

Service Plan

2006/07 - 2008/09



**British
Columbia
Lottery
Corporation**

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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 2006/07 – 2008/09 Service Plan.

For over 30 years, BCLC has provided high-quality gaming entertainment that generates income for Government and the 2006/07 – 2008/09 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 2005/06, BCLC is projecting that it will achieve its Service Plan target of \$900 million in net income. 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 \$632 million in prizes paid to British Columbians, \$460 million paid to our lottery, casino and bingo service provider partners, and over \$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 over \$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 net income for the public good. Over the three years covered by this plan, BCLC estimates it will generate almost \$3 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 gambling 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.

Gaming entertainment is becoming increasingly competitive and complex with new challenges and opportunities to address. Our Service 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 plan was prepared under our direction in accordance with the *Budget Transparency and Accountability Act*. We are 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 overall Strategic Plan. All significant assumptions, policy decisions and identified risks, as of January 25, 2006 have been considered in preparing the plan. We are accountable for ensuring BCLC achieves its specific objectives identified in the plan and for measuring and reporting actual performance.



John McLernon
Board Chair



Vic Poleschuk
President and CEO

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Corporate Governance

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.

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
	Donald Pettit	Appointed September 26, 2001
	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

BCLC 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.

The following committees have been established:

STANDING COMMITTEES

Audit

Chair new chair to be appointed
Members Arthur Willms, Kathy Stevenson, John Bell

- Liaises between the external and internal auditors and the Board
- 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
- Oversees the review of the Corporation's financial reporting, information systems, risk management and internal controls

Governance and Corporate Social Responsibility

Chair David Gillespie
Members Arthur Willms

- Reviews the policies and practices of the Board and makes recommendations regarding Board effectiveness
- Examines and make recommendations regarding good corporate governance practices throughout the Corporation
- Oversees corporate social responsibility programs

Human Resources and Compensation

Chair Tazeem Nathoo
Members Donald Pettit, Neil McDonnell

- Examines the Corporation's strategies and practices that relate to human resource and compensation matters and succession planning issues and provides advice on these matters to the Board for consideration
- 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

Marketing and Sponsorship

Chair John Bell

Members Neil McDonnell, Donald Pettit

- Provides support to the Board during the strategic planning process with respect to the marketing components of the strategic plan
- Reviews the overall marketing and sponsorship strategies and guidelines that will govern the Corporation's role on brands, business units and sponsorships
- Monitors the Corporation's performance against the marketing strategies and guidelines

Organizational Overview

CORPORATE MANDATE

Pursuant to amendments to the Criminal Code of Canada in 1969 and enabling legislation, 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 gaming within British Columbia. This includes the marketing of nationwide and regional lottery games in association with other provinces of Canada. Under current provincial gaming legislation, BCLC's mandate includes the following responsibilities:

- Conduct, manage and operate lottery gaming
- Conduct, manage and operate casino gaming
- Conduct, manage and operate commercial bingo gaming

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.

Gaming Policy and Enforcement Branch (GPEB), the independent regulatory branch of the Ministry of Public Safety and Solicitor General, is responsible for the development of policy, regulation and enforcement of the *Gaming Control Act*.

SCOPE OF OPERATIONS

With its headquarters in Kamloops and a sales and marketing office in Richmond, the Corporation employs a full-time equivalent (FTE) of approximately 600. This includes employees based in our two offices, as well as lottery, casino, and bingo support staff in gaming operations throughout the province.

The Corporation generated revenues of \$2.03 billion and net income of \$819 million in fiscal 2004/05.

The Corporation contracts for the sale of its products through a private sector network of about 4,400 lottery retailers, 19 casinos in operation, 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 operational and security staff oversees compliance by our service providers with the contracts and performance 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.

In fiscal 2004/05, BCLC made significant economic contributions to British Columbia communities and the Government of British Columbia. These benefits include more than \$623 million in prizes to British Columbians, \$409 million in commissions and service fees paid to lottery, casino and bingo service

providers, approximately \$170 million in purchase of equipment, goods and services, and \$819 million in net income to Government.

These funds are used to support a variety of Government and public service programs, including health care, education, social, charitable, municipal and other programs as noted in Figure 1.

