



Service Plan 2008/2009-2010/2011

 **British Columbia
Lottery Corporation**

Library and Archives Canada Cataloguing in Publication Data

British Columbia Lottery Corporation

Service Plan. – Fiscal 2002 / 03 / 2004 / 05 –

Annual

Continues: British Columbia Lottery Corporation. Performance Plan

ISSN 1717-1984 = Service Plan (British Columbia Lottery Corporation)

1. British Columbia Lottery Corporation – Periodicals.

2. Lotteries – British Columbia – Periodicals.

I. Title II. Title: British Columbia Lottery Corporation Service Plan.

HG6149.3B7B74 353.37 C2005-960270-8

Contact British Columbia Lottery Corporation at:

74 West Seymour Street

Kamloops, BC V2C 1E2

Head Office: 250-828-5500 or Consumer Services: 1-866-815-0222

Lottery Player Complaints: 1-866-601-1818

Online at www.bclc.com by email to consumerservices@bclc.com



TABLE OF CONTENTS

MESSAGE FROM THE BOARD CHAIR AND PRESIDENT AND CEO	1
ORGANIZATIONAL OVERVIEW	3
CORPORATE GOVERNANCE	4
STRATEGIC CONTEXT	8
Trends, Opportunities and Challenges	10
Strategic Risks	16
MISSION, GOALS AND STRATEGIES	18
Performance Measures and Targets	19
Goal #1: Ensure players come first	20
Goal #2: Provide an outstanding gaming experience for players and generate income	22
Goal #3: Demonstrate social responsibility in all our activities	24
Goal #4: Have a workforce passionately driving the success of our business	27
FINANCIAL OUTLOOK	28
Assumptions	30
Net Income Risk and Sensitivity Projections	31
Major Capital Projects	32
APPENDIX: SERVICE PLAN GOALS AND PERFORMANCE MEASURES COMPARISON	33

Welcome to our Service Plan 2008/09–2010/11

On behalf of the Board of Directors and employees of British Columbia Lottery Corporation (BCLC), we are pleased to present our Service Plan 2008/09–2010/11.

Since inception more than 30 years ago, BCLC has evolved from a lottery company to an organization that conducts and manages lottery, casino, bingo and egaming in British Columbia. BCLC relies on public trust and support of our games to achieve our business objectives. BCLC employees, along with our valued private sector business partners, are proud of the gaming experience we provide and the resulting income generated for public, charitable and community programs.

This Service Plan has significant changes compared with BCLC's last service plan. We are shifting our focus to ensure that players have greater trust and confidence in the integrity and security of our lottery system through our Player First program and enhancing our corporate social responsibility programs. Our net income growth will average 5.3% over the three years covered by this Plan, during which BCLC estimates generating a total of \$3.4 billion in income for Government.

BCLC is forecasting net income of \$1,035 million in 2007/08, \$2 million greater than anticipated. An estimated \$642.4 million in lottery, bingo and egaming prizes will be won by British Columbians in 2007/08. Our private sector lottery, casino and bingo service providers will earn a projected \$539.3 million and approximately \$200 million will be expended through our suppliers.

Public trust and confidence in the integrity of our games and systems is paramount. Over the past year, BCLC's lottery business has been reviewed or audited by the Gaming Policy and Enforcement Branch (GPEB), the Office of the British Columbia Ombudsman, Blair Mackay Mynett and Deloitte & Touche LLP.

None of these lottery reviews identified inappropriate payments of lottery prizes, but each identified gaps in

how BCLC monitors lottery retailer play and win rates, prize validation procedures and customer complaint tracking and reporting—including security investigation and resolution. BCLC takes these issues seriously, and is addressing each of the recommendations that resulted from these reviews.

BCLC's number one priority, requiring the dedication of considerable resources over the next two years, is to put in place industry-leading player support technologies, policies, procedures and education programs that set a new standard in business

system integrity. These efforts will enhance the integrity, transparency, security and customer service of all of BCLC's gaming activities. New governance, policy and risk tolerance frameworks will drive organizational renewal and transformation.

