18	17	17	17	18
Debt	190	200	395	830	1,335	1,998
Retained Earnings	0	N/A	0	0	0	0

Net income for fiscal 2011/12 and 2010/11 has been prepared based on IFRS. Financial results for fiscal 2009/10 and prior are prepared based on Canadian generally accepted accounting principles.

Fiscal 2011/12 capital expenditures of $19.0 million were comparable to the $18.5 million spent in the previous year. Capital expenditures were related to the completion of the financial business improvement project, ongoing operational capital needs and tenant improvements for government liquor stores.

During fiscal 2011/12, the customer count at government liquor stores (GLSs) increased slightly to 37.9 million customers from 37.8 million. The average retail customer transaction value at GLSs increased to $32.77 from $32.14. This can be attributed to a full year of HST-related mark-up adjustments and increased sales of spirits and wines which normally are at higher price points than beer and refreshment beverages.

Overall inventory turns for the LDB have improved slightly from 17 to 18 times. This indicates that the average number of days that the LDB holds inventory has decreased from 21 days to 20 days. Inventory turns at the LDB's Distribution Centres and GLSs remained constant at 12 turns per year. The consistency of inventory turns reflects the close management of LDB inventories.

TABLE 2: KEY INDICES

(all $ figures in $000s)

	Actual 2011/12	Budget 2011/12	Change vs. 2011/12 Budget	Actual 2010/11	Change vs. 2010/11
Gross Sales	2,889,869	2,899,532	(9,663)	2,810,145	79,724
Net Income	911,145	924,808	(13,663)	890,270	20,875
Capital Expenditures	19,020	24,798	(5,778)	18,470	550
Gross Margin %	41.2%	41.8%	-0.6%	41.3%	-0.1%
Operating Income to Sales	31.2%	31.6%	-0.4%	31.3%	-0.1%
Operating Expenses to Sales	10.1%	10.2%	-0.1%	10.0%	0.1%
Net Income to Sales	31.5%	31.9%	-0.4%	31.7%	-0.2%
Inventory Turnover	18	18	-	17	1
Customer Count	37,908	N/A	N/A	37,847	61
Average Transaction Value	$ 32.77	N/A	N/A	$ 32.14	$ 0.63

Retail and Wholesale Channels

The segmented information that follows allocates the financial results into the retail and wholesale channels based on an activity-based costing analysis. The retail operations covers all counter sales in GLSs and wholesale represent all other sales. An Activity-based Costing analysis between retail and wholesale, which allocates expenses between the two channels was performed based on activities in 2009/10. The results of this analysis were used in this year's segmentation.

Retail Channel

The net income as a percentage of sales increased from 35.5 per cent to 36.5 per cent. The segment experienced a sales growth of $21.2 million, representing a 1.8 per cent increase over the prior year. Cost of sales as a percentage of sales decreased by 0.9 per cent due to higher sales in the spirits and wines categories relative to beer and refreshment beverages. Operating expenses as a percentage of sales decreased slightly by 0.2 per cent.

TABLE 3: RETAIL RESULTS

Retail (*in $000s*)	**2011/12**	**%**	**2010/11**	**%**	**% Change**
Sales	1,185,716	100.0	1,164, 502	100.0	1.8
Cost of Sales	559,012	47.1	559,098	48.0	(0.0)
Operating Expenses	199,033	16.8	197,808	17.0	0.6
Other Income	5,305	0.4	5,634	0.5	(5.9)
Net Income	**432,976**	**36.5**	**413,230**	**35.5**	**4.8**

Wholesale Channel

Net income as a percentage of sales decreased from 29.0 per cent to 28.1 per cent. Sales increased by $58.5 million, or 3.6 per cent. Discounts increased by $7.8 million or 4.4 per cent over the prior year. Cost of sales as a percentage of sales increased by 0.6 per cent. This channel has a higher proportion of beer sales and cost of sales as a percentage of sales increase with rising beer prices due to the volume based mark-up structure. The higher proportion of beer and BC wines, which have lower gross margins, in the wholesale channel resulted in an overall lower return.

TABLE 4: WHOLESALE RESULTS

Wholesale (*in $000s*)	**2011/12**	**%**	**2010/11**	**%**	**% Change**
Sales	1,704,153	100.0	1,645,643	100.0	3.6
Commissions & Discounts	187,583	11.0	179,749	10.9	4.4
Cost of Sales	951,732	55.9	910,721	55.3	4.5
Operating Expenses	91,974	5.4	83,768	5.1	9.8
Other Income	5,305	0.3	5,635	0.3	(5.9)
Net Income	**478,169**	**28.1**	**470,040**	**29.0**	**0.2**

Product Categories

Overall, there was a 2.8 per cent increase in sales over the prior year. With the exception of beer, import products generally performed better than domestic products.

The largest percentage dollar increase was in the wine category at 5.3 per cent or $45.2 million. This was followed by refreshment beverages with an increase of 3.4 per cent or $4.0 million; spirits with an increase of 2.3 per cent or $16.9 million; and beer with an increase of 1.1 per cent or $12.3 million.

In terms of volume, there was an overall increase of 0.7 per cent when compared to the previous year. The wine category had the largest increase with a 2.8 per cent increase over the previous year. Spirits increased by 1.4 per cent followed by refreshment beverages which increased by 2.2 per cent. The 0.1 per cent increase in the beer category was due to an increase in packaged beer of 0.7 per cent while draught beer volume was flat compared to last year.