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.

Figure 1: Fiscal 2004/05 Sources of Gaming Income and Distribution (Fiscal 2004/05 Annual Report - \$ in millions)

SOURCE OF NET INCOME		DISTRIBUTION OF NET INCOME	
Lottery	\$ 285	Consolidated Revenue	\$ 480
Casino	515	Health Special Account	147
Bingo	<u>19</u>	Charity Contribution	135
	<u>\$ 819</u>	Municipal Revenue & Economic Development	45
		Federal Government	8
		Horse Racing Purse Enhancements	<u>4</u>
			<u>\$ 819</u>

Strategic Context

VISION

To Be a Player-Focused, Publicly Respected, Performance-Driven Corporation

MISSION

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

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

GOALS

1. To generate 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.

Planning Context

Each year, BCLC analyzes the impact of external and internal environments on the ability to achieve the 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.

Lotteries have been part of the retail market in British Columbia for more than 30 years and our existing brands are mature.

To tackle lottery maturation and rejuvenate the business growth, BCLC needs to continue its lottery transformation program that began last year. This program involves re-thinking our current business with a greater focus on our players and launching new innovative products, businesses and distribution channels that deliver a higher entertainment value to our players.

Casinos have become a significant generator of gaming revenue benefiting British Columbians since the Government policy decision to introduce slot machines in 1997.

BC casinos are being transformed from simple gambling halls into full scale multi-dimensional entertainment showplaces. Players are now enjoying a more diverse entertainment experience with major facilities offering resort-style accommodations, conference facilities, full service restaurants, and theatre-style show lounges. Resulting business performance has been positive and BCLC will continue its vision of providing British Columbians with fewer, high quality properties sized to fit the marketplace.

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 the bingo service providers to transform the business to community gaming centers offering more entertaining products in better facilities which 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 community gaming centres (CGCs). In addition to slot machines, pilot CGCs have included facility upgrades and have tested new products and other forms of entertainment. Business results to date have been favourable indicating new CGCs could be launched in selected areas within the province.

CONSUMERS

The expectations of lottery, casino and bingo players are constantly changing as demographics shift, new trends evolve and economic factors change. A key challenge is the increasing consumer demand for high-quality entertainment products and services. BCLC needs to continue responding to this demand with innovative new products, enhanced gaming facilities and new distribution channels to reach players. Monitoring and assessing the consumer environment is a key function that will ensure product and distribution strategies deliver enjoyable, socially responsible gaming entertainment.

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. Delivering high entertainment value and building loyal customer relationships are increasingly important as competitive differentiators.

Competing lotteries, expanded gaming in neighbouring jurisdictions and eGaming present new challenges. It is estimated that British Columbia loses approximately \$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 approximately \$12 billion (U.S.) worldwide and are estimated to grow to more than \$25 billion in the next two to three years.

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

TECHNOLOGY

Rapidly evolving communications and entertainment technologies pose 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. BCLC continues to identify and evaluate the most promising developments in technology.

Additionally, BCLC is leveraging new technologies associated with customer relationship management to better understand player needs and foster profitable one-to-one relationships with them.

BCLC must continue to keep abreast of technology and ensure that enabling technologies and skills are in place to support new revenue opportunities, innovation and operational effectiveness.

PUBLIC ACCEPTANCE/GOVERNMENT POLICY

Current Government gaming policy provides for moderate growth in revenues. BCLC's revenue projections are based on current government policies.

BCLC understands that the public consent to operate and Government policies for moderate growth in gaming revenues are critical to achieving BCLC's vision, mission and goals. It is important then, that the objective of income generation is balanced with the objective of social responsibility.

BCLC needs to improve the low level of public recognition of the role BCLC plays in gaming and our emphasis on gaming integrity and responsible gaming.

It is also important for BCLC to build a greater awareness with the public of the good works that gaming revenues contribute to – whether that be for Government programs or charitable and community groups.

BCLC programs will focus on communicating the beneficiaries of gaming revenues at the community level, continue to execute best practices responsible gambling programs, and continue to build stakeholder trust and support through open and honest communications with the public.

