BC Liquor Distribution Branch

2014/15
ANNUAL SERVICE PLAN REPORT

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General Manager's Message And Accountability Statement

The Honourable Suzanne Anton
Attorney General and Minister of Justice

2014/15 was a year unlike any other for the BC Liquor Distribution Branch (LDB).

Tasked with supporting the modernization of British Columbia's liquor industry, in 2014 the LDB began overhauling the way beverage alcohol is sold provincially. This fundamental shift saw all retailers—including BC Liquor Stores—begin purchasing from the LDB at a common wholesale price on April 1, 2015.

Launching the new model, designed to put all liquor retailers on an equal footing, was one of the largest transformations in the organization's 95-year history.

To meet the needs of the changing liquor landscape, the LDB significantly updated its systems and business processes. The organization also achieved a greater separation between its retail and wholesale operations – a critical shift from a business and cultural standpoint. The entire organization was catalyzed into action and the new model was implemented on April 1, 2015.

In parallel with this unifying organizational focus, the LDB continued to strengthen its customer-centric mandate in 2014/15. Expanded sales and product knowledge training for store employees and unparalleled product selection helped to drive all BC Liquor Store retail sales of $1.2 billion—a 2 per cent increase over the previous year. In total, the LDB contributed $935 million to the Province in 2014/15, funding vital services such as health care and education for the people of BC.

Modernizing the business to improve customer service continued to be a key focus over the past year, and the LDB launched a number of initiatives to that end, including moving special occasion licences online. The LDB also continued its search for a new warehouse that will enable the most efficient service possible through the use of modern technology and streamlined distribution systems, with a goal of being operational in 2018.

In a year marked by efforts to modernize the liquor industry and update the LDB's business, the organization continued to be guided by the government's direction and committed to accountability and cost control as laid out in the taxpayer accountability principles announced in 2014.

The LDB's *2014/15 Annual Service Plan Report* compares the actual results to the expected results identified in the *2014/15 to 2016/17 Service Plan*. I am accountable for those results as reported.

R. Blain Lawson
General Manager and Chief Executive Officer

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Purpose of the Organization

In British Columbia, the 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 Attorney General and Minister of Justice, the LDB:
- operates a province-wide, retail/wholesale beverage alcohol business, within a mixed public-private model;
- handles the importation and distribution of beverage alcohol in BC;
- has a workforce of approximately 3,600 full- and part-time employees[1];
- operates 196 BC Liquor Stores (BCLS), a Head Office, two Wholesale Customer Centres and two Distribution Centres; and,
- has a General Manager and CEO who is responsible for administering the *Liquor Distribution Act*, which includes the oversight of BCLSs, subject to direction from the Minister.

As part of BC's mixed-model retail system, the LDB is committed to providing customers with an enhanced shopping environment, an expansive product selection and a high level of service. Another branch of the Ministry of Justice, 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*.

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 www.bcldb.com and click on "About Us" for more information about the LDB.

For information on the LDB's corporate governance structure and an organizational overview, see Appendix A.

Strategic Direction and Context

Strategic Direction

The LDB's 2014/15 to 2016/17 Service Plan was informed by the Government's Letter of Expectations (GLE) for 2014/15, and the Taxpayer Accountability Principles Addendum to the 2014/15 GLE. Together, the GLE and Addendum represent an agreement between the Government of British Columbia and the LDB and direct the LDB to take specific actions in accordance with government policy. Along with economic and market trends, these principles and mandate are factored into the LDB's business decisions.

[1] As of March 31, 2015

Strategic Context

Beverage alcohol is a discretionary consumer product and sales are affected by economic conditions. As the economy continues to improve and consumer confidence rebuilds, liquor sales have also improved across all categories—beer, wine, spirits and refreshment beverages. This is an indication consumers are more sophisticated and enjoy a wide range of tastes and a greater variety of products. The LDB continues to closely monitor trends in sales and expenses to make adjustments to forecasts and budgets as necessary.

Growing economy

The province's economy saw another year of solid growth, continuing upon the trend from 2013. In 2014, BC's gross domestic product (GDP) grew 2.6 per cent, which exceeded the national average of 2.4 per cent. This growth was driven by increases in several sectors: goods and services, construction, resource (gas and metal); and manufacturing. British Columbia's tourism sector also continues to experience strong growth.

As the economy continued to expand in 2014, rising consumer confidence contributed to increased consumer spending. This is reflected in a 5.1 per cent increase in liquor sales over the previous year.

Modernizing BC's liquor industry

This was a significant year for the LDB, as the organization was tasked with supporting the modernization of BC's beverage alcohol industry by implementing a new wholesale pricing model. All retailers, including BCLS, made a fundamental shift toward purchasing beverage alcohol products from the LDB at a common wholesale price.

Evolving liquor industry

In order to be more responsive to evolving liquor industry, the LDB increased the separation between its retail and wholesale operations. Doing this created an opportunity for the LDB to address the risks posed by an aging infrastructure by significantly updating and improving the efficiency of its own business systems.

Continuing to meet customer expectations

Despite 2014/15 being a transitional year, the LDB continued to ensure its customers— retail and wholesale— received the customer-centric experience they have come to expect and demand.

Report on Performance

The LDB's Report on Performance describes how the organization implemented its strategies in order to meet its performance goals. It illustrates how the LDB balances its financial obligations with the non-financial activities outlined in its mandate. The strategies presented are in alignment with the government's expectations as outlined in the 2014/15 Mandate Letter and the Taxpayer Accountability Principles Addendum. In addition, the LDB is working with the Ministry of Justice to meet all of the taxpayer accountability principles, including development of an evaluation plan and a strategic engagement plan.

Benchmarking
In 2014/15, the LDB deferred its benchmark study in order to focus on the modernization of the liquor industry in BC. The benchmark study will resume next year.

The results of the most recent benchmark study can be found in the LDB's 2013/14 Annual Report.

Goals, Strategies, Measures and Targets

The LDB regularly re-examines its goals, performance measures, strategies and targets with the Ministry of Justice to ensure they reflect critical aspects of the LDB's performance and are in alignment with its key strategic directions.

Goal 1: Financial Performance

Meet financial objectives approved by government.

Strategy: Grow sales and effectively manage operating expenses

Performance Measure	2011/12 Actual	2012/2013 Actual	2013/14 Actual	2014/15 Target[1]	2014/15 Actual	2015/16 Target	2016/17 Target
1.1 Net Income in Millions $	911.1	929.6	877.0	862.1	935.2	880.6	895.6

[1]The 2014/15 net income target did not anticipate the potential one-time gain from the sale of the LDB's Distribution Centre property.

Discussion
The LDB's net income for fiscal 2014/15 was $935.2 million. This figure is $73.1 million higher than target and $58.3 higher than fiscal 2013/14.

The 2014/15 net income includes a one-time gain of $36.9 million due to the sale of the LDB's Distribution Centre property in Vancouver. Excluding the gain, the LDB's actual net income would be $898.3 million, making it $36.2 million or 4.2 per cent higher than target, and $21.3 million or 2.4 percent above the prior year.

Net income is the contribution made to the provincial government by the LDB from the total sales of beverage alcohol in the province and is audited by the BC Auditor General. LDB net income is a significant contributor to provincial government revenues.

Provincial liquor sales were $3.1 billion in 2014/15 or $120.5 million or 4.1 per cent higher than budget and $148.8 million or 5.1 per cent higher than the prior year. The sales increase is a result of higher volumes in all categories.

All sales dollars are reported using International Financial Reporting Standards (IFRS).