TABLE 5: PRODUCT CATEGORY CHANGES

	% Change in Sales $ from Previous Year		% Change in Sales Volume (Litres) from Previous Year	
	Domestic	Import	Domestic	Import
Spirits	(1.7)	7.2	(1.4)	5.4
Wine	3.4	6.8	1.5	4.1
Beer	3.2	(6.4)	2.8	(11.3)
Refreshment	3.3	3.7	1.9	4.1

Market Share

Private sector stores, licensee retail stores (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 42.5 per cent from 42.0 per cent.

TABLE 6: ANALYSIS OF PROVINCIAL SALES BY SOURCE

For the five years ended March 31, 2012 (as a percentage of total dollar sales)

	2011/12	2010/11	2009/10	2008/09	2007/08
Government Liquor Stores (%)	41.0	41.4	40.7	40.7	40.5
Licensee Retail Stores (%)	34.4	33.9	33.5	33.0	32.3
Agency Stores (%)	8.1	8.1	8.2	8.3	8.1
Total Counter Sales (%)	83.5	83.4	82.4	82.0	80.9
Licensed Establishments (%)	16.5	16.6	17.6	18.0	19.1
Total Sales (%)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

TABLE 7: ANALYSIS OF COUNTER SALES BY SOURCE

For the five years ended March 31, 2012 (as a percentage of total dollar sales)

	2011/12	2010/11	2009/10	2008/09	2007/08
Government Liquor Stores (%)	49.1	49.7	49.3	49.6	50.0
Licensee Retail Stores (%)	41.2	40.6	40.7	40.3	39.9
Agency Stores (%)	9.7	9.7	10.0	10.1	10.1
Total Counter Sales Market (%)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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:

- Sales increases of 0.7 per cent, a decrease of 1.2 per cent and an increase of 1.4 per cent over the next three years due to inflationary trends and no further shifting of product between categories.
- Sales will decrease in fiscal 2013/14 when the HST is replaced by PST and GST beginning April 2013 and the LDB will reduce its product mark-up rates to the same rates in effect prior to the HST implementation.
- 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 2012/13 and the following two years.

Overall volumes for all product categories are expected to be less than one per cent from the levels in fiscal 2011/12.

Continued growth in direct-delivered, one hundred per cent BC wines is expected to result in a lower return on total sales.

Operating expense assumptions include:

- No labour cost increases for fiscal 2012/13 and subsequent years.
- Higher rents especially in the urban regions.
- Greater amortization due to implementation of technology-related projects and store improvements.
- Increased costs due to compliance with Payment Card Industry standards and increasing credit card charges (usage and merchant fees).

Capital requirements reflect expenditures for updating and improving stores, technology-related projects and ongoing equipment replacement.

The financial forecasts reflect accounting treatment that is consistent with International Financial Reporting Standards.

TABLE 8: BUDGET AND FORECASTS

(in $millions)

	Budget 2012/13	Forecast 2013/14	Forecast 2014/15
Sales	2,911.5	2,875.2	2,916.2
Commissions and Discounts	184.8	182.5	185.1
Cost of Sales	1,528.1	1,551.5	1,576.1
Operating Expenses – Employment	164.5	164.5	164.5
Operating Expenses – Rent	37.8	38.5	39.3
Operating Expenses – Administration	97.4	101.8	107.5
Interest and Other Income	7.2	7.5	7.5
Net Income	**906.1**	**843.9**	**851.2**
Capital	26.7	27.9	35.6
Debt	0.1	0.0	0.0
Retained Earnings	0.0	0.0	0.0

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

TABLE 9: RETAIL AND WHOLESALE CHANNELS BUDGET AND FORECASTS

Retail

(in $millions)

	Budget 2012/13	Forecast 2013/14	Forecast 2014/15
Sales	1,194.6	1,179.7	1,196.5
Cost of Sales	574.2	567.1	575.1
Operating Expenses	204.4	207.9	212.3
Other Income	3.6	3.8	3.8
Net Income	**419.6**	**408.5**	**412.9**

Wholesale

(in $millions)

	Budget 2012/13	Forecast 2013/14	Forecast 2014/15
Sales	1,716.9	1,695.5	1,719.7
Commissions & Discounts	184.8	182.5	185.1
Cost of Sales	953.9	984.4	1,001.0
Operating Expenses	95.3	96.9	99.0
Other Income	3.6	3.7	3.7
Net Income	**486.5**	**435.4**	**438.3**

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 is closely monitoring its financial performance and budgets in order to mitigate financial risks.

The LDB regularly updates its Enterprise Wide Risk Assessment and has recently implemented the Financial Business Improvement Project and obtained its Report on Compliance for the Payment Card Industry (PCI) and Data Security Standards. Fiscal year 2011/12 represents the first year that the LDB will be reporting under International Financial Reporting Standards which requires greater disclosure than under the previous Canadian Generally Accepted Accounting Standards.

AREA	RISK FACTORS AND SENSITIVITIES		MITIGATING STRATEGIES
ECONOMY	Beverage alcohol is a discretionary consumer product and sales are affected by changes in economic conditions.	>	The LDB carefully monitors its sales and expenses on a monthly basis and makes adjustments to its operations and budgets as necessary.
INFORMATION TECHNOLOGY	The upgrading of information systems and business processes are key in the delivery of efficient and effective services to 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.	>	The LDB is replacing and/or upgrading older systems on a scheduled basis and is working to improve the overall integration of systems. In 2011/12, major upgrades were made to systems that process financial transactions and track inventory.
RECRUITING AND RETENTION OF SKILLED EMPLOYEES	The LDB is expecting a large number of skilled long-service employees to retire in the next five years.	>	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. In 2011/12, a large number of managers and supervisors received essential skills and leadership development training.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the British Columbia Liquor Distribution Branch have been prepared by management in accordance with International Financial Reporting Standards. 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
May 30, 2012

INDEPENDENT AUDITOR'S REPORT

To the Minister of Energy and Mines, Province of British Columbia

Report on the Financial Statements
I have audited the accompanying financial statements of the British Columbia Liquor Distribution Branch, which comprise the statements of financial position as at March 31, 2012, March 31, 2011, and April 1, 2010, and the statements of comprehensive income, advance due from (to) Province of British Columbia and cash flows for the periods ended March 31, 2012 and 2011, 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 International Financial Reporting Standards, 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
My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I 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.