BCLC's 2008/09–2010/11 Service Plan has four goals:

1. Ensure players come first
 2. Provide an outstanding gaming experience for players and generate income
 3. Demonstrate social responsibility in all of our activities
 4. Have a workforce passionately driving the success of our business
-

Our mission is not only to generate income, but also to ensure that gaming entertainment is offered with a balanced approach to social responsibility. BCLC continues to take a leadership role in the British Columbia Partnership for Responsible Gambling, ensuring that appropriate responsible gambling awareness, education and research programs are in place and information about treatment programs is available.

BCLC is proud to be an Official Supporter of the Vancouver 2010 Olympic and Paralympic Winter Games. Through our sponsorship we will enhance BCLC's games, demonstrate employee leadership and engage communities around British Columbia in the Olympic Games experience.

BCLC will achieve carbon neutrality by 2010, beginning with a comprehensive measurement of our carbon footprint. Based on that information, BCLC will reduce its footprint by changing practices that result in high carbon outputs and implementing actions to offset our carbon emissions.

BCLC will continue to grow our business through the continued development of casino and community gaming centre facilities, our PlayNow egaming site and innovation in our lottery business.

BCLC's 2008/09–2010/11 Service Plan was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act* and *BC Reporting Principles*. The Board is accountable for the contents of this Plan, including the selection of performance measures and targets. The Plan is consistent with Government's Strategic Plan. All significant assumptions, policy decisions and identified risks as of January 24, 2008 have been considered in the preparation of the Plan and the performance targets have been determined based on BCLC's operating environment, forecast conditions, risk assessment and past performance.



John McLernon
Board Chair



Dana Hayden
*Interim President
and CEO*

Who we are

British Columbia Lottery Corporation (BCLC) was incorporated on October 25, 1984 and is provided the authority and responsibility by the Province of British Columbia to, on its behalf, conduct and manage lottery, casino and bingo and egaming in British Columbia under the *Gaming Control Act* of British Columbia (2002).

The Minister responsible for gaming, the Honourable John Les, Minister, Public Safety and Solicitor General, provides direction to BCLC on behalf of Government. BCLC is accountable to Government through our Board of Directors.

BCLC operates in accordance with the legislative, regulatory and policy gaming framework established by Government, and is regulated by the Gaming Policy and Enforcement Branch (GPEB). GPEB is responsible for standards, registration, licensing, audit and compliance, enforcement and the Responsible Gambling policy and strategy.

Gaming is entertainment, and BCLC provides exciting gaming opportunities to British Columbians to generate income. Government utilizes that income to fund public, charitable and community programs that benefit all British Columbians.

Where we are and what we do

BCLC's corporate head office is in Kamloops, where information technology, finance and administration functions are located. Sales, operations and marketing functions are located in Richmond. Employees are also located in communities around the province.

BCLC conducts and manages the lottery, casino, bingo and egaming entertainment business in British Columbia.

BCLC's products are sold under contract through a private sector network of over 4,000 lottery locations, 17 casinos, 12 community gaming centres and 15 commercial bingo halls. We also sell our products directly to over 85,000 registered players in British Columbia through our egaming site. Lottery retailers earn an industry-standard commission rate, six private sector casino service provider companies and 19 commercial, independent and charitable bingo service providers earn a percentage of sales revenue for providing gaming facilities and

day-to-day operational services. BCLC owns all gaming equipment, including lottery and bingo terminals and slot machines.

The consolidated financial statements of BCLC include a wholly owned subsidiary, BC Lottotech International Inc., which has as its sole business the purchase of capital assets for BCLC. There are no operational revenue or expenses for Lottotech as the management and oversight is completely consolidated within BCLC.

