



SERVING YOU BETTER.



**LIQUOR
DISTRIBUTION
BRANCH**

Annual Report

2013/14



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SERVING YOU BETTER.

From weddings and birthdays to backyard barbecues and reunions, life gives us many reasons to celebrate.

Whatever the occasion, the LDB is there, serving up an unparalleled array of products, service and expert knowledge to help our customers pick products they'll love.



36.2 MILLION

That's how many retail customer visits we had in our BC Liquor Stores last year. We also supplied products to more than 10,000 bars, restaurants and private retailers across the province.

How did we do it?

By modernizing and adapting to serve our customers' changing needs – from refreshing the look and feel of our stores to enabling new technologies and continually introducing a wide range of exciting global products.

Our customers don't stay the same. Neither should we.

The Honourable Suzanne Anton
Attorney General and Minister of Justice



From the return of the PST/GST to the announcement of new policy direction coming out of the Liquor Policy Review, fiscal 2013/14 was a time of change and challenges for the BC Liquor Distribution Branch (LDB).

But it is most definitely a year of which we can be proud.

Against a challenging backdrop, the LDB remained dedicated to its customer-centric mandate—a focus that enabled us to maximize our revenue to Government and continue funding vital public services for the people of BC.

On every front, we modernized our operations to improve service to our wholesale and retail customers, delivering a better-than-forecasted return for the Province: in 2013/14, we contributed \$877 million to help fund essential services like health care and education.

While the LDB reduced mark-up in April 2013 following the re-introduction of the PST/GST, our sales volume remained strong. We saw particular growth in wines, draught beer and refreshment beverages. Due to the strong sales volume, gross sales were \$2.94 billion, only slightly decreasing from fiscal 2012/13. Going forward, the LDB expects continued, modest sales growth—mainly due to minor inflationary trends—in both the wholesale and retail segments.

Meeting the changing needs of our customers continued to be front and centre this year. In 2013/14, we piloted cold zones with walk-in refrigeration in three BC Liquor Stores, equipped our product consultants with wireless technology, added countless new products to our shelves and expanded our popular mobile application to the tune of nearly 172,000 downloads.

We are also continuing to work with Government to support implementation of Liquor Policy Review recommendations that affect the LDB and our customers.

One such recommendation is that the LDB modernize and streamline our warehouse and distribution systems. The pending sale and relocation of the LDB's existing Vancouver Distribution Centre will be a key part of how we achieve this goal. Buyers for the existing facility have now been secured, and our move to a new, purpose-built facility will undoubtedly translate into improved service for both our wholesale and retail customers in coming years.

Another opportunity for improvement identified this past year relates to the LDB's goal of 100 per cent compliance in checking identifications to prevent the sale of alcohol to minors. As a measure of the LDB's commitment to this goal, the expectation is that staff is flawless. In 2013/2014, BC Liquor Stores fell short of their goal, which has resulted in a re-training program and a revamp of the daily reminder initiatives in store. With these measures, we are confident improvements will be made to our compliance focus.

Overall, this year was marked by our commitment to being flexible, forward-thinking and pragmatic in a changing liquor landscape. As always, the efforts of our team—a diverse and committed group of more than 3,600 employees across the province—were the backbone of our efforts, and the underpinning of our successes.

The 2013/14 LDB Annual Report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. I am accountable for the contents of the report, including what has been included in the report and how it has been reported.

The information presented reflects the actual performance of LDB for the 12 months ended March 31, 2014 in relation to the revised service plan published in June 2013.

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

All significant assumptions, policy decisions, events and identified risks, as of June 25, 2014, have been considered in preparing the report. The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate direction, goals, strategies, measures or targets made since the 2013/14–2015/16 service plan was released and any significant limitations in the reliability of data are identified in the report.



R. Blain Lawson
General Manager and Chief Executive Officer
June 25, 2014

ORGANIZATIONAL **OVERVIEW**



Business of the LDB

The LDB is one of two branches of government responsible for the beverage alcohol industry in BC.

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*.

As the sole buyer and re-seller of liquor in the province’s mixed public-private model, the LDB is one of the largest liquor purchasers in the world.

Every year, the LDB buys alcohol from more than 1,000 Canadian and international suppliers and manufacturers, supplying product to wholesale and retail customers across the province.

The LDB is proud to contribute nearly \$1 billion annually to the Province of BC, helping to provide financial support for vital public services such as health care and education.

Our Customers and Stakeholders

The LDB is one of the largest retailers in BC, with 36.2 million retail customer visits to BC Liquor Stores last year alone. The LDB also supplies product to more than 10,000 BC bars, restaurants and private retailers—to the tune of more than 335,000 wholesale customer transactions during fiscal 2013/14.

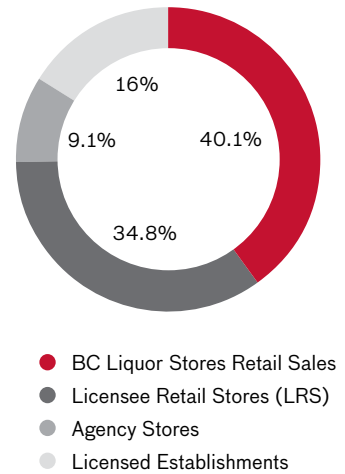
To serve the interests of our customers and stakeholders, the LDB:

- delivers quality products and services;
- provides products and services to a variety of beverage alcohol outlets throughout BC;
- manages the importation, warehousing and distribution of beverage alcohol;
- promotes the safe and responsible use of beverage alcohol; and
- implements policies to ensure LDB workplaces are safe and free of harassment or discrimination.

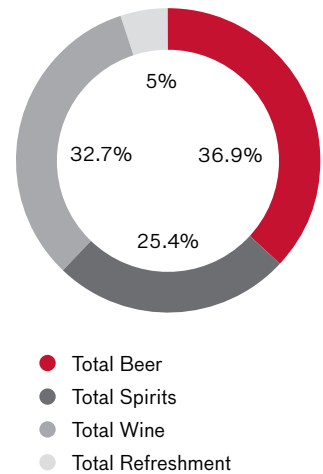
To fulfill our responsibilities to Government and the people of BC, the LDB:

- generates revenue for the Government of BC;
- manages the LDB’s business risks;
- ensures accountability of key business partners; and
- develops and implements programs and services aimed at deterring the sale of beverage alcohol to minors and those who appear intoxicated.

Percentage Of Gross \$ Sales by Sales Channel 2013/14



Percentage Of Gross \$ Sales by Product Category 2013/14

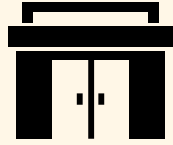


The LDB at a Glance (as of March 31, 2014)



3,600+

FULL- AND PART-TIME
EMPLOYEES ACROSS
THE PROVINCE



194

BC LIQUOR STORES
THROUGHOUT
THE PROVINCE



- 2 wholesale customer centres, in Vancouver and Victoria
- 2 distribution centres, in Vancouver and Kamloops
- 270 licensed wineries in BC
- 79 licensed breweries in BC
- 32 licensed distilleries in BC



1,000+

SUPPLIERS AND
MANUFACTURERS

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

- 194 (government-owned and -operated BC Liquor Stores selling beverage alcohol to retail and wholesale customers);
- 670 Licensee Retail Stores (LRS—private stores licensed to sell all beverage alcohol products);
- 221 Rural Agency Stores (RAS—general merchandise stores in rural communities authorized to sell all beverage alcohol products);
- 326 on-site manufacturer stores (stores at wineries, breweries and distilleries that sell the products that they manufacture);
- 32 off-site manufacturer stores (stores operated by the BC wine industry that sell BC winery products);
- 12 private wine stores (stores that sell domestic and imported wines); and
- 11 duty-free stores.

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



36.2

MILLION RETAIL
CUSTOMER
VISITS IN 2013



335,000

WHOLESALE CUSTOMER
TRANSACTIONS
IN 2013

10,000+

WHOLESALE CLIENTS OF
THE LDB, INCLUDING BC
BARS, RESTAURANTS AND
PRIVATE RETAILERS



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

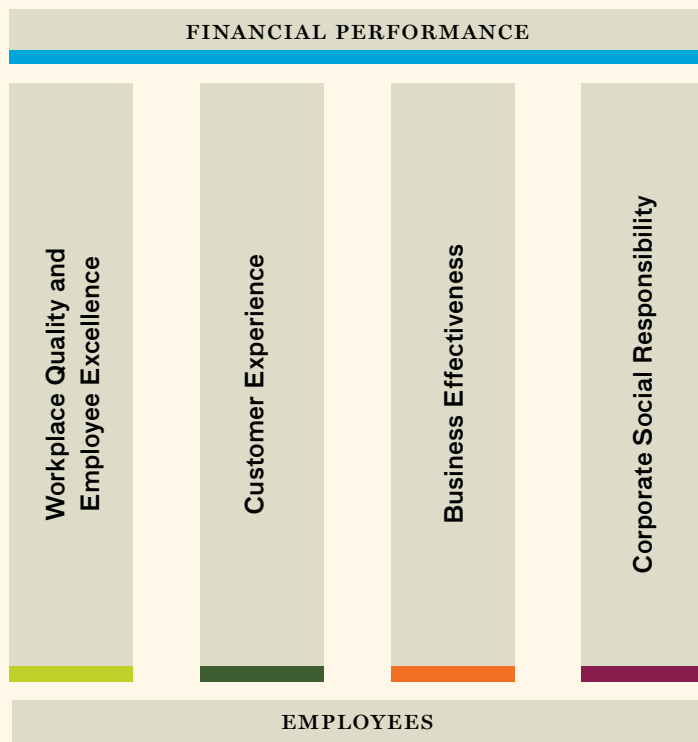
We support one another to achieve corporate goals.

