BC Liquor Distribution Branch

2017/18
ANNUAL SERVICE PLAN REPORT

July 2018

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General Manager and CEO's Accountability Statement

The *BC Liquor Distribution Branch 2017/18 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2017/18 - 2019/20 Service Plan* created in September 2017. I am accountable for those results as reported.

R. Blain Lawson
General Manager and Chief Executive Officer

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General Manager and CEO's Report Letter

The BC Liquor Distribution Branch (LDB) is marking another year filled with significant change as we continue to modernize our business processes, prepare to move our liquor distribution centre from Vancouver to Delta, and develop plans to add new lines of business in the wholesale distribution and retail sale of non-medical cannabis.

In 2017/18, the LDB continued to make significant adjustments to adapt to the new competitive liquor industry landscape in order to meet our retail and wholesale customers' needs. As directed by the 2017/18 Mandate letter for LDB's Retail Division, we streamlined business processes in our network of 197 stores across the province thanks to a major improvement to our technology systems. Using data-driven, centralized replenishment orders, it allows our retail store associates more time and energy to focus on serving, and developing strong relationships with, our customers.

A new web store – which provides enhancements for wholesale customers, including real-time inventory visibility – was implemented as part of another critical technology improvement on the wholesale side of the business. Upgrading core pieces of business technology and systems give our procurement and Wholesale Customer Centre teams the ability to strengthen stakeholder relationships and improve communications.

Construction and remodeling of a new distribution centre in Delta commenced in 2017/18, and work is ongoing to replace the current Vancouver Distribution Centre later this year. A modern Warehouse Management System is being implemented at the new 400,000+ sq. ft. warehouse facility, which will help us create efficiencies, and improve wholesale customer satisfaction.

Reinforcing the focus on corporate social responsibility through alcohol awareness campaigns continued to be a priority, along with optimizing financial performance, and sustaining net returns to the Province in accordance with Government policy and Treasury Board directives. We look forward to the findings of the Business Technical Advisory Panel to better tailor service to our wholesale customers.

The LDB exceeded revenue targets set by Government, contributing $1.12 billion in 2017/18 to help fund Government services in B.C.

The LDB will continue to work with the Ministry to prioritize accountability and cost control, while maintaining a focus on exceptional customer service for small business clients and customers.

R. Blain Lawson
General Manager and Chief Executive Officer

Purpose of the Organization

In British Columbia, the LDB is one of two branches of Government responsible for the beverage alcohol industry. The *Liquor Distribution Act* gives the LDB the sole right to purchase beverage alcohol both within B.C. and from outside the province, in accordance with the federal *Importation of Intoxicating Liquors Act.* The Liquor Control and Licensing Branch (LCLB) licenses private liquor stores, restaurants, pubs and manufacturers, and enforces regulations under the *Liquor Control and Licensing Act*.

Reporting to the Attorney General, the LDB:

- Operates a province-wide, retail/wholesale beverage alcohol business, within a mixed public-private model;
- Is responsible for the importation and distribution of beverage alcohol in B.C.;
- Has a workforce of approximately 4,300 full- and part-time employees;[1]
- Operates 197 BC Liquor Stores (BCLS), a Head Office, two Wholesale Customer Centres and two Distribution Centres; and,
- Has a General Manager and CEO who is responsible for administering the *Liquor Distribution Act*, which includes the oversight of BCLS, subject to direction from the Minister.

As part of B.C.'s mixed-model retail system for liquor, the LDB is committed to providing customers with an enhanced shopping environment, an expansive product selection and a high level of service.

The LDB and LCLB have a shared responsibility to encourage the responsible consumption of beverage alcohol and work closely together to coordinate policies and programs to this end. Visit "Who We Are" for more information about the LDB.

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

[1] As of March 31, 2018.

Strategic Direction and Operating Environment

The LDB's 2017/18 – 2019/20 Service Plan was informed by the [2017/18 Mandate Letter], which provides strategic direction to the LDB and directs the organization to take specific actions in accordance with Government policy. Along with economic and market trends, these principles and mandate are factored into the LDB's business decisions.

Beverage alcohol is a discretionary consumer product and sales are affected by economic conditions. As the economy continues to improve and consumer confidence rebuilds, liquor sales have also improved across all categories – beer, wine, spirits, and refreshment beverages. This is an indication that consumers enjoy a wide range of tastes and a greater variety of products. In 2017/18, the LDB continued to closely monitor trends in sales and expenses to make adjustments to forecasts and budgets as necessary.

Warehouse Relocation Project
Construction and remodeling of the new 400,000+ sq. ft. distribution centre in Delta commenced to replace the current Vancouver Distribution Centre in Summer 2018. Work also began on the implementation of a new Warehouse Management System to modernize wholesale operations, create efficiencies, and improve wholesale customer satisfaction.

Legalization of Cannabis
In December 2017, the Province appointed the LDB as the sole wholesaler of non-medical cannabis. Additionally, the Province announced in February 2018 that the LDB will operate government-run retail stores, as well as an e-commerce platform to offer public online sales on non-medical cannabis. The LDB's priorities are ensuring safe, responsible sales of non-medical cannabis and also helping ensure the product stays out of the hands of minors.

Report on Performance

The LDB's Report on Performance describes how the organization implemented its strategies in order to meet its performance goals. It illustrates how the LDB balanced its financial obligations with the non-financial activities outlined in its mandate. The strategies presented are in alignment with the Government's expectations as outlined in the 2017/18 Mandate Letter. As a means of evaluating the organization's overall health and performance, the LDB executive management engages in ongoing dialogue and reporting with the Ministry to re-examine goals, performance measures and strategies.

Benchmarking
The LDB's business structure changed significantly on April 1, 2015, which resulted in the creation of two distinct operations: Retail and Wholesale. With the introduction of the new wholesale model in 2015, trends experienced in prior years are no longer relevant. Due to the uniqueness of the LDB's new structure for beverage alcohol, and as the new model stabilizes, the LDB will be measuring its performance based on trends in the coming years.

Goals, Strategies, Measures and Targets

The LDB regularly re-examines its goals, performance measures, strategies and targets with the Ministry to ensure they reflect critical aspects of the LDB's performance and align with its key strategic directions as laid out by Government.

The LDB had seven targets in 2017/18 as established in its 2017/18 – 2019/20 Service Plan, of which the organization achieved or exceeded two of the targets and were below target on the remaining ones.

Goal 1: Financial Performance

Meet financial objectives approved by Government.

Strategy

- Grow sales and effectively manage operating expenses in order to sustain net returns to the Province.

Performance Measure 1.1: Net Income

Performance Measure	2015/16 Actual	2016/17 Actual	2017/18 Target	2017/18 Actual	2018/19 Target	2019/20 Target
Net income (in $millions)	1,031.3	1,083.2	1,094.7	1,119.6	1,111.3	1,127.6

Data source: BCLS sales data is collected from computerized point-of-sale cash register systems and stored in Head Office databases. Sales made directly to customers by authorized representatives 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 annually. LDB expense data is captured, stored and reported by the LDB's financial system.

