

SERVICE PLAN 2007/08 - 2009/10



BENEFITING BRITISH COLUMBIANS



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BRITISH  
COLUMBIA

The Best Place on Earth

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## MESSAGE FROM THE CHAIR AND PRESIDENT

On behalf of the Board of Directors and employees of British Columbia Lottery Corporation (BCLC), we are pleased to present the Corporation's fiscal 2007/08 – 2009/10 Service Plan.

For more than 30 years, BCLC has provided responsible gaming entertainment that generates income for Government and the 2007/08 – 2009/10 Service Plan continues this mission.

BCLC employees, along with our valued private sector business partners, are proud of the revenues generated for public, charitable and community programs. In fiscal 2006/07, BCLC is projecting that we will generate \$989 million in net income for Government, \$49 million more than our target of \$940 million. These revenues will be used to benefit programs for healthcare, education, social, community, charitable and municipal purposes.

In addition to funding beneficial public service programs, the BCLC team is also proud of the significant economic contributions generated, including a projected \$643 million in prizes paid to British Columbians, \$498 million paid to our lottery, casino and bingo service provider partners and more than \$180 million in the purchase of equipment, goods and services. The gaming industry in British Columbia is responsible for the direct employment of more than 10,000 people and more than \$1 billion in gaming facility developments pursuant to service provider contracts established and managed by BCLC. In delivering these economic benefits, we are committed to upholding the highest standards of fairness, honesty and integrity in our mandate to conduct and manage gaming in British Columbia.

This Plan supports our mission to offer responsible gaming entertainment, generating income for the public good. Over the three years covered by this Plan, BCLC estimates we will generate \$3.2 billion in net income for Government. However, our mission is not only to generate net income for Government, but also to ensure that gaming entertainment is offered in a socially responsible manner. BCLC will continue to take a major leadership role in the British Columbia Partnership for Responsible Gambling in ensuring that appropriate responsible

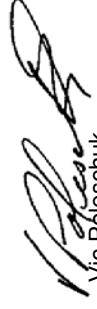
gaming awareness, education and research programs are in place and that appropriate treatment programs are available for the small percentage of the adult population who experience gambling problems.

Public trust and confidence in the integrity of our games and systems is paramount. Recently, the integrity of our lottery games and the cashing of winning tickets by lottery retailers have been challenged. Two independent agencies, the Gaming Policy and Enforcement Branch and the Office of the British Columbia Ombudsman have been requested to complete reviews of our processes and practices in ensuring that the rightful prizes are paid to the rightful holders of winning lottery tickets. GPEB has just completed their review and the Office of the British Columbia Ombudsman's review is currently in process. We welcome both of these reviews and see them as an opportunity to both reassure the public and to further enhance our processes and practices where needed.

Gaming entertainment is becoming increasingly competitive and complex with challenges and opportunities to address. BCLC is faced with the challenge of generating net income for the public good in a competitive market place while balancing the goal of offering gaming in a socially responsible manner. This Plan is designed to meet these challenges and opportunities in order to ensure that British Columbians will continue to benefit from gaming revenues generated in our province and will continue to enjoy high-quality, responsible gaming entertainment.

In closing, the British Columbia Lottery Corporation's 2007/08 – 2009/10 Service Plan was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act*. The Board is accountable for the contents of the Plan, including the selection of performance measures and targets. The Plan is consistent with Government's strategic priorities and Strategic Plan. All significant assumptions, policy decisions and identified risks, as of January 24, 2007 have been considered in preparing the Plan. The performance targets in this plan have been determined based on British Columbia Lottery Corporations' operating environment, forecast conditions, risk assessment and past performance.

  
John McLernon  
Board Chair

  
Vic Poleschuk  
President and CEO

## OVERVIEW OF THE ORGANIZATION

### Corporate Mandate

In Canada, gaming is illegal except as provided by the *Criminal Code of Canada*. Pursuant to amendments to the *Criminal Code of Canada* in 1969 and enabling legislation, the British Columbia Lottery Corporation (BCLC) was incorporated on October 25, 1984 and is continued under the *Gaming Control Act* of British Columbia (2002).

As an agent of the Crown, the Province has designated BCLC as the authority to conduct and manage lottery, casino and bingo gaming within British Columbia.

BCLC is accountable to its shareholder (Government) through the Minister of Public Safety and Solicitor General. A Board of Directors appointed by Government guides BCLC in fulfilling its mandate.

BCLC operates and is regulated by the Gaming Policy and Enforcement Branch (GPEB) in accordance with the *Gaming Control Act*. GPEB is responsible for policy, legislation, standards, regulation, licensing, registration, audit and compliance, enforcement, the responsible gaming strategy and the distribution of Government's gaming proceeds.

A key component of the governance framework is the development of a shareholder's letter of expectations. This letter is designed to ensure a shared understanding between the shareholder and Crown Corporation Board of Directors on key governance issues, corporate mandate and core services, public policy issues, strategic priorities and performance expectations. BCLC's *Shareholder's Letter of Expectations* can be located at: <http://www.bclc.com/cm/aboutbclc/corporategovernance.htm>

### Organizational Structure and Core Business Areas

BCLC has two corporate offices, one in Kamloops and one in Richmond. The Corporation's head office, information technology and finance functions are located in Kamloops and the sales and marketing functions are located in Richmond.

The Corporation contracts for the sale of its products through a private sector network of about 4,400 lottery retailers, 17 casinos and 29 commercial bingo halls. Lottery retailers receive an industry-standard commission rate to sell the Corporation's online and traditional lottery products. The Corporation has partnered with six private sector casino service companies. They provide, under contract, both casino facilities and day-to-day operational services, including casino staffing, for a service fee based on

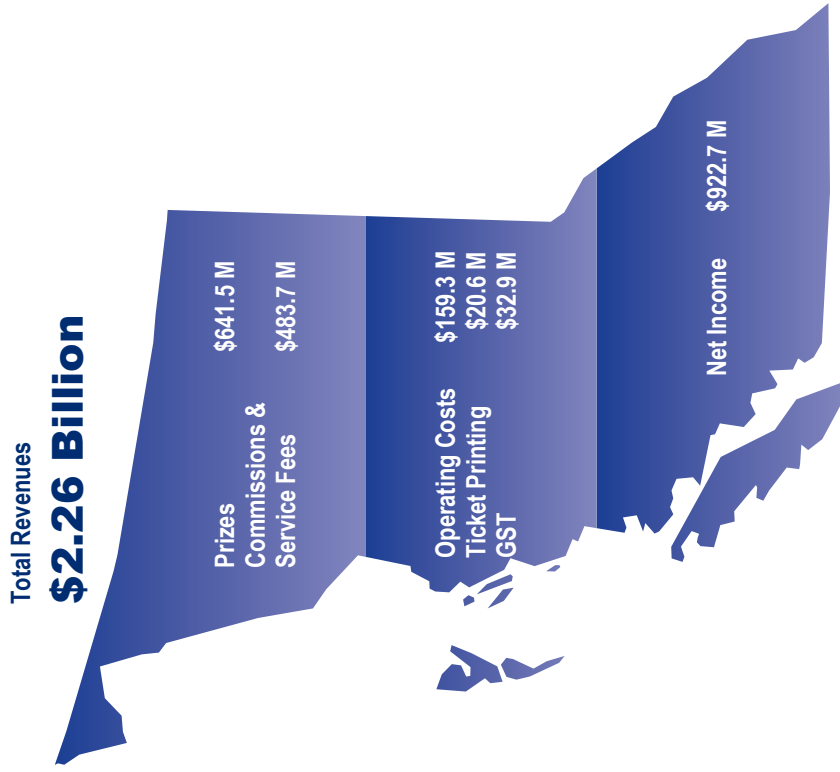
revenue generated. The Corporation also has contractual agreements with 29 commercial, independent and charitable bingo service providers who provide bingo facilities and day-to-day operational services, including bingo staffing, for a service fee based on sales revenue. The Corporation's operations and security staff oversee compliance by our service providers with contracts, policies and procedures and service levels established by the Corporation.

The consolidated financial statements of the Corporation include B.C. Lottotech International Inc., a wholly owned subsidiary of British Columbia Lottery Corporation. The primary purpose of B.C. Lottotech is to purchase capital assets for BCLC and there are no operational revenues or expenses. The management and oversight of Lottotech is consolidated with BCLC operations and the Board reviews and approves capital purchases through the budget process.

	LOTTERY	CASINO	BINGO	TOTAL
(\$ in millions)				
<b>Revenues</b>	\$967.4	\$1,085.3	\$208.0	<b>\$2,260.7</b>
<b>Net Income</b>	\$273.2	\$621.6	\$27.9	<b>\$922.7</b>
<b>Distribution Channels</b>	3,050 retail locations 1,350 bars and pubs PlayNow.com	16 commercial casinos 1 racetrack casino	24 commercial bingo halls 5 community gaming centres	
<b>Products</b>	Lottery games	Slot machines Table games Poker games	Paper bingo Electronic bingo Slot machines	

Source: Fiscal 2005/06 Annual Report

## Fiscal 2005/06 Financial Highlights



In fiscal 2005/06, BCLC made significant contributions to British Columbia communities and the Government of British Columbia. These benefits included \$641.5 million in prizes to British Columbians, \$483.7 in commissions and service fees paid to lottery, casino and bingo service providers, about \$180 million in the purchase of equipment, goods and service and \$922.7 million in net income to Government. Gaming has also created significant direct and indirect employment opportunities in British Columbia. It is estimated that the gaming industry is responsible for the direct employment of more than 10,000 people and investment of \$1 billion in property assets, pursuant to the service provider contracts established and managed by BCLC.

### Gaming Net Income and Distribution Fiscal 2005/06

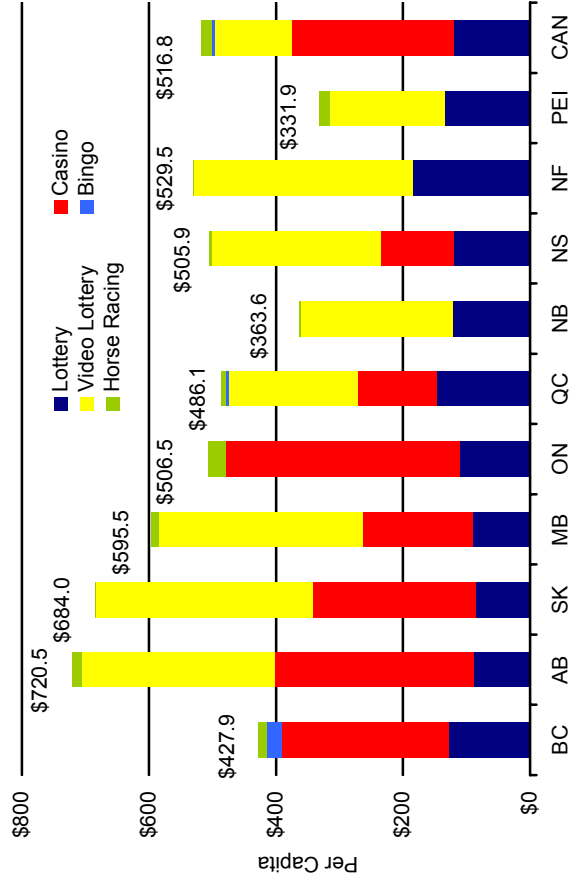
Sources of Net Income	\$ Millions
Lottery	\$ 273.2
Casino	621.6
Bingo	27.9
	<u>\$ 922.7</u>
<b>Distribution of Net Income</b>	
Government of British Columbia	\$ 556.4
Consolidated Revenue	147.3
Health Special Account	137.7
Charitable & community organizations	65.0
Host local governments	4.6
Horse racing purse enhancements	<u>3.4</u>
Development Assistance Compensation	
Government of Canada	\$ 914.4
	<u>8.3</u>
	<b>\$ 922.7</b>



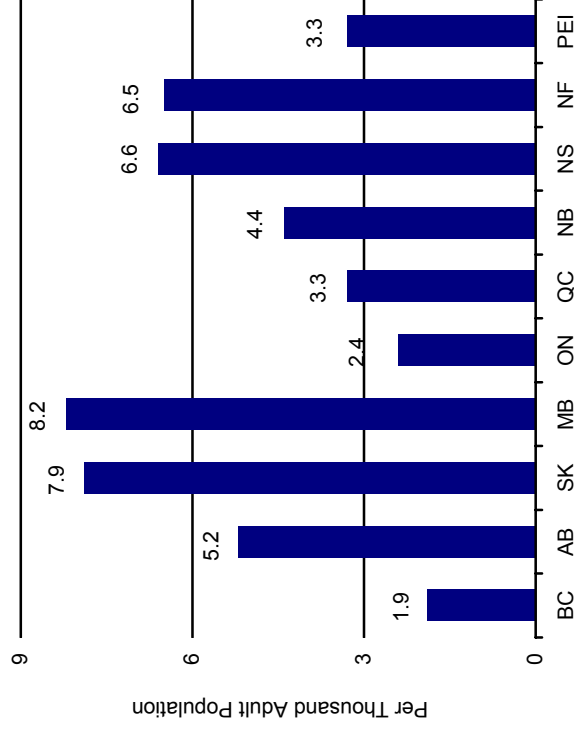
## Canadian Gaming Comparisons

In Canada, annual total gaming revenues are about \$15 billion. In the province of British Columbia, Government's gaming policy that promotes responsible play and the decision to prohibit the introduction of video lottery terminals from the marketplace has resulted in per capita gaming revenues that are lower than most other provinces in Canada. On a comparative basis, British Columbia ranks 8th in per capita gaming spend (sales less prizes). In addition, British Columbia has the lowest number of electronic gaming devices per thousand adult population of any province in Canada with the fewest locations where they can be played.