INNOVATION

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

The Four Pillars Framework

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



High-Level Goals





GOVERNANCE

Governance

As one of two provincial branches responsible for beverage alcohol, the LDB works closely with the Liquor Control and Licensing Branch (LCLB), another branch of the Ministry of Justice, to encourage the safe and responsible use of alcohol in BC.

The LDB operates within the legislative framework provided by the BC *Liquor Distribution Act* and the federal *Importation of Intoxicating Liquors Act*.

Reporting to the Attorney General and Minister of Justice, the LDB has a General Manager and CEO who is responsible for administering the *Liquor Distribution Act*, which includes the oversight of BC Liquor Stores, subject to direction from the Minister.

The *Liquor Distribution Act* gives the LDB the exclusive right to purchase liquor for resale and reuse in the Province and

clarifies:

- LDB administration;
- BC Liquor Stores operation; and
- the role and powers of the LDB's General Manager.

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

The 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.

The LDB Executive Management Committee



FIRST ROW (Left to Right)
 R. Blain Lawson
*General Manager
 and Chief Executive Officer*

Roger M. Bissoondatt
Chief Financial Officer

Kelly Wilson
*Executive Director,
 Wholesale and Retail Services*



SECOND ROW (Left to Right)
 Michael Procopio
Executive Director, Human Resources

Don Farley
Chief Information Officer

Renee Shrieves
*Director, Corporate Policy
 and Communications*



THIRD ROW (Left to Right)
 Brendan Alexander
Director, Corporate Loss Prevention

Maria Patten
Director, Corporate Projects

Alexandra (Gina) Henley
Legal Counsel



Key Accountabilities

WHOLESALE AND RETAIL SERVICES

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

CORPORATE LOSS PREVENTION

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

LEGAL SERVICES

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

CORPORATE POLICY AND COMMUNICATIONS

Responsible for corporate policies and supporting internal and external communications, including media relations.

FINANCE

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

INFORMATION SERVICES

Implements and maintains the LDB's information systems.

HUMAN RESOURCES

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



2013/14

REPORT ON

PERFORMANCE -

YEAR IN REVIEW

Linking Goals to Performance Measures

GOAL 1

FINANCIAL PERFORMANCE

Meet financial objectives approved by Government.



GOAL 2

WORKPLACE QUALITY AND EMPLOYEE EXCELLENCE

Create a work environment that encourages greater employee engagement.



GOAL 3

CUSTOMER EXPERIENCE

Maintain a high level of wholesale and retail customer satisfaction.



GOAL 4

BUSINESS EFFECTIVENESS

Maintain operating efficiencies in a climate of constant change.



GOAL 5

CORPORATE SOCIAL RESPONSIBILITY

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



STRATEGIES	PERFORMANCE MEASURES
<ul style="list-style-type: none"> • Grow sales and effectively manage operating expenses 	<ul style="list-style-type: none"> • Net income
<ul style="list-style-type: none"> • Enhance staff skills and engagement through management development, employee training and increased communication • Implement succession management plans for the organization • Provide a safe, healthy and harassment-free workplace 	<ul style="list-style-type: none"> • Employee engagement
<ul style="list-style-type: none"> • Continuously refresh the store network • Continuously provide enhanced customer services 	<ul style="list-style-type: none"> • Retail customer satisfaction • Wholesale customer satisfaction
<ul style="list-style-type: none"> • Maximize the potential efficiencies available through improved distribution operations • Increase the use of current and cost-effective technology 	<ul style="list-style-type: none"> • BC Liquor Store sales per square foot • Distribution Centre labour cost per case shipped • Distribution Centre order fill rate
<ul style="list-style-type: none"> • Prevent sales to minors or intoxicated persons in BC Liquor Stores through staff education and enforcement of ID-checking requirements • Promote awareness of responsible use by continuing co-operative programs with suppliers and other stakeholders • Reduce the impact of operations on the environment 	<ul style="list-style-type: none"> • Store compliance with ID-checking requirement • Customer awareness of LDB corporate social responsibility programs • Plastic shopping bag reduction* <p>* Note: In late 2013, the LDB adopted more comprehensive waste diversion targets. For more information, see LDB's 2014/15–16/17 Service Plan at www.bcldb.com/publications/service-plan).</p>

Meet financial objectives approved by Government.

2013/14 Highlights

The LDB's net income for fiscal 2013/14 was \$877 million. This figure is \$52.6 million lower than net income in fiscal 2012/13. However, it is actually \$26.1 million or 3.1 per cent higher than target, primarily due to strong sales in the wine, draught beer and refreshment beverage categories.

The reduction in net income for 2013/14 was expected, as, in order to maintain consistent liquor prices, the LDB reduced liquor mark-ups on April 1, 2013, when the provincial sales tax and goods and services tax (PST/GST) replaced the harmonized sales tax (HST).

Provincial liquor sales were \$2.94 billion in 2013/14—\$52.4 million or 1.8 per cent higher than budgeted but \$6.7 million or 0.2 per cent lower than the prior year.

The following charts show historical sales by the different product categories in dollars and litres. Sales dollars from fiscal 2010/11 and onwards are reported using International Financial Reporting Standards (IFRS). Fiscal 2009/10 is reported under Canadian Generally Accepted Accounting Principles (GAAP).

“The LDB is one of the largest contributors to the provincial government, excluding taxation. We are proud to support critical services like health care and education for the citizens of BC.”

—Roger M. Bissoondatt,
Chief Financial Officer

\$877 million

NET INCOME FOR 2013/14

Targets and Results 2013/2014

MEASURE	ACTUAL				TARGET		
	2011/12	2012/13	2013/14	2013/14	2014/15	2015/16	2016/17
Net Income (\$ millions)	911.1	929.6	877.0	850.9	862.1	874.5	891.1

RESULTS AND MEASUREMENT DESCRIPTION

1.1 Net income – In 2013/14, the LDB's net income was \$877 million—\$26.1 million above budget. This was primarily the result of strong sales in wines, draught beer and refreshment beverages. The LDB has updated its sales forecasts and assumptions and has revised its net income targets in the 2014/15–2016/17 Service Plan.

The LDB's net income is the contribution made to the provincial government by the LDB from the total sales of liquor in the province and is audited by the Office of the Auditor General of British Columbia. LDB net income is an important source of funding for government programs and services, such as health and education. The net income target is based on LDB forecasts and assumptions and is approved by the Ministry of Finance.

Sales by Major Category (\$'000s)

	2013/14	2012/13	2011/12	2010/11	2009/10	Change vs. Previous Year	
						\$	%
Domestic Spirits	369,963	386,800	398,830	405,873	411,227	(16,837)	(4.4)
Import Spirits	377,912	376,876	353,914	329,999	318,559	1,036	0.3
Total Spirits	747,875	763,676	752,744	735,872	729,786	(15,801)	(2.1)
Domestic Wine	439,930	420,513	398,671	385,442	373,279	19,417	4.6
Import Wine	522,734	521,405	499,033	467,042	455,269	1,329	0.3
Total Wine	962,664	941,918	897,704	852,484	828,548	20,746	2.2
Domestic Refreshment	108,642	104,780	101,157	97,925	104,350	3,862	3.7
Import Refreshment	37,078	25,543	21,985	21,193	20,827	11,535	45.2
Total Refreshment	145,720	130,323	123,142	119,118	125,177	15,397	11.8
Domestic Beer	874,845	897,985	886,005	858,484	918,399	(23,140)	(2.6)
Import Beer	210,747	215,088	220,990	236,176	243,785	(4,341)	(2.0)
Total Beer	1,085,592	1,113,073	1,106,995	1,094,660	1,162,184	(27,481)	(2.5)
Miscellaneous/Special Orders	1,844	1,427	9,284	8,011	8,377	417	29.2
Total Sales	2,943,695	2,950,417	2,889,869	2,810,145	2,854,072	(6,722)	(0.2)

Sales by Major Category in Litres (000s)

	2013/14	2012/13	2011/12	2010/11	2009/10	Change vs. Previous Year	
						Litre	%
Domestic Spirits	13,111	13,344	13,779	13,980	14,846	(233)	(1.7)
Import Spirits	11,050	10,844	10,402	9,869	9,858	206	1.9
Total Spirits	24,161	24,188	24,181	23,849	24,704	(27)	(0.1)
Domestic Wine	35,283	33,034	31,779	31,298	30,299	2,249	6.8
Import Wine	30,520	30,374	29,892	28,702	28,490	146	0.5
Total Wine	65,803	63,408	61,671	60,000	58,789	2,395	3.8
Domestic Refreshment	24,807	23,286	22,347	21,927	22,938	1,521	6.5
Import Refreshment	6,669	4,265	3,681	3,535	3,454	2,404	56.4
Total Refreshment	31,476	27,551	26,028	25,462	26,392	3,925	14.2
Domestic Beer	230,414	227,322	227,110	221,023	241,385	3,092	1.4
Import Beer	42,229	43,202	45,715	51,516	52,363	(973)	(2.3)
Total Beer	272,643	270,524	272,825	272,539	293,748	2,119	0.8
Miscellaneous/Special Orders	138	120	131	134	163	18	15.0
Total Sales	394,221	385,791	384,836	381,984	403,796	8,430	2.2

Create a work environment that encourages greater employee engagement.