Discussion
Net income is the contribution made to the Provincial Government by the LDB from the total sales of beverage alcohol in the province and is audited by the B.C. Auditor General. LDB net income is a significant contributor to Provincial Government revenues.

Provincial liquor sales were $3.5 billion in fiscal 2017/18, which was on target for the fiscal year. Compared to fiscal 2016/17, sales were $166.5 million or 5.0 percent higher.

Sales increases – and the resulting positive impact on net income – are the result of a number of factors, including weather, holiday weekends, supplier promotions, and changes in sales mix. A shift in consumer product consumption from beer to wines resulted in higher average prices as wine generally has a higher unit price than beer. As well, consumption has been shifting towards specialty products, especially in the beer category, resulting in higher average prices.

As a result of higher sales and close management of expenses, the LDB's net income for the year was $1.12 billion, 2.3 percent higher than target and 3.4 percent higher than the previous year.

Goal 2: Workplace Quality and Employee Excellence

Create a work environment that encourages greater employee engagement.

Strategies
- Enhance staff skills and engagement through leadership development, employee training and increased communication.
- Implement Strategic Leadership Development for the organization.
- Provide a safe, healthy and harassment-free workplace.

Performance Measure 2: Employee Engagement

Performance Measure	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Target	2017/18 Actual	2018/19 Target	2019/20 Target
Employee engagement	N/A	71	N/A	71	69	N/A	71

Data source: Workplace Environmental Survey conducted by BC Stats for the LDB.

Discussion
The LDB measures employee engagement every two years through the Workplace Environment Survey (WES) by asking employees about their work environment – a performance measure that reflects our employees' level of satisfaction and organizational commitment to the LDB. Achieving a WES score of 71 was a challenging target, given the ongoing and significant organizational changes that have occurred in the past few years. However, the LDB remains committed to this target.

Goal 3: Customer Experience

Maintain a high level of retail and wholesale customer satisfaction.

Strategies:
Retail Division Strategies

- Continue to renovate BCLS to enhance customer experience with a new service experience, such as brighter, welcoming store appearance and refrigeration.
- Continuously provide enhanced customer service through ongoing employee training and support of a customer-centric culture across the retail store network.
- Identify innovative ways to showcase products that are of interest to B.C. consumers

Performance Measure 3.1: Retail Customer Satisfaction

Performance Measure	2014/15 Actual	2015/16 Actual	2016/17 Actual[2]	2017/18 Target	2017/18 Actual	2018/19 Target	2019/20 Target
Retail customer satisfaction	98%	N/A	83%	N/A	N/A	80%	N/A

Data Source: The LDB contracts with professional survey companies to conduct the retail and wholesale customer service surveys.

Discussion
BC Liquor Stores' (BCLS) retail customers are surveyed every two years by a professional survey company to determine customer satisfaction, reflecting the organization's commitment to providing good customer service. Because customer satisfaction is so important to the LDB's success, targets have, in the past, been set in the 90 percent range for retail customers. Actual results in the two surveys prior to the 2016/17 fiscal year have exceeded these targets at 98 percent.

Historically, the Retail Customer Satisfaction performance measure has been based on customers who rated their experience as "good," "very good" or "excellent." In 2016/17, BCLS determined that the measure reported will be based only on customers who rate their experience as "very good" or "excellent." This reporting change will enable the organization to obtain more meaningful metrics with greater potential for improvement, but it will also reduce the quantitative customer satisfaction score from 2016/17 onward.

The 2016/17 actual result of 83 percent is a reflection of the time and employee training spent to develop, deliver and reinforce customer service consistently at all BCLS (greeting customers, helping them find the products they are looking for and providing other services as requested), as well as increased product selection. In addition, the rollout of refrigeration to more stores was well received by customers. The next retail customer survey will be conducted in 2018/19.

[2] Starting in 2016/17, BCLS examines different data to determine its retail customer satisfaction levels, which will make it more challenging to maintain previous performance levels in the 98 percent range.

Wholesale Division Strategies

- Continuously provide enhanced customer service through efficient order processing and fulfillment.
- Continue to provide enhanced customer service through employee training and support a customer-centric culture within the Warehouse team.

Performance Measure 3.2: Wholesale Customer Satisfaction

Performance Measure	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Target	2017/18 Actual	2018/19 Target	2019/20 Target
Wholesale customer satisfaction	N/A	N/A	68%	N/A	N/A	N/A	80%

Data Source: The LDB contracts with professional survey companies to conduct the retail and wholesale customer service surveys.

Discussion

Every two years, the LDB's wholesale customers (BCLS and private retail stores, bars and restaurants) are surveyed by a professional survey company to determine customer satisfaction. This measure aligns with the LDB's commitment to customer service. Setting a consistently high bar for customer satisfaction ensures the LDB maintains its customer-centric focus.

Since the separation of LDB's Retail and Wholesale divisions, Wholesale has been working hard with retailers, other customers and industry associations to ensure wholesale is understood to be a separate organization at the LDB and separate from BCLS retail. Wholesale continues to improve and build relationships with its customers and is working to deepen their understanding of customers' perspectives and needs under the separation and wholesale pricing model.

Again in 2017/18, the Wholesale division met with and listened to many industry associations, buying groups, retail stores and hospitality customers. Most of the industry understands Wholesale division now services a more diverse customer base, which includes customers with smaller and more labour-intensive orders.

Since the separation of Retail from Wholesale, the direct shipping customer accounts serviced by the Wholesale division, outbound case picks, bottle picks and deliveries have all been increasing. These increases occurred within the existing constrained Vancouver Distribution Centre.

The Wholesale division has been addressing specific areas of opportunities that were identified through past survey results to respond to the ongoing needs of customers. The division also continues to implement many process improvements and changes across customer service, vendor and item setup, in-stock improvements, order assembly and delivery quality. The Wholesale division added inventory visibility to its web store for customers in 2017, and will continue to make efforts to improve the customer satisfaction rating. And, finally, the ongoing work to relocate the LDB's Vancouver warehouse to Delta in Summer 2018 is expected to result in long-term benefits to LDB customers.

Goal 4: Business Effectiveness

Maintain operating efficiencies in a climate of constant change.

Retail Division Strategies

- Improve assortment and demand-planning tools by implementing technology to provide the right product in the right location for consumers.
- Continue utilizing training programs to better equip store employees with product knowledge in order to provide quality service to customers.
- Continue with long-term efforts to update BCLS retail systems to reflect the new liquor industry, improve efficiency and provide a customer-centric retail experience.

Performance Measure 4.1: BC Liquor Store Sales per Square Foot

Performance Measure	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Target	2017/18 Actual	2018/19 Target	2019/20 Target
BC Liquor Store sales per square foot	$1,236	$1,327	$1,380	$1,389	$1,402	$1,409	$1,430

Data Source: BCLS sales data is collected from computerized point-of-sale cash register systems and stored in Head Office databases. Sales made directly to customers by authorized representatives 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 annually.