Sales by Major Category ($000s)

						Change vs. Previous Year	
	2014/15	**2013/14**	**2012/13**	**2011/12**	**2010/11**	**$**	**%**
Domestic Spirits	374,273	369,963	386,800	398,830	405,873	4,310	1.2
Import Spirits	398,094	377,912	376,876	353,914	329,999	20,182	5.3
Total Spirits	**772,367**	**747,875**	**763,676**	**752,744**	**735,872**	**24,492**	**3.3**
Domestic Wine	478,248	439,930	420,513	398,671	385,442	38,318	8.7
Import Wine	552,460	522,734	521,405	499,033	467,042	29,726	5.7
Total Wine	**1,030,708**	**962,664**	**941,918**	**897,704**	**852,484**	**68,044**	**7.1**
Domestic Refreshment	113,067	108,642	104,780	101,157	97,925	4,425	4.1
Import Refreshment	55,267	37,078	25,543	21,985	21,193	18,189	49.1
Total Refreshment	**168,334**	**145,720**	**130,323**	**123,142**	**119,118**	**22,614**	**15.5**
Domestic Beer	909,098	874,845	897,985	886,005	858,484	34,253	3.9
Import Beer	209,846	210,747	215,088	220,990	236,176	(901)	(0.4)
Total Beer	**1,118,944**	**1,085,592**	**1,113,073**	**1,106,995**	**1,094,660**	**33,352**	**3.1**
Miscellaneous/ Special Orders	2,126	1,844	1,427	9,284	8,011	282	15.3
Total Sales	**3,092,479**	**2,943,695**	**2,950,417**	**2,889,869**	**2,810,145**	**148,784**	**5.1**

Sales by Major Category in Litres (000s)

						Change vs. Previous Year	
	2014/15	**2013/14**	**2012/13**	**2011/12**	**2010/11**	**Litre**	**%**
Domestic Spirits	13,198	13,111	13,344	13,779	13,980	87	0.7
Import Spirits	11,404	11,050	10,844	10,402	9,869	354	3.2
Total Spirits	**24,602**	**24,161**	**24,188**	**24,181**	**23,849**	**441**	**1.8**
Domestic Wine	37,679	35,283	33,034	31,779	31,298	2,396	6.8
Import Wine	31,623	30,520	30,374	29,892	28,702	1,103	3.6
Total Wine	**69,302**	**65,803**	**63,408**	**61,671**	**60,000**	**3,499**	**5.3**
Domestic Refreshment	25,203	24,807	23,286	22,347	21,927	396	1.6
Import Refreshment	10,042	6,669	4,265	3,681	3,535	3,373	50.6
Total Refreshment	**35,245**	**31,476**	**27,551**	**26,028**	**25,462**	**3,769**	**12.0**
Domestic Beer	242,134	230,414	227,322	227,110	221,023	11,720	5.1
Import Beer	41,723	42,229	43,202	45,715	51,516	(506)	(1.2)
Total Beer	**283,857**	**272,643**	**270,524**	**272,825**	**272,539**	**11,214**	**4.1**
Miscellaneous/ Special Orders	148	138	120	131	134	10	7.2
Total Sales	**413,154**	**394,221**	**385,791**	**384,836**	**381,984**	**18,933**	**4.8**

Goal 2: Customer Experience

Maintain a high level of wholesale and retail customer satisfaction.

Strategies:

1. Continuously refresh the store network
2. Continuously provide enhanced customer services

Performance Measure	2011/12 Actual	2012/2013 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
2.1 Retail customer satisfaction	N/A	98%	N/A	90%	98%	N/A	90%
2.2 Wholesale customer satisfaction	N/A	88%	N/A	90%	N/A[1]	N/A	90%

[1] The LDB will conduct a comprehensive wholesale customer satisfaction survey in 2016/17.

Discussion
Every second year, the LDB conducts surveys that measure the satisfaction of its retail and wholesale customers. These surveys are 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.

Due to the importance of customer service to the LDB's success, a high target of 90 per cent was set. In 2014/15, the results of the LDB's retail customer survey exceeded expectations. The next survey will be conducted in 2016/17.

On April 1, 2015, all liquor retailers in BC began purchasing beverage alcohol products from the LDB at a common wholesale price. In the months leading up to the implementation of this new model, the LDB's wholesale customers needed additional time to understand how this change and others like mark-up would impact their business model.

The LDB's Wholesale Customer Centres deferred their survey until next year so they could fully support customers as they transitioned to the new liquor model.

Goal 3: Workplace Quality and Employee Excellence
Create a work environment that encourages greater employee engagement.

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

Performance Measure	2011/12 Actual	2012/2013 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
3.1 Employee Engagement	69	N/A	69	N/A	N/A	70	N/A

Discussion

3.1 Employee engagement
Employee engagement is a measure of employees' level of commitment to, and satisfaction with, their job and the organization. The LDB measures its employee engagement levels every two years, with the next workplace environment survey scheduled for 2015/16.

The LDB is currently addressing the following specific areas identified in previous survey results as being in need of improvement.

Succession Management
At the LDB, a large number of employees are approaching retirement. In anticipation, the LDB is using a comprehensive succession management strategy to guide the professional development of existing employees and identify opportunities for external recruitment.

In 2014/15, the LDB held one *Signature Leadershi*p session which provided high-performing mid-level managers with an opportunity to enhance their existing leadership capabilities and capacity. There were 18 graduates from the *Signature Leadershi*p program, bringing the program total to almost 80.

Training
In 2014/15, the LDB introduced several programs to ensure all BCLS employees have the skills and tools they need to be effective in a new, more competitive liquor model.

- *Get Selling* is a customer service and selling skills development program. In total, 1460 BCLS staff participated in this program and learned how to provide the exceptional customer service expected of a customer-centric retailer.
- *Get Managing* is a retail management program that provides BCLS managers with the skills they need to run a profitable retail store and develop teams to reach their full potential. 370 BCLS managers participated in this program.

Both of these programs will continue to be offered in 2015/16 as customer centricity and retail leadership remain a priority.

Change management training also continues to be a priority for the LDB, with 285 employees participating in *Change Management Experience Point Simulation* workshops in 2014/15. In addition, 146 managers completed the *Prosci Change Management Coaching Program for Managers.*

Now in its second year, the *Essentials of Supervision* program saw increased employee interest with an additional 180 managers and supervisors participating, bringing the total to 240. This course provides employees with foundational supervisory skills and helps the LDB continue to build a common language and practice of effective leadership.

The LDB continues to focus on providing extensive product knowledge training to its workforce through a range of intensive self-study and workshop sessions. This training empowers BCLS employees to assist customers to make informed product selections and ensures a high level of customer satisfaction is maintained. In 2014/15, 596 employees completed various levels of the LDB's *Product Knowledge* program. This program is affiliated with the internationally-recognized Wine and Spirit Education Trust.

The LDB continued its commitment to provide its employees and customers with a safe, respectful environment by raising internal awareness about workplace bullying, harassment and discrimination. In 2014/15, 34 managers and 268 employees completed mandatory *Respect Matters* training.

Goal 4: Business Effectiveness

Maintain operating efficiencies in a climate of constant change.

Strategies:

1. Maximize the potential efficiencies available through improved distribution operations
2. Increase the use of current and cost effective technology

Performance Measure	2011/12 Actual	2012/2013 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
4.1 BC Liquor Store sales per square foot	$1,262	$1,271	$1,222	$1,303	$1,236	$1,303	$1,303
4.2 Distribution Centre labour cost per case shipped	$1.73	$1.75	$1.68	$1.74	$1.70	$1.74	$1.74
4.3 Distribution Centre line fill order rate	93%	93%	93%	93%	91.5%	93%	93%

Discussion

Wholesale and retail customers have different needs. In 2014/15, the LDB continued its efforts to address the needs of both groups by continuing to shift more of its wholesale customers toward ordering product through the Wholesale Customer Centre (WCC). This shift allows BCLS locations to focus exclusively on the needs of retail customers.

In 2014/15, BCLS sales per square foot increased over 2013/14 but fell slightly below the target for this year, as a result of the LDB shifting the majority of its wholesale customer business to its WCC. During this same period, the LDB’s WCC sales to wholesale customers increased by 10 per cent over 2013/14 to $654.2 million. As of March 31, 2015, the WCCs in Vancouver and Victoria began servicing all active Licensee Retail Stores (LRS), Independent Wine Store (IWS) and Rural Agency Stores (RAS) in BC.

The LDB’s Distribution Centres’ labour cost per case shipped was lower than its target of $1.74 for 2014/15. By rebalancing the workload between the LDB’s two Distribution Centres and adding a second shift in Kamloops, the organization was able to operate more cost effectively.