2013/14 Highlights

Succession Management

The LDB approaches succession planning in an integrated, holistic manner that supports the longevity and vitality of its workforce. With a significant portion of employees set to retire in coming years, the LDB is preparing for the future through its recruitment strategies and significant investment in employee training and development.

Training

In 2013/14, the LDB introduced an *Essentials of Supervision* program to provide all supervisors with a common language and base for leadership skill development. Last year, 60 LDB employees completed this program, which will be mandatory for all new and newly promoted supervisors in 2014/15.

Change Management training was also a prime focus for the LDB in 2013/14, with 50 Executives and Directors attending an intensive workshop. In this highly interactive, simulation-based session, participants navigated a real-world change situation in a company with immediate feedback on their performance.

The LDB also continued its focus on providing extensive product knowledge training to its workforce through a variety of intensive self-study and workshop programs about wine and spirits.

Last year, 427 employees completed various levels of the LDB's *Product Knowledge* program. This program is affiliated with the internationally recognized Wine and Spirit Education Trust.

"This training gave me the credentials and confidence to speak knowledgeably about our products and make expert recommendations to my customers," says Kitt Johnson, a Product Consultant at West Vancouver's Park Royal BC Liquor Store.

More than two dozen employees received advanced BC wine industry training during Okanagan VQA Learning Week. This intensive training week helps participants from across BC understand the complete natural environment in which a particular wine is produced—including the Okanagan's geography, topography and climate and its effect upon viticulture.

6,135

TOTAL NUMBER OF LDB PARTICIPANTS IN IN-HOUSE COURSES, WORKSHOPS AND PROGRAMS IN 2013/14

"Essentials of Supervision gave me the confidence I needed to become a successful manager."

—Curtis Miller, LDB Building Security Supervisor

427

EMPLOYEES WHO COMPLETED PRODUCT KNOWLEDGE TRAINING IN 2013/14

2,845

EMPLOYEES WHO HAVE RECEIVED RESPECTFUL WORKPLACE TRAINING AT THE LDB



“By investing in our employees through training, we are building a modern and engaged workforce with a wide range of skills.”

—Michael Procopio, Executive Director of Human Resources

Workplace Environment Survey

Organizations with high levels of employee engagement have creative, productive workforces who help them achieve high levels of customer satisfaction and organizational success.

In 2013/14, 1,927 employees responded to the LDB’s Workplace Environment Survey (WES), which measures the health of the work environment and employee engagement.

Issued every two years, the 2013/14 WES results indicate an overall engagement score of 69, just slightly below the LDB’s engagement target of 70.

New Hires/Rehires for 2013/14

REGULAR	AUXILIARY	SEASONAL	CO-OP
38	522	470	11

Targets and Results 2013/2014

MEASURE	ACTUAL				TARGET		
	2011/12	2012/13	2013/14	2013/14	2014/15	2015/16	2016/17
Employee Engagement	69	N/A	69	70	N/A	70	N/A

RESULTS AND MEASUREMENT DESCRIPTION

2.1 Employee Engagement – Like the Public Service Agency, the LDB measures the engagement of its employees every two years through the WES. Conducted by BC Stats on behalf of the LDB, the WES asks employees a number of questions about their work environment and the results are compiled and summarized into a single engagement score known as the WES score. The LDB believes its WES score of 69—slightly below its target score of 70—reflects a healthy work environment.

ONE OF BC’S TOP EMPLOYERS

In 2014, the LDB was named to BC’s *Top Employers* list for the fifth consecutive year. BC’s *Top Employers* is an annual survey conducted by Mediacorp Canada Inc.



69

THE LDB’S 2013 WORKPLACE ENVIRONMENT SURVEY SCORE

Maintain a high level of wholesale and retail customer satisfaction.



2013/14 Highlights

Store Upgrades

Introducing cold zones in select BC Liquor Stores to offer chilled product. Rethinking shelving to expand product selection. Environmentally friendly, modern store designs and more convenient locations. In 2013/14, the LDB completed a wide range of store upgrades—large and small—to better serve its customers.

“Improving customer convenience and experience are at the heart of all our store upgrades,” says Kelly Wilson, Executive Director of Wholesale and Retail Operations at the LDB.

In 2013/14, the LDB:

- Moved six stores to convenient new locations
- Opened one new store (on Byrne Road in Burnaby)
- Revamped 12 stores to increase product selection
- Significantly remodelled two stores to improve the customer experience
- Closed two locations

TASTE MAGAZINE

Packed with top-notch entertaining tips, scrumptious recipes and news of the latest beverage alcohol trends from renowned wine and food experts, TASTE magazine is a go-to source for British Columbians who love to wine and dine.

Ever growing in popularity, the quarterly magazine, produced by the LDB and available in BC Liquor Stores, now boasts more than half a million readers annually—and that’s just in print. TASTE is also available online at www.bcliquorstores.com.



Wine Education

At BC Liquor Stores, local residents can explore a world of wine—without ever leaving the city.

In 2013/14, thousands of customers flocked to BC Liquor Stores’ popular tasting, cooking and educational events for exclusive opportunities to experience and learn about wine, including:

- 12—wine tastings with BC Liquor Stores expert Product Consultants
- 36—cooking demonstrations featuring chefs from TASTE magazine
- 10—sit-down tasting and education seminars led by renowned sommeliers, global brand ambassadors and wine educators at Vancouver’s flagship store at 39th & Cambie

Special Events and Product Releases

Through special releases, in-store tastings and one-of-a-kind events, BC Liquor Stores offered customers unparalleled access to exclusive and exciting global products in 2013/14.

Over the past year, BC Liquor Stores hosted more than 375 in-store special events featuring wine, spirits and craft beer. Customers relished the opportunity to sample products and discover Vancouver’s diverse food scene with pairings provided by local chefs, restaurants and catering companies.

Among the special product releases in the past year were the Summer Spirit release (focused on vodka, rum and tequila), the 2010 Bordeaux release, the Best of BC release and the Premium Spirit release (focused on scotch/whiskies).

RETAIL WEBSITE

In 2013/14, the BC Liquor Stores retail website was re-launched separately from the LDB corporate website, providing customers with the ability to easily search for product information, locate a store, find recipe pairings and explore in-store specials.

The dynamic retail website drew more than 1.6 million visitors in 2013/14, and averaged more than 134,000 visitors every month. BC Liquor Stores will continue to enhance and extend the website in the next fiscal year, with a focus on offering a seamless, multi-channel experience to mobile device users.



MOBILE APP

Looking for the perfect wine to pair with dinner? Searching for the nearest BC Liquor Store? Interested in finding out more about a particular product? There's an app for that.

Launched on iTunes in 2011, the LDB's BC Liquor Stores mobile app has exploded in popularity, giving customers access to store information, products and recipes—even on the go. The app also includes an inventory search

function and a personalized 'My Cellar' feature, where users can keep track of their favourite products.

The iOS version of the app has been downloaded 145,000 times and is currently rated at 4.5 out of 5 stars on iTunes. The Android application—made available on Google Play in November 2012—has been downloaded 26,800 times and received a 4.3 out of 5 stars on Google Play.

Targets and Results 2013/2014

MEASURE	ACTUAL			TARGET			
	2011/12	2012/13	2013/14	2013/14	2014/15	2015/16	2016/17
Retail Customer Satisfaction	N/A	98%	N/A	N/A	90%	N/A	90%
Wholesale Customer Satisfaction	N/A	88%	N/A	N/A	90%	N/A	90%

RESULTS AND MEASUREMENT DESCRIPTION

3.1 (Retail) and 3.2 (Wholesale) Customer Satisfaction – Every two years, BC Liquor Store retail customers and wholesale customers (bars, restaurants and private retailers) are surveyed by a professional survey company to determine customer satisfaction. The surveys are conducted every two years so that customers have an adequate amount of time to experience LDB service initiatives, which often take more than one year to fully implement. The last surveys were conducted in 2012/13, with the next surveys to be conducted in 2014/15. Due to the importance of customer satisfaction to the LDB's success, a target of 90 per cent has been set for both retail and wholesale customers.

Maintain operating efficiencies in a climate of constant change.



2013/14 Highlights

Wholesale Business Development

The LDB's wholesale and retail clients have different needs, and in 2013/14 the LDB continued to improve its service to both groups by shifting additional wholesale customers towards the Wholesale Customer Centre (WCC).

Offering 24/7 access to online ordering, a customer service call centre and product delivery, the WCC takes into account the unique needs of wholesale clients—and enables BC Liquor Stores to focus more exclusively on retail clients.

In 2013/14, the LDB increased its WCC sales to wholesale customers by \$25 million—a spike of 3.5 per cent over 2012/13. The WCC now services 92 per cent of Licensee Retail Stores (LRS) on the basis of revenue.