RESPONSIBLE PLAY

BCLC and Government recognize that aspects of gaming policy are inherently controversial. Of the total adult population, 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, have 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. Over the next three years, BCLC will continue to play a strong leadership role in ensuring that best practices problem gambling risk management strategies and programs are in place.

REGULATORY

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

The GCA 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.

CAPACITY ASSESSMENT

ORGANIZATIONAL CAPABILITY

The success of BCLC in the future will continue to depend on 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 competitive recruitment and compensation policies 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.

SYSTEMS

BCLC has a strong technology platform to support current products and the integrity of games and processes. BCLC needs to continue developing ongoing technology to support the innovative new products in the pipeline. In addition, a continued focus on strong research and development capabilities is necessary to address the risks and opportunities during the planning period.

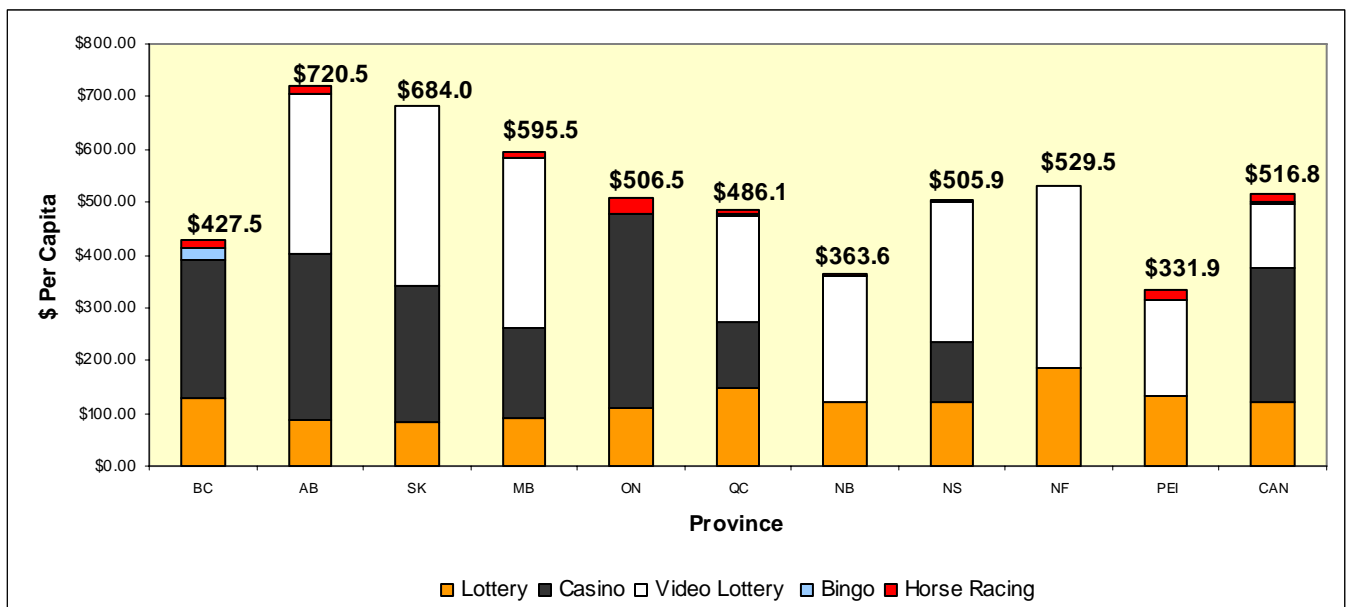
DISTRIBUTION CHANNELS

In the past, BCLC has benefited from solid performance from channel members in lottery, casino and bingo. More recently, BCLC has added a new eChannel, "Play Now", where consumers can purchase our lottery and Sports Action products. Our distribution network is well situated from a geographic perspective to provide good access to the BC marketplace. However, recent issues have surfaced that could impact the business. In lottery, traditional retail channels are experiencing declines in consumer traffic. BCLC will continue to develop the retail network to ensure that our products are available at high consumer traffic locations.