In my view, the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the British Columbia Liquor Distribution Branch as at March 31, 2012, March 31, 2011, and April 1, 2010, and the results of its operations and its cash flows for the periods ended March 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

Victoria, British Columbia
May 30, 2012

John Doyle, MBA, CA
Auditor General

AUDITED FINANCIAL STATEMENTS

British Columbia Liquor Distribution Branch

For the years ended March 31, 2012 and 2011

STATEMENTS OF COMPREHENSIVE INCOME

(in $000s)

Year Ended March 31,	Note	2012	2011
Sales	4	2,889,869	2,810,145
Less commissions and discounts	22	(187,583)	(179,749)
Net sales		2,702,286	2,630,396
Cost of sales	22	(1,510,744)	(1,469,819)
Gross profit		1,191,542	1,160,577
Administration expenses	5,13,22	(275,681)	(268,506)
Transportation expenses	5	(10,777)	(9,489)
Marketing expenses	5	(4,533)	(3,534)
Net operating income		900,551	879,048
Finance expenses		(16)	(47)
Other income		10,610	11,269
Net income and comprehensive income		**911,145**	**890,270**

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

(in $000s)

Year Ended March 31,	2012	2011
Balance beginning of year	11,458	(11,649)
Net income and comprehensive income	(911,145)	(890,270)
Payments to the Province of British Columbia	908,587	913,377
Balance end of year	**8,900**	**11,458**

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

AUDITED FINANCIAL STATEMENTS

British Columbia Liquor Distribution Branch

As at March 31, 2012, and 2011, and April 1, 2010

STATEMENTS OF FINANCIAL POSITION

(in $000s)

	Note	March 31 2012	March 31 2011	April 1 2010
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	6	62,984	57,626	59,397
Intangible assets	7	2,471	2,884	2,785
Prepaid expenses - long term	8	8,697	3,377	2,090
		74,152	63,887	64,272
CURRENT ASSETS				
Due from Province of British Columbia	9,22	8,900	11,458	-
Inventories	10	81,815	83,021	89,974
Prepaid expenses	8	2,348	4,979	4,294
Accounts receivable	11	5,582	5,013	5,307
Cash		17,362	-	6,724
		116,007	104,471	106,299
TOTAL ASSETS		**190,159**	**168,358**	**170,571**
LIABILITIES				
NON-CURRENT LIABILITIES				
Other long term liabilities	12,13,14,22	22,292	19,521	20,738
		22,292	19,521	20,738
CURRENT LIABILITIES				
Due to Province of British Columbia	9,22	-	-	11,649
Accounts payable and accrued liabilities	14,15,22	167,867	141,684	138,184
Bank indebtedness		-	7,153	-
		167,867	148,837	149,833
TOTAL LIABILITIES		**190,159**	**168,358**	**170,571**

Approved for issue on May 30, 2012 by:

Jay Chambers
General Manager

Roger M. Bissoondatt, CA, CMA
Chief Financial Officer

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

AUDITED FINANCIAL STATEMENTS

British Columbia Liquor Distribution Branch

For the years ended March 31, 2012 and 2011

STATEMENTS OF CASH FLOWS

(in $000s)

Year Ended March 31,	Note	2012	2011
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Cash receipts from customers		2,701,717	2,630,692
Cash payments to the Province of British Columbia		(908,587)	(913,377)
Cash paid to suppliers and employees		(1,759,981)	(1,729,670)
Cash receipts from other income		10,501	11,248
Interest paid on capital lease and loans		(16)	(47)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		43,634	(1,154)
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	6	(18,619)	(11,554)
Acquistion of intangible assets	7	(403)	(784)
Proceeds from disposal of property and equipment		108	50
CASH FLOWS (USED IN) INVESTING ACTIVITIES		(18,914)	(12,288)
CASH FLOWS (USED IN) FINANCING ACTIVITIES			
Payments on capital leases		(47)	(74)
Payments on tenant improvement loans		(158)	(361)
CASH FLOWS (USED IN) FINANCING ACTIVITIES		(205)	(435)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		24,515	(13,877)
(BANK INDEBTEDNESS) CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		(7,153)	6,724
CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS) - END OF YEAR		**17,362**	**(7,153)**

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

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2012 and 2011
(Tabular amounts in $000s)

1. PURPOSE OF THE BRANCH

The British Columbia Liquor Distribution Branch (the Branch) is one of two branches of the Province of British Columbia (the Province) responsible for the beverage alcohol industry in British Columbia and reports to the Minister of Energy and Mines.

The Branch obtains its authority for operation from the *British Columbia Liquor Distribution Act* (the Act). As stated in Section 2 of the 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)*.

The Branch is reported on a modified equity basis in the public accounts, in a manner similar to a commercial Crown corporation.

2. BASIS OF PRESENTATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These are the Branch's first financial statements prepared in accordance with IFRS and IFRS 1 - *First-time Adoption of International Financial Reporting Standards*. The date of transition to IFRS is April 1, 2010.