92%

LICENSEE RETAIL STORES
WHO ARE NOW SERVED
BY THE WHOLESALE
CUSTOMER CENTRE

Targets and Results 2013/2014

MEASURE	ACTUAL			TARGET			
	2011/12	2012/13	2013/14	2013/14	2014/15	2015/16	2016/17
BC Liquor Store Sales per Square Foot	\$1,262	\$1,271	\$1,222	\$1,278	\$1,303	\$1,303	\$1,303
Distribution Centre Labour Cost per Case Shipped	\$1.73	\$1.75	\$1.68	\$1.74	\$1.74	\$1.74	\$1.74
Distribution Centre Order Fill Rate	93%	93%	93%	93%	93%	93%	93%

RESULTS AND MEASUREMENT DESCRIPTION

4.1 BC Liquor Store Sales per Square Foot – Fiscal 2013/14 retail sales per square foot were \$1,222, which is slightly below the target of \$1,278. The LDB's initiative to have large-volume wholesale customers voluntarily change their point of service from a BC Liquor Store to the Wholesale Customer Centre was more successful than forecasted, therefore sales to wholesale customers from the stores decreased more than anticipated.

This indicator is based on the annual dollar sales of the store system divided by total store system square footage. This measures how well the LDB converts its floor space into sales. The annual targets are based on a philosophy of continuous improvement.

4.2 Distribution Centre Labour Cost per Case Shipped – In fiscal 2013/14, the LDB's labour cost per case was \$1.68, which is below the target of \$1.74 per case. This productivity measure is calculated by dividing Distribution Centre labour expenses by total case shipments.

4.3 Distribution Centre Order Fill Rate – The LDB met the fiscal 2013/14 target of 93 per cent. This is a measure of the completeness of orders filled by the LDB distribution centres and is calculated by dividing the number of ordered items that are filled completely by the total number of items ordered. The calculation excludes products that are not stocked by the LDB distribution centres. The target of 93 per cent strikes the right balance between the effective management of inventory and the minimization of product stock-outs.

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

2013/14 Highlights

Support Dry Grad

Karaoke. Video dance parties. Carnival games, temporary tattoos and fortune tellers.

These are just some of the ways local high school students have celebrated their graduations—in a safe, fun and alcohol-free way—thanks to the *Support Dry Grad* campaign.

By collecting donations of \$1 or more from BC Liquor Store customers, the *Support Dry Grad* campaign raises money to fund local, alcohol-free high school graduation events. In 2013/14, the month-long drive generated \$508,942 for dry grad celebrations across the province.

That translates into lively, alcohol-free celebrations for more than 52,000 BC high school graduates in 270 high schools this year alone. Since its inception, *Support Dry Grad* has raised more than \$5.4 million for dry grad celebrations in BC.

Monthly Responsible Use Awareness Programs

From discouraging drinking during pregnancy to promoting safe rides home, the LDB is serious about encouraging the responsible use of beverage alcohol.

That’s why, throughout the year, BC Liquor Stores execute a number of effective awareness campaigns to alert consumers to the risks associated with beverage alcohol and promote responsible use.

In 2013/14, these awareness programs included:

- Don’t buy for minors
- Anti-binge-drinking messaging
- Don’t drink and drive, make a plan for a safe ride home
- Alcohol and pregnancy don’t mix
- *Be the Influence*, which encourages customers to talk with their kids about alcohol and underage drinking

“Corporate social responsibility is ingrained in the very fabric of the LDB. We are committed to supporting positive change in our communities and beyond.”

—Kelly Wilson, Executive Director of Retail and Wholesale Services

SHARE-A-BEAR

Children rely on their teddy bears for a variety of reasons—from making them smile to providing a source of comfort and companionship during tough times.

Since 1989, the LDB has donated plush teddy bears to children’s charities every year through its Share-a-Bear program.

Every November and December, the LDB sells teddy bears in its BC Liquor Stores. Every bear sold has a ‘twin,’ which is donated to a children’s charity.

Employees at each BC Liquor Store select the local charities to support, which include Christmas stocking funds, hospitals, police and ambulance services, and other community groups. In 2013/14, more than 24,000 bears were donated to charities.



Environment

The LDB has long been a leader in corporate sustainability, and 2013/14 was no exception.

This past year, the LDB updated its specifications book for building contractors to further increase the energy efficiency of new BC Liquor Stores locations and renovated stores.

Light emitting diode (LED) lighting is now used in perimeter signage instead of less efficient neon lighting, which is expected to save 12,500 kWh per store per year. Since 2009/10, LDB energy efficiency projects have saved enough energy to power 326 BC homes per year.

For all interior remodels, the LDB continues to use green building materials such as LED lighting, plant-based tiles with recycled content, as well as paints and adhesives with low chemical emissions or volatile organic compounds.



Targets and Results 2013/2014

MEASURE	ACTUAL			TARGET			
	2011/12	2012/13	2013/14	2013/14	2014/15	2015/16	2016/17
Store Compliance with ID-Checking Requirement	96%	92%	82%	100%	100%	100%	100%
Customer Awareness of LDB Corporate Responsibility Programs	N/A	91%	N/A	N/A	90%	N/A	91%
Plastic Shopping Bags (millions)	16.1	16.6	18.6	15.5	N/A*	N/A*	N/A*

*Note: The LDB has adopted more comprehensive waste diversion targets going forward. For more information, see LDB's 2014/15–2016/17 Service Plan.

RESULTS AND MEASUREMENT DESCRIPTION

5.1 Store Compliance with ID-Checking Requirement – The result for fiscal 2013/14 was 82 per cent, below the level of compliance in the previous year, and below the goal of 100 per cent. The LDB has refocused its training and store diligence and anticipates that all future compliance check targets will be met. Staff training and daily reminders will be key to the success of this program.

In British Columbia, you must be 19 years old to legally purchase liquor. In fiscal 2011/12, the Liquor Control and Licensing Branch (LCLB) implemented an ID-checking program for government and private liquor stores that involves under-aged agents to test compliance. The LDB uses LCLB's compliance statistics for this measure. The target of 100 per cent reflects the importance to the LDB of preventing sales to minors.

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

5.3 Plastic Shopping Bags – The result for fiscal 2013/14 was 18.6 million bags shipped, which is above the target of 15.5 million.

An ongoing BC Liquor Stores bag reduction program, which gave customers free, reusable bags and included store signage and point-of-sale encouragement, resulted in a 16 per cent reduction since the benchmark year of 2008/09.

While many customers support the LDB's environmental objectives, many won't carry alcohol products without a bag and/or may not have a reusable bag with them when they shop.

The increase in plastic bag usage relative to the previous two fiscal years can be attributed to sales increases of nearly 2 million six packs and 1.2 million units of individual wine bottles. Customers buying wine bottles usually ask for a bag, as do customers buying six packs, as they do not come in a paperboard carrying case.

The LDB will continue to work with customers and staff to achieve further reductions in plastic bag use as part of its overall Waste Reduction and Recycling Strategy, adopted in late 2013/14.

In accordance with BC Recycling Regulation updates, starting May 19, 2014, the LDB will be responsible for reporting the material weight of all plastic bags that enter the BC residential marketplace and will be responsible for paying annual recycling fees to cover costs.

Performance Management Systems

The following information summarizes the source and accuracy of the data used for the service plan performance measures.

Sales Data (Performance Measures 1.1 and 4.1)

Sales data for BC Liquor Stores is collected from computerized point-of-sale cash register systems and stored in head office databases. Sales made directly to customers by agents on behalf of the LDB are transmitted to the LDB and stored in databases. LDB financial statements are audited by the Office of the Auditor General of British Columbia annually.

Expense Data (Performance Measures 1.1 and 4.2)

LDB expense data is captured, stored and reported by the LDB's financial system. The LDB's financial statements are audited by the Office of the Auditor General of British Columbia.

Employee and Customer Surveys (Performance Measures 2.1, 3.1, 3.2, 5.2)

BC Stats conducts the employee engagement survey for the LDB. The LDB contracts with professional survey companies to conduct the retail and wholesale customer service surveys.

Distribution Data (Performance Measures 4.2, 4.3)

Orders and shipments processed by the LDB distribution centres are captured and stored by computer applications designed for this purpose.

ID-Checking (Performance Measure 5.1)

LCLB administers an ID compliance-checking program and provides the results of LDB store compliance to the LDB.

Plastic Shopping Bag Reduction (Performance Measure 5.3)

Plastic shopping bag usage by the LDB is determined from purchasing records.

Benchmarking

In 2013, the LDB benchmarked itself against a number of other organizations including: four provincial liquor boards; three non-Canadian government liquor authorities; two private distribution organizations and two private retailers. A total of 15 different measures were compared and results from the four that are most relevant to the LDB are shown below.

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

Operating Costs as a Percentage of Total Sales

This measure indicates the overall operational efficiency of an organization and represents the per cent of each sales dollar that is used for operating costs. For 2013, the LDB was ranked second and has been in the top three for the past three years.

Net Income as a Percentage of Total Sales

This is a measure of the overall health and profitability of an organization, and represents the per cent of each sales dollar that is generated for Government in the case of public liquor authorities such as the LDB, or to shareholders in the case of private companies. For 2013 and prior years, the LDB consistently ranked in the middle of the group.

BC Liquor Store (BCLS) Sales per BCLS FTE

This is a measure of productivity of BCLS employees. FTE stands for 'Full Time Equivalent' and is equal to one person-year of employment. For 2013, the LDB was ranked second and has been in the top three for the past three years.