In 2014/15, the LDB faced some challenges with inventory that resulted in the organization falling slightly below its target for the Distribution Centre fill rate. There was an increase in the number of times when producers were unable to provide the LDB with enough product to meet wholesale and retail customer demand. In addition, the 28-day trucker strike at Port Metro Vancouver resulted in inventory delays. Despite these challenges, the Vancouver Distribution Centre's line fill order rate fell only slightly below its target.

Goal 5: Corporate Social Responsibility

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

Strategies:

1. Prevent sales to minors or intoxicated persons in BCLSs through staff education and enforcement of ID-checking requirements
2. Promote awareness of responsible use by continuing co-operative programs with suppliers and other stakeholders
3. Reduce the impact of operations on the environment by reducing waste, increasing recycling rates and achieving carbon neutrality on an annual basis

Performance Measure	2011/12 Actual	2012/2013 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
5.1 Store compliance with ID-checking requirements	96%	92%	82%	100%	85%	100%	100%
5.2 Customer awareness of LDB corporate social responsibility programs	N/A	91%	N/A	90%	93%	N/A	90%

Discussion

Store compliance with ID-checking requirement

The LDB continued its long-term commitment to corporate sustainability and social responsibility, including minimizing access to alcohol by minors through stringent ID-checking procedures. The legal age to purchase liquor in BC is 19. In fiscal 2011/12, the LCLB introduced an ID-checking program for government and private liquor stores that uses underage agents to test compliance. The LDB uses compliance statistics gathered by the LCLB for this measure. The LDB sets a target of

100 per cent to ensure the organization strives to achieve perfection and to reflect the significance it places on this performance measure. In 2014/15, the LDB's compliance rate was 85 per cent. To reinforce the importance of this measure, the LDB is replacing its existing ID-checking program with a new one that will require all customers who appear to be under the age of 30 for two pieces of identification.

Customer awareness of LDB corporate social responsibility programs
The LDB places posters and other promotional materials in all of its 196 BCLS locations that encourage the responsible use of beverage alcohol. The themes, such as the prevention of drinking and driving or underage drinking, change every month. Every second year, the LDB measures customer recall of these promotional materials through the same customer survey the LDB uses to rate its customer service performance (see performance measure 2.1). In 2014/15, the LDB exceeded its target of 90 per cent by three points. This target was set to ensure that the LDB strives to develop impactful and relevant messaging that catches the attention of customers.

Performance Measure	2012/13 Actual[1]	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
5.3 Waste Diversion Rate at Head Office and Vancouver Distribution Centre	N/A	N/A	70%	79%	75%	80%

[1] This performance measure was introduced in 2014/15. Measurements taken this year will help to inform a baseline for 2015/16.

Waste Diversion Rate at Head Office and Vancouver Distribution Centre
The LDB has a long history of taking a leadership role with regards to corporate sustainability, and 2014/15 was no exception.

In Vancouver, LDB Head Office and Distribution Centre employees began separating food waste from regular garbage to ensure compliance with new 2015 Metro Vancouver recycling rules.

For the past six years, the LDB has focused on reducing its environmental footprint and has been carbon neutral since 2010.

In 2014, LDB Head Office employees participated in a six-week recycling pilot program to divert food waste, paper towel, and food-soiled paper from the landfill to prepare for new Metro Vancouver recycling rules coming into effect in 2015. Following the pilot, the waste diversion program was rolled out throughout Head Office and the Vancouver Distribution Centre.
In addition, the LDB's *Waste Reduction and Recycling Strategy* identified several additional ways it can reduce the waste from packaging and printed paper from ending up in a landfill.

In light of these new recycling requirements, the LDB now measures waste diversion rates for two specific workplaces—Head Office and Vancouver Distribution Centre—which are located in the Metro Vancouver region. Next year, the LDB will expand its recycling initiatives to include BCLS locations and the performance measure will expand accordingly.

Financial Report

Management Discussion and Analysis

Actual 2014/15 financial results compared to 2013/14 actual results

Gross sales were $3.1 billion, an increase of $148.8 million from the prior year sales of $2.94 billion. This was the result of strong sales in all product categories and an overall volume increase of 4.8 per cent.

Commissions and discounts were $214.6 million, which was $16.4 million higher than fiscal 2013/14. This was due to an increase in market share by private retailers. Wholesale customer discounts range from 12 to 30 per cent.

Operating expenses were 10.4 per cent of sales for the fiscal year, slightly higher than the 10.2 per cent of the previous year. The LDB continues to maintain its expenses as a percentage of sales by carefully managing its discretionary expenses and staffing in all areas of its operations.

Expenses were $321 million, $21.5 million higher than fiscal 2013/14. The largest changes in expenses occurred in the following areas:

- Employment expenses increased $9.2 million due to negotiated rate increases as well as increased customer traffic which contributed to higher retail sales volume. Overall, the employment rate as a percentage of sales increased only slightly to 5.6 per cent from 5.5 per cent when compared to the prior year;
- Rent expenses increased by $2.8 million due to store relocations and rent renewals;
- Administrative expenses increased by $9.4 million due to increases in professional fees, training costs and payroll processing; and
- Bank charges increased by $1.7 million due to increased use of credit cards and higher merchant fees.

In August 2014, the building and property which houses the Vancouver Distribution Centre, a BCLS retail store, and administration offices, was sold. The LDB realized a one-time gain of $36.9 million on the sale. The LDB is leasing the facilities from the new owners until a new warehouse facility is in place. All LDB operations currently carried out on the property will continue as normal for the foreseeable future.

For fiscal 2014/15, the LDB's net income and return to government was $935.2 million. This was an increase of $58.3 million compared to the previous year, and $73.1 million higher than budget.

Excluding the gain from the sale of the Distribution Centre, the LDB's net income was $898.3 million, $21.3 million higher than last year and $36.2 million higher than budget. LDB net income as a percentage of sales was 29 per cent, which was 0.8 per cent lower than fiscal 2013/14 at 29.8 per cent.

Financial Results Summary Table

Table 1: Summary of financial results over 5 years
For the five years ended March 31, 2015
(all dollar figures in $000s)

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2014/15	2014/15	2013/14 – 14/15	2015/16	2016/17
	Actual	Actual	Actual	Actual	Actual	Budget	Actual	Variance	Variance	Budget	Budget
Sales	2,854.1	2,810.1	2,889.9	2,950.4	2,943.7	2,972.0	3,092.5	120.5	148.8	2,848.1	2,906.6
Commission and Discounts	198.3	179.7	187.6	196.3	198.2	190.7	214.6	(23.9)	(16.4)	6.0	6.2
Cost of Sales	1,515.3	1,469.8	1,510.7	1,540.8	1,581.5	1,608.2	1,670.1	(61.9)	(88.6)	1,628.4	1,664.1
Gross Profit	1,140.5	1,160.6	1,191.6	1,213.3	1,164.0	1,173.1	1,207.8	34.7	43.8	1,213.7	1,236.3
Operating Expenses - Employment	163.3	159.8	164.3	165.3	162.8	170.5	172.0	(1.5)	(9.2)	177.0	178.9
Operating Expenses - Rent	33.7	36.0	37.0	37.9	39.7	42.5	42.5	0.0	(2.8)	45.6	47.9
Operating Expenses - Administration	78.9	85.7	89.7	93.0	97.1	105.8	106.5	(0.7)	(9.4)	118.5	121.9
Operating Income	864.6	879.1	900.6	917.1	864.4	854.3	886.8	32.5	22.4	872.6	887.6
Net Income	877.3	890.3	911.1	929.6	877.0	862.1	935.2	73.1	58.3	880.6	895.6
Gross Margin (%)	40.0%	41.3%	41.2%	41.1%	39.5%	39.5%	39.1%	-0.4%	-0.4%	42.6%	42.5%
Operating Expenses to Sales (%)	9.7%	10.0%	10.1%	10.0%	10.2%	10.7%	10.4%	0.3%	-0.2%	12.0%	12.0%
Net Income to sales (%)	30.7%	31.7%	31.5%	31.5%	29.8%	29.0%	30.2%	1.2%	0.4%	30.9%	30.8%
Inventory Turnover	17	17	18	18	18	18	18	0	0	0	0
Debt	0.8	0.4	0.2	0.1	0	0	0	0	0	0	0
Retained Earnings	0	0	0	0	0	0	0	0	0	0	0

Fiscal 2014/15 capital expenditures of $25.2 million were $12.3 million higher than the $12.9 million spent in the previous year (see Table 2). Capital spending in the prior year was lower than normal as the LDB was developing plans to implement the recommendations of the Liquor Policy Review. Capital expenditures were related to ongoing operational capital needs and tenant improvement projects for stores.