The Branch's IFRS accounting policies are presented in note 3 and have been applied in preparing the financial statements for the year ended March 31, 2012, the comparative information and the opening statement of financial position at the date of transition.

The effects of the transition to IFRS on financial position and comprehensive income are presented in note 22.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis. The accounts have been prepared on a going concern basis.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Branch's accounting policies. Actual results could differ from those 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.

In determining and applying accounting policies, judgement is often required where the choice of specific policy, assumption or account estimate to be followed could materially affect the reported results or net position of the Branch, should it later be determined that a different choice be more appropriate.

Management considers the following to be areas of significant judgement and estimation for the Branch due to greater complexity and/or particularly subject to the exercise of judgement:

i) Property and equipment
The determination of the useful economic life and residual values of property and equipment is subject to management estimation. The Branch regularly reviews all of its depreciation rates and residual values to take account of any changes in circumstances, and any changes that could affect prospective depreciation charges and asset carrying values.

ii) Employee Benefits – Retiring Allowances
Employees who are eligible to retire and receive pension benefits under the Public Service Pension Plan are granted full vacation entitlement for the final calendar year of service. The Branch recognizes a liability and an expense for retiring allowances when benefits are earned and not when these benefits are paid. These obligations are valued by independent actuaries.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies below have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS statement of financial position at April 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

(a) 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 the transaction date. Any foreign currency denominated monetary assets and liabilities are stated using the prevailing rate of exchange at the date of the statement of financial position.

(b) Financial instruments

Financial assets are recognized when the Branch has rights or other access to economic benefits. Such assets consist of cash or a contractual right to receive cash or another financial asset. The Branch derecognizes a financial asset when the contractual rights to the cash flows from the asset have expired or have been transferred and all the risks and rewards of ownership substantially are transferred.

All of the Branch's financial assets are designated as loans and receivables. The Branch initially recognizes loans and receivables and deposits on the date that they originate.

Financial liabilities are recognized when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset. Financial liabilities are derecognized when they are extinguished.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Branch has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Branch has the following categories of financial assets and financial liabilities:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Branch provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities of greater than 12 months after the statement of financial position date which are classified as non-current assets. Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any provision for impairment. Any resulting income or expense is recognized in the statement of comprehensive income. Loans and receivables include accounts receivable, cash on hand and bank deposits in transit.

i) Accounts receivable

Accounts receivable are recognized initially at the invoice amount which approximates the fair value.

A provision for impairment of trade receivables is established when there is objective evidence that the Branch will not be able to collect all amounts due according to the terms of the receivables. The carrying amount of accounts receivable is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive income. The amount of the provision is the difference between the asset's carrying value and the present value of the estimated future cash flows discounted at the original effective interest rate. Subsequent recoveries of amounts previously written off are credited to other income.

ii) Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits in transit, and bank overdrafts. Bank overdrafts are shown as bank indebtedness in current liabilities on the statement of financial position.

Financial liabilities held at amortised cost

Financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using effective interest method and include accounts payable, tenant improvement loans, and bank indebtedness. Any resulting income or expense is recognized in the statement of comprehensive income.

i) Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the payment is due within one year or less and non-current liabilities if the payment is due more than one year from the statement of financial position date.

ii) Bank indebtedness

Bank indebtedness is shown in current liabilities and included within cash and cash equivalents on the statement of cash flows as it forms an integral part of the Branch's cash management.

(c) Property and equipment

Property and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Branch and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

i) Construction in process

Construction in process is carried at cost less any impairment loss. Cost includes professional fees, materials, direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. When these assets are ready for their intended use, they are transferred into the appropriate category. At this point, depreciation commences on the same basis as the other property and equipment.

ii) Assets held under finance leases

Assets held under finance leases which result in the Branch bearing substantially all the risks and rewards incidental to ownership are capitalized as property and equipment. Finance lease assets are initially recognized at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, then depreciated over the lower of the lease term or their useful lives. The capital element of future obligations under the leases is included as a liability in the statement of financial position classified, as appropriate, as current or non-current. The interest element of the lease obligations is charged to the statement of comprehensive income over the period of the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each financial period.

(d) Intangible Assets

Where computer software is not an integral part of a related item of property and equipment, the software is capitalized as an intangible asset.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring them into use. Direct costs associated with the production of identifiable and unique internally generated software products controlled by the Branch that will probably generate economic benefits exceeding costs beyond one year are capitalized. Direct costs include software development employment costs including those to contractors used.

Costs associated with maintaining computer software programs are recognized as an expense as incurred.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Intangible assets acquired by the Branch have finite lives and are measured at cost less accumulated amortization and accumulated impairment losses.

(e) Depreciation of non-financial assets

No depreciation is provided on land or assets in the course of construction. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	2.5 - 5% per annum
Leasehold improvements	a minimum of 10% per annum or a rate sufficient to amortize the cost over the remaining life of the respective lease
Furniture, fixtures, vehicles and equipment	10 - 25% per annum
Information systems	25% per annum
Computer software development costs	25% per annum

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and would be recognized in the statement of comprehensive income.

(f) Leases

When assets are financed by leasing agreements that transfer substantially all of the risks and rewards of ownership to the Branch (finance leases), the assets are treated as if they had been purchased outright, and the corresponding liability to the leasing company is included as an obligation under finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

All other leases are operating leases and the costs are recorded on a straight-line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, rent-free periods and tenant allowances) is recognized as deferred income and is recognized over the life of the lease.