Distribution Centre Cost per Case

This measures how cost effective distribution centres are on a volume basis. For 2013 and prior years, the LDB ranked consistently in the middle.

PERFORMANCE MEASURES	2013 RANKING		NUMBER OF COMPARABLE ENTITIES
	WORST ←	→ BEST	
Operating Costs as a Percentage of Total Sales		LDB	10
Net Income as a Percentage of Total Sales	LDB		9
BCLS Sales per BCLS FTE		LDB	5
Distribution Centre Cost per Case		LDB	5

Government’s Letter of Expectations

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

The GLE also provides direction from Government to the LDB to take specific actions. These specific actions from the 2013/14 GLE and the LDB’s response to them are identified in the following table. The complete GLE is available on the LDB’s website at <http://www.bcldb.com/publications/governments-letter-of-expectation>.

GOVERNMENT DIRECTION	LDB ALIGNMENT
<p>Meet the LDB 2013/14–2015/16 Service Plan budget and performance targets, including net income.</p>	<p>The LDB provides monthly financial updates to Government and notifies Government on changes likely to affect the achievement of the targets.</p>
<p>Comply with the financial policies/guidelines provided by Government for mark-up, taxation, the extent to which LDB may own capital assets, and LDB contributions to Government.</p>	<p>The LDB complies with Government’s financial policies and guidelines.</p>
<p>Comply with Government’s and the Liquor Control and Licensing Branch’s direction to rationalize and improve the regulatory framework for the importation, distribution and retailing of beverage alcohol products in British Columbia.</p>	<p>The LDB complies with Government’s and the Liquor Control and Licensing Branch’s direction.</p>
<p>Comply with Government’s requirements to be carbon neutral on a calendar year basis under the <i>Greenhouse Gas Reduction Targets Act</i>, including: accurately measuring, reporting on and self-certifying the greenhouse gas emissions from the LDB’s operations; implementing measures to reduce those emissions and reporting on these reduction measures and reduction plans; and offsetting any remaining emissions by investing in greenhouse gas reduction projects outside of the LDB’s scope of operations in the form of carbon offset investments managed by the BC Ministry of Environment.</p>	<p>The LDB is accurately measuring, reporting, and self-certifying its greenhouse gas emissions as required by Government, and is implementing measures to reduce those emissions. The LDB is offsetting emissions through offset payments to the BC Ministry of Environment. All of this information appears in the annual Carbon Neutral Action Report (2013 being the latest version). Along with all public sector organizations that must comply with the <i>Greenhouse Gas Reduction Targets Act</i>, the LDB is subject to random, third-party verification for its annual measurement and reporting of greenhouse gas emissions.</p>

2013/14

FINANCIAL

REPORT

MANAGEMENT DISCUSSION AND ANALYSIS

Actual 2013/14 Financial Results Compared to 2012/13 Actual Results

When the harmonized sales tax (HST) was replaced by the PST and GST on April 1, 2013, the LDB reduced mark-up, but sales volume remained strong with growth in draught beer, wines and refreshment beverages. Gross sales were \$2.94 billion, only slightly decreasing by \$6.7 million from fiscal 2012/13, compared to the impact of the mark-up decrease of \$80 million.

Commissions and discounts were \$198.2 million, which was \$1.8 million higher than fiscal 2012/13. This was due to an increase in the customer discount to rural agency stores from 10 to 12 per cent in April 2013 and an increase in market share by private retailers. Wholesale customer discounts now range from 12 to 30 per cent.

Operating expenses were 10.2 per cent of sales for the fiscal year, which is comparable to the 10 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 \$299.6 million, \$3.3 million higher than fiscal 2012/13. The largest changes in expenses occurred in the following areas:

- Employment expenses decreased by \$2.5 million due to a closer monitoring of staff scheduling and lower benefit costs;
- Rent expenses increased by \$1.7 million due to higher lease costs;
- Freight costs increased by \$1.6 million due to higher volumes shipped from LDB warehouses and freight rate increases due to higher fuel costs;
- Administrative expenses increased by \$1.2 million due to purchases of supplies, training expenses, and a provision for bad debts; and
- Bank charges increased by \$0.8 million due to increased use of credit cards and related higher merchant fees.

For fiscal 2013/14, the LDB's net income and return to Government was \$877 million. This was a decrease of \$52.6 million compared to the previous year, although \$26.1 million higher than budget. The lower net income was due to the LDB reducing liquor mark-ups effective April 1, 2013. LDB net income as a percentage of sales was 29.8 per cent which was 1.7 per cent lower than fiscal 2012/13 at 31.5 per cent.

Table 1: Summary of Financial Results Over Five Years

For the five years ended March 31, 2014 (all \$ figures in \$000)

	Actual 2013/14	Budget 2013/14	Actual 2012/13	Actual 2011/12	Actual 2010/11	Actual 2009/10
Sales	2,943,695	2,891,341	2,950,417	2,889,869	2,810,145	2,854,072
Commissions and Discounts	198,170	183,282	196,331	187,583	179,749	198,289
Cost of Sales	1,581,463	1,557,043	1,540,783	1,510,744	1,469,819	1,515,289
Gross Profit	1,164,062	1,151,016	1,213,303	1,191,542	1,160,577	1,140,494
Operating Expenses - Employment	162,771	164,429	165,264	164,314	159,800	163,326
Operating Expenses - Rent	39,696	38,499	37,949	37,026	36,002	33,662
Operating Expenses - Administration	97,090	104,375	93,018	89,651	85,727	78,887
Operating Income	864,505	843,713	917,072	900,551	879,048	864,619
Net Income	876,979	850,865	929,559	911,145	890,271	877,276
Gross Margin (%)	39.5%	39.8%	41.1%	41.2%	41.3%	40.0%
Operating Expenses to Sales (%)	10.2%	10.6%	10.0%	10.1%	10.0%	9.7%
Net Income to Sales (%)	29.8%	29.4%	31.5%	31.5%	31.7%	30.7%
Inventory Turnover	18	18	18	18	17	17
Debt	0	0	110	190	395	830
Retained Earnings	0	N/A	0	0	0	0

Data Source: LDB Oracle Financial System

MANAGEMENT DISCUSSION AND ANALYSIS

Net income for fiscal 2010/11 and onwards have been prepared based on International Financial Reporting Standards. Financial results for fiscal 2009/10 were prepared based on Canadian Generally Accepted Accounting Principles (GAAP).

Fiscal 2013/14 capital expenditures of \$12.9 million were slightly higher than the \$10.4 million spent in the previous year. Capital expenditures were related to ongoing operational capital needs and tenant improvements for BC Liquor Stores. Capital spending in fiscal 2012/13 was low due to Government restraint directives and the distribution privatization project, which was subsequently cancelled in September 2012. Capital spending in fiscal 2013/14 continues to be lower than historical average as the LDB develops plans to meet the changing needs of our customers and implement the recommendations of the liquor policy review. In March 2014, the government announced an agreement was in place to sell the property located at 3200 East Broadway, currently housing the Vancouver distribution centre, a BC Liquor Store and administration offices. The sale is expected to be completed before the fall of 2014. All LDB operations currently carried out on the property will continue as normal for the foreseeable future. The LDB plans to be in a new warehouse facility in 2017.

During fiscal 2013/14, the retail customer count at BC Liquor Stores increased from 35.7 million to 36.2 million customers. The average retail customer transaction value at BC Liquor Stores decreased from \$33.70 to \$32.90. This can be attributed to lower product pricing as well as the shift in product mix due to the growth in refreshment beverages which tend to have lower price points.

Overall inventory turns for the LDB remained constant at 18 turns. This indicates the average number of days that the LDB holds inventory is 20 days. Inventory at the LDB's distribution centres had 23 turns and BC Liquor Stores inventory had 13 turns. The consistency of inventory turns reflects the close management of LDB inventories.

Table 2: Key Indices

(all \$ figures in \$000)

	Actual 2013/14	Budget 2013/14	Change vs. 2013/14 Budget	Actual 2012/13	Change vs. 2012/13 Actual
Gross Sales	2,943,695	2,891,341	52,354	2,950,417	(6,722)
Net Income	876,979	850,865	26,114	929,559	(52,580)
Capital Expenditures	12,947	19,713	(6,766)	10,448	2,499
Gross Margin %	39.5%	39.8%	(0.3%)	41.1%	(1.6%)
Operating Income to Sales	29.4%	29.2%	0.2%	31.1%	(1.7%)
Operating Expenses to Sales	10.2%	10.6%	(0.4%)	10.0%	0.2%
Net Income to Sales	29.8%	29.4%	0.4%	31.5%	(1.7%)
Inventory Turnover	18	18	0	18	0
Retail Customer Count	36,231	N/A	N/A	35,743	488
Average Transaction \$ Value	\$32.90	N/A	N/A	\$33.70	\$(0.80)

Retail and Wholesale Channels

The LDB has two types of operations based on customer type. The retail channel includes sales from BC Liquor Stores to retail customers. The wholesale channel includes sales to re-sellers of beverage alcohol from BC Liquor Stores and all other sales from the LDB's Wholesale Customer Centre, 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 BC Liquor Stores 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 done for 2012/13 since there were no significant changes in activity during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Retail Channel

The net income as a percentage of sales decreased from 35.4 per cent to 33.7 per cent. Sales decreased by \$17.5 million, representing a 1.5 per cent decrease over the prior year. Cost of sales, as a percentage of sales, increased by 1.4 per cent over fiscal 2012/13. This was due to a reduction in liquor mark-up resulting from the implementation of PST/GST and a change in product mix at BC Liquor Stores.