Canadian Provincial Gaming Spend Per Capita (March 31, 2005)



Electronic Gaming Devices (March 31, 2005)



Sources: Provincial Gaming Authority Annual Reports and Statistics Canada  
 \*Gaming spend is an industry standard measure that is defined as total sales minus prizes

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

### Authority

British Columbia's gaming industry is operated and regulated under the authority and direction of the Minister responsible for gaming, the Minister of Public Safety and Solicitor General.

### Governance Practices

Following an extensive review of its existing governance practices, and with the goal of adopting well-established best practices in corporate governance, BCLC's Board of Directors adopted a new governance framework in early 2003. This governance framework reflects the Corporation's mandate, vision, mission and strategic goals and includes terms of reference for the Board, Board Chair, President and Chief Executive Officer, Directors and all standing committees of the Board. The framework also includes operating guidelines for the Board and its committees, and describes processes for strategic planning, succession planning and Board performance evaluations.

Government is committed to achieving and maintaining exemplary standards of governance and has established a best practices governance and accountability model. In 2005, Government released Best Practice Guidelines – BC Governance and Disclosure Guidelines for Governing Boards of Public Sector Organizations. The guidelines establish broad provincial standards for board governance practices and provide for greater public accountability and transparency through standardized disclosure requirements.

BCLC complies with each of the disclosure requirements and is fully compliant with the standards and guidelines.

The Board continuously reviews and evaluates BCLC's governance framework with a view to maintaining good corporate governance practices that are aligned with the Corporation's business and consistent with Government's guiding principles for

corporate governance in Crown corporations. As part of its governance practice, the Board regularly evaluates its own performance with the objective of continuously improving performance and performing its oversight role in the most efficient and effective manner.

A key component of BCLC's governance framework is the Shareholder's Letter of Expectations, entered into between the Minister and the Corporation, which confirms the shared understanding of Government and BCLC on its corporate mandate, public policy issues, strategic priorities and performance expectations. The Shareholder's Letter of Expectations is reviewed and discussed with Government annually and updated as required.

## Board of Directors

The Board provides stewardship and ethical leadership by overseeing management of the Corporation's affairs with a view to the best interests of the Corporation and long-term interests of the shareholder, the Government of British Columbia.

In carrying out the mandate of the Board, each director is required to act in accordance with a fiduciary duty, duty of care and conflict of interest duty.

## Governance Principles of the Board

The guiding principles for Board Governance are:

- > Stewardship, leadership and effective functioning of the Board
- > Clarity of roles and responsibilities
- > Openness, trust and transparency
- > Service and corporate citizenship
- > Accountability and performance
- > Value, innovation and continuous improvement

## Board Members

Chair

John McLernon  
*Appointed December 9, 2005*

Vice Chair

Arthur Willms  
*Appointed September 26, 2001*

Directors

John Bell  
*Appointed September 26, 2001*

David Gillespie

*Appointed March 31, 2005*

D. Neil McDonnell

*Appointed April 23, 2002*

Tazeem Nathoo

*Appointed July 26, 2002*

Eric Sorensen

*Appointed December 8, 2005*

Kathy Stevenson

*Appointed April 23, 2002*

## Chair

The Chair is the presiding director and is responsible for the leadership and effective performance of the Board. The Chair is appointed by the Lieutenant-Governor in Council and is the liaison between the Board and the Minister responsible for BCLC.

## Board Committee Structure

Board committees are responsible for advising and formulating recommendations to the Board. From time to time, the Board of Directors may establish committees as needed.

Each committee chair is appointed by the Board and is responsible to report directly on the committee's deliberations, findings and recommendations.

## Standing Committees

Audit	Human Resources and Compensation	Senior Executive
<p>Chair Members</p> <p>Kathy Stevenson Arthur Willms, John Bell, David Gillespie</p> <ul style="list-style-type: none"> <li>&gt; Liaises between the external and internal auditors and the Board</li> <li>&gt; Oversees the review of the Corporation's financial operations by the external auditors and makes a recommendation to the Board with respect to approval of the audited financial statements</li> <li>&gt; Oversees the review of the Corporation's financial reporting, information systems, risk management and internal controls</li> </ul>	<p>Chair Members</p> <p>Tazeem Nathoo Neil McDonnell, Eric Sorensen</p> <ul style="list-style-type: none"> <li>&gt; Examines the Corporation's strategies and practices that relate to human resource and compensation matters, succession planning issues and provides advice on these matters to the Board for consideration</li> <li>&gt; Reports to the Board as a whole with respect to compliance with current Government directives and initiatives, including the Public Sector Employers' Council and the Crown Corporation Employers' Association</li> </ul>	<p>President and CEO</p> <p>Vic Poleschuk</p> <hr/> <p>Vice-Presidents</p> <p>Jay-Ann Fordy</p> <p>Kevin Gass</p> <p>Jim Lightbody</p> <p>Brian Lynch</p> <p>Scott Norman</p> <p>Doug Penrose</p> <p>Marsha Walden</p>
<p><b>Governance and Corporate Social Responsibility</b></p> <p>Chair Members</p> <p>David Gillespie Arthur Willms, Tazeem Nathoo</p> <ul style="list-style-type: none"> <li>&gt; Reviews the policies and practices of the Board and makes recommendations regarding Board effectiveness</li> <li>&gt; Examines and makes recommendations regarding good corporate governance practices throughout the Corporation</li> <li>&gt; Oversees corporate social responsibility programs</li> </ul>	<p><b>Marketing and Sponsorship</b></p> <p>Chair Members</p> <p>John Bell Neil McDonnell, Eric Sorensen</p> <ul style="list-style-type: none"> <li>&gt; Provides support to the Board during the strategic planning process with respect to the marketing components of the strategic plan</li> <li>&gt; Reviews the overall marketing and sponsorship strategies and guidelines that will govern the Corporation's role on brands, business units and sponsorships</li> <li>&gt; Monitors the Corporation's performance against the marketing strategies and guidelines</li> </ul>	<p>Human Resources and Organizational Development</p> <p>Corporate Communications and Marketing</p> <p>Lottery Gaming</p> <p>Casino Gaming</p> <p>Information Technology and Chief Information Officer</p> <p>Finance and Corporate Services</p> <p>Bingo Gaming</p>

## STRATEGIC CONTEXT

### PURPOSE

Benefiting British Columbians

### VISION

To be a player focused, publicly respected, performance-driven Corporation

### MISSION

To offer responsible gaming entertainment, generating income for the public good

### GOALS

1. To provide outstanding gaming entertainment, generating net income for the public good
2. To be a respected organization that has a broad base of public support
3. To have a workforce passionately driving the success of our business

### STRATEGIC INITIATIVES

1. Transform and reinvent the lotteries to a growth business
2. Develop eLottery as a viable business
3. Build casino and community gaming facilities to meet domestic demand and build long term tourism markets
4. Build public and stakeholder trust and support, including the communication of the beneficiaries of gaming revenues and responsible gaming programs
5. Build player participation and loyalty by providing a fun and entertaining gaming experience
6. Create a high performance culture

### VALUES

#### Integrity

The games that we offer and the ways we conduct business are fair, honest and trustworthy

#### Social Responsibility

Everything we do is done with consideration of its impact on the people and communities of British Columbia

#### Respect

Our workplace fosters openness, mutual respect and individual development

## PLANNING CONTEXT

Each year, BCLC analyzes the impact of external and internal environments on the ability to achieve our mission and goals. The purpose of this analysis is to identify key opportunities, risks, strengths and weaknesses that need to be addressed in strategies, operating plans and budgets.

### **Macro Trends – Scanning Ahead**

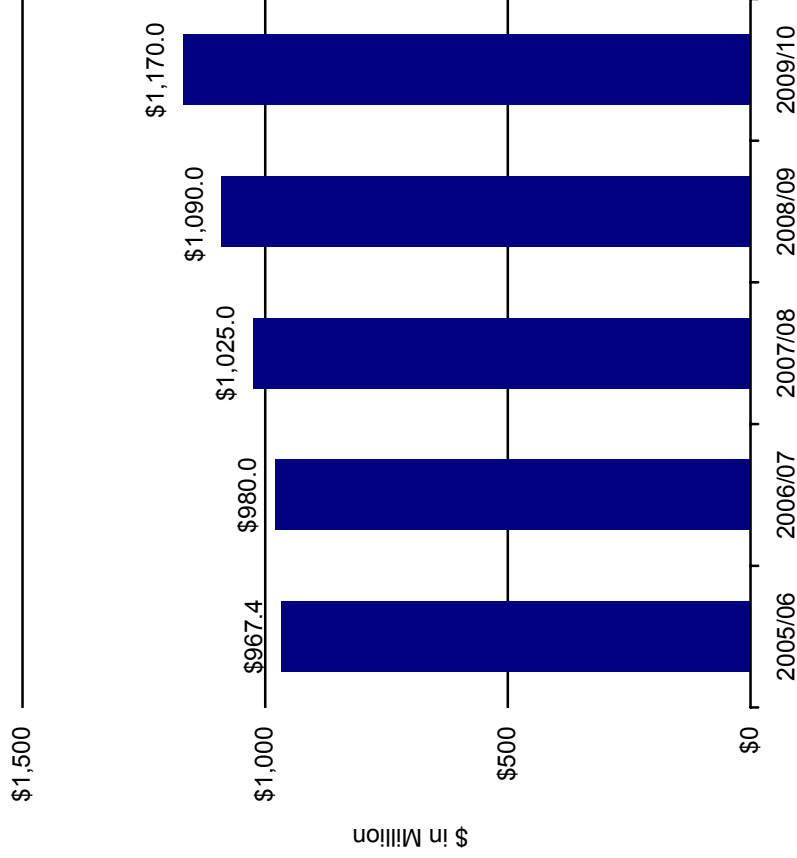
BCLC, like other major businesses, is experiencing significant changes in the environment and marketplace in which it operates. Rapidly evolving technology, increasing competition from both within and outside of British Columbia's borders, the Internet, changing demographics and changes in political and social attitudes are impacting how gaming is conducted and managed in British Columbia.

## External Risks and Opportunities

### Products and Markets

The Corporation markets three major forms of gaming entertainment in British Columbia — lottery, casino and bingo.

#### Lottery Revenues



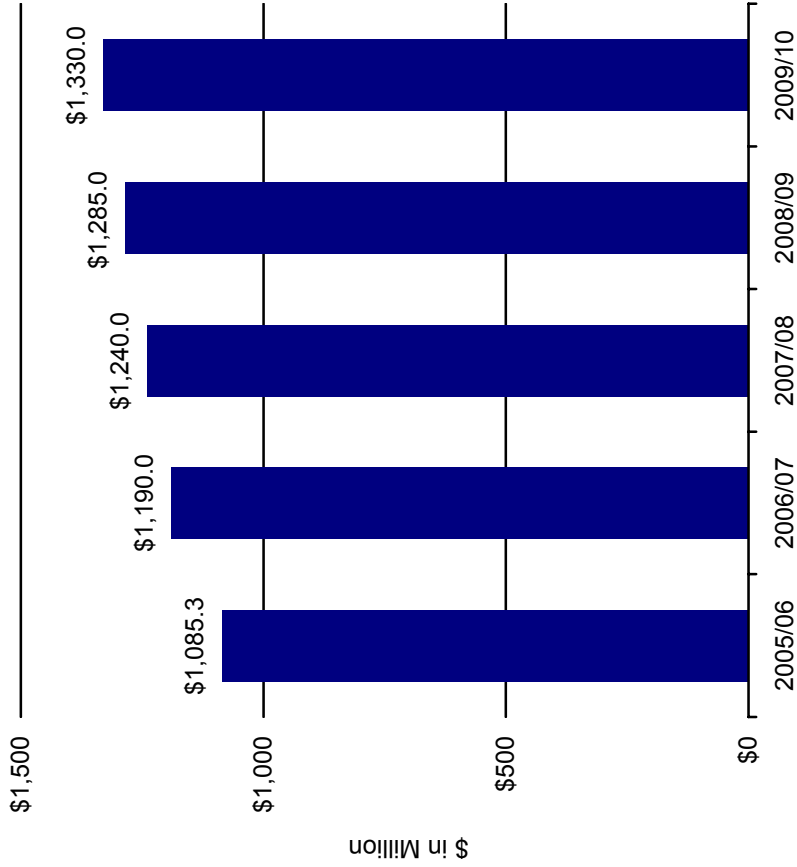
#### Lottery

Lotteries have been part of the retail market in British Columbia for more than 30 years. Changing demographics, a shift in consumer preferences, emerging and evolving distribution channels and a product line that has matured over the last several years have led to a flattening of sales growth. To address the changing business, BCLC identified the transformation and reinvention of the lottery business as a major strategic priority for the organization.

As a result of this strategic initiative, over the last several years BCLC has introduced various initiatives, including the introduction of a new eChannel, PlayNow, the introduction of new monitor-based games for the hospitality network, and the introduction of games linked to worthy causes that are important to British Columbians. The objective over the next few years will be to continue to introduce innovative new games that provide for a more exciting and entertaining player experience that increase player participation and revenue from this channel.