Since 1985, BCLC has grown from a \$300 million lottery company, to a gaming entertainment company generating a forecasted \$2.5 billion in revenue in 2007/08. BCLC integrates responsible gaming and player security into the design and development of new games and services, markets and advertises our games, manages the technology necessary to run our games, and oversees contracted service provider operations to ensure gaming integrity, security and performance.

BCLC's corporate governance framework

The Government of British Columbia establishes the legislative, regulatory and policy framework under which BCLC conducts and manages gaming.

BCLC reports to the Minister, Public Safety and Solicitor General through its Board of Directors, and complies with policies, directives and standards issued by the Minister as well as the regulatory agency GPEB. We produce public Service Plans and Annual Reports to detail our business plans and progress, including the mitigation of risk, and provide public financial information, consistent with the requirements of the *Budget Transparency and Accountability Act* and the *Financial Information Act*.

BCLC optimizes our financial performance within the gaming and social policy framework established by Government, ensuring our games and services are provided in a socially responsible manner consistent with BCLC's responsibilities as reflected in British Columbia's *Responsible Gambling Strategy*.

Each year, BCLC starts planning by updating the business requirements that are important to our Government Shareholder. A key component of BCLC's governance framework is the "*Shareholder's Letter of Expectations*" which is an agreement between the Minister on behalf of Government, and the Board of BCLC that establishes BCLC's mandate, and identifies Government's strategic priorities and performance expectations for BCLC. The direction from Government and the BCLC status of actions to implement this direction is shown in the following chart.

Click here to read BCLC's full [Shareholder's Letter of Expectations](#).

BCLC's Shareholder's Letter of Expectations Summary

REQUIREMENT	STATUS
Optimize BCLC's financial performance within the gaming and social policy framework established by the Shareholder;	BCLC is forecasting \$1,035 million in income for Government in 2007/08 that will be generated within the gaming and social policy framework established by Government.
Improve the performance of casino, bingo, lottery and egaming through new products and approaches in response to customer and marketplace demand, consistent with BCLC's mandate;	BCLC is upgrading and improving gaming facilities, developing new game innovations, improving player service and seeking operational efficiencies.
Ensure BCLC's products and services are provided in a socially responsible manner and strengthen BCLC's activities related to its social objectives in a manner that is consistent with the Province's Responsible Gambling Strategy and BCLC's responsibilities reflected in that strategy;	BCLC's responsible gaming activities are focused on our players and our service providers' facilities to ensure that we jointly: <ul style="list-style-type: none"> • Reduce the incidence of problem gambling; • Reduce the harmful impacts of excessive gambling; and • Deliver gaming in a manner that encourages responsible gambling and healthy choices.

REQUIREMENT	STATUS
Implement the recommendations made by the provincial Ombudsman in May 2007 related to BCLC;	BCLC is implementing the Ombudsman's recommendations which will enhance the fairness, integrity, transparency, security and customer focus of the lottery system. It will take until 2009 to fully implement all recommendations. BCLC issues quarterly reports on our progress.
Implement recommendations made by Deloitte in their independent audit of lottery operations in British Columbia undertaken in 2007 as directed by the Shareholder;	BCLC has begun implementation of these recommendations.
Notify the Shareholder of BCLC's resolution of any significant issues related to the implementation of recommendations of either the Ombudsman or Deloitte;	BCLC is working closely with our Shareholder as it implements these recommendations to ensure a shared understanding of any issues. Significant costs and workload associated with implementing the recommendations and increased regulatory, audit, compliance and enforcement activities will continue to be a challenge for the organization.
Build public and key stakeholder trust/support, by continuously improving the quality of service to customers and relationships with service providers;	Building public and stakeholder trust and improving the quality of service to players are key strategies for BCLC. BCLC has established a senior Player Relations function to lead this effort with BCLC's executive, and BCLC is seeking ways to continuously improve its relationships with its service providers. BCLC will seek to make improvements in the ways in which BCLC approves gaming facilities, sets commission pricing and defines roles, responsibilities and accountabilities.
Comply with the policy directives that may be issued from time to time by the Minister Responsible for the <i>Gaming Control Act</i> , and with policies, directives and standards that may be issued from time to time by the regulatory agency established under the <i>Gaming Control Act</i> ;	BCLC will continue to comply with all policy directives issued by the Minister, including directives and standards issued by GPEB.
Operate the business of BCLC in an efficient and effective manner for the benefit of its customers and the Shareholder;	BCLC's systems and processes require upgrading in order to continue to ensure the integrity of our games and services. BCLC has planned an aggressive program to achieve these upgrades over the next three years. A key challenge will be the culture change required to successfully implement business changes and entrench player focus.
Inform the Shareholder on a regular basis of any major changes occurring or likely to occur that may impact on BCLC's achievement of its Service Plan targets either negatively or positively; and	BCLC regularly notifies the Shareholder of any major changes occurring or likely to occur that may impact the achievement of our Service Plan targets.
Present a Strategic Plan for BCLC's Conduct and Management of Gaming to the Shareholder.	BCLC will propose a plan to Government.