MARKET DEVELOPMENT – A CANADIAN CONTEXT

While gaming in British Columbia has grown over the last few years, on a per capita basis it is still moderate compared to other provinces in Canada. On a comparison basis with other provinces in Canada, British Columbia ranks 8th in per capita gaming spend (sales less prizes). Achievement of the Service Plan targets over the next three years will result in per capita gaming spend in British Columbia moving closer to the Canadian average.

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



Sources: Provincial Gaming Authority Annual Reports and Statistics Canada

*Gaming spend is an industry standard measure which is defined as total sales minus prize payouts

Risk Factors, Capacity Issues and Mitigating Strategies

BCLC continually assesses and manages risk and capacity. As an integral part of the Corporation's planning process, specific objectives, strategies and performance measures are developed to mitigate or reduce risk. The following table summarizes key risk and capacity issues facing the organization and our mitigating strategies.

RISK AND CAPACITY	MITIGATING STRATEGY
<p>Competition</p> <p>Lottery sales in BC and the rest of Canada are stagnant or declining</p> <p>Bingo sales in BC and across Canada have been declining for a number of years</p> <p>High-quality and larger gaming facilities in neighbouring jurisdictions compete with casinos in BC for casino entertainment spending</p>	<p>BCLC has introduced Sports Action and its existing lotto products on Play Now, the Corporation's eLottery site. BCLC is developing new innovative products and investigating new distribution channels to increase entertainment value and convenience to the player. .</p> <p>BCLC is transforming the bingo market through improved facilities and the introduction of new games, including slot machines, and other forms of entertainment. In fiscal 2004/05 BCLC opened four new community gaming centres that offer a higher value of entertainment for the consumer. New community gaming centres are planned for fiscal 2006/07.</p> <p>BCLC's business plan provides for the development of fewer high-quality casinos sized to fit the marketplace. In fiscal 2004/05, BCLC relocated existing casinos in Vancouver, Prince George and Richmond to new higher entertainment facilities. In fiscal 2005/06 the new Langley City casino and the renewed Coquitlam casino opened. The renewed Burnaby and Queensborough casinos will open in 2007/08.</p>
<p>Host Local Government Approval</p> <p>The <i>Gaming Control Act</i> requires that local governments provide approval for acceptance or relocation of casinos and bingo halls in their communities.</p> <p>Delays or inability to obtain such approvals present a risk to delivery on revenue targets.</p>	<p>BCLC has developed an extensive consultation and relocation process to ensure communities and key stakeholders have adequate information to make informed decisions.</p>
<p>Public Acceptance</p> <p>Without strong public acceptance and support, the Corporation's ability to achieve its business and revenue objectives may be at risk.</p>	<p>BCLC is continuing to adopt industry best practices that promote responsible play.</p> <p>BCLC is developing and implementing community based programs to better inform the public about the beneficiaries of gaming.</p> <p>BCLC continues to place the highest level of importance on the integrity of our games, processes and people.</p>

RISK AND CAPACITY	MITIGATING STRATEGY
<p>Capacity</p> <p>With responsibility for the conduct and management of casino and bingo gaming added to BCLC's mandate, both the complexity and size of the business has increased.</p>	<p>BCLC has developed internal resources and recruited outside expertise to manage the growth of the business.</p> <p>In fiscal 2004/05 BCLC made major investments in it's technology infrastructure:</p> <ul style="list-style-type: none"> ▪ Replacement of lottery gaming system and terminals ▪ Major investment in casino gaming and systems technology ▪ Replacement of the Corporation's financial systems with an enterprise wide system <p>BCLC continues to work closely with its business partners to ensure that future technology requirements are met.</p>