Capital spending during fiscal 2014/15 resulted in the implementation of several projects, including: upgrading the payroll system software and outsourcing payroll services; a web-based special occasion license application; rolling out Microsoft's Windows 7 operating systems and desktop virtualization technology; and implementing a new wholesale pricing model.

During fiscal 2014/15, the retail customer count at BCLSs increased to 36.4 million from 36.2 million customers. The average retail customer transaction value at BCLSs increased to $33.46 from $32.90. The increase in average transaction value reflects the changes in consumer trends towards unique and specialty products like BC Vintners Quality Alliance (VQA) wines and craft beers which tend to have a premium price. With the weaker Canadian dollar, some product prices were also impacted.

On average the LDB holds all inventory for 21 days meaning each year there are 18 inventory turn overs. This inventory turnover rate is consistent with previous years. More specifically, each year the inventory in LDB Distribution Centres turns over 23 times and BCLS 12 times. The consistency of inventory turns reflects the close management of LDB inventories.

Table 2: Key Indices
(all dollar figures in $000s)

	Actual 2014/15	**Budget 2014/15**	**Change vs. 2014/15 Budget**	**Actual 2013/14**	**Change vs. 2013/14 Actual**
Gross Sales	3,092,479	2,971,998	120,481	2,943,695	148,784
Net Income	935,233	862,087	73,146	876,979	58,254
Capital Expenditures	25,217	30,356	(5,139)	12,947	12,270
Gross Margin %	39.1%	39.5%	-0.4%	39.5%	-0.4%
Operating Income to Sales %	28.7%	28.7%	-0.1%	29.4%	-0.7%
Operating Expenses to Sales %	10.4%	10.7%	-0.3%	10.2%	0.2%
Net Income to Sales % (includes gain on property sale)	30.2%	29.0%	1.2%	n/a	n/a
Net Income to Sales % (excludes gain on property sale)	29.0%	29.0%	-0.0%	29.8%	-0.8%
Inventory Turnover	18	18	0.0%	18	-
Retail Customer Count	36,424	N/A	N/A	36,231	193
Average Transaction $ Value	$33.46	N/A	N/A	$32.90	$0.56

Retail and Wholesale Channels

The LDB has two types of operations based on customer type. The retail channel includes sales from BCLS to retail customers. The wholesale channel includes sales to re-sellers of beverage alcohol from BCLS and all sales from the LDB's WCC, authorized BC manufacturers and private distributors. Re-sellers of beverage alcohol include Licensee Retail Stores (LRS), Rural Agency Stores (RAS), wine stores, licensees (such as restaurants and pubs) and duty free stores.

The segmented information that follows allocates the financial results into the retail and wholesale channels on an activity-based costing analysis. The retail operations cover all counter sales in BCLS and wholesale represents all other sales. An activity-based costing analysis between retail and wholesale, which allocates expenses between the two channels, was last performed based on activities in 2010/11. The results of this analysis were used in this year's segmentation. The analysis was not conducted in 2014/15 since there were no significant changes in activity during the year.

Retail Channel

The net income as a percentage of sales increased from 33.7 per cent to 35.1 per cent. Sales increased by $22.9 million, representing a 1.9 per cent increase over the prior year. Cost of sales, as a percentage of sales, decreased by 1.5 per cent over fiscal 2013/14. This was due to a combination of higher sales volumes and changes in product mix and pricing.

Table 3: Retail Results
(in $000s)

	Actual 2014/15	Budget 2014/15	% Actual Sales	Actual 2013/14	% Actual Sales	% Change over prior year
Sales	1,201,155	1,197,716	100	1,178,276	100	1.9
Cost of Sales	575,299	574,903	47.9	584,114	49.6	(1.5)
Operating Expenses	209,628	215,842	17.5	203,007	17.2	3.3
Other Income	5,750	3,875	0.5	6,237	0.5	(7.8)
Net Income	421,978	410,846	35.1	397,392	33.7	6.2

Wholesale Channel
Net income, as a percentage of sales, decreased slightly from 27.2 per cent to 27.1 per cent. Sales increased by $125.9 million, or 7.1 per cent, due to increased wholesale sales. The sales increase in this channel has been driven mainly by the growth in BC land based wineries, along with growth in BC breweries.

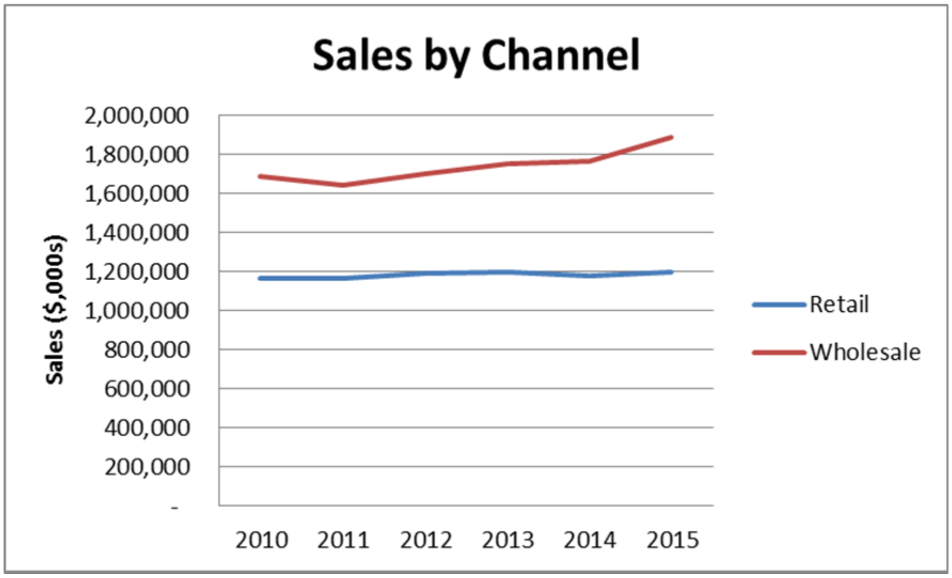
Cost of sales, as a percentage of sales, increased by 1.4 per cent. This channel has a higher proportion of beer and BC wine sales, resulting in an overall lower return. Because mark-up on beer is a per litre mark-up, the cost of sales, as a percentage of sales, will increase with rising beer prices. BC wines have lower gross margins due to the mark-up policy for direct delivery of VQA wines and wines produced from 100 per cent BC grapes.

The gain on the sale of the Vancouver Distribution Centre is included in the other income of the wholesale channel.

Table 4: Wholesale Results
(in $000s)

	Actual 2014/15	Budget 2014/15	% Actual Sales	Actual 2013/14	% Actual Sales	% Change over prior year
Sales	1,891,324	1,774,282	100	1,765,419	100.0	7.1
Commissions & Discounts	214,560	190,731	11.3	198,170	11.2	8.3
Cost of Sales	1,094,788	1,033,206	57.9	997,349	56.5	9.8
Operating Expenses	111,400	102,979	5.9	96,550	5.5	15.4
Other Income	42,679	3,875	2.3	6,237	0.4	584.3
Net Income	513,255	451,241	27.1	479,587	27.2	7.0

Table 5: Retail and Wholesale Channel Trends



Product Categories

Overall, sales exceeded target by 4.1 per cent ($120.5 million) and increased by 5.1 per cent ($148.8 million) compared to the previous year. The refreshment beverage category had the strongest growth in both sales dollars and litres, reflecting changing consumer preferences.

The refreshment beverage category increased by 15.5 per cent or $22.6 million and was largely driven by import refreshments increasing by 49.1 per cent or $18.2 million. This was followed by wine with an increase of 7.1 per cent or $68 million; spirits with an increase of 3.3 per cent or $24.5 million; and beer with an increase of 3.1 per cent or $33.4 million.