Discussion

BCLS sales per square foot is based on the annual dollar sales of the store system divided by total store system square footage, which measures how well the LDB converts its floor space into sales.

Counter sales continued to increase at BCLS in 2017/18. BCLS sales per square foot was $1,402, compared to $1,380 in 2016/17. This increase is due in part to higher customer spending, compared to 2016/17, due to a number of newly renovated stores, a wider selection of exclusive products available, and a healthy growth in the refreshment beverage and craft beer categories throughout the province.

Wholesale Division Strategies

- Continue to modernize the Wholesale Division's systems and processes, including the use of current and cost-effective technology, such as forecasting and demand planning.
- Minimize the impact of rising labour cost per case while supporting additional smaller customers and orders, and additional bottle picks in an environment of limited space causing distribution centre congestion and slower anticipated order assembly.
- With the assistance of an executive project board, complete an approved business plan and begin the critical work on executing a successful transition to a new warehouse solution, in accordance with Government direction, to allow the LDB to meet growing demand for its services.

Performance Measure 4.2: Distribution Centre Labour Cost per Case Shipped

Performance Measure	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Target	2017/18 Actual	2018/19 Target	2019/20 Target
Distribution Centre labour cost per case shipped	$1.70	$1.81	$1.86	$1.90	$1.99	$2.10[3]	$1.85

Data Source: Orders and shipments processed by the LDB Distribution Centres are captured and stored by computer applications designed for this purpose.

Discussion

The Distribution Centre's labour cost per case shipped productivity measurement is calculated by dividing Distribution Centre labour expenses by total case shipments.

The actual results in the 2017/18 fiscal year did not meet the 2017/18 target due to the current constraints at the Vancouver Distribution Centre, using overtime labour at peak times to manage volume, smaller, more labour intensive orders, increased bottle picks, and movement of some low-cost products to other distribution routes.

Since April 2015, there has been a 30 percent increase in new customers to the Wholesale division with much smaller and more labour intensive orders, due to the split between the Retail and Wholesale divisions, and the fact that all private liquor stores and rural agency stores must now order directly from the Wholesale Division.

In 2017/18, the Wholesale division made adjustments to some of its order fill procedures and have trained employees to better handle these smaller orders more efficiently to ensure the cost per case shipped is manageable.

[3] In 2018/19, we expect the cost per case to be higher as we transition to the new Distribution Centre in Delta. During the 2018/19 transition year, the LDB expects a period of operating both the Vancouver Distribution Centre and the new Delta Distribution Centre as we transition inventory, vendors and customers to the new location. This will put additional labour pressure on our cost per case until we close the Vancouver Distribution Centre and realize the benefits and productivity of the new Delta Distribution Centre expected in 2019/2020.

Performance Measure 4.3: Distribution Centre Order Fill Rate

Performance Measure	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Target	2017/18 Actual	2018/19 Target	2019/20 Target
Distribution Centre order fill rate	91.5%	91%	91%	93%	89%	90%[4]	93%

Data Source: Orders and shipments processed by the LDB Distribution Centres are captured and stored by computer applications designed for this purpose.

Discussion
This measure reflects the percentage of each order filled completely by the LDB Distribution Centres (Vancouver and Kamloops) and is calculated by dividing the number of ordered items that are filled completely by the total number of items ordered.

While the target for this measure was not met, the Wholesale division continues to partner with retailers and vendors to improve forecasting and planning, and to address inventory and space shortages to ensure product can be supplied to meet the needs of customers.

The actual results for 2017/18 were below target due to ongoing supplier shortages, specifically summer refreshment beverages; other factors include manual forecasting and planning, extraordinary winter weather, and limited space constraints at the Vancouver Distribution Centre.

[4] In 2018/19 we expect the Distribution Centre Order Fill Rate to be 90 percent as we work within the constraints of the Vancouver Distribution Centre and manage the transition to the new Delta Distribution Centre. During the 2018/19 transition year, the LDB expects a period of operating both the Vancouver Distribution Centre and the new Delta Distribution Centre as we transition inventory, vendors and customers to the new location. This will put in stock pressure on our targets until we are fully moved into the new Delta Distribution Centre.

Goal 5: Corporate Social Responsibility

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

Strategies

Retail Division Strategies

- Prevent sales to minors or intoxicated persons in BCLS through staff education and enforcement of ID-checking requirements.
- Encourage the responsible use of beverage alcohol through the display of promotional material and signage at BCLS.
- Promote awareness of responsible use by continuing co-operative programs with suppliers and other stakeholders and partners.

Performance Measure 5.1: Store Compliance with ID-Checking Requirements

Performance Measure	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Target	2017/18 Actual	2018/19 Target	2019/20 Target
Store compliance with ID-checking requirements	85%	83%	96%	100%	95%	100%	100%

Data Source: LCLB administers an ID compliance checking program and provides the results of the BCLS compliance to the LDB.

Discussion

The LDB remains strongly committed to corporate sustainability and social responsibility by minimizing minors' access to alcohol through stringent ID-checking procedures. The legal age to purchase liquor in B.C. is 19.

The LDB sets a target of 100 percent to ensure the organization strives to achieve perfection and to reflect the significance it places on this performance measure. In addition to the LCLB's ID compliance checking program, the LDB administers a Check-30 program, introduced in 2015, which requires all customers who appear to be under the age of 30 to provide two pieces of identification. If a BCLS does not pass the ID compliance checking program, follow-up action and training is taken with the store to ensure employees are aware of the ID checking requirement and the importance of not selling to minors.

Although actual results were lower than target in 2017/18, the actual was in-line with the 2016/17 actual of 96 percent. In 2017/18, the LDB continued to make compliance a focus, and created additional awareness through daily shift starters for store employees while continuing the Check-30 program.

Performance Measure 5.2: Customer Awareness of LDB Corporate Social Responsibility Programs

Performance Measure	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Target	2017/18 Actual	2018/19 Target	2019/20 Target
Customer awareness of LDB corporate social responsibility programs	93%	N/A	89%	N/A	N/A	90%	N/A

Data Source: The LDB contracts with professional survey companies to conduct the retail and wholesale customer satisfaction surveys. The retails customer satisfaction survey includes questions on customer awareness and recall of LDB's corporate social responsibility programs.

Discussion

The LDB displays posters and other promotional materials in all of its 197 BCLS locations that encourage the responsible use of beverage alcohol. The themes in these materials, such as the prevention of drinking and driving or underage drinking, change every month. The LDB supports awareness campaigns undertaken by stakeholders and associations, such as Preventable BC campaigns, Operation Red Nose and CounterAttack, which promote responsible alcohol consumption.

Every other year, the LDB measures customer recall of these promotional materials through the same customer survey used to rate its retail customer satisfaction (see Performance Measure 3.1).

The actual results of 89 percent for 2016/17 were very close to the target of 90 percent. Although the target for this measure was not met, the actual result shows that the LDB continues to develop impactful and relevant messaging that catches the attention of customers.