Our Board of Directors

BCLC's Board of Directors complies with each of the disclosure requirements and is fully compliant with the standards and guidelines as required in "Best Practice Guidelines–BC Governance and Disclosure Guidelines for Governing Boards of Public Sector Organizations" (2005). The framework includes the terms of reference for the Board, Board Chair, President and Chief Executive Officer, Directors and Standing Board Committees, as well as processes for strategic planning, succession planning and Board performance evaluations.

The role of the Board is to provide stewardship and ethical leadership to oversee the management of BCLC's affairs in the best interests of BCLC and the long-term interests of our Shareholder, the Government of British Columbia. In carrying out the mandate of the Board, each director is required to act in accordance with fiduciary, duty of care and conflict of interest guidelines. Standing Board committees have been established, and other committees are established as needed. These committees are responsible for advising and formulating recommendations to the Board. Current Standing Board committees are:

- Audit Committee;
- Governance and Corporate Social Responsibility Committee;
- Human Resources and Compensation Committee; and
- Marketing and Sponsorship Committee.

Our Board Members

Chair	John McLernon <i>Appointed December 9, 2005</i> Liaison between the Board and the Minister responsible for BCLC	Tazeem Nathoo <i>Appointed July 26, 2002</i> Standing Committees: Chair, Human Resources and Compensation, Member Governance and Corporate Social Responsibility
Vice Chair	Arthur Willms <i>Appointed September 26, 2001</i> Standing Committees: Member Audit, Governance and Corporate Social Responsibility	Kathy Stevenson <i>Appointed April 23, 2002</i> Standing Committees: Chair, Audit
Directors	David Gillespie <i>Appointed March 31, 2005</i> Standing Committees: Chair, Governance and Corporate Social Responsibility, Member Audit	Walter Gray <i>Appointed November 22, 2007</i>
	D. Neil McDonnell <i>Appointed April 23, 2002</i> Standing Committees: Member Human Resources and Compensation, Marketing and Sponsorship	Click here to learn more about BCLC's Board of Directors.

Our Senior Executive Team

**President
and CEO, Interim**

Dana Hayden

Vice Presidents

Kevin Gass
Corporate Communications
and Marketing

Jim Lightbody
Lottery Gaming

Scott Norman
Information Technology,
Chief Information Officer

Doug Penrose
Finance and Corporate Services

Darryl Schiewe
Casino Gaming, *Acting*

Debbie Toole
Human Resources and Organizational Development

Marsha Walden
Bingo Gaming

Click here to learn more about [BCLC's Senior Executive team](#).

2006/07 summary

BCLC operations are significant.

In 2006/07, \$650.8 million in lottery, egaming and bingo prizes were won by British Columbians. \$511 million was paid in commissions and service fees to lottery, casino and bingo service providers and \$1,018.8 million in net income was provided to Government. Gaming has also created significant direct and indirect employment opportunities in British Columbia. BCLC purchases approximated \$140 million in goods and services.