In terms of volume, there was an overall increase of 4.8 per cent compared to the previous year. The refreshment beverage category had the largest volume increase at 12 per cent, followed by wine at 5.3 per cent, beer at 4.1 per cent and spirits 1.8 per cent when compared to last year.

Table 6: Product Category Changes

	% change in Sales $ from previous year		% change in Sales litres from previous year	
	Domestic	**Import**	**Domestic**	**Import**
Spirits	1.2	5.3	0.7	3.2
Wine	8.7	5.7	6.8	3.6
Beer	3.9	(0.4)	5.1	(1.2)
Refreshment	4.1	49.1	1.6	50.6

Market Share
In 2014/15, private sector stores which include Licensee Retail Stores (LRS) and agency stores purchase their product from the LDB at discounts ranging from 12 to 30 per cent. During the year, the share of the liquor market accounted for by these outlets increased from 43.9 per cent to 45.2 per cent.

Discounts increased by $16.4 million or 8.3 per cent over the previous year, reflecting shifts in market share. Over the past five years (see Tables 7 and 8), private retailers' market share in the wholesale channel has grown steadily.

Table 7: Provincial Sales by Source
For the five years ended March 31, 2015
(as a percentage of total dollar sales)

Counter Sales (%)	**2014/15**	**2013/14**	**2012/13**	**2011/12**	**2010/11**
Government Liquor Stores	38.8	40.1	40.5	41.0	41.4
Licensee Retail Stores	35.5	34.8	34.8	34.4	33.9
Agency Stores	9.7	9.1	8.8	8.1	8.1
Total Counter Sales	84.0	84.0	84.1	83.5	83.4
Licensed Establishments	16.0	16.0	15.9	16.5	16.6
Total Sales	100.0	100.0	100.0	100.0	100.0
Data Source: LDB Oracle Financial System					

Table 8: Counter Sales by Source
For the five years ended March 31, 2015
(as a percentage of total dollar sales)

Counter Sales (%)	**2014/15**	**2013/14**	**2012/13**	**2011/12**	**2010/11**
Government Liquor Stores	46.3	47.7	48.2	49.1	49.7
Licensee Retail Stores	42.3	41.5	41.4	41.2	40.6
Agency Stores	11.4	10.8	10.4	9.7	9.7
Total Counter Sales Market	100.0	100.0	100.0	100.0	100.0
Data Source: LDB Oracle Financial System					

Remittances to government agencies
The LDB paid over $1.2 billion to various government agencies during fiscal 2014/15.

Table 9: Remittances to Government Agencies
(in $000s)

	2014/15	2013/14	2012/13	2011/12	2010/11
FEDERAL GOVERNMENT					
Custom Duties and Excise Tax	141,946	140,481	141,460	140,962	141,152
GST/HST	65,264	71,056	162,186	156,744	135,329
Total	**207,210**	**211,537**	**303,646**	**297,706**	**276,481**
PROVINCIAL GOVERNMENT					
LDB Net Income	935,230	876,979	929,559	911,145	890,270
Social Services Tax	127,726	112,369	-	5	37,747
Liquor Control and Licensing	421	419	420	420	423
Total	**1,063,380**	**989,767**	**929,979**	**911,570**	**928,440**
MUNICIPAL GOVERNMENT					
Property Taxes	1,179	1,283	1,200	1,360	921
Business Licenses	33	35	37	35	31
Total	**1,212**	**1,318**	**1,237**	**1,395**	**952**
Total Remittances	**1,271,802**	**1,202,622**	**1,234,862**	**1,210,671**	**1,205,873**

Future Outlook

Table 10 outlines the LDB's financial forecasts for the next three years. The financial forecasts take into consideration current economic conditions, beverage alcohol trends, and key strategic issues and risk facing the LDB.

Key Forecast Assumptions

Effective April 1, 2015, the LDB implemented a new wholesale model with the intent that retail prices remain relatively unchanged. As well, the government announced that qualifying grocery stores will be permitted to sell alcohol beginning April 1, 2015.

Due to these significant changes, the future years' forecasts have included the following sales assumptions:

- Market share and product mix remains stable for all future years;
- The impact of grocery stores has not been included;
- Fiscal 2015/16 overall net sales growth will be relatively stable; and
- For fiscal 2016/17 and onwards, annual sales will increase by two per cent due to a combination of inflation and volume growth.

Operating expense assumptions include:

- Absorption of union negotiated salary increases for fiscal 2015/16 and 2016/17;
- Higher rents, especially in the urban regions;
- Greater amortization due to implementation of technology-related projects and store improvements; and
- Increased costs due to increasing credit card charges (usage and merchant fees), freight and warehouse lease costs.

Capital requirements reflect expenditures for updating and improving stores, technology-related projects and ongoing equipment replacements. Included in the LDB's capital plan are funds to modernize LDB's warehouse and distribution operation and to upgrade the Oracle Enterprise Resource Planning (ERP) system. Efficiency gains are expected to come from additional size, modern and higher racking, improved aisle access, improved receiving and shipping bays, some automation and enhanced staff scheduling.

Forecast Risks and Sensitivities

Beverage alcohol is a highly regulated product and its consumption can be influenced by government decisions such as hours of operation of establishments that sell or serve liquor products and drinking and driving laws, to name just two. Policy decisions of this nature can have a significant impact on LDB revenue.

The LDB's financial performance is also affected by economic conditions:

- Changes in the marketplace—it is unknown at this time how the introduction of grocery stores as retailers of beverage alcohol will impact the current retail environment;
- Price competition among suppliers of wine, spirits and refreshment beverages—as mark-up on these products is percentage-based, a reduction in the supplier price will result in less LDB revenue, assuming a constant volume; and
- Beverage alcohol is a discretionary consumer product and sales are affected by economic conditions—consumer confidence dictates the level of entertainment dollars spent on beverage alcohol.

Weather patterns and timing of statutory holidays are other factors that influence LDB revenue. A hot, dry summer and long weekends result in increased sales, particularly in the refreshment beverage and packaged beer categories. Conversely, adverse weather conditions have a negative impact on liquor sales. The day of the week statutory holidays fall on also have an impact on sales—when they fall on Mondays or Fridays, sales are much stronger than when they fall on Tuesdays or Wednesdays.

Cost of Goods Sold
Each percentage change in the cost of products in the wine, spirits and refreshment beverage categories has a direct effect on net income of approximately $9 million due to the percentage-based mark-up on these products.

Beer has a per litre mark-up and therefore cost of sales as a percentage of sales will increase with higher beer prices. BC wines have lower gross margins due to the mark-up policy on direct delivery VQA wines and wines produced from 100 per cent BC grapes. As these two categories grow, cost of goods as a percentage of sales will continue to increase.

Table 10: Budget and Forecasts
(in $ millions)

	Budget 2015/16	Forecast 2016/17	Forecast 2017/18
Sales, net of commissions and discounts	2,842.1	2,900.4	2,959.9
Cost of sales	1,628.4	1,664.1	1,700.4
Operating Expenses - Employment	177.0	178.9	180.8
Operating Expenses - Rent	45.6	47.9	50.3
Operating Expenses - Administration	118.5	121.9	126.2
Other income	8.0	8.0	8.0
Net income	880.6	895.6	910.2
Capital	34.0	64.7	59.5
Debt	0	0	0
Retained Earnings	0	0	0

Risk Management

The LDB Executive Management Committee meets weekly to discuss the LDB's performance, risks and actions required to address any deviations.

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 updated its enterprise-wide risk assessment over the past year. This assessment ensured all major risks, financial and non-financial, have now been identified and ranked. Plans to address and mitigate the key risks identified as a result of this assessment are now underway.