Key Strategic Issues

1. Government Gaming Policy
 - Current Government gaming policy provides for moderate growth in revenues. BCLC's revenue projections are based on current Government policies
2. Public Acceptance
 - Public acceptance of gaming is critical to achieving BCLC's vision, mission and goals
 - BCLC must build a greater awareness with the public of the good works that gaming revenues contribute to – whether that be for government programs or charitable and community programs
 - BCLC will continue to play a strong leadership role in ensuring that an appropriate problem gambling risk management strategy and programs are in place
3. Competition
 - Increasing competition for the discretionary dollars of British Columbians
 - Competing lotteries, expanded gaming in neighbouring jurisdictions and eGaming present new challenges
4. Lottery Transformation
 - Innovation will be key to rejuvenating a mature business
5. Bingo Transformation
 - The planned build out of community gaming centres to meet marketplace demand will improve net income performance from the bingo division
6. Local Government Approvals
 - Local government approval is required before any new or relocated casino or bingo halls can be introduced into a community
 - Delays or inability to obtain such approvals present a risk to delivering on revenue targets
7. Organizational Health
 - External market shortages of leadership and technical skill are forecasted over the three-year planning period
 - Competitive recruitment and compensation policies will be required to attract and retain the best and brightest leaders and experts to support the business agenda

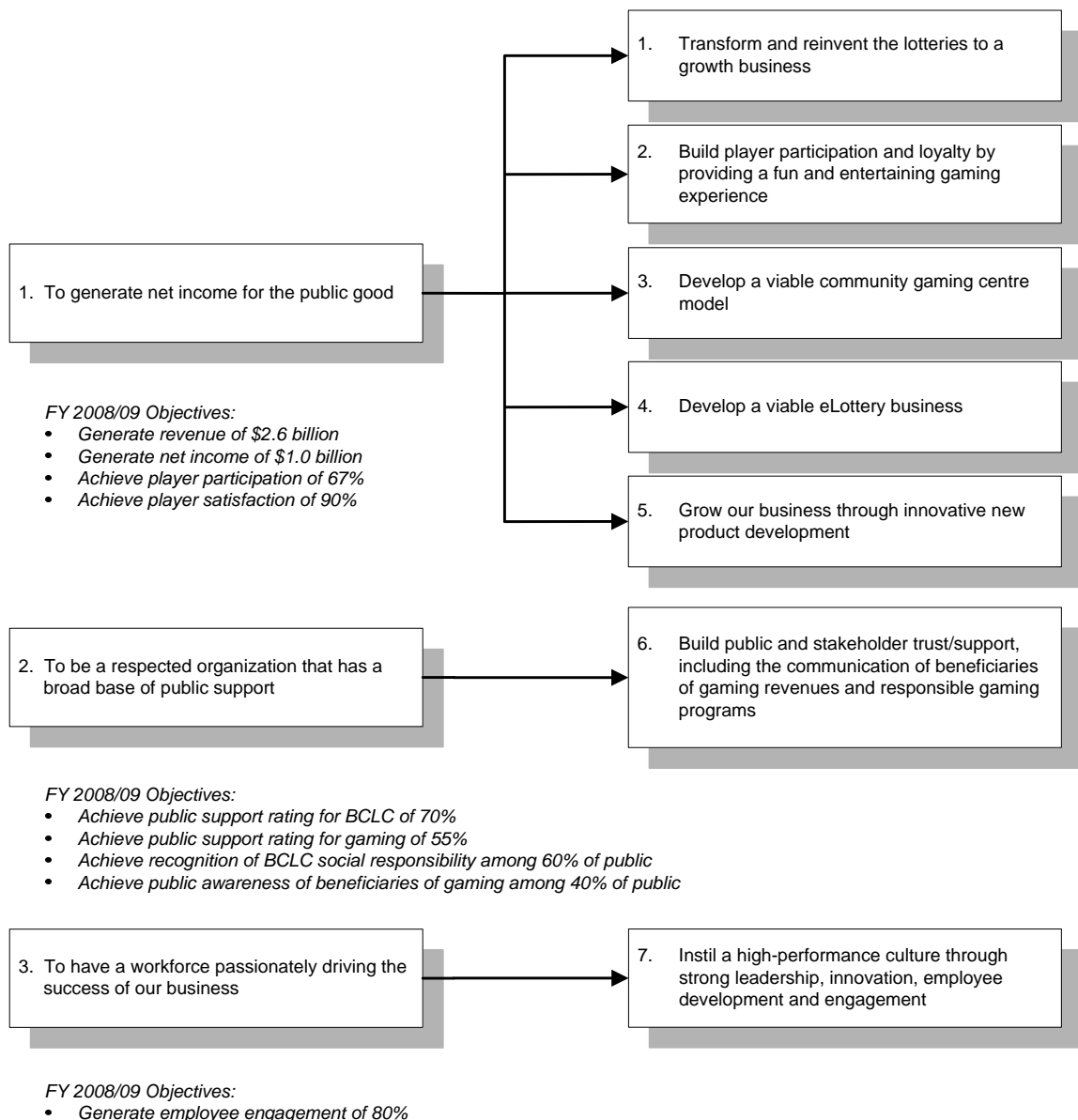
Goals, Strategies, Performance Measures and Targets