## External Risks and Opportunities

### Casino Revenues



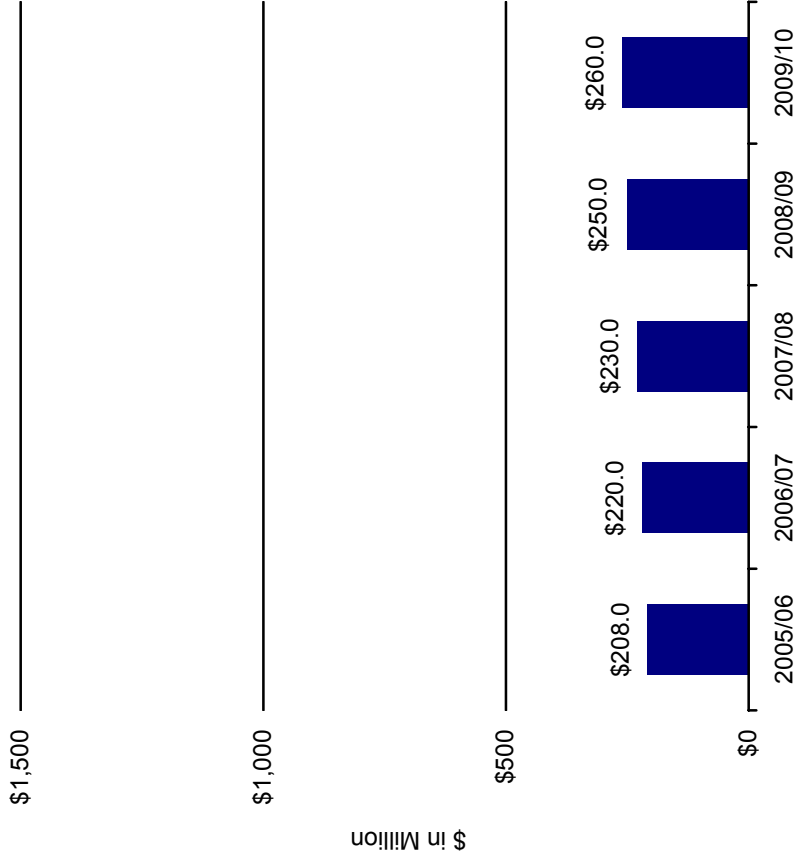
### Casino

Since BCLC assumed responsibility for casino games and the introduction of slot machines in the British Columbia marketplace in 1997, the casino business has experienced substantial growth. BCLC's primary strategic priority over the last few years has been to upgrade existing casino facilities with fewer, higher quality properties sized to fit the marketplace. This strategy has resulted in players experiencing a more diverse entertainment experience with major facilities offering resort-style accommodations, conference facilities, full-service restaurants and theatre-style show lounges. As BCLC looks forward, we will continue to develop casino properties that provide the player with exceptional entertainment and begin to position casino gaming as a major tourism attraction for out-of-province players.



## External Risks and Opportunities

### Bingo Revenue



### Bingo

Bingo, one of the oldest forms of gaming in British Columbia, has been steadily declining over the past decade. This decline has resulted from facilities that are perceived to be poor quality, unappealing and limited in entertainment value. BCLC is working with bingo service providers to transform bingo halls in key market locations to community gaming centres (CGCs) offering more entertaining products in better facilities that offer improved customer amenities. The introduction of slot machines into bingo halls in early 2004 has created an avenue through which bingo halls can transform into CGCs. In addition to slot machines, CGCs have included facility upgrades and have tested new products and other forms of entertainment.

## External Risks and Opportunities

### Consumers

The retail landscape is changing with an increasing prominence of eCommerce, consolidation within many retail sectors, an increasing variety of goods and services offered to the consumer, and convergence of distribution channels. More and more, consumers expect and seek out unique experiences from retailers. It is not just a product that is being sought; it is access to the right experience (in totality) of buying the product that will determine where people shop.

The hospitality landscape is also changing. Just as with retailers, those involved in the hospitality business must work harder to create total experiences for their customers and must adapt emerging technologies to meet the needs of consumers.

BCLC is addressing these changing consumer needs with the introduction of new innovative games and distribution channels for the lottery business and the development of casino and bingo facilities that provide a more complete entertainment experience for the player.

### Competition

Increasing competition for the discretionary dollars of British Columbians will continue to affect BCLC's business environment. Consumers are becoming more sophisticated and knowledgeable about their entertainment options. As the entertainment options for consumers continue to increase, delivering high entertainment value and building loyal customer relationships are increasingly important as competitive differentiators.

Competing lotteries and expanded gaming in neighbouring jurisdictions present new challenges. It is estimated that British Columbia loses about \$100 million annually to cross-border casinos offering a selection of food and beverage and entertainment facilities and progressive player card programs. Additionally, Internet gaming revenues are about \$12 billion (U.S.) worldwide and are estimated to grow to \$28 billion (U.S.) by 2012.

BCLC's product and distribution strategies are designed to compete with competitive gaming options and capitalize on revenue opportunities from emerging forms of entertainment.

## External Risks and Opportunities

### Technology

Rapidly evolving communication and entertainment technologies represent both risks and opportunities for BCLC. New technology can lead to new competition, additional costs and changing customer expectations. These new technologies can also provide for product development opportunities and operational efficiencies. Some of the emerging technologies that will impact BCLC and gaming include:

- > High-speed wireless connectivity is becoming the norm in major urban centres
- > eCommerce is becoming more prevalent
- > Significant gains in network bandwidth and storage capacity will facilitate a shift in entertainment to mobile devices
- > Entertainment is moving “home” with advanced home entertainment and media centres

BCLC will continue to identify and evaluate the most promising developments in technology and apply these to the business.

### Labour Force

British Columbia’s strong economic growth and record unemployment rate have increased the shortage of highly skilled people that businesses need to grow and expand. As the supply of available workers falls short of job growth, competition for employees will increase. With more than 10,000 people directly employed in the gaming industry in British Columbia, this will result in a significant challenge for BCLC and our service providers who operate gaming facilities on our behalf.

To address the growing competition for skilled employees, BCLC is strengthening program development in the following areas:

- > Leadership and management development
- > Career development
- > Employee recruitment
- > Work life balance
- > Competitive compensation
- > Succession planning
- > Workplace innovation and productivity

### Responsible Play

BCLC and Government recognize that while the revenue generated from gaming provides significant benefits for the province, it also can be harmful to individuals who are prone to problem gambling behaviours. Of the total adult population in British Columbia, it is estimated 96% do not have problems with gambling and most that choose to participate do so for social and recreational purposes. The balance, about 4% of the total adult population, has varying degrees of gambling problems. BCLC recognizes the need to ensure that problem gambling issues are addressed through public awareness, education, prevention and treatment programs. As a key component of BCLC’s mandate, we will continue to play a strong leadership role in ensuring that best practices problem gambling risk management strategies and programs are in place.

## External Risks and Opportunities

### Public Acceptance/Government Policy

The Government of British Columbia's gaming policy provides for moderate growth in revenues. BCLC's revenue and net income projections are based on this policy.

BCLC understands that without strong public acceptance and support, our business and revenue objectives are at risk. To maintain and build public acceptance, the public needs to know that gaming is offered in a socially responsible manner, that the revenue generated from gaming is put to good causes – whether that be for Government programs or charitable and community groups – and that the highest levels of integrity are maintained in our games, processes and people.

Recently, the rate of winning by lottery retailers has been challenged. We feel strongly that our lottery games and systems are secure. We are confident that the right prizes are being paid to the rightful holders of winning tickets. Retailer wins are subject to a high level of scrutiny and all consumer complaints with respect to prizes paid at retail are followed up by BCLC Corporate Security. We also believe that the overwhelming majority of nearly 50,000 retail stores clerks who sell and validate lottery products are providing a high level of quality services and integrity to our players.

But we need to make sure we continue to earn the trust and confidence that our players and public have in us. Two independent agencies, the Gaming Policy and Enforcement Branch and the Office of the British Columbia Ombudsman have been requested to complete reviews of our processes and practices in ensuring that the rightful prizes are paid to the rightful holders of winning lottery tickets. GPEB has just completed their review and the Office of the British Columbia Ombudsman's review is currently in process. We welcome both of these reviews and see them as an opportunity to both reassure the public and to further enhance our processes and practices where needed.

### Regulatory

Gaming in British Columbia is conducted and managed under the framework of the federal *Criminal Code* and the provincial *Gaming Control Act* and its regulations. BCLC operates within the strict statutory and regulatory guidelines as established by these two legislative documents.

The *Gaming Control Act* requires that BCLC consult with host local governments before any new casino or bingo gaming facility is introduced into a community. BCLC recognizes that building local community and stakeholder relationships are critical to achieving success for both BCLC and the local communities where gaming opportunities are being considered.

## **Internal Strengths and Weaknesses**

### **Organizational Capability**

The success of BCLC in the future will continue to depend on our people and strong leadership to promote a high-performance culture that values innovation, integrity, engagement and accountability. BCLC is currently able to leverage its strong gaming knowledge, expertise and skill advantage in the British Columbia entertainment marketplace.

However, as the market becomes increasingly competitive and complex, BCLC will need new skills and new competencies that will drive the success of new product and business opportunities. Immediate needs include ensuring that the right skills and culture are in place to meet business requirements for increased focus on the player, innovation and time to market.

External market shortages of leadership and technical skill are forecasted over the three-year planning period. BCLC needs to ensure that leading-edge work practices and competitive recruitment and compensation policies are in place to attract and retain the best and brightest leaders and experts to support the business agenda.

### **Financial Capacity**

BCLC has the financial capability to fund the capital and operating programs necessary to attain its business goals and objectives.

### **Innovation**

Similar to other organizations, the ability of BCLC to deliver new and exciting products to the marketplace is fundamental to our success. With consumer

preferences changing, BCLC needs to move away from “mass market” games to products and experiences that are tailored to individual needs. Developing innovative products that are player focused and delivering these products to the market quickly is a key requirement for BCLC as we move forward.

### **Distribution Channels**

BCLC is fortunate to have one of the strongest and most developed distribution channels in British Columbia. Through our network of more than 4,000 lottery retailers, 17 casinos and 29 commercial bingo halls and community gaming centres, our distribution channels are well situated from a geographic perspective to provide access to the British Columbia marketplace. More recently, BCLC has added a new eChannel, PlayNow, where consumers can purchase our lottery and Sports Action products. We will continue to develop our distribution channels to ensure players are provided with entertaining gaming experiences that are fun, convenient and socially responsible.

### **Integrity of Brands and Products**

BCLC has provided gaming entertainment products in the British Columbia marketplace for more than 30 years. Evolving from a lottery-only business, BCLC now offers a full range of gaming products including casinos, bingos and online gaming through PlayNow. Over this period, the Corporation has established high levels of product brand awareness and trust. This, combined with the fact that all profits from BCLC benefit British Columbians, provides a strong competitive advantage for BCLC brands.

## KEY STRATEGIC ISSUES

### Increased Competition

Competition for the consumer's discretionary entertainment dollar continues to increase.

New innovative products and channels will need to be developed, specifically in the lottery and bingo markets, in order to maintain and grow revenue.

### Public Support of Gaming

Public support of gaming has decreased based upon the concerns over the negative impacts of problem gambling and a lack of awareness of the beneficiaries of gaming funds.

Enhanced responsible gambling and prevention programs and enhanced proactive communications to communicate both responsible gambling initiatives and beneficiary programs are required.

### Labour Market

The gaming industry employs more than 10,000 people in British Columbia. It is expected that the need for labour will continue to increase over the next five years and that the industry will have more difficulty in competing to attract and retain the "best" service-oriented staff.

## **ENTERPRISE-WIDE RISK MANAGEMENT**

BCLC faces risks specific to its business that could significantly impact its ability to achieve the short and long term goals of this Service Plan. While risks cannot be eliminated, BCLC's strategies aim to minimize or mitigate them.

### **BCLC's Approach to Managing Risk**

BCLC has initiated a formal Enterprise Risk Management process that will be applied to the day-to-day business activities as well as to strategic initiatives and specific projects. Strategic risk identification has occurred through an initial senior management assessment and will be a key factor in planning and resource allocation sessions. An enterprise Risk Manager supports the Enterprise Risk Management process by focussing on education, accountability, and corporate wide coordination.

Major corporate risks and the mitigation strategies for each of these risks are included in the following pages:

## MARKET SUSTAINMENT AND DEVELOPMENT RISK

To remain competitive, BCLC must continually adapt to changes in the marketplace. The continuing development of innovative new games and delivering an exciting and fun gaming entertainment experience to the player will be critical in our ability to maintain and grow revenue.

## MITIGATION STRATEGIES

The gaming industry is particularly vulnerable to these risks, as the player demand for traditional products decreases while the availability of other entertainment options increases. BCLC has concentrated its efforts in this regard on new product innovation, balanced with social responsibility.

To address this risk BCLC has developed four key strategies:

1. To transform and reinvent the lottery business through the development of new innovative games and distribution channels
  2. To develop eLottery as a viable business including the introduction of PlayNow, an online gaming channel that offers existing products and new innovative games.
  3. To build casino and community gaming facilities to meet domestic demand and build long term markets. The continuing upgrading of existing casino properties and the replacement of old bingo halls with new, higher entertainment gaming centres are examples of initiatives that support this strategy.
  4. To build player participation and loyalty by providing a fun and entertaining gaming experience. New innovative games and facility development that focus on the total player entertainment experience are examples of initiatives that support this strategy.
-



## **PUBLIC ACCEPTANCE RISK**

Without strong public support and acceptance, the BCLC's ability to achieve its business and revenue objectives are at risk. Given that public policy often follows public opinion, an event that breaches the public trust could directly impact the operational programs supporting the Corporation's strategic initiatives.

For the Corporation to build and maintain public trust, it is important that there is a high level of public awareness that games are offered in a socially responsible manner, that there are problem gambling prevention and treatment programs for those at risk, and that the revenue generated from gaming is directed to key Government programs that benefit all British Columbians.