(g) Inventories

The Branch's inventories are valued at the lower of cost and net realizable value. Inventories are determined on a weighted average cost basis. Cost of inventories comprises all cost of purchase to bring inventories to a Branch distribution centre and include supplier invoiced value, freight, duties and taxes. Net realizable value represents the estimated selling price for inventories less the costs to sell.

(h) Impairment of assets

Assets that are subject to depreciation and amortization are reviewed at each statement of financial position date to determine whether there is any indication that assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs), which are based on the Branch's individual stores.

Non-financial assets that suffered an impairment loss are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. This reversal would be recognized immediately in the statement of comprehensive income.

(i) Employee benefit plans

The Branch and its employees contribute to the Public Service Pension Plan in accordance with the *Public Service Pension Plans Act*. 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. Employees are also entitled to specific retirement benefits as provided for under collective agreements and terms of employment. These benefits are accounted for as an expense and a liability in the period incurred.

(j) Provisions

Provisions are recognized if, as a result of a past event, the Branch has a legal or constructive obligation upon which a reliable estimate can be made, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are calculated on a discounted basis where the effect is material to the original undiscounted provision. The carrying amount of the provision increases in each period to reflect the passage of time and the unwinding of the discount and the movement is recognized in the statement of comprehensive income within net finance costs.

(k) Revenue recognition

Reported revenue represents the fair value of consideration received or receivable in exchange for goods and services provided to third parties in the course of ordinary activities. Revenue is recognized when the risks and rewards of ownership are substantially transferred.

Revenue excludes harmonized sales tax and container recycling fees and is stated net of returns.

(l) Other income

Revenue which is ancillary to the sales of beverage alcohol is recognized as other income. Other income includes revenue from beverage container handling fees, border point collections, and customs clearing administrative fees.

(Tabular amounts in $000s)

(m) Recent accounting developments

Standards, amendments and interpretations of existing standards not yet adopted by the Branch:

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended March 31, 2012, and have not been applied in preparing these financial statements. None of these is relevant to the Branch except for:

IFRS 9 Financial Instruments – becomes mandatory for financial statements beginning January 2015 and impacts the classification and measurement of financial assets. The Branch has evaluated the impact of this new standard for adoption on April 1, 2015 and does not expect any significant impact on its financial statements.

4. 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.

	2012	2011
Retail customers	1,185,716	1,164,502
Licensee retail stores	993,861	952,713
Licensed establishments	475,046	465,075
Agency stores	235,246	227,855
	$ 2,889,869	**$ 2,810,145**

5. OPERATING EXPENSES

The Branch's operating expenses are comprised of:

	2012	2011
Salaries, wages and benefits	164,314	159,800
Rents	37,026	36,002
Bank charges	21,927	20,308
Other administrative expenses	15,960	16,074
Depreciation and amortization	14,079	13,977
Transportation	10,777	9,489
Repairs and maintenance	7,524	6,698
Data processing	6,663	4,914
Professional services	5,023	7,689
Marketing	4,533	3,534
Loss prevention	3,165	3,044
	$ 290,991	**$ 281,529**

(Tabular amounts in $000s)

6. PROPERTY AND EQUIPMENT

	Land & land improvements	Building & building improvements	Leasehold improvements	Furniture, fixtures, vehicles & equipment	Assets under finance leases	Information systems	Construction in process	Total
April 1, 2010								
Cost	1,068	20,256	55,670	29,857	3,900	85,078	8,036	203,865
Accumulated depreciation	-	(17,966)	(27,278)	(20,579)	(3,755)	(74,890)	-	(144,468)
Net book value	**1,068**	**2,290**	**28,392**	**9,278**	**145**	**10,188**	**8,036**	**59,397**
March 31, 2011								
Opening net book value	1,068	2,290	28,392	9,278	145	10,188	8,036	59,397
Additions	-	84	4,295	3,509	-	4,500	(834)	11,554
Disposals (cost)	-	-	(6,673)	(3,443)	-	(13,897)	-	(24,013)
Disposals (accumulated depreciation)	-	-	6,662	3,422	-	13,895	-	23,979
Depreciation charge	-	(225)	(4,267)	(3,856)	(68)	(4,875)	-	(13,291)
Closing net book value	**1,068**	**2,149**	**28,409**	**8,910**	**77**	**9,811**	**7,202**	**57,626**
March 31, 2011								
Cost	1,068	20,340	53,292	29,923	3,900	75,681	7,202	191,406
Accumulated depreciation	-	(18,191)	(24,883)	(21,013)	(3,823)	(65,870)	-	(133,780)
Net book value	**1,068**	**2,149**	**28,409**	**8,910**	**77**	**9,811**	**7,202**	**57,626**
March 31, 2012								
Opening net book value	1,068	2,149	28,409	8,910	77	9,811	7,202	57,626
Additions	5	1,107	6,181	2,810	-	1,958	6,558	18,619
Disposals (cost)	-	(4)	-	(791)	-	(553)	-	(1,348)
Disposals (accumulated depreciation)	-	4	-	791	-	553	-	1,348
Depreciation charge	(1)	(138)	(4,745)	(3,758)	(65)	(4,554)	-	(13,261)
Closing net book value	**1,072**	**3,118**	**29,845**	**7,962**	**12**	**7,215**	**13,760**	**62,984**
March 31, 2012								
Cost	1,073	21,443	59,473	31,942	3,900	77,086	13,760	208,677
Accumulated depreciation	(1)	(18,325)	(29,628)	(23,980)	(3,888)	(69,871)	-	(145,693)
Net book value	**1,072**	**3,118**	**29,845**	**7,962**	**12**	**7,215**	**13,760**	**62,984**

(Tabular amounts in $000s)

Change in Accounting Estimates

During the year ended March 31, 2012, the Branch reviewed the residual value and the useful life of buildings, furniture, fixtures, equipment and vehicles, resulting in an increase in the expected useful lives of these assets.