In early 2017, the LDB further increased signage at BCLS, particularly at checkouts, to increase customer exposure to social responsibility messaging. The signage was also updated to focus on more direct, simple messaging to generate greater awareness and impact.

Wholesale Division Strategies (including Head Office)

- Reduce the impact of operations on the environment by decreasing waste, increasing recycling rates and achieving carbon neutrality on an annual basis.
- Continue promoting waste diversion and recycling programs at Head Office and Vancouver Distribution Centre through employee training and awareness campaigns.

Performance Measure 5.3: Waste Diversion Rate at Head Office and Vancouver Distribution Centre

Performance Measure	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Target	2017/18 Actual	2018/19 Target	2019/20 Target
Waste Diversion Rate at Head Office and Vancouver Distribution Centre	79%	85%	80%	80%	79%	85%	85%

Data Source: Waste diversion rates represent the weight of material diverted from the landfill through composting and recycling as a percentage of the total weight of waste material generated. Rates are determined based on measured weights reported by a contracted waste and recycling service provider.

Discussion

Waste Diversion

Waste diversion is a measure of total material recycled as a percentage of all waste material generated.

In the three years since the launch of its *Waste Reduction and Recycling Strategy* in 2014/2015, the LDB has measured waste diversion rates for two specific workplaces – Head Office and the Vancouver Distribution Centre.

For 2014/15 and 2015/16, the LDB used a 24-hour audit to estimate annual diversions rates; in 2016/17, the LDB began weighing all recycled and landfilled material at every pick-up for greater accuracy. Other materials that had not been accounted for in the last audit, such as scrap metal, polystyrene, and electronic waste, were weighed as well.

In the first year using this more complete approach, the LDB achieved its target of 80 percent. In 2017/18, the LDB achieved 79 percent diversion – one percentage point off from its target. This difference, as compared to the previous year, can be partly attributed to a lower amount of scrap metal being returned to the Vancouver Distribution Centre from BCLS. The LDB recycled 16 fewer metric tonnes from BCLS in 2017/18, compared to 2016/17, mostly metal racking removed in order to install coolers.

Independent from this performance measure, the LDB also measures the total annual weight of cardboard, plastic and paper material that it sends directly to recycling plants from BCLS. Combined with the Vancouver Distribution Centre and Kamloops Distribution Centre, this amounted to 3,114 metric tonnes of material diverted from landfills. This does not include material picked up directly from BCLS by recycling service providers.

Carbon Neutrality

Since 2010, the LDB has been measuring its greenhouse gas emissions as much as possible and purchasing B.C.-based carbon offsets in order to become carbon neutral on an annual basis. Efforts made to reduce its emissions and its annual emissions profile can be viewed in the LDB's Carbon Neutral Action Reports.

Financial Report

Discussion of Results

Highlights

Provincial liquor sales were $3.50 billion in fiscal 2017/18 and on target for the year. Sales increased by 5.0 percent, or $166.5 million, compared to sales of $3.33 billion in the prior year. Sales were driven by increases in all product categories and an overall 2.8 percent volume increase.

Gross profit for the year was $1.47 billion, an increase of $57.4 million, or 4.1 percent, when compared to 2016/17. As a percentage of revenues, gross profit declined slightly from 42.3 percent to 41.9 percent when compared to the prior year. The decline was due to a combination of higher product and freight costs.

Operating expenses were $360.0 million, $21.6 million higher than in fiscal 2016/17; however, at a rate of 10.3 percent of sales, was comparable to the 10.2 percent 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 operations.

The majority of the LDB's operating expenses are comprised of employment, rent, bank charges, professional services, depreciation and amortization.

The largest changes in expenses occurred in the following areas:

- Employment expenses increased by $8.8 million due to a combination of negotiated rate increases, overtime and labour hours required to support projects and operations. Overall, the employment rate of 5.8 percent of sales was consistent with previous years.
- Rent expenses increased by $6.1 million due to rent renewals, store relocations, the new Delta warehouse and property taxes.
- Amortization increased by $3.9 million due to several systems projects that were completed during the year and put into use. These projects included an upgrade of the Oracle systems, as well as the retail point-of-sale systems.
- Data processing costs increased by $1.2 million due higher software maintenance costs.

For 2017/18, the LDB's net income and contribution to Government was $1.12 billion. This was an increase of $36.3 million compared to the previous year, and $24.9 million higher than budgeted.

The LDB operates separate Retail and Wholesale divisions. BCLS are a customer of the Wholesale division and operate under a retail margin like any other retailer. For information on BCLS operating results, please see Appendix A of this document. In order to avoid double counting, all transactions between BCLS and the Wholesale division have been eliminated from the LDB financial results.

Table 1: Financial Results Summary Table

For the five fiscal years ended March 31, 2018

$millions	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Budget	2017/18 Actual	2017/18 Variance
Sales	2,877.9	3,157.0	3,331.5	3,496.6	3,498.0	1.4
Cost of Sales	1,683.3	1,809.5	1,921.6	2,037.7	2,030.6	(7.1)
Gross Profit	1,194.6	1,347.5	1,409.9	1,458.9	1,467.4	8.5
Operating Expenses - Employment	172.0	187.8	194.9	203.7	203.8	0.1
Operating Expenses - Rent	42.5	44.3	46.5	53.0	52.5	(0.5)
Operating Expenses - Administration	93.3	93.9	97.0	116.6	103.7	(12.8)
Operating Income	886.8	1,021.4	1,071.5	1,085.6	1,107.3	21.7
Net Income	935.2	1,031.3	1,083.2	1,094.7	1,119.6	24.9
Gross Margin (%)	41.5%	42.7%	42.3%	41.7%	41.9%	0.2%
Operating Expenses to Sales (%)	10.7%	10.3%	10.2%	10.7%	10.3%	(0.4%)
Net Income to sales (%)	32.5%	32.7%	32.5%	31.3%	31.9%	0.7%
Inventory Turnover	18	17	17	-	17	-
Capital	25.2	23.1	26.7	82.8	47.7	35.1
Debt	0	0	0	0	0	0
Retained Earnings	0	0	0	0	0	0

Note 1: The above financial information was prepared based on current International Financial Reporting Standards

Capital expenditures for fiscal 2017/18 of $47.7 million were $21.0 million higher than the previous year. The increase is mainly due to spending related to relocation of the Vancouver Distribution Centre to Delta planned for Summer 2018. Other capital expenditures were related to ongoing operational capital requirements, such as vehicle and equipment replacements, information systems hardware and licences, store tenant improvements, and completion of the upgrades to the Oracle financial systems, and Wholesale and Retail systems.

During 2017/18, the retail customer count at BCLS decreased 4.5 percent to 38.5 million from the 40.3 million customers in the prior year. The decreased customer count was due to a combination of increased competition, closure of the Cardero store, and stores under renovation.

The average retail customer transaction value at BCLS increased 2.0 percent, from $35.66 to $36.37. The higher average transaction value reflects BCLS's improved product selection, as well as changes in customer purchases towards premium products.