## **MITIGATION STRATEGIES**

BCLC mitigates the likelihood and impact of such events through our strong focus on integrity in our products, highly regulated facilities and continued development of industry practices that promote responsible play. We are committed to taking immediate action against breaches to assure British Columbians that gaming in British Columbia remains a secure and safe entertainment option. To build and maintain public trust BCLC will continue to implement strategies that support responsible gaming, problem gambling prevention and treatment, and public awareness and transparency of how gaming revenues are spent to benefit British Columbians.

## **SKILLS AND CAPACITY RISK**

Significant changes in the labour market such as shifting workforce demographics or the availability of technical skills adversely affect the Corporation's ability to attract and retain highly skilled and motivated employees.

## **MITIGATION STRATEGIES**

BCLC has recognized that having a flexible, adaptable workforce to meet the needs of our players and our shareholders requires employees to be motivated to continually learn and keep up with the pace of change, develop new skills, acquire new knowledge, continuously improve business processes and seek out new markets/products. As a technology-reliant organization, we recognize the need to focus on building our resources to meet the needs of our business.

## HOST LOCAL GOVERNMENT APPROVALS

The *Gaming Control Act* requires that BCLC consult with host local governments before any new casino or bingo gaming facility is introduced into a community. BCLC recognizes that building local community and stakeholder relationships are critical to achieving success for both BCLC and the local communities where gaming opportunities are being considered.

## MITIGATION STRATEGIES

BCLC has developed extensive consultation and relocation processes to ensure host local governments, key stakeholders and communities have the information to make informed decisions.

## CAPACITY/TECHNOLOGY

With the addition of casino and bingo gaming to BCLC's mandate, both the size and complexity of the business has grown.

## MITIGATION STRATEGIES

BCLC has developed internal resources and recruited outside expertise to manage the growth of the business. BCLC has also made major investments in its technology infrastructure to provide the required capacity, integrity and controls to manage the business.

## PROVINCIAL SMOKING BAN

In November 2006, the Government of British Columbia announced that by 2008, smoking will be banned in all indoor public places in British Columbia. While BCLC is fully supportive of this Government announcement, it is anticipated there will be some financial impact on the gaming revenues generated by the Corporation. While it is difficult to estimate the impact on gaming revenues, in other provinces where smoking bans have been introduced, reductions in gaming revenues have been significant.

## MITIGATION STRATEGIES

BCLC will conduct further research on experiences in other jurisdictions and will work closely with our lottery retailers and casino and bingo service providers to implement strategies to minimize the impact of a smoking ban on gaming revenues.

## GOALS, STRATEGIES, PERFORMANCE MEASURES AND TARGETS

### Review Process

Within the overall framework of Government gaming policy and BCLC's vision and mission statements, BCLC's Board and senior management have established three strategic goals to guide the organization in the achievement of its mandate.

1. To provide outstanding gaming entertainment generating net income for the public good.
2. To be a respected organization that has a broad base of public support.
3. To have a workforce passionately driving the success of our business.

To manage and direct performance against each of these goals, BCLC has established specific strategies with associated performance measures and targets. These goals, strategies and performance measures form the framework that guides planning and decision making at all levels of the organization.

Although there are numerous performance indicators utilized by BCLC to manage and measure performance in the organization, 11 have been selected by the Board and senior management that are considered the most relevant in measuring progress against the strategic goals.

In selecting these performance measures, the Board and senior management considered the following key factors:

- > Relevancy of performance measures against BCLC's strategic goals
- > Validity of the indicators (Do they measure what they are intended to measure?)

### Availability and Reliability of Data

The data for BCLC's performance targets are obtained from both internal and external sources. Results associated with BCLC's financial measures (revenue and net income) are obtained from the Corporation's audited financial statements. Other financial measures, including the Corporation's operating cost ratio and staffing numbers are obtained from internal management reports. Performance data associated with BCLC's public trust and organizational health measures (public support of gaming and BCLC, responsible gaming, beneficiaries of gaming, employee engagement) are provided by independent research agencies that utilize statistical sampling methodologies that provides information that can be relied upon with a high level of confidence.

### Setting Annual Targets

With input from Government and in consultation with our Board of Directors and other key stakeholders, BCLC establishes our performance targets each year. BCLC's performance targets are dependent on the Government's gaming policy that balances revenue generation with responsible play. BCLC also operates in a highly competitive market place competing for the discretionary entertainment dollar. This marketplace reality, along with other external and internal factors, is considered in setting performance targets.

### Changes from the Previous Year

There have been no substantive changes to BCLC's vision, mission or strategic goals. The number of BCLC's key strategies has been reduced from seven to six and include some refinement and change in wording. Some of BCLC's performance measure targets have been revised to reflect current market conditions, actual results and the most current information available.

2006/07 – 2008/09 SERVICE PLAN	2007/08 – 2009/10 SERVICE PLAN	COMMENTS
Transform and reinvent lotteries to a growth business	Transform and reinvent lotteries to a growth business	No change
Develop a viable eLottery Business	Develop eLottery as a viable business	No change
Develop a viable community gaming centre model		With a viable model for community gaming centres in place, this strategy is no longer required.
	Build casino and community gaming facilities to meet domestic demand and build long term tourism markets	New strategy
Build player participation and loyalty by providing a fun and entertaining gaming experience	Build player participation and loyalty by providing a fun and entertaining gaming experience	No change
Grow our business through innovative product development		This strategy forms part of lottery, eLottery, casino and community gaming centre strategies and therefore a separate strategy for innovation is no longer required.
Build public and stakeholder trust/support including the communication of the beneficiaries of gaming revenues and responsible gaming programs	Build public and stakeholder trust/support including the communication of the beneficiaries of gaming revenues and responsible gaming programs	No change
Instill a high-performance culture through strong leadership, innovation, employee development and engagement.	Create a high-performance culture	Wording simplified

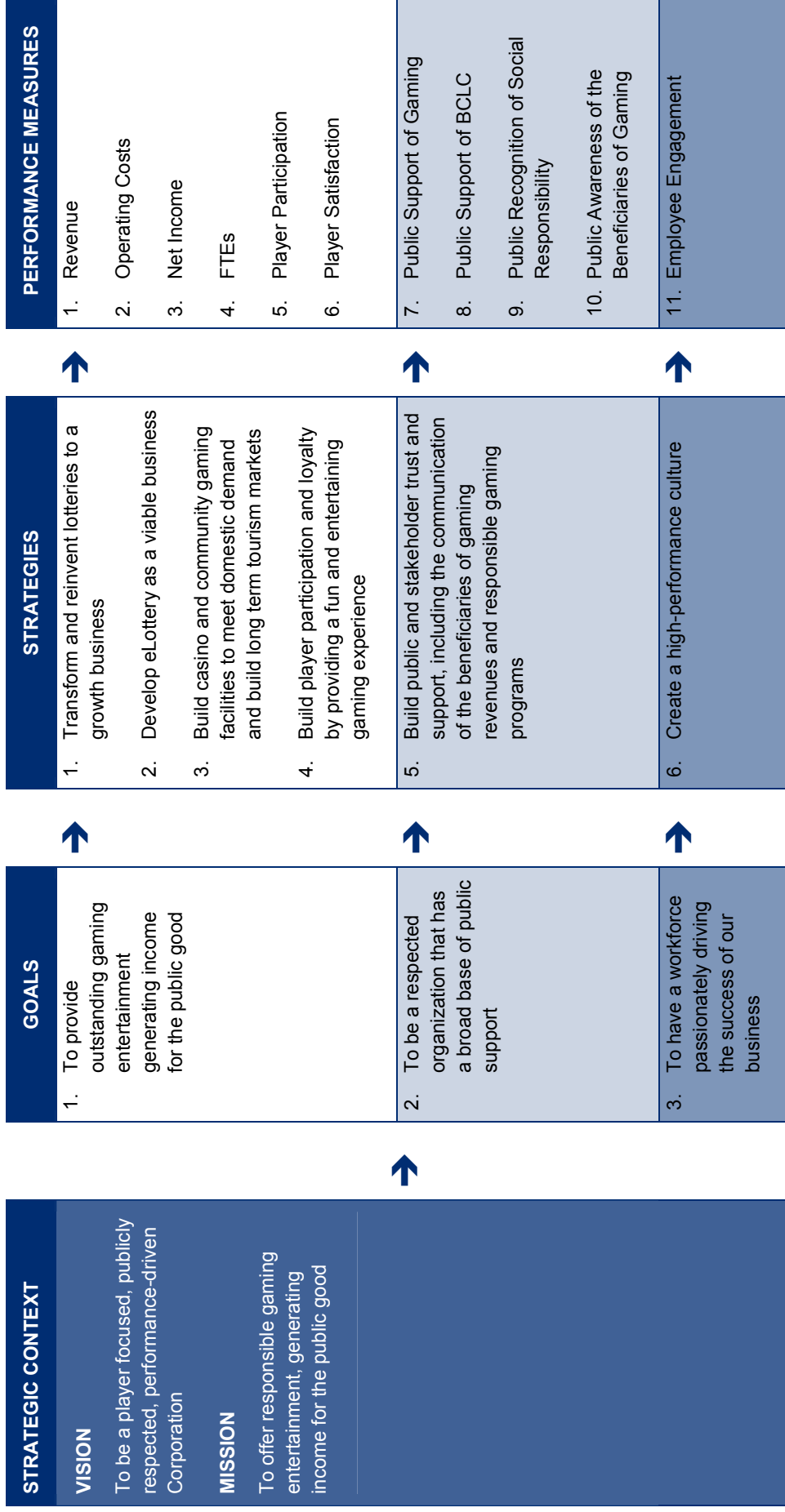
### Performance Measure Changes

BCLC's Board and senior management review each of the performance measures and the associated targets on an annual basis. Based on current market conditions, actual results and the most current survey information available, performance targets are revised to reflect the Board and senior management's best estimates.

PERFORMANCE MEASURE	2007/08	2008/09	COMMENTS
<b>Revenue (\$ in millions)</b>			
2006/07 – 2008/09 Service Plan	\$2,465	\$2,625	Revenue targets revised to reflect stronger growth in casino and the slower than planned transformation of the lottery and bingo markets
2007/08 – 2009/10 Service Plan	\$2,495	\$2,625	
<b>Operating Cost %</b>			
2006/07 – 2008/09 Service Plan	4.6%	4.5%	No change
2007/08 – 2009/10 Service Plan	4.6%	4.5%	
<b>Net Income (\$ in millions)</b>			
2006/07 – 2008/09 Service Plan	\$980.0	\$1,035	Net income projections revised upward reflecting a shift in product mix to higher contribution casino games
2007/08 – 2009/10 Service Plan	\$1,033	\$1,087	
<b>FTEs</b>			
2006/07 – 2008/09 Service Plan	612	625	BCLC's staffing requirements have been increased to meet resource needs resulting from growth in the business.
2007/08 – 2009/10 Service Plan	625	650	
<b>Player Participation</b>			
2006/07 – 2008/09 Service Plan	67%	67%	No change
2007/08 – 2009/10 Service Plan	67%	67%	
<b>Player Satisfaction</b>			
2006/07 – 2008/09 Service Plan	88%	90%	No change
2007/08 – 2009/10 Service Plan	88%	90%	
<b>Public Support of Gaming</b>			
2006/07 – 2008/09 Service Plan	55%	55%	Public support ratings revised to reflect general trends in gaming acceptance in British Columbia and across Canada
2007/08 – 2009/10 Service Plan	52%	52%	

PERFORMANCE MEASURE	2007/08	2008/09	COMMENTS
<b>Public Support of BCLC</b> 2006/07 – 2008/09 Service Plan 2007/08 – 2009/10 Service Plan	70% 65%	70% 65%	BCLC support ratings revised to reflect most current data
<b>Public Recognition of Social Responsibility</b> 2006/07 – 2008/09 Service Plan 2007/08 – 2009/10 Service Plan	58% 56%	60% 56%	Public recognition ratings revised to reflect most current data
<b>Public Awareness of the Beneficiaries of Gaming</b> 2006/07 – 2008/09 Service Plan 2007/08 – 2009/10 Service Plan	35% 35%	40% 40%	No change
<b>Employee Engagement</b> 2006/07 – 2008/09 Service Plan 2007/08 – 2009/10 Service Plan	80% 60%	80% 65%	Employee engagement ratings revised to reflect results from most current employee engagement survey

## Alignment of Vision, Mission, Goals, Strategies and Performance Measures



## GOALS, STRATEGIES, AND PERFORMANCE MEASURES

### Goal #1: To Provide Outstanding Gaming Entertainment Generating Net Income for the Public Good

STRATEGIES	
1.	Transform and reinvent lotteries to a growth business
2.	Develop eLottery as a viable business
3.	Build casino and community gaming facilities to meet domestic demand and build long-term tourism markets
4.	Build player participation and loyalty by providing a fun and entertaining gaming experience

PERFORMANCE MEASURES	FISCAL 2005/06	FISCAL 2006/07	FISCAL 2007/08	FISCAL 2008/09	FISCAL 2009/10
	ACTUAL	PROJECTIONS	TARGETS	TARGETS	TARGETS
<b>Revenue (in millions)</b>					
Lottery	\$967.4	\$980.0	\$1,025.0	\$1,090.0	\$1,170.0
Casino	1,085.3	1,190.0	1,240.0	1,285.0	1,330.0
Bingo	208.0	220.0	230.0	250.0	260.0
Total	\$2,260.7	\$2,390.0	\$2,495.0	\$2,625.0	\$2,760.0
Operating Cost Ratio	4.5%	4.6%	4.6%	4.5%	4.5%
<b>Net Income (in millions)</b>					
Lottery	\$273.2	\$276.1	\$287.5	\$305.8	\$330.4
Casino	621.6	676.5	701.3	726.5	749.5
Bingo	27.9	36.4	44.2	54.7	62.1
Total	\$922.7	\$989.0	\$1,033.0	\$1,087.0	\$1,142.0
FTEs	575	590	625	650	650
Player Participation	61%	65%	67%	67%	68%
Player Satisfaction	84%	84%	88%	90%	90%



The achievement of BCLC's goal to provide outstanding gaming entertainment generating net income for the public good is supported by four strategies:

1. **Transform and reinvent lotteries to a growth business** – The lottery business represents a mature market and revenues have been relatively flat over the last few years. BCLC has begun to address the current market situation through the introduction of new, innovative and entertaining games. Examples of recent product innovations include the introduction of SportsFunder, a suite of games that support amateur sports in British Columbia and the introduction of a new monitor-style game in bars and pubs, Pacific Hold'em Poker.
2. **Develop eLottery as a viable business** – The introduction of PlayNow, our online gaming channel represents a major strategic initiative for BCLC. Introduced in 2004, sales from this channel have increased from just more than \$5 million in the first full year of operation to a projected \$13 million in fiscal 2006/07. Through this channel, BCLC offers various games including Lotto, Sports, Keno and Interactives, an electronic version of our Scratch & Win games. Along with new product development, BCLC has built "best of practice" responsible play controls into PlayNow, including age and residency verification, spending limits and self-exclusion.