Table 3: Retail Results

(in \$000)

	Actual 2013/14	Budget 2013/14	% Actual Sales	Actual 2012/13	% Actual Sales	% Change
Sales	1,178,276	1,186,456	100.0	1,195,825	100.0	(1.5)
Cost of Sales	584,114	571,896	49.6	576,171	48.2	1.4
Operating Expenses	203,007	208,044	17.2	202,607	16.9	0.2
Other Income	6,237	3,576	0.5	6,244	0.5	(0.1)
Net Income	397,392	410,092	33.7	423,291	35.4	(6.1)

Wholesale Channel

Net income, as a percentage of sales, decreased from 28.9 per cent to 27.2 per cent. Sales increased slightly by \$10.8 million, or 0.6 per cent, due to increased wholesale sales and the shift of sales from the BC Liquor Stores. The sales increase in this channel has been driven mainly by the growth in BC land based wineries, with a 8.1 per cent increase, along with growth in BC craft distilleries and breweries.

The market share of the wholesale channel has grown steadily over the past five years (Tables 5 and 7). Discounts increased by \$1.8 million or 1.0 per cent over the previous year due to the increase in discount rate to Rural Agency Stores (RAS) from 10 to 12 per cent in April 2013 and shifts in market share within the wholesale channel.

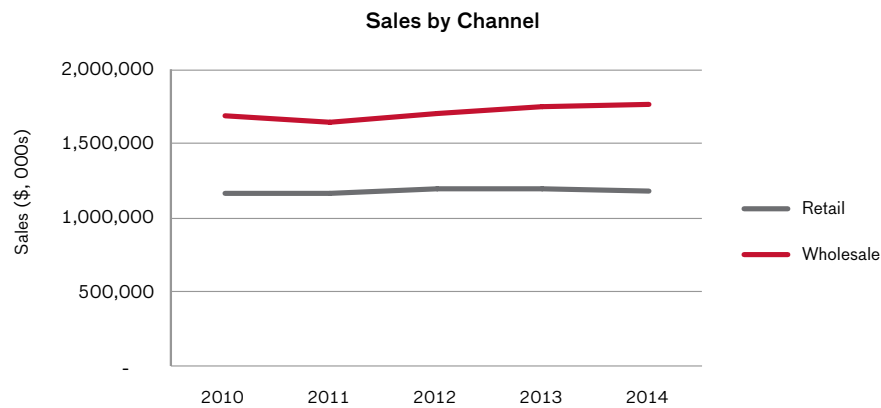
Cost of sales, as a percentage of sales, increased by 1.5 per cent. Similar to the retail channel, the higher cost of sales rate is consistent with the reduction in liquor mark-up in April 2013. This channel has a higher proportion of beer and BC wine sales, resulting in an overall lower return. The mark-up on beer is a per litre mark-up and hence, 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.

Table 4: Wholesale Results

	Actual 2013/14	Budget 2013/14	% Actual Sale	Actual 2012/13	% Actual Sales	% Change
Sales	1,765,419	1,704,885	100.0	1,754,592	100.0	0.6
Commissions & Discounts	198,170	183,282	11.2	196,331	11.2	0.9
Cost of Sales	997,349	985,147	56.5	964,612	55.0	3.4
Operating Expenses	96,550	99,259	5.5	93,624	5.3	3.1
Other Income	6,237	3,576	0.4	6,243	0.4	(0.1)
Net Income	479,587	440,773	27.2	506,268	28.9	(5.3)

MANAGEMENT DISCUSSION AND ANALYSIS

Table 5: Retail and Wholesale Channel Trends



Product Categories

Overall, sales exceeded target by \$52.4 million but decreased by \$6.7 million, a 0.2 per cent decrease, compared to the previous year. Consistent with prior year, the refreshment beverage category had the strongest growth in both sales dollars and litres, reflecting changing consumer consumption patterns.

The refreshment beverage category increased by 11.8 per cent or \$15.4 million and was largely driven by import refreshments increasing by 45.2 per cent or \$11.5 million. This was followed by wine with an increase of 2.2 per cent or \$20.7 million, spirits with a decrease of 2.1 per cent or \$15.8 million, and beer with a decrease of 2.5 per cent or \$27.5 million.

In terms of volume, there was an overall increase of 2.2 per cent compared to the previous year. The refreshment beverage category had the largest volume increase at 14.2 per cent, followed by wine at 3.8 per cent, and beer at 0.8 per cent. Spirits slightly decreased by 0.1 per cent when compared to last year. With the National Hockey League playing a full hockey season in fiscal 2013/14, draught beer had a 3 per cent increase. Overall, the beer category increased only 0.8 per cent compared to fiscal 2012/13, as packaged beer had only a 0.4 per cent increase.

Table 6: Product Category Changes

	% change in sales \$ from previous year		% change in sales volume (litres) from previous year	
	Domestic	Import	Domestic	Import
Spirits	(4.4)	0.3	(1.7)	1.9
Wine	4.6	0.3	6.8	0.5
Beer	(2.6)	(2.0)	1.4	(2.3)
Refreshment	3.7	45.2	6.5	56.4

MANAGEMENT DISCUSSION AND ANALYSIS

Market Share

Private sector stores, 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 to 43.9 from 43.6 per cent.

Table 7: Provincial Sales by Source

For the five years ended March 31, 2014 (as a percentage of total dollar sales)

	2013/14	2012/13	2011/12	2010/11	2009/10
COUNTER SALES					
BC Liquor Stores Retail Sales (%)	40.1	40.5	41.0	41.4	40.7
Licensee Retail Stores (LRS) (%)	34.8	34.8	34.4	33.9	33.5
Agency Stores (%)	9.1	8.8	8.1	8.1	8.2
Total Counter Sales (%)	84.0	84.1	83.5	83.4	82.4
Licensed Establishments (%)	16.0	15.9	16.5	16.6	17.6
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, 2014 (as a percentage of total dollar sales)

	2013/14	2012/13	2011/12	2010/11	2009/10
COUNTER SALES					
BC Liquor Stores Retail Sales (%)	47.7	48.2	49.1	49.7	49.3
Licensee Retail Stores (LRS) (%)	41.5	41.4	41.2	40.6	40.7
Agency Stores (%)	10.8	10.4	9.7	9.7	10.0
Total Counter Sales Market (%)	100.0	100.0	100.0	100.0	100.0

Data Source: LDB Oracle Financial System

MANAGEMENT DISCUSSION AND ANALYSIS

Remittances to Government Agencies

The LDB paid \$1.2 billion to various government agencies during fiscal 2013/14.

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

	2013/14	2012/13	2011/12	2010/11	2009/10
FEDERAL GOVERNMENT					
Custom Duties and Excise Tax	140,481	141,460	140,962	141,152	147,105
GST/HST	71,056	162,186	156,744	135,329	59,439
Total	211,537	303,646	297,706	276,481	206,544
PROVINCIAL GOVERNMENT					
LDB Net Income	876,979	929,559	911,145	890,270	877,276
PST	112,369	-	5	37,747	119,848
Liquor Control and Licensing	419	420	420	423	276
Total	989,767	929,979	911,570	928,440	997,400
MUNICIPAL GOVERNMENT					
Property Taxes	1,283	1,200	1,360	921	1,006
Business Licenses	35	37	35	31	39
Total	1,318	1,237	1,395	952	1,045
Total Remittances	1,202,622	1,234,862	1,210,671	1,205,873	1,204,989

FUTURE OUTLOOK

Table 10 outlines the LDB's financial forecast for the next three years. The financial forecast incorporates several key assumptions:

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

- Overall sales increase of 1.0 per cent in fiscal 2014/15, and an increase of 2.0 per cent in fiscal 2015/16 and 2016/17 due to inflationary trends, and no further shifting of product between categories; and
- Growth in sales is expected to be realized in both the wholesale and retail segments and the market share between retail to wholesale is expected to be stable.

Overall volumes for all product categories are expected to be less than one per cent from the levels in fiscal 2013/14.

Continued growth in direct-delivered, 100 per cent BC wine is expected to result in a lower return on total sales.

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. These types of policy decisions can have a significant impact on LDB revenue. The LDB's financial performance is also affected by price competition amongst suppliers of wine, spirits and refreshment beverages because mark-ups on these products are percentage-based, meaning a reduction in the supplier price will result in less LDB revenue, assuming a constant volume. Beverage alcohol is also a discretionary consumer product and sales are affected by changes in economic conditions—consumer confidence in the economy dictates the level of entertainment dollars spent on beverage alcohol. Weather patterns and timing of statutory holidays are other factors that influence LDB revenue, particularly in the refreshment beverage and packaged beer categories.

FUTURE OUTLOOK

Operating expense assumptions include:

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

The impact of the planned introduction of grocery stores as a retailer of beverage alcohol has not been factored into the assumptions since the terms and conditions are not known at this time.