(in millions)	LOTTERY	eGAMING	CASINO	BINGO	TOTAL
Revenue	\$983.1	\$14.3	\$1,208.9	\$218.9	\$2,425.2
Net Income	282.6	0.9	698.6	36.7	1,018.8
Distribution Channels	3,000 Retailer Locations	PlayNow.com	17 Commercial Casinos	20 Commercial Bingo Halls	
	1,300 Hospitality Locations			6 Community gaming Centres	
Games	Lottery Games	Lottery Games	Slot Machines	Paper Bingo	
		e-only Games	Table Games	Electronic Bingo	
			Poker Games	Slot Machines	

Source: Annual Report 2006/07

Click [here](#) to learn more about BCLC's results in our [Annual Report 2006/07](#).

2007/08 forecast

BCLC is forecasting \$2,500 million in revenue, resulting in \$1,035 million in income for Government with an operating cost ratio of 4.6% of revenue and 12.3% of net income.

This year the number of lottery retail and hospitality locations decreased. As a result of regulatory and policy changes to increase the trust and confidence in the lottery system, new registration and equipment requirements were put in place for retailers. All locations are now required to be registered with GPEB, provide employee information and have a lottery terminal in order to provide validation and prize payout services. This has resulted in BCLC having to cease business with a number of locations.

(in millions)		COMMUNITY GAMING CENTRES				
	LOTTERY	eGAMING	CASINO	BINGO	TOTAL	
Revenue	\$950.0	\$18.0	\$1,302.0	\$108.4	\$121.6	\$2,500.0
Net Income	239.5	0.4	748.4	46.7*		1,035.0
Distribution Channels	2,900 Retailer Locations	<u>PlayNow.com</u>	17 Commercial Casinos	12 Community Gaming Centres	15 Commercial Bingo Halls	
	1,200 Hospitality Locations					
Games	Lottery Games	Lottery Games e-only Games	Slot Machines Table Games Poker Games	Slot Machines Electronic Bingo Paper Bingo	Electronic Bingo Paper Bingo	

* Community Gaming Centre and Commercial Bingo Hall combined net income

Revenue and Net Income



2005/06 to 2006/07 revenue and net income are actual;
2007/08 through 2010/11 revenue and net income are forecast

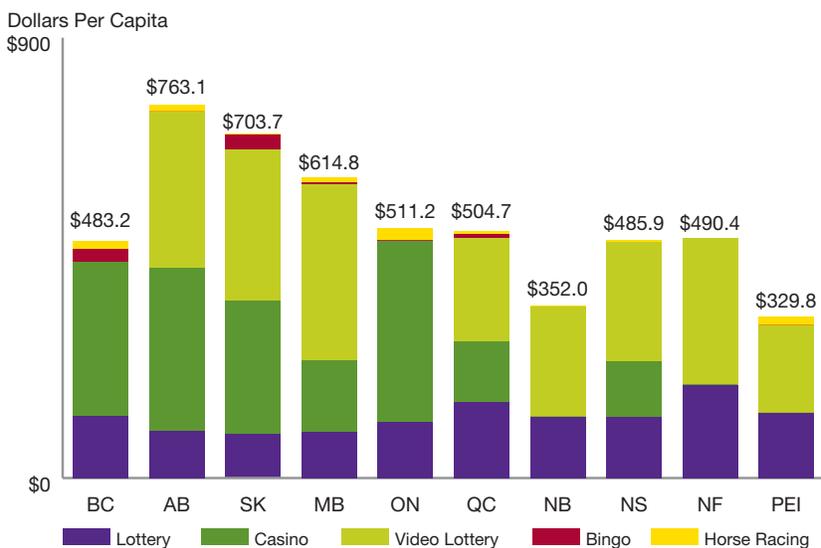
How gaming in British Columbia compares with other provinces in Canada

Gaming is a major industry in Canada generating \$15.3 billion in revenue in 2005/06. Gaming’s direct impact on the economy exceeds other segments of the entertainment industry, approximating the revenue of spectator sports, television, movie, books and magazines and performing arts combined.¹

In the province of British Columbia, Government’s gaming policy promotes responsible play and prohibits the introduction of video lottery terminals. Growth in recent years has come primarily from the casino business and the upgrading of commercial bingo halls to community gaming centres with slot machines and other amenities.