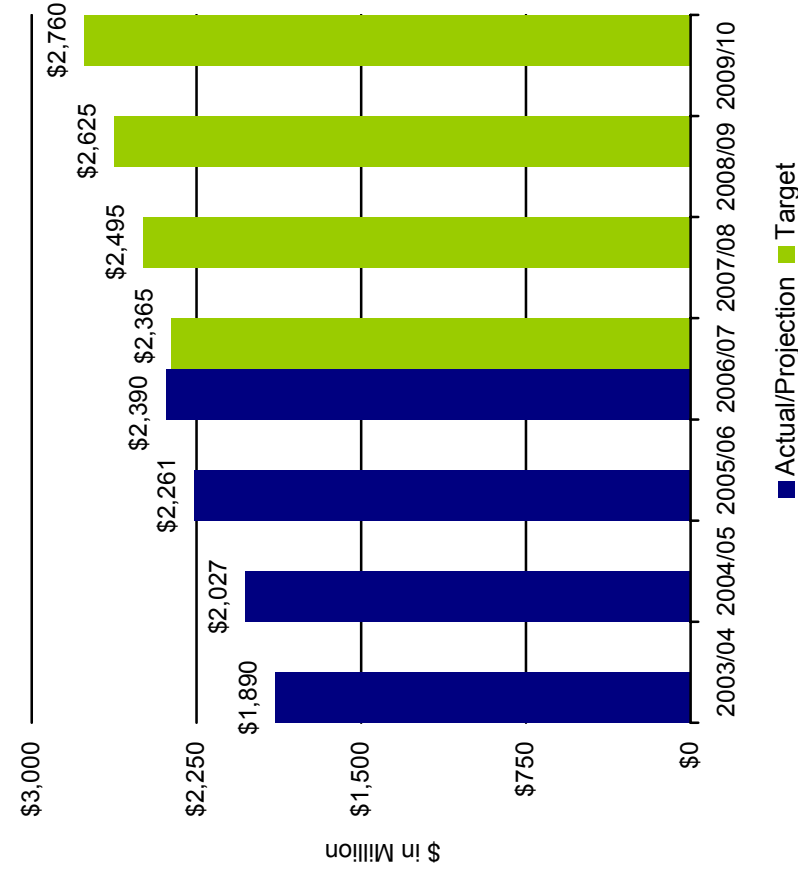
3. **Build casino and community gaming facilities to meet domestic demand and build long term tourism markets** – BCLC assumed responsibility for casino gaming in British Columbia in 1998. Over this period, casino revenues have increased from \$308 million to just over \$1 billion in 2005/06. A major strategy for BCLC has and continues to be to upgrade the quality of casino facilities and to improve the entertainment experience offered to players. An example of this is the River Rock Casino where, in addition to casino gaming, the property includes a five-star hotel, conference facilities, a range of dining experiences and a theatre-style show lounge. The ability of BCLC to offer this

level of gaming experience is made possible through our partnership with our service providers who operate 17 casinos in British Columbia. With several high-quality casinos now operational in British Columbia, BCLC will begin to develop the out-of-province tourism market.

For more than a decade, the bingo business has been in decline throughout North America. In order to remain viable, the bingo business must reinvent itself. Competition in the gaming business is fierce and innovation in the entertainment industry is far outpacing any changes introduced in the bingo world in the past decade. BCLC has managed the marketplace by rationalizing the number and location of gaming facilities. Through the introduction of Community Gaming Centres with slot machines, BCLC in conjunction with our service providers are delivering new facilities with improved aesthetics and amenities, while providing improved service and entertainment value for existing and new players. The transformation of bingo halls in key market locations to Community Gaming Centres, in partnership with our service providers, will help ensure the long term viability of the bingo industry.

4. **Build player participation and loyalty by providing a fun and entertaining gaming experience** – In 2006, just more than 60% of adult British Columbians participated in some form of gaming. To maintain and grow this player base, BCLC must provide the player with innovative and entertaining products; high-quality gaming facilities and outstanding customer service. The development of new casino facilities including the River Rock, Cascade and Boulevard casinos with amenities such as fine dining and show theatres, delivers on the promise of an entertaining gaming experience. In the hospitality network, new innovative lottery games such as Pacific Hold'em Poker are providing more entertainment value for our players.

### Key Performance Measure 1: Revenue Generation

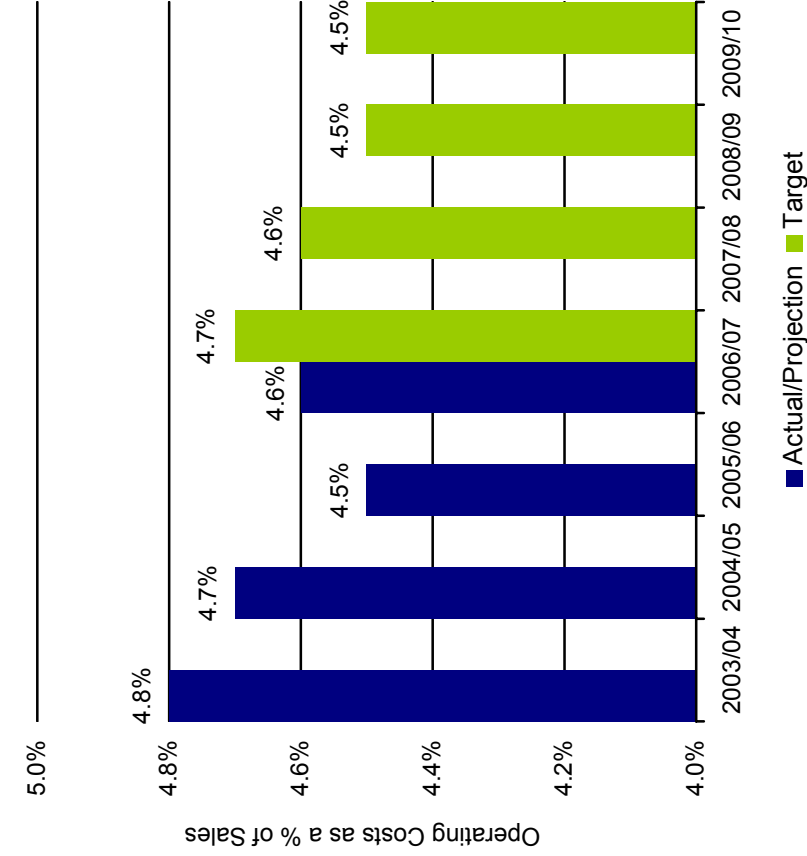


#### Importance

This performance indicator measures the Corporation's total revenues as reported in our consolidated financial statements. This measure is directly linked to BCLC's mission of offering responsible gaming and our goal of generating net income for the public good. Success is indicated in our ability to achieve or exceed our revenue targets while offering entertaining and socially responsible products to the player. For every dollar of revenue generated by BCLC, on average 40 cents is distributed to the province to support key Government programs and charitable and community organizations throughout British Columbia.

Over the next three years, revenues are projected to increase from \$2.390 billion to \$2.760 billion, an increase of \$370 million or 15.5%. This growth will be achieved through the introduction of new innovative lottery products, continuing enhancements to our eLottery channel, PlayNow, and the continuing development of our casino and bingo facilities to provide improved levels of player entertainment.

## Key Performance Measure 2: Operating Cost Ratio

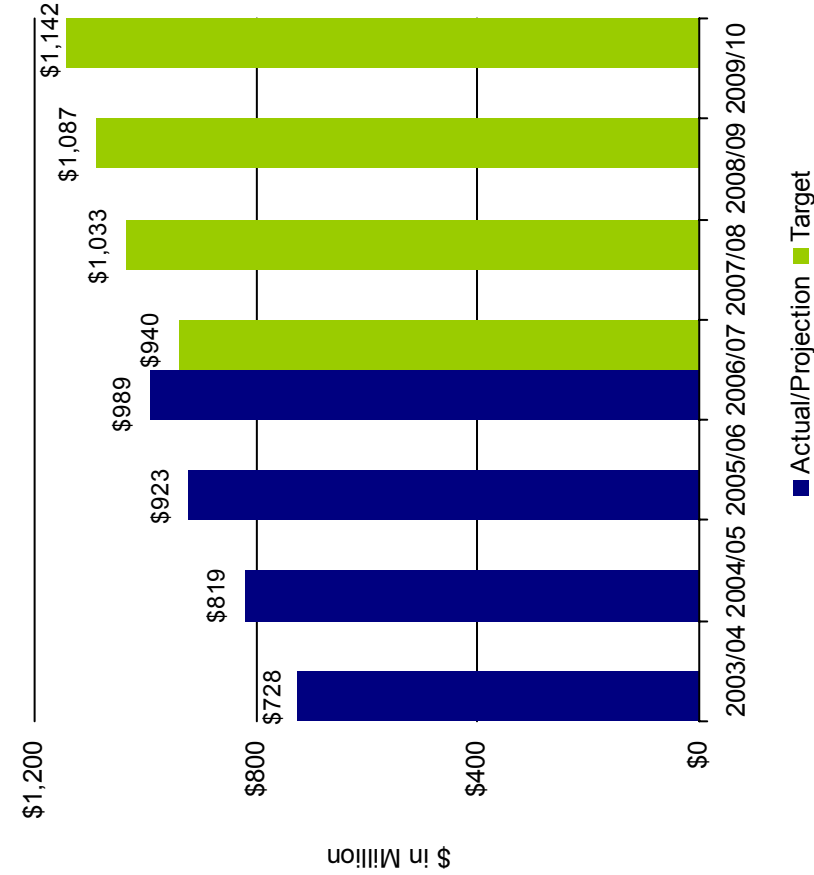


### Importance

This performance indicator measures the ratio of operating costs as a percentage of total revenues. Operating costs include all costs excluding direct costs, amortization, other expenses and taxes. This measure is important as it directly impacts our ability to generate net income for the public good. An increase or decrease of .1% in operating costs impacts our bottom line by approximately \$2.5 million.

Since fiscal 2000/01, BCLC has been successful in reducing operating costs as a percentage of revenues from 5.7% to 4.6% in fiscal 2006/07. BCLC will continue to utilize technology and implement best practices to ensure the organization is as effective and efficient as possible. It is our goal to reduce operating costs to 4.5% of revenues by fiscal 2008/09.

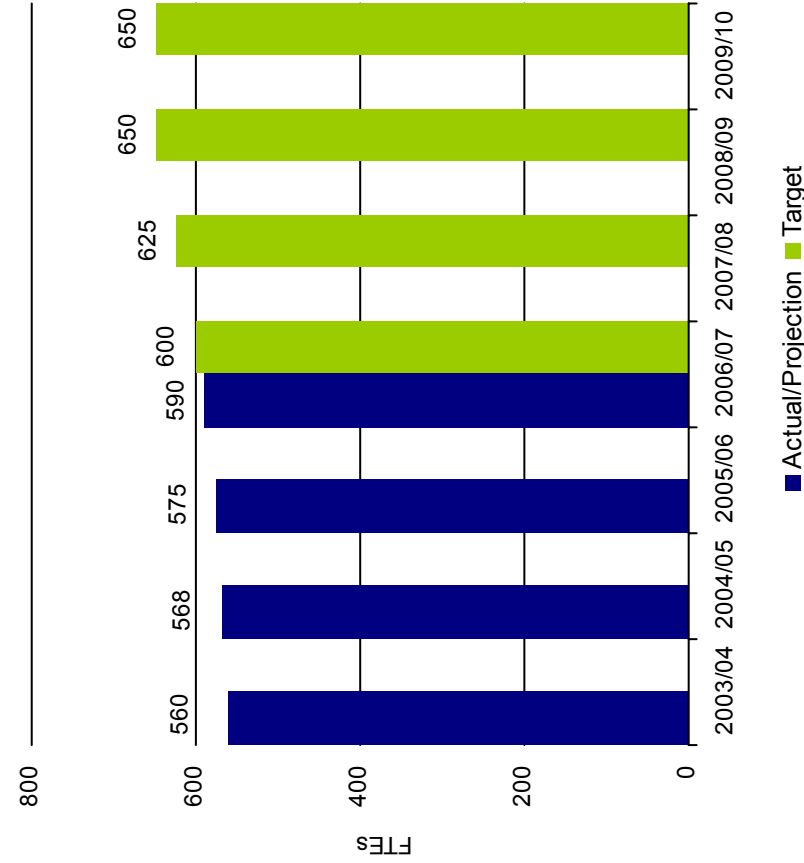
**Key Performance Measure 3: Net Income**



**Importance**

This performance indicator measures net income as recorded in BCLC's consolidated financial statements. This measure is directly linked to our goal of generating income for the public good. Over the next three-year period, net income is projected to increase from \$989 million to \$1,142 billion, an increase of \$153 million or 15.5%. BCLC's strategies to transform and reinvent the lottery business to a growth business, the continuing development of eLottery as a viable business, the continued development and build out of casinos and community gaming centres to meet domestic demand and build long term tourism markets and building player participation and loyalty by providing a fun and entertaining gaming experience all support the achievement of this measure.