The assets affected by the change in estimated useful life include: buildings up to 40 years (2011 – 13 years); building improvements up to 20 years (2011 – 13 years); and vehicles and equipment up to 4 to 10 years (2011 – 4 years).

The effect of the increase in the expected useful lives on depreciation expense in current and future periods are as follows:

		$
Year Ending March 31	2012	339
	2013	296
	2014	198
	2015	154

Vehicle leases

The Branch leases various vehicles under finance lease agreements with terms of 4 years.

Vehicles and leasehold improvements include the following amounts where the Branch is a lessee under a finance lease:

	March 31, 2012	March 31, 2011	April 1, 2010
Cost - capitalized in finance leases	3,900	3,900	3,900
Accumulated depreciation	(3,888)	(3,823)	(3,755)
	$ 12	**$ 77**	**$ 145**

Commitments

The Branch has entered into commitments prior to the year-end for store renovations for a total of $645 thousand (2011 - $59 thousand) due in 2013.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2012 and 2011
(Tabular amounts in $000s)

7. INTANGIBLE ASSETS

	Intangible assets	Construction in process	Total
April 1, 2010			
Cost	3,243	1,098	4,341
Accumulated amortization	(1,556)	-	(1,556)
Net book value	**1,687**	**1,098**	**2,785**
March 31, 2011			
Opening net book value	1,687	1,098	2,785
Additions	784	-	784
Assets put into use	164	(164)	-
Disposals (cost)	-	-	-
Disposals (accumulated amortization)	-	-	-
Amortization charge	(685)	-	(685)
Closing net book value	**1,950**	**934**	**2,884**
March 31, 2011			
Cost	4,191	934	5,125
Accumulated amortization	(2,241)	-	(2,241)
Net book value	**1,950**	**934**	**2,884**
March 31, 2012			
Opening net book value	1,950	934	2,884
Additions	403	-	403
Disposals (cost)	-	-	-
Disposals (accumulated amortization)	-	-	-
Amortization charge	(816)	-	(816)
Closing net book value	**1,537**	**934**	**2,471**
March 31, 2012			
Cost	4,594	934	5,528
Accumulated amortization	(3,057)	-	(3,057)
Net book value	**1,537**	**934**	**2,471**

The Branch has entered into commitments prior to the year-end for software development for a total of $97 thousand due in 2013.

(Tabular amounts in $000s)

8. PREPAID EXPENSES

Prepaid expenses include insurance, software maintenance, and wine futures. The Branch, as part of its on-going business practices, purchases select products 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 spot exchange rate in effect at the transaction date. At March 31, 2012, the Branch has recorded $9.1 million (March 31, 2011 - $6.3 million; April 1, 2010 - $5.6 million) of prepaid wine futures for delivery in fiscal years 2013 and 2014.

	March 31, 2012	March 31, 2011	April 1, 2010
Wine futures	9,146	6,306	5,556
Other prepaids	1,899	2,050	828
	11,045	8,356	6,384
Long-term portion	(8,697)	(3,377)	(2,090)
Current portion	**$ 2,348**	**$ 4,979**	**$ 4,294**

9. DUE TO/FROM PROVINCE OF BRITISH COLUMBIA

The Branch uses the Province of British Columbia's financial and banking systems to process and record its transactions. The amount due to/from the Province of British Columbia represents the accumulated net financial transactions with the Province.

10. INVENTORIES

	March 31, 2012	March 31, 2011	April 1, 2010
Store inventory	51,998	55,678	59,099
Warehouse inventory	29,817	27,343	30,875
	$ 81,815	**$ 83,021**	**$ 89,974**

During the year inventories that were recognized as cost of sales amounted to $1.5 billion (2011 - $1.5 billion).

Change in Accounting Policy

Under previous GAAP, the cost of store inventories was measured using a first-in, first-out basis formula. Under IFRS, the Branch changed the inventory valuation method for the stores to a weighted average cost basis. This change had no material impact to the valuation of the store inventory.

11. ACCOUNTS RECEIVABLE

	March 31, 2012	March 31, 2011	April 1, 2010
Trade accounts receivable and other items	6,230	5,609	5,919
Provision for doubtful accounts	(648)	(596)	(612)
Accounts receivable and other items - net	**$ 5,582**	**$ 5,013**	**$ 5,307**

(Tabular amounts in $000s)

Receivables past due but not impaired are $276 thousand (March 31, 2011 - $680 thousand; April 1, 2010 - $1,035 thousand). Of the accounts receivable balance above, $190 thousand is expected to be recovered in greater than 12 months from the date of the statement of financial position.

12. OTHER LONG-TERM LIABILITIES

Other long-term liabilities comprise:

	March 31, 2012	March 31, 2011	April 1, 2010
Retirement benefit obligation (note 13(b))	12,961	10,132	9,900
WorkSafe BC claims accrual (note 13(c))	5,600	5,800	6,600
Long-term portion of deferred lease liabilities (note 14)	2,639	2,419	2,559
Long-term portion of obligation under capital lease	79	129	176
Other	1,013	1,041	1,503
	$ 22,292	**$ 19,521**	**$ 20,738**

13. EMPLOYEE'S BENEFIT PLANS AND OTHER EMPLOYMENT LIABILITIES

a) Public Service Pension Plan

The Branch and its employees contribute to the Public Service Pension Plan (the Plan), a jointly trusteed pension plan. The Public Service Pension Board of Trustees, representing Plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan. Basic pension benefits are defined. The Plan has approximately 58,000 active Plan members and approximately 36,000 retired Plan members.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of Plan funding. The actuarial valuation done for 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% as of April 1, 2009. The total amount paid into this pension plan by the Branch for the year ended March 31, 2012 was $11.0 million for employer contributions (2011 - $10.7 million), which was recorded in administration expenses.