Capital requirements reflect expenditures for updating and improving stores, technology-related projects and ongoing equipment replacement. Capital costs associated with the future relocation of the Vancouver Distribution Centre are not yet reflected in the forecast since they cannot be accurately estimated at this time.

Table 10: Budget and Forecasts

(in \$ millions)

	Budget 2014/15	Forecast 2015/16	Forecast 2016/17
Total sales	2,972.0	3,031.5	3,092.2
Commissions and Discounts	190.7	194.6	198.4
Cost of sales	1,608.2	1,642.8	1,678.2
Operating Expense - Employment	170.5	171.1	171.5
Operating Expense - Rent	42.5	44.5	46.7
Operating Expenses - Administration	105.8	111.8	114.1
Other Income	7.8	7.8	7.8
Net Income	862.1	874.5	891.1
Capital	30.4	31.0	27.1

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

Table 11: Retail and Wholesale Channels Budget and Forecasts

(in \$ millions)

	Budget 2014/15	Forecast 2015/16	Forecast 2016/17
RETAIL			
Total Sales	1,197.7	1,221.7	1,246.2
Cost of Sales	574.9	586.4	598.2
Operating Expenses	215.8	221.6	224.8
Other Income	3.9	3.9	3.9
Net Income	410.9	417.6	427.1
WHOLESALE			
Total Sales	1,774.3	1,809.8	1,846.0
Commissions and Discounts	190.7	194.6	198.4
Cost of Sales	1,033.3	1,056.4	1,080.0
Operating Expenses	103.0	105.8	107.5
Other Income	3.9	3.9	3.9
Net Income	451.2	456.9	464.0

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 is in the process of updating its enterprise-wide risk assessment. This is to ensure that all major risks, financial and non-financial, have been identified and ranked. Plans will be developed to address and mitigate the key risks identified as a result of the assessment. Fiscal year 2013/14 is the third year that the LDB is reporting under International Financial Reporting Standards (IFRS) which require greater disclosure than under the previous Canadian Generally Accepted Accounting Principles.

AREA	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	<p>Old and aging systems are a support and maintenance risk and are a challenge for changing business requirements.</p> <p>The level of security risk and threat of cyber security attack is increasing.</p>	<p>The LDB is laying the foundational systems infrastructure that will support the implementation of replacement supply-chain systems.</p> <p>The LDB is ensuring staff is current on these risks, and security monitoring is being expanded for critical systems.</p>
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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

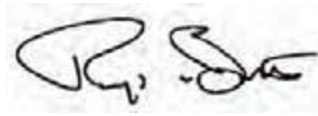
The financial statements of the British Columbia LDB have been prepared by management in accordance with International Financial Reporting Standards. Any financial information contained elsewhere in the annual report has been reviewed to ensure consistency with the financial statements.

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 LDB. The Auditor's Report outlines the scope of this independent audit and expresses an opinion on the financial statements of the LDB.



R. Blain Lawson
General Manager and Chief Executive Officer



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

Vancouver, British Columbia
May 15, 2014



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, 2014 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, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Victoria, British Columbia
May 16, 2014


Russ Jones, MBA, CA
Auditor General

AUDITED FINANCIAL STATEMENTS

Statements of Comprehensive Income

For the years ended March 31, 2014 and 2013
(in thousands of dollars)

AS AT MARCH 31,	NOTE	2014	2013
Sales	4	2,943,695	2,950,417
Less commissions and discounts		(198,170)	(196,331)
Net sales		2,745,525	2,754,086
Cost of sales		(1,581,463)	(1,540,783)
Gross profit		1,164,062	1,213,303
Administration expenses	5,13	(280,587)	(279,422)
Transportation expenses	5	(13,724)	(12,122)
Marketing expenses	5	(5,246)	(4,687)
Net operating income		864,505	917,072
Other income		12,474	12,487
Net income and comprehensive income		876,979	929,559

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

For the years ended March 31, 2014 and 2013
(in thousands of dollars)

YEAR ENDED MARCH 31,	2014	2013
Balance beginning of year	1,076	8,900
Net income and comprehensive income	(876,979)	(929,559)
Payments to the Province of British Columbia	875,476	921,735
Balance end of year	(427)	1,076

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

AUDITED FINANCIAL STATEMENTS

Statements of Financial Position

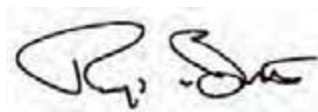
As at March 31, 2014 and 2013
(in thousands of dollars)

AS AT MARCH 31,	NOTE	2014	2013
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	6	46,308	47,610
Intangible assets	7	9,939	11,732
Prepaid expenses - long term	8	1,860	2,709
		58,107	62,051
CURRENT ASSETS			
Due from Province of British Columbia	9	-	1,076
Inventories	10	87,730	88,555
Prepaid expenses	8	5,998	7,570
Accounts receivable	11	8,960	9,327
Cash		765	18,783
		103,453	125,311
TOTAL ASSETS		161,560	187,362
LIABILITIES			
NON-CURRENT LIABILITIES			
Other long-term liabilities	12,13,14	25,165	24,200
		25,165	24,200
CURRENT LIABILITIES			
Due to Province of British Columbia	9	427	-
Accounts payable and accrued liabilities	14,15	135,968	163,162
		136,395	163,162
TOTAL LIABILITIES		161,560	187,362

Approved for issue on May 15, 2014 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.

AUDITED FINANCIAL STATEMENTS

Statements of Cash Flows

For the years ended March 31, 2014 and 2013
(in thousands of dollars)

AS AT MARCH 31,	NOTE	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income and comprehensive income		876,979	929,559
Adjustments for:			
Depreciation and amortization		15,810	16,173
(Gain) loss on retirement/disposal of property and equipment		(334)	332
Rent and lease amortization		272	(219)
Accrued employee benefits		895	2,205
		893,622	948,050
Change in long term assets		849	5,988
Change in working capital		(24,559)	(20,411)
Cash flows from operating activities		869,912	933,627
CASH FLOWS USED IN INVESTING ACTIVITIES			
Acquisition of property and equipment	6	(10,685)	(9,891)
Acquisition of intangible assets	7	(2,262)	(525)
Proceeds from disposal of property and equipment		566	25
Cash flows from investing activities		(12,381)	(10,391)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Payments to the Province of British Columbia	9	(875,476)	(921,735)
Payments on capital leases		(49)	(50)
Payments on tenant improvement loans		(24)	(30)
Cash flows used in financing activities		(875,549)	(921,815)
NET (DECREASE) INCREASE IN CASH		(18,018)	1,421
CASH - BEGINNING OF YEAR		18,783	17,362
CASH - END OF YEAR	21	765	18,783

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

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2014 and 2013
(Tabular amounts in thousands of dollars)

1. Purpose of the Branch

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment 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, judgment 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 judgment and estimation for the LDB due to greater complexity and/or being particularly subject to the exercise of judgment:

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.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2014 and 2013
(Tabular amounts in thousands of dollars)

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.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2014 and 2013
(Tabular amounts in thousands of dollars)

Financial liabilities held at amortized cost

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

i) Accounts payable

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

ii) Bank indebtedness

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

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2014 and 2013
(Tabular amounts in thousands of dollars)

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.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2014 and 2013
(Tabular amounts in thousands of dollars)

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, 2013, the LDB adopted three new standards that were issued by the International Accounting Standards Board (IASB).

Amendment to International Accounting Standards (IAS)1, 'Presentation of financial statements'—the standard requires grouping of items presented in other comprehensive income (OCI) on the basis of whether they will be potentially re-classified to profit or loss in the future (reclassification adjustments). The LDB has evaluated this standard and determined there is no significant impact on the financial statements.

Amendment to IAS 16, 'Property, plant and equipment'—the standard clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment. The LDB has evaluated this standard and determined there is no significant impact on the financial statements.

IFRS 13, 'Fair value measurement'—the standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The LDB has evaluated this standard and determined there is no significant impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2014 and 2013
(Tabular amounts in thousands of dollars)

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.

Amendment to IAS 32, 'Financial instruments: Presentation'—Offsetting financial assets and financial liabilities - the amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position; specifically, the meaning of “currently has a legally enforceable right to set-off.” This amendment is effective January 1, 2014.

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 is effective January 1, 2014.

IFRS 9, 'Financial instruments'—The standard impacts the classification and measurement of financial assets. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. IFRS 9 is the first standard issued as part of a wider project to replace IAS 39, *'Financial Instruments: Recognition and measurement'*. The effective date of IFRS 9 has been delayed pending the finalization of the impairment and classification and measurement requirements in IAS 39.

iii) Other ongoing projects 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.

Amendment to 'Introduction to Public Sector Accounting Standards'—The Public Sector Accounting Board has issued an exposure draft which proposes to amend the set of standards to be followed by a non-business government partnership with only public sector entity partners; and clarify the transitional provisions for a government organization (now classified as a government component) and for a non-business government partnership and a government business partnership with only public sector entity partners. The implications of the proposals include the following:

- certain government organizations, that are not currently following the standards for governments in the Public Sector Accounting (PSA) Handbook (i.e. are following the standards applicable to publicly accountable enterprises in Part I of the Chartered Professional Accountants (CPA) Canada Handbook—Accounting or standards for not-for-profit organizations in the PSA Handbook), will become government components and need to transition;
- government partnerships, including government business partnerships, may need to transition to the proposed source of generally accepted accounting principles if they issue general purpose financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2014 and 2013
(Tabular amounts in thousands of dollars)

4. Sales

Total sales reported include sales to retail customers, licensed establishments, Licensee Retail Stores (LRS) and agency stores. These amounts do not include subsequent resale by licensed establishments, LRS and agency stores.