**Key Performance Measure 4: Full Time Equivalents**



**Importance**

This performance indicator measures the number of full-time equivalents (FTEs) employed by BCLC. This is an important measure for the organization for two reasons. Firstly, at roughly 45% of our general operating costs, employee salaries and benefits represent BCLC's largest expenditure. Secondly and more importantly, it is only through the efforts of our employees that BCLC is able to achieve its goals and objectives.

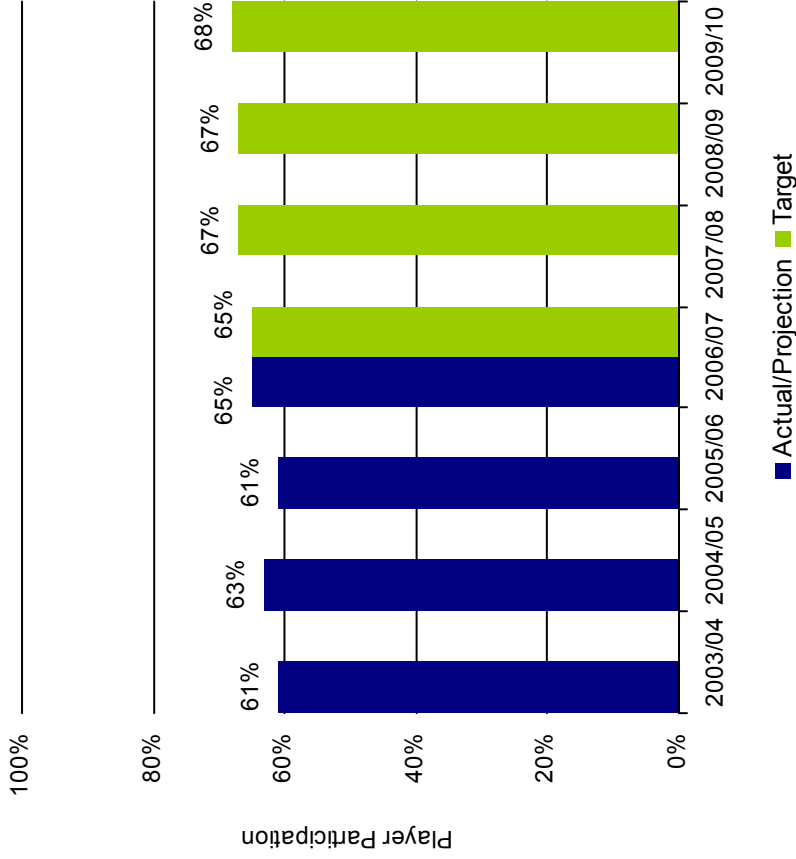
Over the next three years, FTEs are projected to increase from 590 to 650. This increase reflects the growing size and complexity of BCLC's gaming business. Our employees are responsible for the conduct and management of the gaming industry in British Columbia that employs more than 10,000 people through our lottery, casino and bingo service providers. The increase in number of FTEs represents additional field staff to support new refurbished casinos and community gaming centres which are projected to come on stream during the planning period.

### Key Performance Measure 5: Player Participation

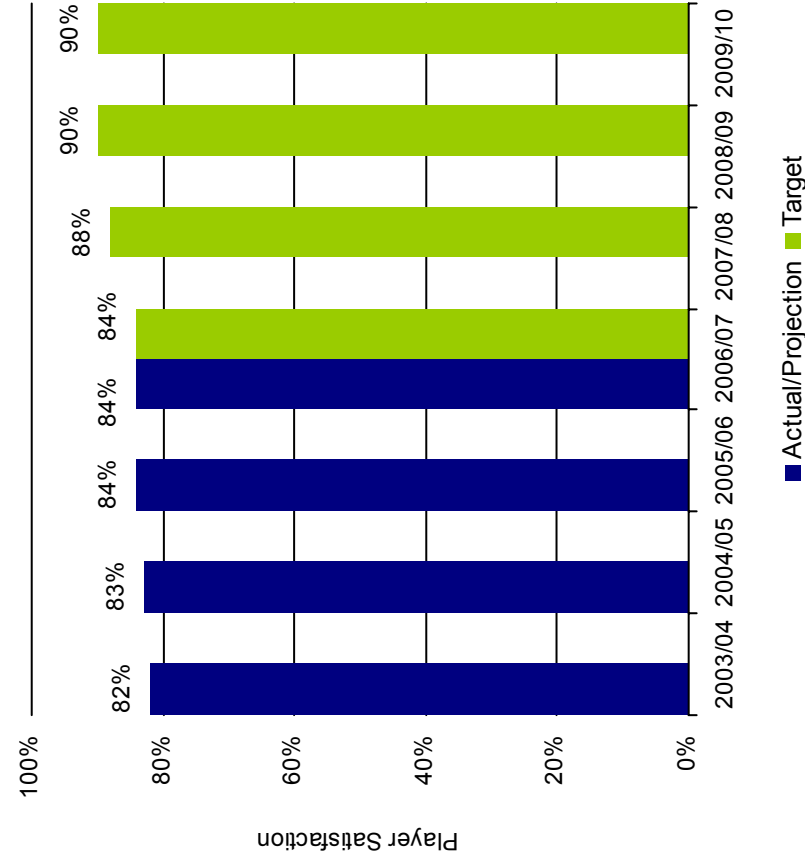
#### Importance

This performance indicator measures the gaming participation rate of British Columbia adult residents who have played a lottery game or visited a bingo or casino facility in British Columbia in the past month. Within the framework of Government policy, it is BCLC's objective to achieve a high level of public participation while emphasizing responsible play. This measure relates to the strategy of building player participation and loyalty by providing a fun and entertaining gaming experience.

Over the next three-year period, it is BCLC's objective to increase player participation from 65% to 68%. New innovative products and high-quality gaming facilities are aimed at increasing public participation by providing games and entertainment that appeal to new players, while maintaining our existing player base.



### Key Performance Measure 6: Player Satisfaction



#### Importance

This performance indicator measures player satisfaction for the games and gaming facilities offered through the lottery, casino and bingo gaming channels. This performance measure is directly linked to our goal to provide outstanding gaming entertainment and is a key factor in our ability to generate net income for the public good.

Player satisfaction has been maintained in the 80% range over the last several years. Through innovative product development and continuing improvement in our gaming facilities, it is our objective to increase player satisfaction to 90% by fiscal 2008/09.

## Goal #2: To be a Respected Organization that has a Broad Base of Public Support

### STRATEGIES

- Build public and stakeholder trust and support, including the communication of the beneficiaries of gaming revenues and responsible gaming programs

PERFORMANCE MEASURES (%)	FISCAL 2005/06 ACTUAL	FISCAL 2006/07 PROJECTIONS	FISCAL 2007/08 TARGETS	FISCAL 2008/09 TARGETS	FISCAL 2009/10 TARGETS
Public Support of Gaming	51	52	52	52	52
Public Support of BCLC	67	65	65	65	65
Public Recognition of Social Responsibility	56	56	56	56	56
Public Awareness of Beneficiaries of Gaming	36	32	35	40	40

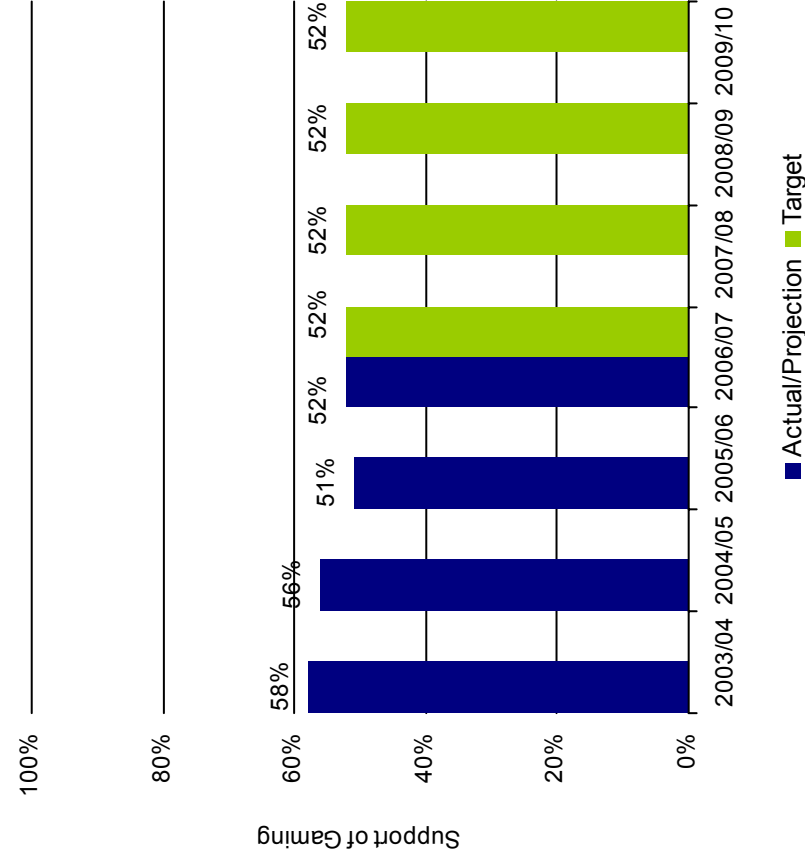
BCLC's success in the marketplace is dependent on public support. BCLC measures public support through four key measures: public support of gaming; public support of BCLC; public recognition of social responsibility; and public awareness of beneficiaries of gaming.

The achievement of BCLC's goal to be a respected organization that has a broad base of public support is supported by the following initiatives:

- > Increase the public's awareness of the beneficiaries of gaming revenues. This will be accomplished through public communication programs.
- > In partnership with GPEB, execute best practice responsible gambling programs including:
  - Continue the three-year responsible gambling strategic plan
  - Expand the British Columbia Partnership for Responsible Gambling
  - Expand responsible play information centres
  - Enhance youth prevention initiatives
  - Continue responsible gambling training with frontline gaming workers
- > Maintain, improve and protect the integrity of our games, services and business operations



### Key Performance Measure 7: Public Support of Gaming



#### Importance

This performance indicator measures the percentage of adults in British Columbia who have a favourable impression of how gaming is managed and conducted in British Columbia. Gaming in Canada is inherently controversial. With increasing levels of gaming, continuing concerns over the impacts of problem gambling in local communities and a lack of awareness of how gaming revenues are spent, public acceptance for gaming in British Columbia and across Canada has been declining for a number of years.

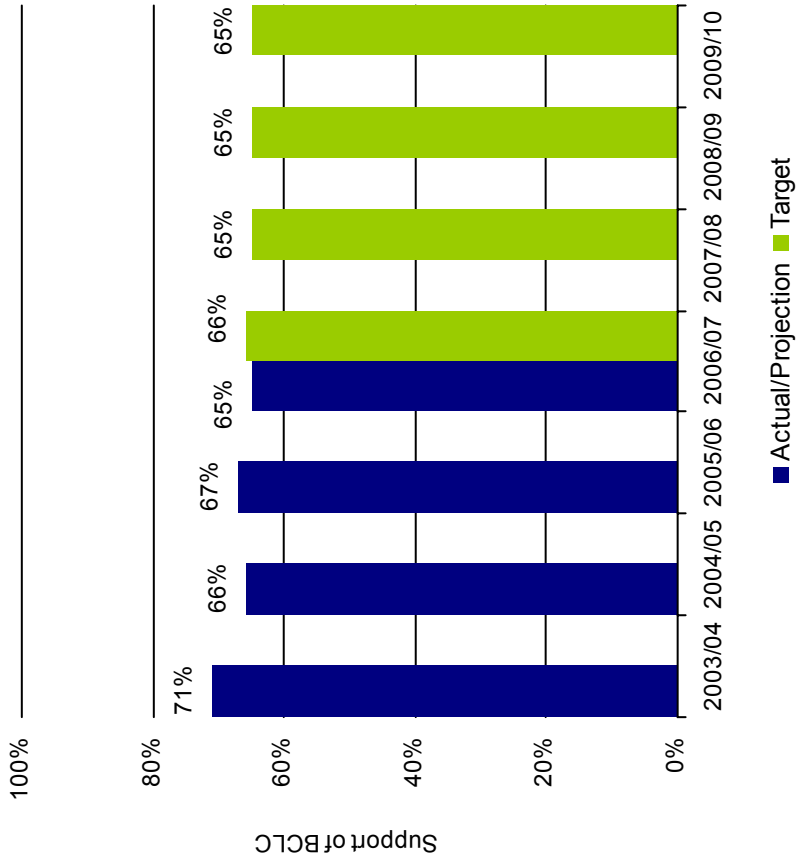
Through the continuing development of “best of practice” responsible gaming programs, by raising the public awareness of the beneficiaries of gaming and by ensuring the integrity and security of our games, it is BCLC’s objective to maintain public support of gaming at current levels.