The LDB holds inventory on average for 21 days with an annual inventory turn rate of 17. This inventory turn rate is consistent with previous years and reflects the close management of LDB inventories.

Product Categories

LDB sales of $3.50 billion increased 5.0 percent compared to the previous year and was driven by a combination of higher volumes and higher average selling prices.

Table 2: Sales by Major Category ($000s)

For the five fiscal years ended March 31, 2018

						Change vs. Previous Year (2017/18 vs. 2016/17)	
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**$**	**%**
Spirits	703,755	726,108	786,803	832,180	872,570	40,390	4.9
Wine	905,951	967,132	1,074,860	1,154,041	1,212,673	58,632	5.1
Refreshment	131,926	151,937	180,366	196,485	221,548	25,063	12.8
Beer	1,002,051	1,030,616	1,112,911	1,146,431	1,188,762	42,331	3.7
Other	1,842	2,125	2,099	2,395	2,454	59	2.5
Total Sales	2,745,525	2,877,918	3,157,039	3,331,532	3,498,007	166,475	5.0

Data Source: LDB Oracle Financial System.

Overall sales increased by $166.5 million with all the categories having positive growth and the wine category having the largest sales increase at $58.6 million. Consistent with prior year trends, the beer and wine categories contributed to the majority of LDB sales with the refreshment beverage category having the highest growth, increasing by 12.8 percent, or $25.1 million.

In fiscal 2017/18, sales continued to shift towards refreshment beverages as that category contributed 6.3 percent of all LDB sales, up from the 5.9 percent of the prior year. The beer category decreased 0.4 percent in the current year, accounting for 34.0 percent of LDB sales. The spirit and wine categories remained relatively unchanged as percentage of total LDB sales. As the LDB has different mark-up rates on products, as shifts occur between product categories, this impacts the LDB gross margin.

In litres, the beer category has the highest sales volumes followed by wines, refreshment beverages and spirits. Consistent with the sales dollar increase, the refreshment beverage category also had the highest volume increase. For the spirits, wine and beer categories, the sales dollar increase was higher than the volume increase, indicating that the products sold were at higher points compared to the prior year.

Table 3: Sales by Major Category in Litres (000s)

For the five fiscal years ended March 31, 2018

						Change vs Previous Year (2017/18 vs. 2016/17)	
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**Litre**	**%**
Spirits	24,161	24,602	25,810	26,478	27,029	551	2.1
Wine	65,803	69,302	73,805	75,871	77,408	1,537	2.0
Refreshment	31,476	35,245	40,300	43,364	48,633	5,269	12.2
Beer	272,643	283,857	292,574	293,986	298,751	4,765	1.6
Other	138	148	156	206	231	25	12.1
Total Sales	**394,221**	**413,154**	**432,645**	**439,905**	**452,052**	**12,147**	**2.8**

Data Source: LDB Oracle Financial System.

There was an overall volume increase of 2.8 percent compared to the previous year. The majority of the increase came from the refreshment and beer category. In terms of growth, the refreshment beverage category had the largest volume increase at 12.2 percent, followed by spirits at 2.1 percent, wine at 2.0 percent, and beer at 1.6 percent when compared to last year.

Customer Sales

In 2017/18, the liquor marketplace saw increased competition as stores updated marketing strategies and grocers, who are included under ‘other customers’, continue to enter the marketplace, although are currently relatively small in number. A robust liquor industry is evidenced by the higher percentage of licensee retail stores and licensed establishments contributing to the overall provincial sales.

Table 4: Provincial Sales by Customer based on Dollar Sales
For the five years ended March 31, 2018

(as a percentage of total dollar sales)	2013/14	2014/15	2015/16	2016/17	2017/18
BCLS counter customers	42.9	41.7	43.7	43.0	41.8
Licensee retail stores	31.1	31.8	30.6	30.8	31.4
Licensed establishments	17.2	17.2	16.9	16.8	17.1
Other customers	5.7	6.3	6.1	6.7	7.0
Agency Stores	3.1	3.0	2.8	2.7	2.7
Total Sales (%)	100.0	100.0	100.0	100.0	100.0

Data Source: LDB Oracle Financial System.

Table 5: Provincial Sales by Customer based on Litre Sales
For the five years ended March 31, 2018

(as a percentage of total litre sales)	2013/14	2014/15	2015/16	2016/17	2017/18
BCLS counter customers	33.9	32.8	34.4	33.6	32.7
Licensee Retail Stores	40.5	41.5	39.9	40.5	41.0
Licensed Establishments	18.9	18.6	18.3	18.2	18.1
Other customers	2.6	3.0	3.4	4.0	4.1
Agency Stores	4.1	4.1	4.0	3.7	4.1
Total Sales (%)	100.0	100.0	100.0	100.0	100.0

Data Source: LDB Oracle Financial System.

Table 6: Customer Sales Change Based on Dollar Sales
For the five years ended March 31, 2018

	2013/14	2014/15	2015/16	2016/17	2017/18
BCLS counter customers	-1.5	1.9	14.8	4.0	2.1
Licensee Retail Stores	-0.1	6.9	5.6	6.4	6.9
Licensed Establishments	0.8	5.0	7.5	5.0	6.3
Other customers	8.1	16.4	6.4	14.9	16.2
Agency Stores	-6.0	1.3	1.9	3.4	5.5
Total Sales (%)	**-0.3**	**4.8**	**9.7**	**5.5**	**5.0**

Data Source: LDB Oracle Financial System.

There was sales growth in all customer categories compared to the prior year with the largest percentage increase in the ‘other customer’ category. This category was led by the increased number of B.C. manufacturer on-site stores. BCLS continue to adjust operations to compete in the marketplace similar to other private stores. This healthy competitive environment has resulted in sales increases for BCLS of 2.1 percent and 6.9 percent for licensee retail stores.

Remittances to Government agencies

The LDB paid $1.52 billion to various Government agencies during fiscal 2017/18. Due to the timing of remittance payments, 13 excise tax payments occurred in the 2017/18 fiscal year.