BCLC has established a focused set of goals, strategies, performance measures and targets to be achieved over the next three years. The goals flow from BCLC's vision and mission and state the overall intended results of the Service Plan. The strategies describe the key initiatives that will be implemented to achieve the goals. Specific performance measures and targets translate the goals into more specific outcomes and quantify annual progress towards achieving them.

Our three corporate goals remain the same as in last year's Service Plan but have been streamlined to improve clarity and focus. Corporate strategic initiatives have been reduced from 8 to 7. The plan is aligned with Government gaming policy and reflects input and guidance from the Board of Directors.

Corporate Goals and Objectives

Corporate Strategic Initiatives



GOAL #1 TO GENERATE NET INCOME FOR THE PUBLIC GOOD

STRATEGIES
<ul style="list-style-type: none"> • Transform and reinvent the lotteries to a growth business. • Build player participation and loyalty by providing a fun and entertaining gaming experience. • Develop a viable community gaming centre model • Develop a viable eLottery business • Grow our business through innovative new product development

PERFORMANCE MEASURES	FISCAL 04/05 ACTUAL	FISCAL 05/06 PROJECTED	FISCAL 06/07 TARGET	FISCAL 07/08 TARGET	FISCAL 08/09 TARGET
Revenue, Total (in millions)	2,027.3	2,240.0	2,365.0	2,465.0	2,625.0
Lottery	938.0	955.0	1,000.0	1,050.0	1,150.0
Casino	892.9	1,075.0	1,140.0	1,175.0	1,225.0
Bingo	196.4	210.0	225.0	240.0	250.0
Operating Cost Ratio (%)	4.7%	4.7%	4.7%	4.6%	4.5%
Net Income (in millions)	818.9	900.0	940.0	980.0	1,035.0
Lottery	285.1	273.6	278.9	291.5	307.9
Casino	515.0	599.4	630.1	649.5	683.6
Bingo	18.8	27.0	31.0	39.0	43.5
FTEs	569	585	600	612	625
Player Participation (%)	63	63	65	67	67
Player Satisfaction (%)	83	80	84	88	90

This goal supports BCLC's mission to offer responsible gaming entertainment, generating income for the public good.

The revenue, operating cost and net income performance measures measure BCLC's commercial success in attaining revenue targets in lottery, casino and bingo as well as net income targets.

Within the framework of Government policy, it is BCLC's objective to achieve a high level of public participation while emphasizing responsible play. New innovative products are aimed at increasing public participation by providing games that appeal to new players. The corporation has set targets to increase public participation over the service plan period.

Player satisfaction is a key performance measure to measure BCLC's success in achieving our strategy to build player participation and loyalty by providing a fun and entertaining gaming experience.

GOAL #2 TO BE A RESPECTED ORGANIZATION THAT HAS A BROAD BASE OF PUBLIC SUPPORT

STRATEGIES					
<ul style="list-style-type: none"> Build public and stakeholder trust/support, including the communication of the beneficiaries of gaming revenues and responsible gaming programs. 					
PERFORMANCE MEASURES	FISCAL 04/05 ACTUAL	FISCAL 05/06 PROJECTED	FISCAL 06/07 TARGET	FISCAL 07/08 TARGET	FISCAL 08/09 TARGET
Public Support of BCLC (%)	66	66	66	70	70
Public Support of Gaming (%)	56	52	52	55	55
Public Recognition of Social Responsibility (%)	56	56	56	58	60
Public Awareness of Beneficiaries of Gaming (%)	28	30	32	35	40

BCLC’s success in the marketplace is dependant on public consent to operate. BCLC measures public consent to operate through four key measures: public support of gaming; public support of BCLC; public awareness of the beneficiaries of gaming; and public recognition for social responsibility.