	Risk factors and sensitivities	Mitigating strategies
Economy	Beverage alcohol is a discretionary consumer product and sales are negatively affected by poor economic conditions.	The LDB will carefully monitor its sales and expenses and will make adjustments to its operations and budgets as necessary.
Information technology	Old and aging systems are a support and maintenance risk and are a challenge for changing business requirements. The level of security risk and threat of cyber security attack is increasing.	The LDB is laying the foundational systems infrastructure that will support the implementation of replacement supply-chain systems. The LDB is ensuring staff is current on these risks, and security monitoring is being expanded for critical systems
Recruiting and retention of employees	A large number of employees will be retiring in the next five years.	The LDB is implementing its newly developed succession management strategy to ensure highly skilled people are available to replace those retiring.
Liquor industry changes	Significant changes to the marketplace can have a negative impact on LDB net income. Effective April 1, 2015 three significant changes were introduced and the impacts are not yet known: • Grocery stores that meet regulatory requirements will be able to sell beverage alcohol; • Introduction of a uniform wholesale price; and • Expansion of refrigeration and operating hours in BC Liquor Stores.	The LDB will be closely monitoring sales at both the wholesale and retail channels and will make the necessary adjustments in order to meet or exceed its targets.

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.

R. Blain Lawson General Manager and Chief Executive Officer	Roger M. Bissoondatt, CPA,CA, CMA Chief Financial Officer

Vancouver, British Columbia
May 14, 2015

INDEPENDENT AUDITOR'S REPORT

To the Minister of Justice, Province of British Columbia

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, 2015 and of comprehensive income, due (to) from the Province of British Columbia and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audit. I conducted my audit 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 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, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Russ Jones

Victoria, British Columbia
May 15, 2015

Russ Jones, CPA, FCA
Deputy Auditor General

Liquor Distribution Branch

Statement of Comprehensive Income

For the years ended March 31, 2015 and 2014

(in thousands of dollars)

Year ended March 31,	**Note**	**2015**	**2014**
Sales	4	3,092,479	2,943,695
Less commissions and discounts		(214,560)	(198,170)
Net sales		2,877,919	2,745,525
Cost of sales		(1,670,086)	(1,581,463)
Gross profit		1,207,833	1,164,062
Administration expenses	5,13	(300,811)	(280,587)
Transportation expenses	5	(14,298)	(13,724)
Marketing expenses	5	(5,923)	(5,246)
Net operating income		886,801	864,505
Other income		11,502	12,474
Net income before other items		898,303	876,979
Gain on sale	16	36,930	-
Net income and comprehensive income		935,233	876,979

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

Liquor Distribution Branch

Statements of Due (To) From the Province of British Columbia

For the years ended March 31, 2015 and 2014

(in thousands of dollars)

Year Ended March 31,	**2015**	**2014**
Balance beginning of year	(427)	1,076
Net income and comprehensive income	(935,233)	(876,979)
Payments to the Province of British Columbia	939,268	875,476
Balance end of year	3,608	(427)

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

Liquor Distribution Branch

Statements of Financial Position

For the years ended March 31, 2015 and 2014

(in thousands of dollars)

As at March 31,	**Note**	**March 31** **2015**	**2014**
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	6	47,851	46,308
Intangible assets	7	14,664	9,939
Prepaid expenses - long term	8	1,821	1,860
		64,336	58,107
CURRENT ASSETS			
Due from Province of British Columbia	9	3,608	-
Inventories	10	89,577	87,730
Prepaid expenses	8	5,170	5,998
Accounts receivable	11	9,241	8,960
Cash		14,285	765
		121,881	103,453
TOTAL ASSETS		186,217	161,560
LIABILITIES			
NON-CURRENT LIABILITIES			
Other long-term liabilities	12,13,14	26,542	25,165
		26,542	25,165
CURRENT LIABILITIES			
Due to Province of British Columbia	9	-	427
Accounts payable and accrued liabilities	14,15	159,675	135,968
		159,675	136,395
TOTAL LIABILITIES		186,217	161,560

Approved for issue on May 14, 2015 by:

R. Blain Lawson
General Manager and Chief Executive Officer

Roger M. Bissoondatt, CPA, CA, CMA
Chief Financial Officer

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

Liquor Distribution Branch

Statements of Cash Flows

For the years ended March 31, 2015 and 2014

(in thousands of dollars)

Year Ended March 31,	**Note**	**2015**	**2014**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income and comprehensive income		935,233	876,979
Adjustments for:			
Depreciation and amortization		16,295	15,810
Gain on retirement/disposal of property and equipment		(37,435)	(334)
Rent and lease amortization		(642)	272
Accrued employee benefits		1,885	895
		915,336	893,622
Change in long-term assets		39	849
Change in working capital		22,575	(24,559)
Cash flows from operating activities		937,950	869,912
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Acquisition of property and equipment	6	(15,884)	(10,685)
Acquisition of intangible assets	7	(9,357)	(2,262)
Proceeds from disposal of property and equipment		40,113	566
Cash flows used in investing activities		14,872	(12,381)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Payments to the Province of British Columbia	9	(939,268)	(875,476)
Payments on capital leases		(27)	(49)
Payments on tenant improvement loans		(7)	(24)
Cash flows used in financing activities		(939,302)	(875,549)
NET INCREASE (DECREASE) IN CASH		13,520	(18,018)
CASH - BEGINNING OF YEAR		765	18,783
CASH - END OF YEAR		14,285	765

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

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2015 and 2014
(Tabular amounts in the thousands of dollars)

1. Purpose of the Branch

The BC Liquor Distribution Branch (the LDB) is one of two branches of the Province of British Columbia (the Province) responsible for the beverage alcohol industry in BC and reports to the Attorney General and Minister of Justice.

The LDB obtains its authority for operation from the *British Columbia Liquor Distribution Act* (the Act). As stated in Section 2 of the Act, the LDB 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 LDB is reported in the public accounts on a modified equity basis, 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).

(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 LDB'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 LDB'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 LDB, should it later be determined that a different choice would be more appropriate.

Management considers the following to be areas of significant judgement and estimation for the LDB due to greater complexity and/or being 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 LDB 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 LDB 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, unless otherwise indicated.

(a) Foreign currency translation
The LDB 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 LDB 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 LDB 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 are substantially transferred.

All of the LDB's financial assets are designated as loans and receivables and deposits. The LDB 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 LDB 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 LDB 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 LDB 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 LDB 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 amortized cost
Financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the 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 LDB'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 expenditures that are 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 LDB 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

Refer to 3(f).

(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 LDB that will generate economic benefits exceeding costs beyond one year are capitalized. Direct costs include software development employment costs including those of contractors used. Where assets are under construction over a period of time, these costs are recorded in a construction in progress account until put into use.

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 LDB 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 are 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 LDB (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 and current payables, as appropriate. 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 LDB'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 LDB distribution centre and includes 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 LDB'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 LDB 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 LDB 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.

(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 is stated net of estimated returns and excludes provincial sales tax, federal goods and services tax, container recycling fees and container deposits.

(l) Other income

Revenue that 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.

(m) Recent accounting developments

i) New standards, interpretations, and amendments of standards adopted by the LDB

On April 1, 2014, the LDB adopted two new standards that were issued by the International Accounting Standards Board (IASB).

Amendment to IAS 32, 'Financial instruments: Presentation' - Offsetting financial assets and financial liabilities - the amendment clarifies the requirements for offsetting financial assets and financial liabilities on the statement of financial position. Specifically, the right of set-off must not be contingent on a future event and must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. This amendment had no significant impact on the financial statements.

Amendment to IAS 36, 'Impairment of assets' – Recoverable amount disclosures for non-financial assets – the amendment clarifies the disclosure requirements in respect of fair value less costs of disposal. There are also two new disclosure requirements: additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal; and information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. This amendment had no significant impact on the financial statements.

ii) Standards and interpretations issued but not yet effective and not yet adopted by the LDB

The following new IFRS standards, amendments and interpretations to existing standards have been published by the IASB and are relevant to the LDB. They are not yet effective and have not been early adopted. The impact on the financial statements has not yet been assessed.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in July 2014 and replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the business model and the contractual cash flow characteristics of the financial asset. There is a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39 as well as new general hedge accounting requirements. It carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018 with early adoption permitted.

(Tabular amounts in the thousands of dollars)

IFRS 15, 'Revenue from contracts with customers' - deals with revenue recognition and establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue', IAS 11 'Construction contracts' and IFRIC 13 'Customer Loyalty Programmes'. IFRS 15 will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The IASB has issued an exposure draft that would, if approved defer the effective date to January 1, 2018.

iii) Other ongoing developments which may impact the LDB

IAS 17 ' Leases' - The IASB has issued an exposure draft which proposes a single approach to lease accounting that would ensure that all assets and liabilities arising under lease contracts are recognized in the statement of financial position. The IASB is currently deliberating on the comments received on the exposure draft. The final standard is to be issued in the second half of 2015.