The latest actuarial valuation as at March 31, 2011 indicated the Plan had a deficit of $275 million for basic pension benefits. Effective April 1, 2012, pension rates for employees and employers will increase by 0.4%, for a total increase of 0.8%.

The next valuation will be as at March 31, 2014 with results available in early 2015. Defined contribution pension plan accounting is applied to the Plan as there is no consistent and reliable basis for allocating the obligation, Plan assets and cost to individual entities participating in the Plan.

(Tabular amounts in $000s)

b) Retirement benefits

Employees are entitled to specific non-pension retirement benefits as provided for under collective agreements and terms of employment. The future liability for this obligation amounts to $13.0 million (2011 - $10.1 million), which represents future employees' retirement benefits outside of the Plan and is included in other long-term liabilities. The amount expensed in the current year was $2.9 million (2011 - $231 thousand).

c) WorkSafe BC outstanding claims

The Branch self-funds worker's compensation claims. The Branch recognizes a liability and an expense for claims that are in progress at the year-end. This liability of $5.6 million (2011 - $5.8 million) is valued by independent actuaries.

14. DEFERRED LEASE LIABILITIES

	March 31, 2012	March 31, 2011	April 1, 2010
Deferred lease	2,698	2,227	2,124
Deferred tenant allowances	348	432	517
Deferred tenant improvement loans	62	219	581
	3,108	2,878	3,222
Less current portion	(469)	(459)	(663)
Long-term portion	**$ 2,639**	**$ 2,419**	**$ 2,559**

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2012	March 31, 2011	April 1, 2010
Trade payables	88,086	73,719	72,136
Accrued liabilities	76,625	64,864	62,578
Other payables	2,637	2,595	2,733
Current portion of obligation under finance lease	50	47	74
Current portion of deferred lease liabilities	469	459	663
	$ 167,867	**$ 141,684**	**$ 138,184**

(Tabular amounts in $000s)

16. CONTRACTUAL COMMITMENTS

The Branch leases various stores, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The lease expenditure charged to the statement of comprehensive income during the year is $28.2 million (2011 - $27.5 million).

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

	March 31, 2012	March 31, 2011	April 1, 2010
Total future minimum rental payments under non-cancellable operating leases expiring:			
Not later than one year	27,857	26,521	25,435
Later than one year and not later than five years	78,472	81,145	69,976
Later than five years and not later than 25 years	20,841	26,930	25,210
	$ 127,170	**$ 134,596**	**$ 120,621**

Government liquor store fees

In fiscal 2008, the Branch entered into a five year agreement with the Liquor Control and Licensing Branch (LCLB) to provide the LCLB an annual fee based on the sales in each government liquor store. For the year ended March 31, 2012, the Branch paid $420,100 (2011 - $423,100) in fees.

Other contractual commitments have been disclosed elsewhere in the notes to the financial statements.

17. CONTINGENT ITEMS

The Branch is the sole importer of beverage alcohol in the Province. The Branch, as the importer of record, has the future liability for customs duty on import beer of $0.6 million (2011 - $0.8 million) based upon the value of the agents' inventories at March 31, 2012.

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.

18. CAPITAL MANAGEMENT

The Branch does not retain any equity. Net income is returned to the Province of British Columbia. The Branch has no externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2012 and 2011
(Tabular amounts in $000s)

19. RELATED PARTY TRANSACTIONS

Province of British Columbia

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.

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

Key management compensation

The Branch's executive management committee is defined as key management. At March 31, 2012, there were 8 (2011 - 8) members on the executive committee.

	2012	2011
Salaries and short-term benefits	1,141	971
Post-employment benefits	116	99
Fees for services	138	130
	$ 1,395	**$ 1,200**

During the year, one member of the executive management committee retired and received $28 thousand in retiring allowance.

20. FINANCIAL RISK FACTORS

The Branch is exposed to the following risks related to its financial assets and liabilities:

- Credit Risk
- Liquidity Risk
- Market Risk

It is management's opinion that the Branch is not exposed to significant market, credit or liquidity risk arising from these instruments.

Credit risk

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

Liquidity risk

Liquidity risk is the risk that the Branch will be unable to meet its financial obligations 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.

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.

While the majority of the Branch's transactions are in Canadian dollars, the Branch also transacts in Euros and US dollars. These transactions are in the normal course of business. The Branch's exposure to foreign currency risk could impact the accounts payable of the Branch. A 10 per cent movement in the exchange rate between the Canadian dollar and the other currencies listed above would not have a material impact on the Branch.

The Branch currently does not hold any debt or equity securities and as such is not exposed to price risk. As the Branch has no significant interest-bearing assets and liabilities, the Branch's income and operating cash flows are substantially independent of changes in market interest rates.

21. SUBSEQUENT EVENTS

In February 2012, the Province announced its intention to approach the private sector with an opportunity to provide a more efficient way to warehouse and distribute liquor in British Columbia. On April 30, 2012, a Negotiated Request for Proposal was issued seeking a single company to deliver warehousing and distribution services currently being provided by the Branch. The final agreement is to be signed on or about March 1, 2013 and the transition of services to the successful company is to be completed no later than March 2013. As part of the distribution changes, the Province has also announced its intention to sell the two warehouse properties currently used by the Branch. These properties will be sold no later than March 2015.