**Key Performance Measure 8: Support of BCLC**

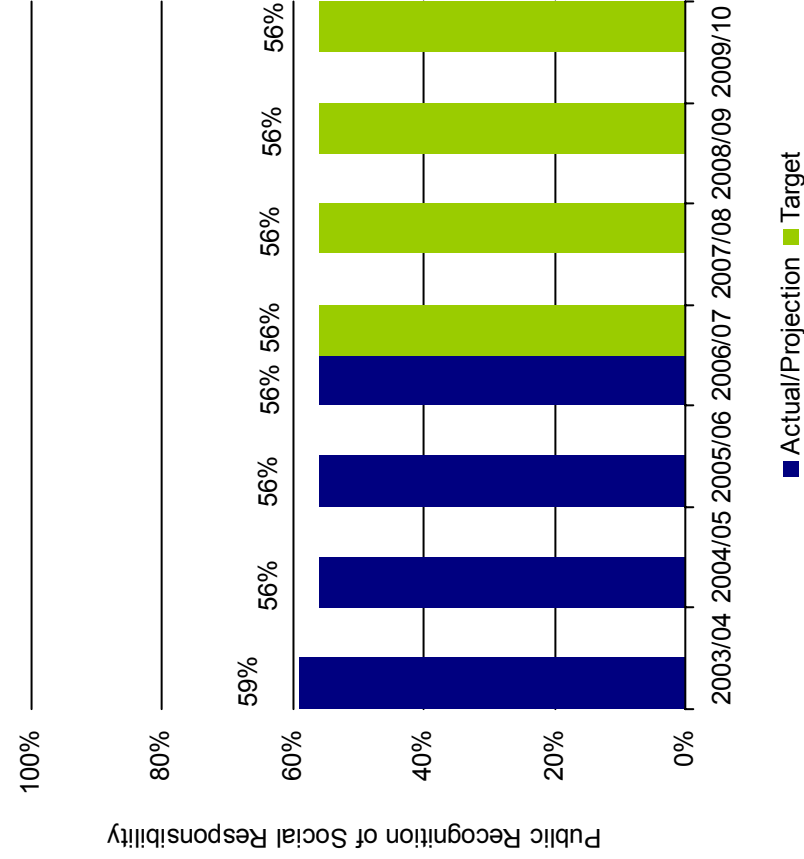
**Importance**

This performance indicator measures the percentage of adults surveyed in British Columbia who have a favourable impression of BCLC. As with public support of gaming, this measure is important as it serves as the foundation for BCLC to offer responsible gaming to the public in British Columbia.

By offering innovative socially responsible gaming, by being involved in the communities where we sell our products and by raising public awareness of the beneficiaries of gaming, it is BCLC's objective to maintain public support at current levels.



**Key Performance Measure 9: Public Recognition of Social Responsibility**



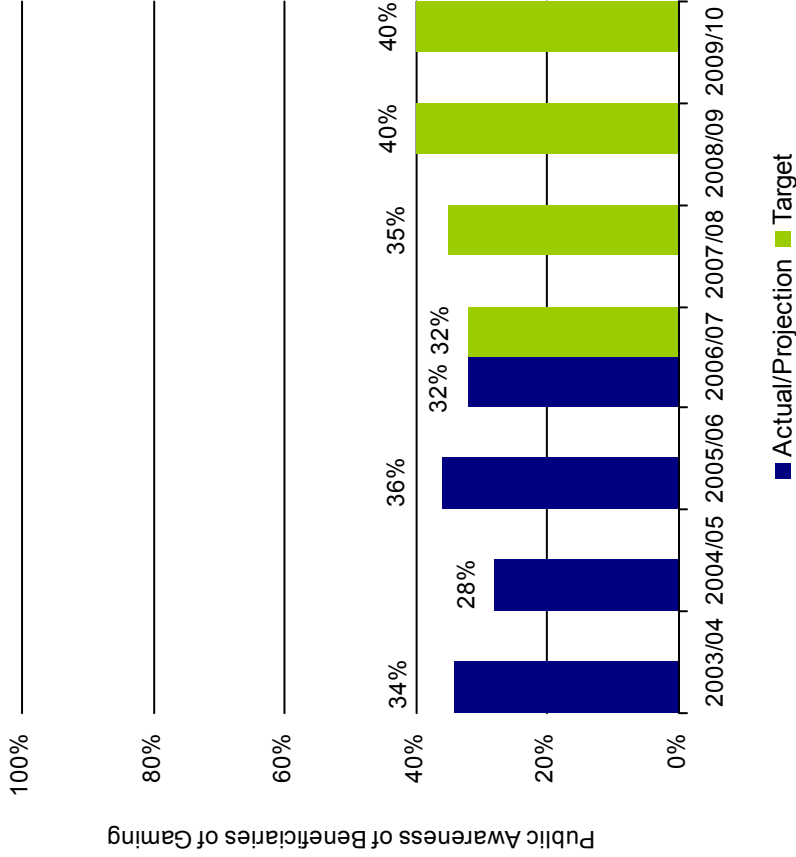
**Importance**

This performance indicator measures the percentage of adults in British Columbia who agree that the Corporation markets gaming in a socially responsible way. BCLC is committed to promoting the responsible use of our products. We take our responsibility to deliver commercial gaming in the province in a manner that considers the impact on the people and communities of British Columbia very seriously.

BCLC works in partnership with Government, gaming service providers and those involved in the prevention and treatment of problem gambling to encourage the safe and healthy use of our products. This includes an established partnership with GPEB which regulates gaming and manages the province's Problem Gambling Program.

Through the continuing development of socially responsible games and our continuing partnership with Government and other key stakeholders, it is our objective to maintain the public's awareness of BCLC's commitment and involvement in responsible gaming at current levels over the next three years.

**Key Performance Measure 10: Public Awareness of the Beneficiaries of Gaming**



**Importance**

This performance indicator measures the percentage of adults in British Columbia who have an awareness of how gaming income is distributed. This measure is important because public awareness of the beneficiaries of gaming is directly related to public acceptance of gaming and BCLC.

BCLC offers great gaming entertainment experiences and chances to win prizes. In addition to the more than \$640 million in prizes that was paid out to players in fiscal 2005/06, the Corporation also paid out \$466 million to our retailers and service providers who distribute and deliver our games. The greatest beneficiaries of gaming though are the residents of British Columbia. In fiscal 2005/06, BCLC generated \$922.7 million in net income that was used to support key Government programs including health care, education and recreation. This net income was also distributed to local communities that offer our gaming products and to charitable and community organizations throughout British Columbia.

Through continuing involvement in the communities where we operate and programs that raise public awareness, it is BCLC's objective to increase the public awareness of the beneficiaries of gaming from 32% to 40% over the next three years.

### Goal #3: To Have a Workforce Passionately Driving the Success of Our Business

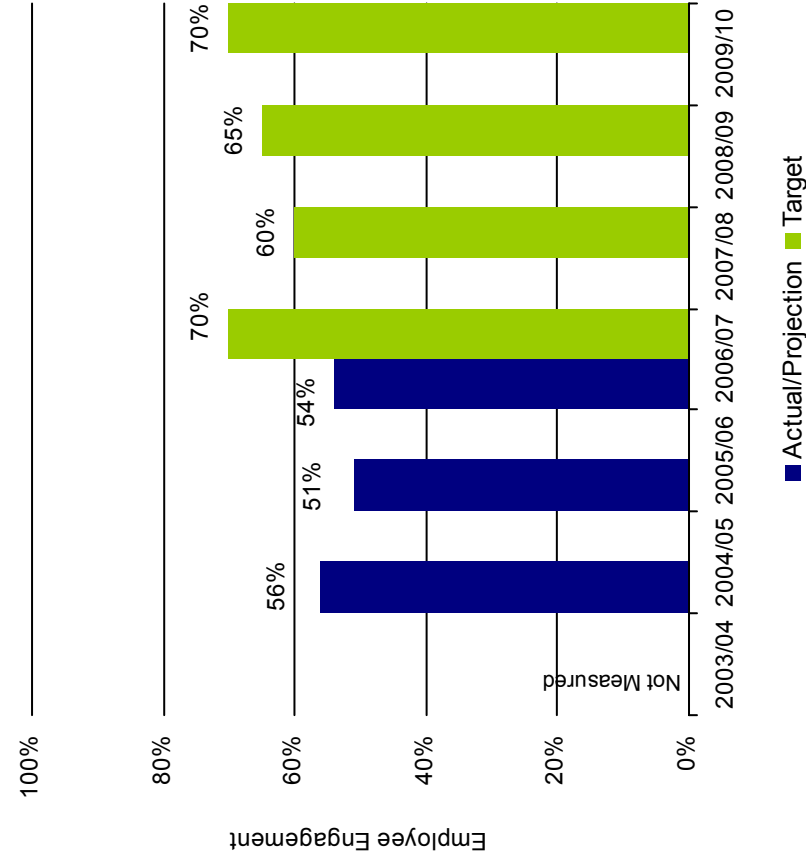
STRATEGIES	
6. Create a high performance culture	

PERFORMANCE MEASURES (%)	FISCAL 2005/06 ACTUAL	FISCAL 2006/07 PROJECTIONS	FISCAL 2007/08 TARGETS	FISCAL 2008/09 TARGETS	FISCAL 2009/10 TARGETS
	Employee Engagement	51	54	60	65

The achievement of BCLC's goal to have a workforce passionately driving the success of our business is supported by the following initiatives:

- > Build leadership and management talent
- > Identify and improve key workplace people practices and work processes
- > Ensure both talent and succession planning meets current and future workforce needs
- > Imbed innovation into the culture of the organization

## Key Performance Measure 11: Employee Engagement



### Importance

This performance indicator measures the overall engagement of BCLC employees. Employee engagement is defined as the state of intellectual and emotional involvement employees have in an organization. Highly engaged employees exert extra effort and are dedicated to doing the very best job possible to contribute to the organization's success. Organizations with high employee engagement are more successful at retaining and recruiting employees.

At 54%, BCLC's engagement results are close to the North American average of 55% and less than the Canadian average of 62%. Although it is proving to be more difficult than anticipated and taking longer than expected, BCLC is fully committed to improving employee engagement in the organization.

Through programs that support employee recognition, development and productivity, it is BCLC's objective to increase employee engagement from 54% to 70% over the next three-year period.

## ALIGNMENT WITH GOVERNMENT'S STRATEGIC PLAN

As a Crown corporation, BCLC was established by Government to conduct and manage gaming in British Columbia. The goals and objectives of BCLC go beyond generating revenue for Government and include ensuring gaming is delivered in a socially responsible way and to promote both economic development and strong vibrant communities in British Columbia. This section is intended to illustrate how the goals and objectives of BCLC are aligned with the strategic direction of Government.

GOVERNMENT STRATEGIC PLAN GOVERNMENT GOALS	BCLC SERVICE PLAN BCLC ALIGNMENT
<ul style="list-style-type: none"> <li>&gt; To make British Columbia the best educated, most literate jurisdiction on the continent.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Fiscal 2005/06 net income of \$922.7 million generated for key Government programs including healthcare, education and physical fitness.</li> </ul>
<ul style="list-style-type: none"> <li>&gt; To lead the way in North America in healthy living and physical fitness.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Government gaming revenues of \$137.7 million that provide funding to nearly 6,000 charitable organizations, including many that support healthy living, physical fitness and parent advisory groups that support education in British Columbia.</li> </ul>
<ul style="list-style-type: none"> <li>&gt; To build the best system of support in Canada for persons with disabilities, special needs, children at risk and seniors.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; BCLC has implemented environmentally friendly policies including recycled paper for ticket printing, recycling computers back into the school system and Power Smart facility initiatives.</li> </ul>
<ul style="list-style-type: none"> <li>&gt; To lead the world in sustainable environmental management, with the best air and water quality and the best fisheries management, bar none.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; There are about 10,000 people who are directly employed in the gaming business in British Columbia with close to \$1 billion dollars invested in property assets, pursuant to contracts established and managed by BCLC.</li> </ul>
<ul style="list-style-type: none"> <li>&gt; To create more jobs per capita than anywhere else in Canada.</li> </ul>	