Table 7: Remittances to Government Agencies
(in $000s)

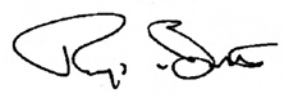
	2013/14	2014/15	2015/16	2016/17	2017/18
FEDERAL GOVERNMENT					
Custom Duties and Excise Tax	140,481	141,946	157,656	146,486	177,287
GST	71,056	65,264	68,636	73,310	74,927
Total	**211,537**	**207,210**	**226,292**	**219,796**	**252,214**
PROVINCIAL GOVERNMENT					
LDB Net Income	876,979	935,233	1,031,271	1,083,246	1,119,557
Social Services Tax	112,369	127,726	137,565	146,327	146,539
Liquor Control and Licensing	419	421	422	424	428
Total	**989,767**	**1,063,380**	**1,169,258**	**1,229,997**	**1,266,524**
MUNICIPAL GOVERNMENT					
Property Taxes	1,283	1,179	912	1,019	1,045
Business Licenses	35	33	36	38	38
Total	**1,318**	**1,212**	**948**	**1,057**	**1,083**
Total Remittances	**1,202,622**	**1,271,802**	**1,396,498**	**1,450,850**	**1,519,821**

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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



R. Blain Lawson
General Manager and Chief Executive Officer

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

Vancouver, British Columbia
May 14, 2018

OFFICE OF THE
Auditor General
of British Columbia

INDEPENDENT AUDITOR'S REPORT

To the Minister of Attorney General, Province of British Columbia

I have audited the accompanying financial statements of the British Columbia Liquor Distribution Branch, which comprise the statement of financial position as at March 31, 2018, and the statement of comprehensive income, statement of due to the Province of British Columbia, statement of 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, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Russ Jones

Victoria, British Columbia
May 15, 2018

Russ Jones, FCPA, FCA
Deputy Auditor General

BC LIQUOR DISTRIBUTION BRANCH

Statement of Comprehensive Income
(in thousands of dollars)
Year ended March 31, 2018, with comparative information for 2017

	Note	2018	2017
Revenue	4	$ 3,498,007	$ 3,331,532
Cost of sales		(2,030,641)	(1,921,582)
Gross Profit		1,467,366	1,409,950
Expenses:			
Administration	5, 14	(353,381)	(331,990)
Marketing	5	(5,269)	(5,150)
Transportation	5	(1,397)	(1,339)
		(360,047)	(338,479)
Net operating income		1,107,319	1,071,471
Other income		12,238	11,775
Net income and comprehensive income		$ 1,119,557	$ 1,083,246

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

BC LIQUOR DISTRIBUTION BRANCH

Statement of Due to the Province of British Columbia
(in thousands of dollars)

For the years ended March 31, 2018 with comparative information for 2017

	Note	2018	2017
Balance beginning of year		$ (28,510)	$ (12,434)
Net income and comprehensive income		(1,119,557)	(1,083,246)
Net payments to the Province of British Columbia	12	1,093,192	1,067,170
Balance end of year		$ (54,875)	$ (28,510)

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

BC LIQUOR DISTRIBUTION BRANCH

Statement of Financial Position
(in thousands of dollars)

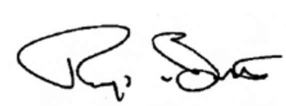
For the years ended March 31, 2018 with comparative information for 2017

	Note	2018	2017
Assets			
Current:			
Cash		$ 29,294	$ 23,671
Accounts receivable	6	18,350	8,784
Prepaid expenses	7	11,568	7,594
Inventories	8	121,940	112,357
		181,152	152,406
Non-current assets:			
Prepaid expenses	7	1,524	759
Intangible assets	9	40,425	32,697
Property and equipment	10	68,551	47,788
		110,500	81,244
Total assets		$ 291,652	$ 233,650
Liabilities			
Current:			
Accounts payable and accrued liabilities	11, 14, 15	$ 203,657	$ 174,566
Due to Province of British Columbia	12	54,875	28,510
		258,532	203,076
Non-current liabilities:			
Other long-term liabilities	13, 14, 15	33,120	30,574
		33,120	30,574
Total liabilities		$ 291,652	$ 233,650

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

Approved for issue on May 14, 2018 by:

R. Blain Lawson
General Manager and Chief Executive Officer



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

BC LIQUOR DISTRIBUTION BRANCH

Statement of Cash flows
(in thousands of dollars)

For the years ended March 31, 2018 with comparative information for 2017

	Notes	2018	2017
Cash provided by (used in):			
Operating:			
Net income and comprehensive income		$ 1,119,557	$ 1,083,246
Items not involving cash:			
Depreciation and amortization		18,696	14,815
Loss on retirement/disposal of property and equipment		504	330
Rent and lease amortization		1,093	372
Accrued employee benefits		1,453	2,011
Change in non-cash operating working capital:			
Long term assets		(765)	1,096
Working capital		5,968	(2,009)
		1,146,506	1,099,861
Investing:			
Acquisition of property and equipment	10	(34,025)	(11,478)
Acquisition of intangible assets	9	(13,695)	(15,258)
Proceeds from disposal of property and equipment		29	26
		(47,691)	(26,710)
Financing:			
Net payments to the Province of British Columbia	12	(1,093,192)	(1,067,170)
		(1,093,192)	(1,067,170)
Increase in cash		5,623	5,981
Cash, beginning of year		23,671	17,690
Cash, end of year		$ 29,294	$ 23,671

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

1. Description of operations

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

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. The LDB does not reflect any equity on its balance sheet as all net income is returned to the Province of British Columbia.

The LDB is exempt from Canadian federal and British Columbia provincial income taxes.

2. Basis of accounting

(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 and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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.

2. Basis of accounting (continued)

(d) Use of estimates and judgments (continued)

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 and intangible assets

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

(ii) Employee benefits – Retiring allowances

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

3. Significant accounting policies

The accounting policies below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

(a) Foreign currency translation

The LDB in the normal course of business purchases product in foreign currency. Any foreign currency transactions are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Any foreign currency denominated monetary assets and liabilities are stated using the prevailing rate of exchange at the date of the statement of financial position. The resulting foreign currency gains or losses are recognized on a net basis within administrative expenses in the statement of comprehensive income.

3. Significant accounting policies (continued)

(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.

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

Loans and receivables (continued)

(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

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

Financial liabilities held at amortized cost

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

(i) Accounts payable

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

(ii) Bank indebtedness

Bank indebtedness, if any, 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.

3. Significant accounting policies (continued)

(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 note 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.

3. Significant accounting policies (continued)

(d) Intangible assets (continued)

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 that have finite lives are measured at cost less accumulated amortization and accumulated impairment losses.

(e) Depreciation and amortization 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:

Asset	Rate
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.

3. Significant accounting policies (continued)

(a) 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 of 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 (the "cash–generating unit"), which are based on the LDB's individual stores.

3. Significant accounting policies (continued)

(h) Impairment of assets (continued)

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 jointly trusteed 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 discounts, commission, estimated returns and excludes provincial sales tax, federal goods and services tax, container recycling fees and container deposits.

3. Significant accounting policies (continued)

(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

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.

(ii) *IFRS 9, 'Financial Instruments'*

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard also introduces additional changes relating to financial liabilities; amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment; and a new general hedge accounting standard which aligns hedge accounting more closely with risk management.

The standard is effective for accounting periods beginning on or after January 1, 2018 with early adoption permitted. Based on management's assessment, this standard is not expected to have a material impact.

(iii) *IFRS 15, 'Revenue from Contracts with Customers'*

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

(Tabular amounts in thousands of dollars)

3. Significant accounting policies (continued)

(m) Recent accounting developments (continued)

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

(iv) *IFRS 15, 'Revenue from Contracts with Customers' (continued)*

The standard is effective for accounting periods beginning on or after January 1, 2018, with early adoption permitted. Based on management's assessment, this standard is not expected to have a material impact.