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.

	2015	2014
	$	$
Retail customers	1,201,155	1,178,276
Licensee retail stores	1,097,711	1,025,544
Licensed establishments	495,829	471,999
Agency stores	297,784	267,876
	3,092,479	2,943,695

(Tabular amounts in the thousands of dollars)

5. Operating expenses

The LDB's operating expenses are comprised of:

	2015 $	2014 $
Administration costs	300,811	280,587
Transportation	14,298	13,724
Marketing	5,923	5,246
	321,032	299,557

	2015 $	2014 $
Salaries, wages and benefits	171,984	162,771
Rents	42,508	39,696
Bank charges	25,712	24,027
Other administrative expenses	19,492	17,203
Depreciation and amortization	16,295	15,810
Transportation	14,298	13,724
Repairs and maintenance	7,880	7,488
Professional services	7,574	4,877
Data processing	7,038	6,088
Marketing	5,923	5,246
Loss prevention	2,328	2,627
	321,032	299,557

(Tabular amounts in the thousands of dollars)

6. Property and equipment

	Land & land improvements	Buildings & building improvements	Leasehold improvements	Furniture, fixtures, vehicles & equipment	Held assets under finance leases	Information systems	Construction in process	Total
March 31, 2014								
Opening net book value	1,072	2,952	29,792	6,910	-	5,422	1,462	47,610
Assets Reclassified (Note 7)	-	-	-	(27)	-	-	(60)	(87)
Additions	30	234	-	2,387	-	2,323	5,711	10,685
Transfers	-	-	2,776	606	-	992	(4,374)	-
Disposals (cost)	(130)	(947)	(539)	(363)	-	(57)	-	(2,036)
Disposals (accumulated depreciation)	-	875	548	352	-	56	-	1,831
Amortization charge	(2)	(182)	(5,941)	(2,855)	-	(2,715)	-	(11,695)
Closing net book value	970	2,932	26,636	7,010	-	6,021	2,739	46,308
March 31, 2014								
Cost	973	20,745	63,027	36,485	3,900	81,101	2,739	208,970
Accumulated depreciation	(3)	(17,813)	(36,391)	(29,475)	(3,900)	(75,080)	-	(162,662)
Net book value	970	2,932	26,636	7,010	-	6,021	2,739	46,308
March 31, 2015								
Opening net book value	970	2,932	26,636	7,010	-	6,021	2,739	46,308
Additions	-	42	170	3,248	-	4,256	8,168	15,884
Transfers	-	-	4,027	2,209	-	1,625	(7,861)	-
Disposals (cost)	(326)	(14,970)	(710)	(1,086)	-	(511)	(25)	(17,628)
Disposals (accumulated depreciation)	2	12,713	701	1,055	-	511	-	14,982
Amortization charge	(2)	(49)	(6,023)	(2,904)	-	(2,717)	-	(11,695)
Closing net book value	644	668	24,801	9,532	-	9,185	3,021	47,851
March 31, 2015								
Cost	647	5,817	66,514	40,856	3,900	86,471	3,021	207,226
Accumulated depreciation	(3)	(5,149)	(41,713)	(31,324)	(3,900)	(77,286)	-	(159,375)
Net book value	644	668	24,801	9,532	-	9,185	3,021	47,851

(Tabular amounts in the thousands of dollars)

7. Intangible assets

	Intangible Assets	Construction in process	Total
March 31, 2014			
Opening net book value	11,178	554	11,732
Assets Reclassified (Note 6)	-	60	60
Additions	321	1,941	2,262
CIP Capitalization	720	(720)	-
Amortization charge	(4,115)	-	(4,115)
Closing net book value	8,104	1,835	9,939
March 31, 2014			
Cost	19,270	1,835	21,105
Accumulated amortization	(11,166)	-	(11,166)
Net book value	8,104	1,835	9,939
March 31, 2015			
Opening net book value	8,104	1,835	9,939
Additions	485	8,872	9,357
CIP Capitalization	3,492	(3,492)	-
Disposals (cost)	(44)	-	(44)
Disposals (accumulated depreciation)	12	-	12
Amortization charge	(4,600)	-	(4,600)
Closing net book value	7,449	7,215	14,664
March 31, 2015			
Cost	23,203	7,215	30,418
Accumulated amortization	(15,754)	-	(15,754)
Net book value	7,449	7,215	14,664

8. Prepaid expenses

Prepaid expenses include insurance, software maintenance, and wine futures. The LDB purchases select products up to three years in advance to secure future delivery of these products as part of its ongoing business practices. 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, 2015, the LDB has recorded $3.7 million (2014 - $5.2 million) of prepaid wine futures for delivery in fiscal years 2016 and 2017.

(Tabular amounts in the thousands of dollars)

	2015	2014
	$	$
Wine futures	3,715	5,168
Other prepaids	3,276	2,690
	6,991	7,858
Long-term portion	(1,821)	(1,860)
Current portion	5,170	5,998

9. Due to/from Province of British Columbia

The LDB uses the Province's financial and banking systems to process and record its transactions. The amount due from the Province represents the accumulated net financial transactions with the Province. During the year, the total receipts from the Province were $2.20 billion (2014- $2.13 billion) and the total payments to the Province were $3.14 billion (2014- $3.01 billion).

10. Inventories

	2015	2014
	$	$
Store inventory	56,738	52,746
Warehouse inventory	32,839	34,984
	89,577	87,730

For fiscal 2015, the LDB changed the classification of inventory held at third party locations. This inventory is now included in warehouse inventory. Fiscal 2014 store and warehouse inventory has been restated for comparability.

During the year, inventories that were recognized as cost of sales amounted to $1.7 billion (2014 - $1.6 billion).

11. Accounts receivable

	2015	2014
	$	$
Trade accounts receivable and other items	9,929	9,986
Provision for doubtful accounts	(688)	(1,026)
Accounts receivable and other items - net	9,241	8,960

Receivables past due but not impaired are $1.0 million (2014 - $0.4 million). During the year the LDB expensed $13 thousand (2014 -$527 thousand) in bad debts expense.

(Tabular amounts in the thousands of dollars)

12. Other long-term liabilities

The LDB's other long-term liabilities are comprised of:

	2015	2014
	$	$
Retirement benefit obligation (note 13(b))	14,756	13,754
WorkSafe BC claims accrual (note 13(c))	8,900	7,900
Long-term portion of deferred lease liabilities (note 14)	1,982	2,486
Long-term portion of obligation under finance lease	-	4
Other	904	1,021
	26,542	25,165

13. Employees' benefit plans and other employment liabilities

(a) Public Service Pension Plan

The LDB and its employees contribute to the Public Service Pension 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 based on a formula. The Plan has about 56,000 active plan members and approximately 42,000 retired plan members.

The latest actuarial valuation as at March 31, 2014, indicated a funding surplus of $194 million for basic pension benefits. The next valuation will be March 31, 2017, with results available in early 2018.

Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.

The total amount paid into this pension plan by the LDB for the year ended March 31, 2015 was $11.4 million for employer contributions (2014 - $11.1 million), which was recorded in administration expenses.

(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 $14.8 million (2014 - $13.8 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 $1.0 million (2014 - $414 thousand).

(Tabular amounts in the thousands of dollars)

(c) WorkSafe BC outstanding claims

The LDB self-funds worker's compensation claims. The LDB recognizes a liability and an expense for claims that are in progress at the year-end. This liability of $8.9 million (2014 - $7.9 million) is valued by independent actuaries.

14. Deferred lease liabilities

	2015	2014
	$	$
Deferred rent	2,357	2,920
Deferred tenant allowances	99	178
Deferred tenant improvement loans	-	7
	2,456	3,105
Less current portion	(474)	(619)
Long-term portion	1,982	2,486

15. Accounts payable and accrued liabilities

	2015	2014
	$	$
Trade payables	103,898	73,429
Accrued liabilities	52,184	59,020
Other payables	3,115	2,873
Current portion of obligation under finance lease	4	27
Current portion of deferred lease liabilities (note 14)	474	619
	159,675	135,968

16. Contractual commitments

(a) Leases

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

The minimum lease expenditures charged to the statement of comprehensive income during the year is $32.0 million (2014 - $29.8 million). These expenditures include property taxes and common area maintenance costs.