British Columbia ranks eighth in Canadian per capita net gaming expenditures (sales less prizes) and has the second lowest per capita penetration of electronic gaming devices (which includes lottery and bingo terminals, slot machines and video lottery terminals) in Canada.

Canadian Provincial Gaming Revenue Per Capita (March 31, 2006)



Sources: Provincial Gaming Authority Annual Reports and Statistics Canada

Gaming spend is an industry standard measure that is defined as total sales minus prizes.

¹ Source: Canadian Gaming Association 2007

The trends, opportunities and challenges BCLC experienced in 2007/08 and is anticipating for the future

Gaming

Across Canada, traditional lottery offerings are still strong but losing market share to other forms of gaming, while gaming at casino entertainment centres is experiencing the fastest growth.

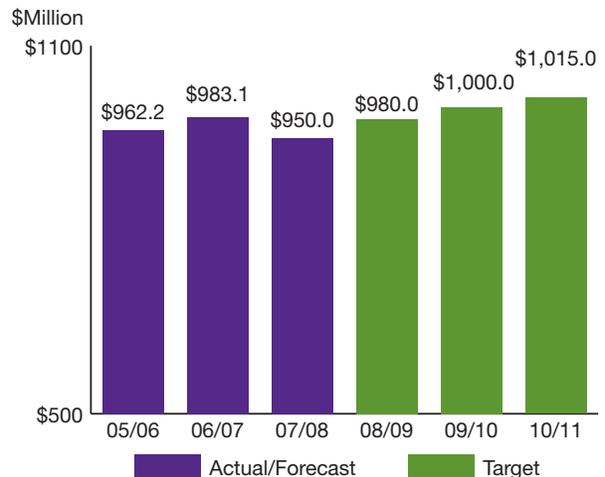
Expanded gaming in neighbouring jurisdictions and on the internet continues to compete with BCLC's gaming business. The Las Vegas trend to diversify entertainment and service offerings to include hotels, restaurants and entertainment as well as differentiate through product offerings is anticipated to increase as casino markets mature. Internet gaming is becoming more widespread among British Columbians. Worldwide internet gaming revenue in 2005 was estimated at \$12 billion (U.S.) and is projected to grow to \$24.5 billion (U.S.) by 2010. Lottery games account for \$4 billion (U.S.) in this projection.²

Lottery Revenue

Lotteries have been marketed in British Columbia for more than 30 years. Changing demographics, a shift in consumer preferences and mature products have led to a flattening of sales growth, although BCLC per capita lottery revenue remains in the top 15 of all 53 North American lottery jurisdictions. Lotteries are a major revenue generator and remain a strategic priority for BCLC.

BCLC will continue to focus on more exciting, entertaining games, including monitor-based games for the hospitality network, games such as SportsFunder linked to worthy causes important to British Columbians and more convenient ways to purchase games such as self-service terminals. In addition, games and services will be developed that are designed to increase player participation and revenue from this channel while still ensuring player security and system integrity.

Revenue generated by lottery games is shown as a gross sales amount before prize payments are deducted.