(v) *IFRS 16 ' Leases'*

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The standard is effective for accounting periods beginning on or after January 1, 2019. Earlier application is permitted, but only in conjunction with IFRS 15. The LDB has not yet assessed the impact of the standard.

4. Sales

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

	2018	2017
Retail customers	$ 1,463,045	$ 1,433,076
Licensee retail stores	1,097,773	1,027,230
Hospitality customers	594,362	559,172
Other customers	247,002	221,190
Agency stores	95,825	90,864
Total sales	$ 3,498,007	$ 3,331,532

(Tabular amounts in thousands of dollars)

5. Operating expenses

The LDB’s operating expenses are comprised of:

	2018	2017
Administration costs	$ 353,381	$ 331,990
Marketing	5,269	5,150
Transportation	1,397	1,339
	360,047	338,479
Salaries, wages and benefits	203,776	194,938
Rents	52,547	46,494
Bank charges	30,334	29,747
Other administrative expenses	19,407	18,409
Depreciation and amortization	18,696	14,815
Professional services	10,292	10,995
Data processing	9,440	8,237
Repairs and maintenance	6,193	5,754
Marketing	5,269	5,150
Loss prevention	2,696	2,601
Transportation	1,397	1,339
Total operating expenses	$ 360,047	$ 338,479

6. Accounts receivable

	2018	2017
Trade accounts receivable and other items	$ 18,404	$ 8,835
Provision for doubtful accounts	(54)	(51)
Accounts receivable and other items - net	$ 18,350	$ 8,784

Receivables past due but not impaired are $0.3 million (2017 - $0.4 million). During the year the LDB expensed $nil (2017 - $0.1 million) in bad debts expense.

(Tabular amounts in thousands of dollars)

7. Prepaid expenses

Prepaid expenses include insurance, software maintenance, and wine futures for cash paid pertaining to wine to be received in subsequent periods. 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, 2018, the LDB has recorded $8.7 million (2017 - $5.0 million) of prepaid wine futures for delivery in fiscal years 2019 to 2020.

	2018	2017
Non-refundable wine futures	$ 8,654	$ 5,027
Other prepaid expenses	4,438	3,326
	13,092	8,353
Less long term portion	(1,524)	(759)
Current portion	$ 11,568	$ 7,594

8. Inventories

	2018	2017
Store inventory	$ 71,999	$ 62,083
Warehouse inventory	49,941	50,274
Total inventory	$ 121,940	$ 112,357

During the year, inventories that were recognized as cost of sales amounted to $2.0 billion (2017 - $1.9 billion).

(Tabular amounts in thousands of dollars)

9. Intangible assets

	Intangible assets	Construction in process	Total
March 31, 2017			
Opening net book value	$ 3,887	$ 16,241	$ 20,128
Additions	551	14,707	15,258
CIP capitalization	3,441	(3,441)	-
Disposals (cost)	-	(402)	(402)
Disposals (accumulated amortization)	51	-	51
Amortization charge	(2,338)	-	(2,338)
	$ 5,592	$ 27,105	$ 32,697
Cost	$ 28,638	$ 27,105	$ 55,743
Accumulated amortization	(23,046)	-	(23,046)
Net book value	$ 5,592	$ 27,105	$ 32,697
March 31, 2018			
Opening net book value	$ 5,592	$ 27,105	$ 32,697
Additions	120	13,575	13,695
CIP capitalization	36,407	(36,407)	-
Disposals (cost)	(14,068)	-	(14,068)
Disposals (accumulated amortization)	14,068	-	14,068
Amortization charge	(5,967)	-	(5,967)
	$ 36,152	$ 4,273	$ 40,425
Cost	$ 51,097	$ 4,273	$ 55,370
Accumulated amortization	(14,945)	-	(14,945)
Net book value	$ 36,152	$ 4,273	$ 40,425

(Tabular amounts in thousands of dollars)

10. Property and equipment

	Land & land improvements	Buildings & building improvements	Leasehold improvements	Furniture fixtures vehicles & equipment	Information systems	Construction in process	Total
March 31, 2017							
Opening net book value	642	683	25,998	9,617	8,032	3,820	48,792
Additions	-	158	4	1,908	1,704	7,704	11,478
CIP capitalization	-	9	7,171	455	-	(7,635)	-
Disposals (cost)	-	-	-	(331)	(294)	-	(625)
Disposals (accumulated depreciation)	-	-	-	327	293	-	620
Depreciation charge	(2)	(54)	(6,528)	(3,302)	(2,591)	-	(12,477)
	640	796	26,645	8,674	7,144	3,889	47,788
Cost	647	6,049	84,557	45,332	89,182	3,889	229,656
Accumulated depreciation	(7)	(5,253)	(57,912)	(36,658)	(82,038)	-	(181,868)
Net book value	640	796	26,645	8,674	7,144	3,889	47,788
March 31, 2018							
Opening net book value	640	796	26,645	8,674	7,144	3,889	47,788
Assets reclassified	-	(10)	(25)	35	-	-	-
Additions	-	104	69	1,835	1,457	30,560	34,025
CIP capitalization	-	-	9,174	950	-	(10,124)	-
Disposals (cost)	-	-	(2,238)	(2,415)	(44,559)	-	(49,212)
Disposals (accumulated depreciation)	-	-	1,738	2,382	44,559	-	48,679
Depreciation charge	(2)	(62)	(6535)	(3,306)	(2,824)	-	(12,729)
	638	828	28,828	8,155	5,777	24,325	68,551
Cost	647	6,143	91,537	45,737	46,080	24,325	214,469
Accumulated depreciation	(9)	(5,315)	(62,709)	(37,582)	(40,303)	-	(145,918)
Net book value	638	828	28,828	8,155	5,777	24,325	68,551

(Tabular amounts in thousands of dollars)

11. Accounts payable and accrued liabilities

	2018	2017
Trade payables	$ 129,488	$ 96,862
Accrued liabilities	70,128	73,862
Other payables	3,543	3,344
Current portion of deferred lease liabilities (note 15)	498	498
	$ 203,657	$ 174,566

12. Due to Province of British Columbia

The LDB uses the Province's financial and banking systems to process and record its transactions. The amount due to the Province represents the accumulated net financial transactions with the Province. During the year, the total receipts from the Province were $2.44 billion (2017 - $2.41 billion) and the total payments to the Province were $3.53 billion (2017 - $3.48 billion).

13. Other long-term liabilities

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

	2018	2017
Retirement benefit obligation (note 14(b))	$ 17,335	$ 16,373
WorkSafe BC claims accruals (note 14(c))	11,000	10,700
Long-term portion of deferred lease liabilities (note 15)	3,088	1,994
Other	1,697	1,507
	$ 33,120	$ 30,574

14. Employees' benefit plans and other employment liabilities

(a) Public Service Pension Plan

The LDB and its employees contribute to the Public Service Pension Plan, a jointly trusteed pension plan. The Public Service Pension Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of the assets and administration of benefits. The plan is a multi-employer contributory pension plan. Basic pension benefits are based on a formula. The Plan has about 59,000 active plan members and approximately 46,000 retired plan members.