These performance targets have been reduced from the previous year to reflect the current trends. These measures are expected to increase over the service plan period; except that public support of gaming is expected to dip slightly. This decrease in public support of gaming from the previous year can be attributed to increased media coverage and public debate regarding Government policy.

In building a long-term healthy gaming industry, it will be important to build a greater awareness with the public of the good works that gaming revenues contribute to – whether that be for Government programs or charitable and community programs.

BCLC also continues to work in partnership with the Gaming Policy and Enforcement Branch to ensure problem gambling issues are addressed through public awareness, research, education, prevention and treatment programs.

Public awareness of the beneficiaries of gaming and the responsible gaming programs undertaken by BCLC and the Province is necessary to building public and stakeholder trust and support.

GOAL #3 TO HAVE A WORKFORCE PASSIONATELY DRIVING THE SUCCESS OF OUR BUSINESS

STRATEGIES					
<ul style="list-style-type: none"> Instil a high-performance culture through strong leadership, innovation, employee development and engagement. 					
PERFORMANCE MEASURES	FISCAL 04/05 ACTUAL	FISCAL 05/06 PROJECTED	FISCAL 06/07 TARGET	FISCAL 07/08 TARGET	FISCAL 08/09 TARGET
Employee Engagement (%)	51	60	70	80	80

Employee engagement is the measure BCLC uses to track organizational health and employee commitment. 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 business success. Research has shown that organizations with higher employee engagement have greater shareholder returns.

Over the course of the last year, the Corporation implemented a number of initiatives to help the organization towards a higher-performance culture that encourages innovation and supports the growth of the business. BCLC’s performance targets have been adjusted to show the attainment of our engagement target of 80% by fiscal 2007/08, one year later than the original timeframe.

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	BCLC SERVICE PLAN
GOVERNMENT GOALS	BCLC ALIGNMENT
To make British Columbia the best educated, most literate jurisdiction on the continent.	<ul style="list-style-type: none"> Fiscal 2004/05 net income of \$819 million generated for key Government programs including healthcare, education and physical fitness
To lead the way in North America in healthy living and physical fitness.	<ul style="list-style-type: none"> Government gaming revenues of \$135 million that provide funding to over 5,500 charitable organizations including many that support healthy living, physical fitness and parent advisory groups that support education in BC
To build the best system of support in Canada for persons with disabilities, special needs, children at risk and seniors.	<ul style="list-style-type: none"> BCLC has implemented environmentally friendly policies including recycled paper for ticket printing, recycling computers back into the school system and power smart facility initiatives
To lead the world in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none.	<ul style="list-style-type: none"> There are approximately 10,000 people who are directly employed in the gaming business in BC with close to a billion dollars invested in property assets, pursuant to contracts established and managed by BCLC
To create more jobs per capita than anywhere else in Canada.	
KEY STRATEGIC THEMES	BCLC ALIGNMENT
High standards of accountability and ethics	<ul style="list-style-type: none"> Corporate values that focus on integrity, social responsibility and respect
Efficient delivery of services	<ul style="list-style-type: none"> Strategic initiatives that focus on operational excellence in our people, our practices and systems
Social and fiscal responsibility	<ul style="list-style-type: none"> Commitment to socially responsible gaming and long-term stewardship of British Columbia's gaming industry
Open and transparent	<ul style="list-style-type: none"> Open communications with the public, business partners and consumers
Innovative and goal-oriented workforce	<ul style="list-style-type: none"> Corporate strategic initiatives that focus on high performance and innovation