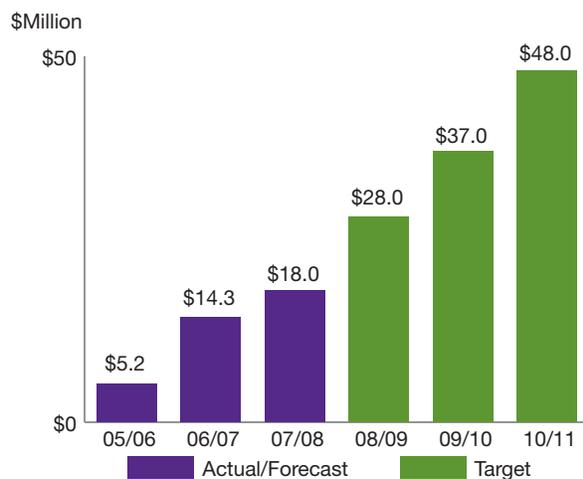
2 Source: Christiansen Capital Advisors

eGaming Revenue

BCLC has been marketing our PlayNow website within British Columbia since July 2005. While revenue growth has been slower than originally forecast, steady growth continues as British Columbia players discover the convenience and security of making purchases online.

Achieving a robust, secure and successful egaming business is a strategic priority for BCLC. BCLC has focused to date on the introduction of popular lottery and interactive games, which offer an instant play experience. Over the coming years, BCLC plans to introduce new innovative games that leverage the technology and increase focus on player acquisition and retention. PlayNow will be redesigned to incorporate player feedback and provide a more engaging and entertaining online experience for our players. Social responsibility is incorporated into the site through maximum player wallet limits, age control limits, privacy protection and self exclusion options.

eGaming revenue is shown as a gross sales amount before prize payments are deducted.



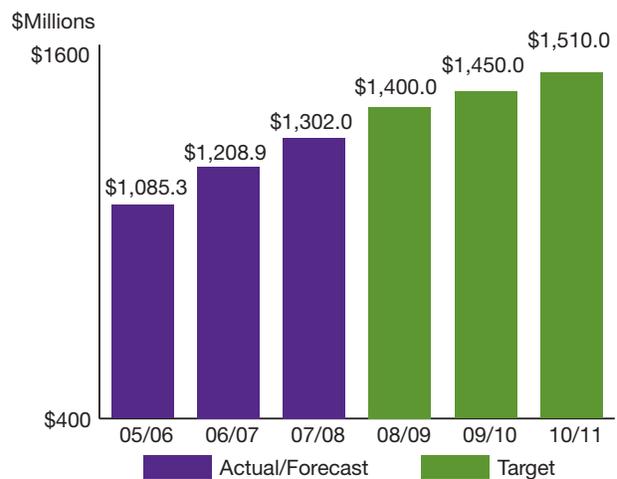
Casino Revenue

BCLC assumed responsibility for casino games and the introduction of slot machines in the British Columbia marketplace in 1997. Since that time, the casino business has experienced double-digit growth and is now the largest revenue stream for BCLC.

Our priority over the last few years has been to upgrade existing casino facilities with higher quality properties sized to fit an underserved marketplace. This strategy has resulted in a more diverse entertainment experience for players, with major facilities offering full-service restaurants and theatre-style show lounges and in some cases, resort-style accommodations and conference facilities.

The rate of growth will now slow as casino facility upgrades and relocations are nearing completion. As BCLC looks forward, we will continue to develop casino properties that provide the player with an exceptional entertainment experience and position casino gaming as a major tourism attraction where market demand allows.

Revenue generated from casino games is shown as net win, which is a calculation of sales after prizes which are paid to players during game play. This contrasts with revenue generated by lottery, egaming and bingo games, which are a gross sales amount before prize payments are deducted.