(Tabular amounts in the thousands of dollars)

Future commitments for operating leases for the LDB premises are as follows:

	2015	2014
Total future minimum rental payments under non-cancellable	$	$
operating leases expiring:		
Not later than one year	32,692	29,251
Later than one year and not later than five years	77,770	76,179
Later than five years and not later than 25 years	14,361	16,421
	124,823	121,851

(b) BC liquor store fees

For the year ended March 31, 2015, the LDB paid the Liquor Control and Licensing Branch $0.4 million (2014 - $0.4 million) for license fees. The fee is based on the annual sales in each government liquor store.

(c) Vancouver distribution property sale and leaseback

During fiscal 2015, the LDB sold the land and property that currently houses the Vancouver distribution centre, retail store, and administrative offices for a net gain of $36.9 million.

The LDB has entered into an operating lease with the new owners until the LDB moves its warehouse operations. The LDB expects to be fully operational in a new warehouse facility by 2018.

(d) Payroll processing

The LDB entered into an agreement with the BC Public Service Agency for payroll processing. The LDB paid $0.7 million for processing services. The agreement expires in November 2019.

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

17. Contingent items

The LDB is the sole importer of beverage alcohol in the Province. The LDB, as the importer of record, has the future liability for customs duty on import beer of $0.6 million (2014 - $0.5 million) based upon the value of the agents' inventories at March 31, 2015.

The LDB 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 LDB.

18. Capital management

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

(Tabular amounts in the thousands of dollars)

19. Related party transactions

(a) Province of British Columbia

The LDB is related through common ownership to all Province 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.

(b) Key management compensation

The LDB's executive management committee is defined as key management. At March 31, 2015, there were 9 (2014 - 9) members on the executive committee.

	2015	2014
	$	$
Salaries and short-term benefits	1,181	1,121
Post-employment benefits	88	88
Fees for services	188	249
	1,457	1,458

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

20. Financial risk factors

The LDB 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 LDB is not exposed to significant credit, liquidity or market risk arising from these instruments.

Credit risk

Credit risk is the risk of financial loss to the LDB due to customer inability to pay for product or a counterparty to a financial instrument failing to meet its contractual obligations. The LDB's exposure to credit risk is related only to the value of accounts receivable in its normal course of business, and the LDB manages this risk by minimizing the amount of transactions which require recovery. The LDB continually monitors and manages the collection of receivables. See accounts receivable note 3(b) for further disclosure on credit risk.

Liquidity risk

Liquidity risk is the risk that the LDB will be unable to meet its financial obligations as they become due.

The LDB 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 LDB's income or the value of its financial instruments.

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

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

Appendix A: Organizational Overview

The LDB's organizational overview and corporate governance structure can be found here.

Vision, Mission And Values

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

Mission
To be a customer-centric, 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.

Information on the separation of the LDB's Retail and Wholesale Divisions

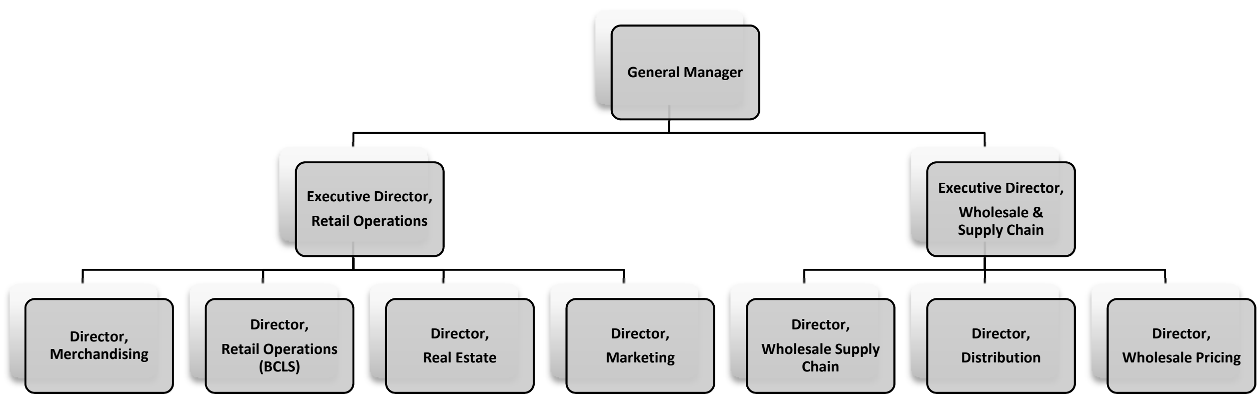
Greater transparency and increased separation

As part of the Liquor Policy Review, a commitment was made for the LDB to provide greater transparency by separating the operations of its wholesale and retail divisions. Wholesale pricing was the preliminary step and the LDB continues to work towards increased separation of the retail and wholesale divisions. In 2014/15 the framework for the future state was shaped, while 2015/16 will see the transition finalized.

Under the new wholesale pricing model, the retail division now purchases product at the common wholesale price, and BCLS must make profitability decisions based on the same baseline cost of goods as a private retailer.

In order to ensure that the retail division does not receive any competitive advantages over other wholesale clients, it was determined that operational separation was necessary.

The previous Executive Director of Retail and Wholesale role was split into two distinct roles: an Executive Director of Retail and an Executive Director of Wholesale.



When both positions are occupied, steps will be taken to ensure that these two divisions will be physically and operationally distinct. Physically, employees of each division will be housed in separate buildings. Operationally, wholesale will not share business information with LDB retail that is not available to all retailers.

Wholesale division

The wholesale division will be responsible for the registration of product in BC, wholesale pricing, warehousing wholesale product, processing wholesale orders, and the distribution of product. Every period, the wholesale division updates and provides wholesale prices to their customers including the BC Liquor Stores. The Wholesale Pricing department is responsible for wholesale price and does not have any involvement with determining BCLS retail pricing.

Product stored in the LDB warehouse is overseen by the Distribution department within the wholesale division. The Wholesale Customer Centre (WCC) is responsible for assisting customers with orders.

An independent assessment by PricewaterhouseCoopers affirmed that the Oracle software used by the LDB for all wholesale customers, including BCLS, is an unbiased system that automatically commits available product to orders in sequence of submission and estimates shipment time based on customer volume. A confirmation notification to the customer is already sent out before the order is released to the warehouse to commence physical picking. For limited supply product where the supplier controls allocation, the wholesale division will receive a list from the supplier and allocate according to supplier instructions.

Retail Division

The retail division will be responsible for determining products to list for sale in BCLS, making decisions on stocking and product allocation between stores, and determining the retail price of products.

Under the new model, agents and suppliers continue submitting applications to have their product listed in BCLS to the Merchandising department in the retail division (formerly known as the Purchasing department). This department makes decisions on whether to list products based on factors including marketability, profit margins, uniqueness, and consumer demand.

The Merchandising department orders products by submitting purchase orders to wholesale which is queued through Oracle. The retail price in BCLS is determined by the Merchandising department through strategic pricing rules.

Going forward, access to electronic business information and reports will be restricted according the respective roles of each department and its employees. The retail division will only receive retail business information and only able to access other information if it is available to all retailers. The retail division will not be able to access wholesale business intelligence such as wholesale sales reports, inventory counts, or purchase orders of other private retailers.

Corporate Resources

Corporate departments continue servicing both the wholesale and retail divisions. This is to maintain efficiency and productivity as well as to control labour costs.

A group tasked with regularly providing business data to both divisions is the Business Intelligence team in Information Services, which continues producing wholesale and retail business reports. However, to ensure that each division receives information only applicable to them, systems permissions will be updated to identify authorized individuals and their respective division. Information and access will be restricted to employees who have the correct system permissions. Further work will be done to ensure that future reports provide each division with the appropriate content while eliminating information that is not part of their business.

Contact Information

For more information about the Liquor Distribution Branch, please contact the LDB Communications team:

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