(Tabular amounts in thousands of dollars)

14. Employees' benefit plans and other employment liabilities (continued)

(a) Public Service Pension Plan (continued)

The latest actuarial valuation as at March 31, 2017, indicated a funding surplus of $1.9 billion for basic pension benefits. The next valuation will be March 31, 2020, with results available in early 2021.

Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting).

This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan. The total amount paid into this pension plan by the LDB for the year ended March 31, 2018 was $12.8 million (2017 - $12.2 million) for employer contributions which was recorded in administration expenses. At this time, LDB does not expect significant fluctuations in the future contributions to 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 $17.3 million (2017 - $16.4 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 $0.9 million (2017 - $0.5 million).

(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 $11.0 million (2017 - $10.7 million) is valued by independent actuaries.

15. Deferred lease liabilities

Deferred lease liabilities are as follows:

		2018		2017
Deferred rent	$	3,586	$	2,492
Less current portion included in accounts payable and accrued liabilities		(498)		(498)
Long term portion	$	3,088	$	1,994

(Tabular amounts in thousands of dollars)

16. Contractual commitments

(a) Leases

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

	2018	2017
Total future minimum rental payments under non-cancellable operating leases expiring:		
Not later than one year	$ 37,766	$ 36,483
Later than one year and not later than five years	92,272	90,767
Later than five years and not later than 25 years	49,254	55,642
	$ 179,292	$ 182,892

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 $39.7 million (2017 - $35.2 million).

(b) BC Liquor Store fees

The LDB pays the Liquor Control and Licensing Branch an annual license fee based on the annual sales in each BC Liquor Store. The LDB paid $0.4 million (2017 - $0.4 million) for license fees during the year.

(c) Payroll processing

The LDB has an agreement with the BC Public Service Agency for payroll processing. The LDB paid $1.0 million (2017 - $0.9 million) for processing services. The agreement expires in November 2019.

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

17. Contingent items

The LDB is the sole importer of beverage alcohol in the Province. The LDB, as the importer of record, has the future liability for customs duty on import beer of $0.9 million (2017 - $0.9 million) based upon the value of the agents’ inventories at March 31, 2018.

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.

(Tabular amounts in thousands of dollars)

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

All transactions with the Province of BC and its ministries, agencies, and Crown corporations occurred in the normal course of business are at arm's length, which is representative of fair value, unless otherwise disclosed in these notes.

(b) Key management compensation

The LDB's executive management committee is defined as key management. At March 31, 2018, there were 8 (2017 - 7) members on the executive committee.

	2018	2017
Salaries and short term benefits	$ 1,071	$ 1,066
Post-employment benefits	78	79
Fees for services	-	207
	$ 1,149	$ 1,352

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

20. Fair value of financial instruments:

The fair value of a financial instrument is the amount of consideration that could be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. In certain circumstances, however, the fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market-based inputs. The fair values of the LDB's assets and liabilities were determined as follows:

(a) Current assets and liabilities:

(ii) The carrying amounts for cash, accounts receivable, accounts payable and accrued liabilities and due to the Province of British Columbia approximate their fair values due to the short-term nature of these items.

(b) Non-current financial liabilities:

(iii) The value of the Public Service Pension Plan and Worksafe BC liability approximate their fair values based on independent actuarial valuation. Retirement benefits are calculated based on pensionable earnings and rates provided by the Public Service Agency which approximates the fair value of the liability (Note 14).

21. 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.

(a) 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.

Credit risk is the risk of financial loss to the LDB arising from its cash held at financial institutions and the failure of a tenant or other party to meet its contractual obligations related to lease agreements, including future lease payments. See accounts receivable note 3(b) and 6 for further disclosure on credit risk.

As at March 31, 2018, the cash balances are held with a major Canadian bank and therefore not exposed to significant credit risk.

(b) 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.

(c) Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the LDB's income or the value of its financial instruments.

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

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

Major Capital Projects

Major Capital Projects (over $50 million)	Targeted Completion Date (Year)	Project Cost to March 31, 2018 ($ millions)	Estimated Cost to Complete ($ millions)	Approved Anticipated Total Capital Cost of Project ($ millions)
Warehouse relocation	2018/19	25.7	31.4	57.1

Warehouse relocation project

The LDB has entered into a long-term lease for a warehouse facility located in Delta, B.C., with the intent to be operational in the new facility in Summer 2018. This will position the LDB to provide high-quality and timely service to wholesale customers and all British Columbians – resulting in both operational and financial benefits sooner.

The capital cost outlined is funding for material handling equipment, racking and conveyors, as well as a new computerized warehouse management system for the new warehouse.

Anticipated Legalization of Cannabis

In December 2017, the LDB was appointed the non-medical cannabis wholesale distributor for the province and with this major project underway, there could be an impact on the LDB's liquor-related priorities in the near term.

Appendix A – Additional Information

Organizational Overview

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

Vision, Mission and Values

Vision
Service. Relationships. Results.

Mission
We are a responsible wholesaler and retailer of liquor that contributes vital funds to BC public services.

Values

Continuous Improvement
We seek out new ideas in our pursuit of excellence.

Service
We strive for excellence in serving our customers, co-workers and stakeholders.

Social Responsibility
We support responsible consumption, the environment and charitable giving.

Integrity
We are ethical and accountable.

Respect
We treat people with fairness and dignity.

People
We recognize people as our greatest asset.

Contact Information

For more information, please contact the LDB Communications team:
E-mail: communications@bcldb.com
Mail: 2625 Rupert Street, Vancouver, BC V5M 3T5

Appendix B – BC Liquor Stores Operating Results

With the implementation of the new wholesale model in fiscal 2015/16, the LDB separated its Retail and Wholesale divisions. Table 1 reflects the BCLS operating results as a customer of the Wholesale division, like any other private store operator. For 2017/18, BCLS net income was 9.1 percent of sales.

Table 1: BCLS financial results
(in $millions)

	2016/2017	% sales	2017/2018	% sales
Sales	1,444.4	100.0	1,476.8	100.0
Gross Margin	287.0	19.8	312.5	21.2
Expenses	149.3	10.3	182.1	12.3
Other Income	3.4	0.2	3.6	0.2
Net Income	**141.1**	**9.8**	**134.0**	**9.1**

BCLS sales include all customer sales (e.g. counter customers and private stores) occurring in the stores but excludes sales and related gross margin related to licensed establishments (hospitality) customers. Since hospitality sales are attributed to the Wholesale division, the costs related to these sales are also removed from the BCLS results. In fiscal 2017-18, the methodology used in calculating the cost allocation was refined and resulted in fewer BCLS costs being attributed to the Wholesale division.

The gross margin reflects the retail mark-up added to the wholesale price of product transferred from the Wholesale division.

The financial results do not include any head office expenses.