Summary Financial Outlook

REVENUE (\$ IN THOUSANDS)	FISCAL 04/05 ACTUALS	FISCAL 05/06 PROJECTION	FISCAL 06/07 TARGET	FISCAL 07/08 TARGET	FISCAL 08/09 TARGET
Lottery	938,000	955,000	1,000,000	1,050,000	1,150,000
Casino	892,800	1,075,000	1,140,000	1,175,000	1,225,000
Bingo	196,500	210,000	225,000	240,000	250,000
TOTAL REVENUES	2,027,300	2,240,000	2,365,000	2,465,000	2,625,000
Lottery	652,900	681,400	721,100	758,500	842,100
Casino	377,800	475,600	509,900	525,500	541,400
Bingo	177,700	183,000	194,000	201,000	206,500
TOTAL EXPENSES	1,208,400	1,340,000	1,425,000	1,485,000	1,590,000
Lottery	285,100	273,600	278,900	291,500	307,900
Casino	515,000	599,400	630,100	649,500	683,600
Bingo	18,800	27,000	31,000	39,000	43,500
TOTAL NET INCOME	818,900	900,000	940,000	980,000	1,035,000
Capital Expenditures	94,000	100,000	70,000	75,000	80,000
FTE's	569	585	600	600	600

ANALYSIS

- While all lines of business will grow, total growth in gaming will be smaller than in the past.
- Revenue growth from the introduction of new lottery games has been adjusted based on revised market expectations.
- Revenue generated from upgraded casino facilities has exceeded expectations.
- Revenue from traditional bingo games, exclusive of slot machine revenues, continues to decline.
- The build out of improved bingo facilities and the deployment of slot machines in community gaming centres is taking longer than anticipated as a result of delays in the municipal approval process and delays by service providers.
- Net income for fiscal 2005/06 is projected to be on target at \$900 million while net income targets for fiscal 2006/07 and 2007/08 have been reduced by \$10 million and \$50 million respectively.

KEY ASSUMPTIONS

Gross Domestic Product

- GDP growth of 3.4% forecast for fiscal 2006/07 and 3% for fiscal 2007/08 and 2008/09.

Lottery

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

Casino

- The racetrack at Hastings Park is operating with 600 slot machines by October 2006.

Bingo

- Planned openings of community gaming centres with slot machines will open on schedule during fiscal 2006/07.

Government Approvals

- Revenue and net income assumptions are based on BCLC obtaining all necessary host local government approvals required under the *Gaming Control Act* for the relocation or opening of new facilities.
- BCLC receives all necessary Government approvals for launching new games.
- BCLC receives Government approval for the "Where the Money Goes" communication programs.

Marketplace

- Casino revenues are not further impacted by cross-border competition.
- Unregulated Internet gaming will not be a significant competitive threat to BC gaming revenues.

Cost of Services

- Inflation has been assumed at 2% over the planning period.
- Interest rates have been assumed at 3.6% for fiscal 2006/07; 4.4% for fiscal 2007/08; and 5.0% for fiscal 2008/09.

Gaming Policy

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

Taxes

- No changes in Government taxes, including GST or the proposed countervailing tariffs on gaming equipment are made.

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

GAMING CHANNEL	NET INCOME RISK			
	FISCAL 2005/06	FISCAL 2006/07	FISCAL 2007/08	FISCAL 2008/09
Lottery	\$10	\$20	\$30	\$40
Casino	13	20	25	35
Bingo	2	10	5	5
TOTAL NET INCOME RISK	\$25	\$50	\$60	\$80

Major Capital Project Information

CAPITAL EXPENDITURES (\$ IN MILLIONS)					
FISCAL 04/05 ACTUAL	FISCAL 05/06 BUDGET	FISCAL 05/06 PROJECTION	FISCAL 06/07 TARGET	FISCAL 07/08 TARGET	FISCAL 08/09 TARGET
94	112	85	82	75	80

The majority of the Corporation's capital expenditures are for gaming equipment required to support lottery, casino and bingo gaming operations.

The Corporation has no plans for individual capital programs that exceed \$50 million.

Appendix 1 – Performance Measure Descriptions

FISCAL 2006/07 PERFORMANCE MEASURES

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.

Player Satisfaction

This category measures overall player satisfaction for the games and facilities offered for sale by the lottery, casino and bingo business units. Through both a continuous tracking studies 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.

Public Support of BCLC

This category measures the percentage of adults surveyed in British Columbia who have a favourable impression of British Columbia Lottery Corporation. 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."

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.

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.

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."

Employee Engagement

This category measures the overall engagement of employees of British Columbia Lottery Corporation. 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.

Revenue

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

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.

Net Income

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