22. FIRST-TIME ADOPTION OF IFRS

First-time adoption exemptions applied

These are the Branch's first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended March 31, 2012, the comparative information presented in these financial statements for the year ended March 31, 2011 and in the preparation of an opening IFRS statement of financial position at April 1, 2010 (the Branch's date of transition).

IFRS 1 - *First-time Adoption of International Financial Reporting Standards*, which governs the first-time adoption of IFRS, in general requires accounting policies to be applied retrospectively to determine the opening statement of financial position at the Branch's transition date of April 1, 2010, and allows certain optional exemptions on the transition to IFRS. The elections the Branch has chosen to apply and that are considered significant to the Branch include decisions to:

- measure property and equipment at cost, being the carrying value of property and equipment immediately prior to the date of transition, with no adjustment made to fair value;
- determine whether an arrangement existing at the date of transition to IFRS contains a lease on the basis of facts and circumstances at that date (i.e. no retrospective application).

In preparing its opening IFRS statement of financial position, the Branch has adjusted amounts reported previously in financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP). An explanation of how the transition from Canadian GAAP to IFRS has affected the Branch's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2012 and 2011
(Tabular amounts in $000s)

Reconciliation of statements of financial position as at April 1, 2010 and March 31, 2011

	Note	Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
		April 1, 2010			March 31, 2011		
ASSETS							
NON-CURRENT ASSETS							
Property and equipment		59,397	-	59,397	57,626	-	57,626
Intangible assets		2,785	-	2,785	2,884	-	2,884
Prepaid expenses - long term		2,090	-	2,090	3,377	-	3,377
		64,272	-	64,272	63,887	-	63,887
CURRENT ASSETS							
Due from Province of British Columbia	iii	-	-	-	9,229	2,229	11,458
Inventories	iv	89,974	-	89,974	83,021	-	83,021
Prepaid expenses		4,294	-	4,294	4,979	-	4,979
Accounts receivable		5,307	-	5,307	5,013	-	5,013
Cash		6,724	-	6,724	-	-	-
TOTAL ASSETS		**170,571**	**-**	**170,571**	**166,129**	**2,229**	**168,358**
LIABILITIES							
NON-CURRENT LIABILITIES		18,831	1,907	20,738	17,509	2,012	19,521
Other long-term liabilities	iii	**18,831**	**1,907**	**20,738**	**17,509**	**2,012**	**19,521**
CURRENT LIABILITIES							
Due to Province of British Columbia	iii	13,773	(2,124)	11,649	-	-	-
Accounts payable and accrued liabilities	iii	137,967	217	138,184	141,467	217	141,684
Bank indebtedness		-	-	-	7,153	-	7,153
TOTAL LIABILITIES		**170,571**	**-**	**170,571**	**166,129**	**2,229**	**168,358**

(Tabular amounts in $000s)

Reconciliation of comprehensive income for the year ended March 31, 2011

A reconciliation between Canadian GAAP and IFRS comprehensive income for the year ended March 31, 2011 is provided below.

	Note	Previous GAAP	Effect of transition to IFRS	IFRS
Sales	i	2,820,455	(10,310)	2,810,145
Less commissions and discounts	ii	(201,543)	21,794	(179,749)
Net sales		2,618,912	11,484	2,630,396
Cost of sales	i,ii	(1,458,335)	(11,484)	(1,469,819)
Gross profit	iii	1,160,577	-	1,160,577
Administration expenses		(268,401)	(105)	(268,506)
Transportation expenses		(9,489)	-	(9,489)
Marketing expenses		(3,534)	-	(3,534)
Net operating income		879,153	(105)	879,048
Finance expenses		(47)	-	(47)
Other income		11,269	-	11,269
Net income and comprehensive income		**890,375**	**(105)**	**890,270**

i) Under Canadian GAAP, charges to suppliers relating to temporary price reductions were included as sales. Under IFRS, these charges are included under the cost of sales. This reclassification had no impact on net income for the year ended March 31, 2011 or on the amount due from Province of British Columbia.

ii) Under Canadian GAAP, supplier payments relating to sales of British Columbia wines were included as sales and discounts. Under IFRS, these payments are included under the cost of sales. This reclassification had no impact on net income for the year ended March 31, 2011 or on the amount due from Province of British Columbia.

iii) Both Canadian GAAP and IFRS require that lease payments be spread equally over the term of the lease and that any rent-free periods are also spread in such a manner. These have previously been recognized on a cash basis. As a result, other long-term liabilities increased by $1,907 thousand at April 1, 2010 and $2,012 thousand at March 31, 2011; amount due to the Province of British Columbia decreased by $2,124 thousand at April 1, 2010 and amount due from the Province of British Columbia increased by $2,229 thousand at March 31, 2011. The net effect of these transition adjustments of $105 thousand was recorded to rent expense for the year ended March 31, 2011.

iv) Under Canadian GAAP, the cost of store inventories was measured using a first-in, first-out basis formula. Under IFRS, the Branch changed the inventory valuation method for the stores to a weighted average cost basis. This change had no material impact on the valuation of the store inventory.

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:

phone: 604-252-3029
email: communications@bcldb.com
mail: 2625 Rupert Street, Vancouver BC V5M 3T5

The British Columbia Liquor Distribution Branch 2011/12 Annual Report is available online at **bcldb.com/annual-report**


bcldb.com