	2014 \$	2013 \$
Retail customers	1,178,276	1,195,825
Licensee retail stores	1,025,544	1,026,630
Licensed establishments	471,999	468,236
Agency stores	267,876	259,726
	2,943,695	2,950,417

5. Operating expenses

The LDB's operating expenses are comprised of:

	2014 \$	2013 \$
Administration costs	280,587	279,422
Transportation	13,724	12,122
Marketing	5,246	4,687
Other administrative expenses	299,557	296,231

	2014 \$	2013 \$
Salaries, wages and benefits	162,771	165,264
Rents	39,696	37,949
Bank charges	24,027	23,264
Other administrative expenses	17,203	15,780
Depreciation and amortization	15,810	16,173
Transportation	13,724	12,122
Repairs and maintenance	7,488	7,218
Data processing	6,088	6,132
Marketing	5,246	4,687
Professional services	4,877	4,712
Loss prevention	2,627	2,930
	299,557	296,231

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2014 and 2013
(Tabular amounts in 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, 2013								
Opening net book value	1,072	3,118	29,845	7,962	12	7,215	13,760	62,984
Assets reclassified (Note 7)	-	-	-	-	-	-	(12,730)	(12,730)
Additions	-	15	10	1,877	-	1,214	6,775	9,891
Transfers	-	-	5,774	569	-	-	(6,343)	-
Disposals (cost)	-	-	(4,467)	(506)	-	(457)	-	(5,430)
Disposals (accumulated depreciation)	-	-	4,111	506	-	457	-	5,074
Depreciation charge	-	(181)	(5,481)	(3,498)	(12)	(3,007)	-	(12,179)
Closing net book value	1,072	2,952	29,792	6,910	-	5,422	1,462	47,610
March 31, 2013								
Cost	1,073	21,458	60,790	33,882	3,900	77,843	1,462	200,408
Accumulated depreciation	(1)	(18,506)	(30,998)	(26,972)	(3,900)	(72,421)	-	(152,798)
Net book value	1,072	2,952	29,792	6,910	-	5,422	1,462	47,610
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
Depreciation 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

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2014 and 2013
(Tabular amounts in thousands of dollars)

7. Intangible assets

	Intangible Assets	Construction in process	Total
March 31, 2013			
Opening net book value	1,537	934	2,471
Assets reclassified (Note 6)	-	12,730	12,730
Additions	340	185	525
Transfers	13,295	(13,295)	-
Amortization charge	(3,994)	-	(3,994)
Closing net book value	11,178	554	11,732
March 31, 2013			
Cost	18,229	554	18,783
Accumulated amortization	(7,051)	-	(7,051)
Net book value	11,178	554	11,732
March 31, 2014			
Opening net book value	11,178	554	11,732
Assets reclassified (note 6)	-	60	60
Additions	321	1,941	2,262
Transfers	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

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2014 and 2013
(Tabular amounts in thousands of dollars)

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, 2014, the LDB has recorded \$5.2 million (2013 - \$8.2 million) of prepaid wine futures for delivery in fiscal years 2015 and 2016.

	2014 \$	2013 \$
Wine futures	5,168	8,187
Other prepaids	2,690	2,092
	7,858	10,279
Long-term portion	(1,860)	(2,709)
Current portion	5,998	7,570

9. Due to/from the 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 \$2.13 billion (2013- \$2.19 billion) and the total payments to the Province were \$3.01 billion (2013 - \$3.11 billion).

10. Inventories

	2014 \$	2013 \$
Store inventory	58,489	55,888
Warehouse inventory	29,241	32,667
	87,730	88,555

During the year, inventories that were recognized as cost of sales amounted to \$1.6 billion (2013 - \$1.5 billion).

11. Accounts receivable

	2014 \$	2013 \$
Trade accounts receivable and other items	9,986	10,100
Provision for doubtful accounts	(1,026)	(773)
Accounts receivable and other items - net	8,960	9,327

Receivables past due but not impaired are \$433,000 (2013 - \$672,000). During the year the LDB expensed \$527,000 (2013 - \$127,000) in bad debts expense.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2014 and 2013
(Tabular amounts in thousands of dollars)

12. Other long-term liabilities

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

	2014 \$	2013 \$
Retirement benefit obligation (note 13(b))	13,754	13,340
WorkSafe BC claims accrual (note 13(c))	7,900	7,600
Long-term portion of deferred lease liabilities (note 14)	2,486	2,390
Long-term portion of obligation under finance lease	4	30
Other	1,021	840
	25,165	24,200

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 (the Plan), a jointly trustee pension plan. The Public Service Pension Board of Trustees, representing Plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan. Basic pension benefits are defined. The Plan has approximately 56,000 active Plan members and 41,000 retired Plan members.

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of Plan funding. The actuarial valuation done for March 31, 2011 indicated the Plan had a deficit of \$226 million for basic pension benefits. As a result, effective April 1, 2012, employee and employer contributions to the basic account each increased by 0.4% of salaries. Also effective April 1, 2012, in order to remain compliant with the *Income Tax Act* and to strengthen inflation protection, new contribution rates for the inflation adjustment account (IAA) was implemented. The employee contribution rate to the IAA was reduced by 0.25% of salary while the employer contribution rate increased by 0.25% of salary. The net impact of these two rate changes was an increase to the employee contribution rate of 0.15% and an increase to employer contribution rates of 0.65%.

The total amount paid into this pension plan by the LDB for the year ended March 31, 2014 was \$11.1 million for employer contributions (2013 - \$11.1 million), which was recorded in administration expenses.

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

b) Retirement benefits

Employees are entitled to specific non-pension retirement benefits as provided for under collective agreements and terms of employment. The future liability for this obligation amounts to \$13.8 million (2013 - \$13.3 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 \$414 thousand (2013 - \$379 thousand).

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 \$7.9 million (2013 - \$7.6 million) is valued by independent actuaries.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2014 and 2013
(Tabular amounts in thousands of dollars)

14. Deferred lease liabilities

	2014 \$	2013 \$
Deferred rent	2,920	2,564
Deferred tenant allowances	178	263
Deferred tenant improvement loans	7	31
	<hr/> 3,105	<hr/> 2,858
Less current portion	(619)	(468)
Long-term portion	<hr/> 2,486	<hr/> 2,390

15. Accounts payable and accrued liabilities

	2014 \$	2013 \$
Trade payables	73,429	79,217
Accrued liabilities	59,020	80,630
Other payables	2,873	2,798
Current portion of obligation under finance lease	27	49
Current portion of deferred lease liabilities (note 14)	619	468
	<hr/> 135,968	<hr/> 163,162

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2014 and 2013
(Tabular amounts in thousands of dollars)

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 \$29.8 million (2013 - \$28.5 million). These expenditures include property taxes and common area costs.

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

	2014 \$	2013 \$
Total future minimum rental payments under non-cancellable operating leases expiring:		
Not later than one year	29,251	28,249
Later than one year and not later than five years	76,179	74,659
Later than five years and not later than 25 years	16,421	17,684
	121,851	120,592

b) BC Liquor Store fees

For the year ended March 31, 2014, the LDB paid the Liquor Control and Licensing Branch \$419,400 (2013 - \$420,300) for license fees. The fee is based on the sales in each government liquor store.

c) Vancouver distribution property

On March 27, 2014, the Ministry of Technology, Innovation and Citizens' Services announced that a purchase sales agreement was in place with the Musqueam, Squamish and Tsleil-Waututh First Nations to sell the property currently housing the Vancouver distribution centre, a BC liquor store and some administration offices. The terms of the sale is expected to be complete before the fall of 2014.

All LDB operations currently carried out on the property will continue for the foreseeable future. The LDB expects to be fully operational in a new warehouse facility in 2017 and will lease the current building from the new owners until that time.

The property has a carrying value of \$2.6 million at March 31, 2014 and is included in property and equipment.

d) Payroll processing

The LDB has initiated a project to transfer payroll processing to the BC Public Service Agency. The project is expected to be completed in the fall of 2014.

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

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2014 and 2013
(Tabular amounts in thousands of dollars)

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 \$0.5 million (2013 - \$0.5 million) based upon the value of the agents' inventories at March 31, 2014.

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.

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, 2014, there were 9 (2013 - 9) members on the executive committee.

	2014 \$	2013 \$
Salaries and short-term benefits	1,121	1,078
Post-employment benefits	88	80
Fees for services	249	138
	1,458	1,296

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

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2014 and 2013
(Tabular amounts in thousands of dollars)

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, it 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 per cent movement in the exchange rate between the Canadian dollar and the other currencies listed above would not have a material impact on the 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.

21. Reclassification

For fiscal 2014, the LDB changed the presentation of the statement of cash flows from the direct method to the indirect method. The prior year's statement of cash flows has been restated for comparability.

Contact Information

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

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Mail: 2625 Rupert Street, Vancouver, BC, V5M 3T5

The LDB 2013/14 Annual Report is available online at www.bcldb.com/publications/annual-report



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