## ALIGNMENT WITH SHAREHOLDER'S LETTER OF EXPECTATIONS

Requirement	Status
<ul style="list-style-type: none"> <li>&gt; Optimize the Corporation's financial performance within the gaming and social policy framework established by the Shareholder</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Within the gaming and social policy framework established by Government, BCLC is projecting to generate \$989 million in net income for Government in fiscal 2006/07, \$49 million greater than budget.</li> </ul>
<ul style="list-style-type: none"> <li>&gt; Improve the performance of casino, bingo and lottery gaming through new products and approaches in response to customer and marketplace demand</li> </ul>	<ul style="list-style-type: none"> <li>&gt; BCLC is projecting revenue and net income growth for each of its business units over the three-year planning period. The Corporation will continue to focus on developing new innovative products and distribution channels that provide an exceptional gaming entertainment experience to the player.</li> </ul>
<ul style="list-style-type: none"> <li>&gt; Ensure the Corporation's products are provided in a socially responsible manner</li> </ul>	<ul style="list-style-type: none"> <li>&gt; BCLC and GPEB have jointly developed and implemented the Provinces' Responsible Gaming Strategy, which engages municipalities, the gaming industry and social agencies on three goals:               <ul style="list-style-type: none"> <li>i. Reduce the incidence of problem gambling</li> <li>ii. Reduce the harmful impacts of excessive gambling</li> <li>iii. Ensure the delivery of gaming in a manner that encourages responsible gambling and healthy choices</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>&gt; Improve the quality of the casino product with better locations and casinos sized to suit the market</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Over the last several years BCLC has made significant progress in upgrading existing casino facilities. Specifically, major upgrades have been completed in the following casinos – Richmond River Rock Casino, Vancouver Edgewater Casino, Coquitlam Boulevard Casino, Langley Cascades Casino and Prince George Treasure Cover Casino. BCLC's Service Plan provides for the continued improvement and enhancement of existing casinos to provide the player with high-quality gaming entertainment.</li> </ul>
<ul style="list-style-type: none"> <li>&gt; Develop and maintain a sound, responsive and adaptive technology infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>&gt; BCLC continues to invest in its gaming and technology infrastructure. Over the last several years we have replaced our online lottery gaming system and made major improvements and enhancements to our casino and bingo systems. Currently, we are in the process of upgrading our lottery network from older analog technology to new Internet Protocol technology that will result in greater data transmission speeds, greater bandwidth and reduced cost.</li> </ul>



Requirement	Status
<ul style="list-style-type: none"> <li>&gt; Build public and key stakeholder trust/support, improve the quality of service to customers and improve relationships with service providers</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Building public and stakeholder trust, improving the quality of service to customers and improving our relationship with service providers remain key objectives for BCLC</li> </ul>
<ul style="list-style-type: none"> <li>&gt; Comply with policy directives issued by the Minister</li> </ul>	<ul style="list-style-type: none"> <li>&gt; BCLC complies with all policy directives issued by the Minister, including all directives and standards that are issued under the <i>Gaming Control Act</i>.</li> </ul>
<ul style="list-style-type: none"> <li>&gt; Operating the business in an efficient and effective manner for the benefit of its customers and the Shareholder</li> </ul>	<ul style="list-style-type: none"> <li>&gt; BCLC continues to manage the business with the goals of achieving the highest levels of operational efficiency and effectiveness. Since fiscal 1999/00, BCLC has been successful in reducing operating costs as a percentage of sales from 6.0% to 4.6%</li> </ul>
<ul style="list-style-type: none"> <li>&gt; Meet and/or improve on BCLC's financial and non-financial performance going forward</li> </ul>	<ul style="list-style-type: none"> <li>&gt; BCLC's Service Plan includes initiatives that are aimed at maintaining or improving the results from all of our key performance measures. Over the next three-year planning period, net income is projected to increase by \$153 million or 15%.</li> </ul>
<ul style="list-style-type: none"> <li>&gt; Participate with the Ministry of Public Safety and Solicitor General in the preparation and presentation of a Strategic Plan for BCLC's Conduct and Management of Gaming including the proposed Consent to Operate Strategy</li> </ul>	<ul style="list-style-type: none"> <li>&gt; BCLC is currently working in conjunction with Government to prepare a new three-year strategic plan for the Conduct and Management of Gaming, including further program development for responsible and problem gambling.</li> </ul>

## SUMMARY FINANCIAL OUTLOOK

	FISCAL 05/06 ACTUAL	FISCAL 06/07 PROJECTION	FISCAL 07/08 BUDGET	FISCAL 08/09 TARGET	FISCAL 09/10 TARGET
<b>REVENUES (\$ in millions)</b>					
Lottery	\$967.4	\$980.0	\$1,025.0	\$1,090.0	\$1,170.0
Casino	1,085.3	1,190.0	1,240.0	1,285.0	1,330.0
Bingo	208.0	220.0	230.0	250.0	260.0
	\$2,260.7	\$2,390.0	\$2,495.0	\$2,625.0	\$2,760.0
<b>EXPENDITURES</b>					
Lottery	694.2	703.9	737.5	784.2	839.6
Casino	463.7	513.5	538.7	558.5	580.5
Bingo	180.1	183.6	185.8	195.3	197.9
	\$1,338.0	\$1,401.0	\$1,462.0	\$1,538.0	\$1,618.0
<b>NET INCOME</b>					
Lottery	273.2	276.1	287.5	305.8	330.4
Casino	621.6	676.5	701.3	726.5	749.5
Bingo	27.9	36.4	44.2	54.7	62.1
Total	\$922.7	\$989.0	\$1,033.0	\$1,087.0	\$1,142.0
Debt	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Due to Government of BC	\$175.5	\$191.5	\$197.0	\$207.3	\$217.9
Capital Expenditures	\$82.9	\$43.0	\$85.0	\$80.0	\$80.0
FTEs	575	590	625	650	650

### Analysis

- > Revenues are projected to increase by \$370 million or 15.5% over the forecast period
- > Net income is projected to increase by \$153 million or 15.5% over the forecast period
- > Revenue growth from the lottery business will come from the introduction of new innovative games and the continuing development of the new eLottery channel
- > Revenue growth from the casino business will come from the continued development of existing properties and continuing refreshment of slot machines with new higher entertainment games
- > Growth from the bingo business will come from the build out of community gaming centres with slot machines
- > Capital expenditures are projected to remain relatively stable at about \$80 million per annum over the three-year planning period

## KEY ASSUMPTIONS

### British Columbia Real Gross Domestic Product

GDP growth of 3.0% forecast for fiscal 2007 and 2008 and 3.1% for 2009.

### Lottery

Planned product releases of new lottery games will be on schedule.

### Casino

The relocation of the Royal City Star casino to the new Queensborough location will occur on schedule in January 2008.

The racetrack casino at Hastings Park will open in fiscal 2008/09.

### Bingo

Five planned openings of community gaming centres with slot machines will open on schedule during fiscal 2007/08.

### Government Approvals

Revenue and net income assumptions are based on BCLC obtaining all necessary host local government approvals required under the *Gaming Control Act* on a timely basis for the relocation or opening of new facilities.

BCLC receives all necessary Government approvals for launching new games.

### Market Place

Casino revenues are not further impacted by cross-border competition.

Unregulated Internet gaming will not be a significant competitive threat to British Columbia gaming revenues.

British Columbia casino and bingo marketplace capacity studies are accurate.

BCLC market forecasts for new lottery products are accurate.

### Cost of Services

Inflation has been assumed at 2% over the planning period. Interest rates have been assumed at 4.6% for fiscal 2007/08 and 5.0% for fiscal 2008/09 and fiscal 2009/10.

### Gaming Policy

No major changes to BCLC's mandate or Government's policy on gaming are made.

### Provincial Smoking Ban

No impact of the proposed provincewide smoking ban announced for January 1, 2008 has been taken into consideration in this Service Plan forecast. However, the possible financial risk has been considered in BCLC's risk and sensitivity analysis. BCLC is undertaking further research on the possible financial impact of the smoking ban in British Columbia before considering any adjustments to the forecast.

## NET INCOME RISK AND SENSITIVITY PROJECTIONS

BCLC's net income projections are subject to considerable risk. Events that could impact BCLC's net income projections include:

- > The ability of BCLC and Government to maintain and build public acceptance for gaming in British Columbia
- > Delays in obtaining host local government approvals for the development or rebuilding of casino and bingo properties
- > The capacity and ability of the Corporation's casino and bingo service providers to build out approved facilities
- > Economic issues that result in a reduction in personal disposable income
- > The number and size of lottery jackpots
- > The ability of the Corporation to develop and launch innovative new lottery products to transform a mature lottery business and achieve projected lottery revenues
- > The ability of the Corporation to reinvent and transform a declining bingo business

- > Increasing competition from regulated and unregulated gaming competitors
- > The effects of Government's proposed total smoking ban in public facilities that will be implemented in January 2008

Of the risk factors identified, BCLC considers the most significant risks to be the ability of BCLC to maintain and build public trust, economic issues that may result in a reduction in disposable income and the potential effects of the proposed Government ban on smoking in public facilities.

BCLC has only identified risks that result in a reduction in net income. Other factors such as a greater number of lottery jackpot rollovers, earlier than anticipated host local government approvals and increases in personal disposable income could result in higher than projected net income. As the likelihood of these events is considered low and the revenue impact not material, no estimate on possible net income increases have been included in the projections.

The following table represents the projected net income from gaming operations that may be at risk:

GAMING CHANNEL	2007/08 (in millions)	2008/09 (in millions)	2009/10 (in millions)
Lottery	\$ 20.0	\$ 45.0	\$ 55.0
Casino	20.0	55.0	65.0
Bingo	10.0	20.0	20.0
Total	\$ 50.0	\$ 120.0	\$ 140.0

## CAPITAL PLAN AND MAJOR CAPITAL PROJECTS

GAMING SYSTEMS	2005/06 ACTUAL	2006/07 FORECAST	2007/08 FORECAST	2008/09 FORECAST	2009/10 FORECAST
Lottery	21,911	12,157	23,000	15,000	15,000
Casino	53,007	14,761	44,500	43,000	43,000
Bingo	4,063	8,453	10,500	15,000	15,000
	78,981	35,371	78,000	73,000	73,000
<b>CORPORATE FACILITIES AND EQUIPMENT</b>					
Facilities	1,603	834	2,500	2,000	2,000
Corporate Systems	2,296	6,863	4,500	5,000	5,000
	3,899	7,697	7,000	7,000	7,000
Total Capital	\$82,880	\$43,068	\$85,000	\$80,000	\$80,000

BCLC's capital spend is projected at \$43.1 million for fiscal 2006/07, about \$40 million less than fiscal 2005/06 actuals and the 2007/08 forecast. The decision not to proceed with the opening of the Hastings Racetrack casino and the delay in the opening of some community gaming centres resulted in a lower capital spend.

BCLC is projecting an annual capital spend of \$85 million in fiscal 2007/08 and \$80 million in fiscal 2008/09 and 2009/10. The projected capital spend provides for new slot machines and the replacement of obsolete slot machines in the casino network, the development of new games and continued development of the eLottery channel to support the transformation and reinvention of the lottery business and gaming systems and slot machines to support the build out of community gaming centres.

The capital budget also includes funding for upgrades to the Corporation's technical infrastructure that support gaming operations and funding for maintaining and upgrading the Corporation's facilities in Kamloops and Richmond.

BCLC does not have any individual capital programs where the total commitment exceeds \$50 million.

## APPENDIX 1 – PERFORMANCE MEASURE DESCRIPTIONS

### Fiscal 2007/08 Performance Measures

#### 1. Revenue

This category measures the Corporation's total revenues as reported in the consolidated financial statements.

#### 2. General Operating Cost Ratio

This category measures the ratio of operating costs as a percentage of sales. Operating costs include all costs, excluding direct costs, amortization, other income and GST.

#### 3. Net Income

This category measures the Corporation's net income as reported in the consolidated financial statements, in accordance with generally accepted accounting principles.

#### 4. FTEs

This category measures the number of full-time equivalents employed by BCLC. FTEs are calculated by dividing the total number of regular hours worked by 1,920, the standard number of work hours in a year.

#### 5. Player Participation

This category measures the gaming participation rate of British Columbia adult residents who have played a lottery game or visited a bingo or casino facility in the province in the past month. This information is obtained through a continuous tracking study completed by an external research supplier.

#### 6. Player Satisfaction

This category measures overall player satisfaction for the games and facilities offered by the lottery, casino and bingo business units. Through both a continuous tracking study and exit interviews, players are asked to use a 5-point scale to rate their satisfaction with "5" being excellent and "1" being poor. Player satisfaction is based on the top three boxes.

#### 7. Public Support of Gaming

This category measures the percentage of adults in British Columbia who have a positive perception of how gaming is conducted and managed in British Columbia. In a continuous tracking study conducted by an external research supplier, respondents are asked to use a 7-point scale whereby "1" is strongly disagree and "7" is strongly agree to rate the statement, "I fully support the existence of legalized gaming in British Columbia." Support for gaming is based on the top three box responses.

#### **8. Public Support of BCLC**

This category measures the percentage of adults surveyed in British Columbia who have a favourable impression of BCLC. In a continuous tracking study conducted by an external research supplier, respondents are asked if their impressions of the Corporation are very favourable, somewhat favourable, somewhat unfavourable or very unfavourable. Support for BCLC is based on the total mentions of “very favourable” and “somewhat favourable.”

#### **9. Public Recognition for BCLC Social Responsibility**

This category measures the percentage of adults in British Columbia who agree that the Corporation markets gaming in a socially responsible way. In a continuous tracking study conducted by an external research supplier, respondents are asked to use a 7-point scale whereby “1” is strongly disagree and “7” is strongly agree to rate the statement, “BCLC goes about marketing its games and products in a socially responsible way.” Recognition of social responsibility is based on the top three boxes.

#### **10. Public Awareness of the Beneficiaries of Gaming**

This category measures the percentage of adults in British Columbia who have an awareness of how the income generated by gaming is distributed. In a continuous tracking study conducted by an external research supplier, respondents are asked whether they feel very well informed, somewhat informed, not very well informed or not at all informed about where the money goes. Awareness of the beneficiaries of gaming is based on the total mentions of “very well informed” and “somewhat informed.”

#### **11. Employee Engagement**

This category measures the overall engagement of BCLC employees. Employees will be asked in a survey to rank their level of engagement in the organization over a broad range of attributes, including awareness of Corporate goals and strategies, innovation, empowerment and accountability.

This survey is completed by an external Human Resources consulting firm (Hewitt) as part of their cross-Canada survey of Canadian businesses and is published as part of the Globe and Mail’s Report on Business – 50 Best Employers in Canada.