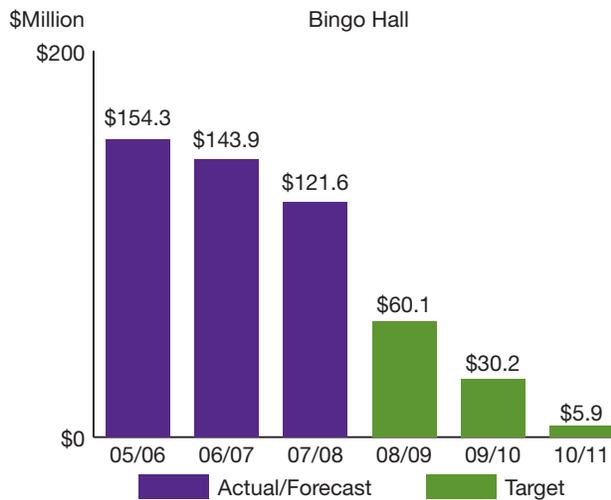
Bingo Hall and Community Gaming Centre Revenue

Traditional bingo is one of the oldest forms of gaming in British Columbia and has been in a steady decline over the past decade as interest in the game diminishes. Revenue is also expected to be negatively affected as Government's regulations to establish smoke-free facilities are put in place.

BCLC's priority is to work with bingo service providers to transform bingo halls in key market locations to community gaming centres offering more entertaining products, including slot machines, electronic and other more entertaining games, in upgraded facilities with improved customer service

and amenities such as restaurants and lounges. Revenue generated from community gaming centres is increasing as more are developed, and also because community gaming centres have been well received by players and their local communities.

Revenue generated from casino-style games in community gaming centres is shown as net win, which is a calculation of sales after prizes which are paid to players during game play. This contrasts with revenue generated by lottery, egaming and bingo games, which is shown as a gross sales amount before prize payments are deducted.



Economy

Supported by a strong economy, annual retail sales in British Columbia should continue to rise at least through 2010. British Columbia's strong economic performance has a positive impact on disposable income, which is key to support gaming and entertainment activities. An increase in immigration to British Columbia and a provincial target to double tourism revenues in the next decade, in part as a result of exposure to the world in 2010, provides opportunities for BCLC through the sale of our products and services.

BCLC continues to develop casino and community gaming centre facilities that provide a complete entertainment experience for our players which will attract tourists from both within British Columbia and Canada and from the global market.

Consumers

Consumers continue to expect and seek out unique, more personalized and sophisticated buying experiences. The rapid adoption of new technologies and online socialization and interactivity via the internet and mobile devices will continue to accelerate. British Columbians are amongst the most frequent e-commerce users in Canada.

Increasing competition for the discretionary entertainment dollars of British Columbians will continue to affect BCLC's business environment. As entertainment options continue to increase, delivering high entertainment value and building loyal customer relationships are increasingly important as competitive differentiators. BCLC must provide players with gaming experiences and services that provide a complete entertainment experience for our players, when and where they want them. This requires a shift in our approach, from product-centric to player-centric.

BCLC plays a role in the player's security and the integrity of gaming activities. BCLC must consider the risks to players carefully as we improve the integrity and security of our business channels, balancing the reduction of risk with player satisfaction and assisting our players to take appropriate steps to protect themselves from fraud.

Retail

Hospitality businesses are working harder to create total experiences for their customers and are adapting technology to meet the needs of consumers.

BCLC is addressing changing consumer needs with the introduction of new innovative games and distribution channels for the lottery business and in the development of casino and community gaming centre facilities providing a complete entertainment experience for players.

BCLC and our service providers and retail partners in all gaming channels will also focus on providing better player service and better managing our customer relations.

Labour Force

British Columbia's strong economic growth, associated low unemployment rate and changing demographics have created a shortage of highly skilled people. As the supply of available workers falls short of job growth, competition for employees will increase.

Labour shortages will result in a significant challenge for BCLC and our gaming facilities service providers. BCLC will review recruitment and retention programs and activities and leverage our status of being one of BC's Top 40 Employers to attract and retain skilled employees.

Provincial Smoking Ban

The change to smoke-free facilities in April 2008 is a positive development that will improve the health of British Columbians. Although a number of gaming facilities are already smoke-free, it is anticipated there will be a negative impact on gaming revenue for a period of time as smokers adjust to the change, particularly in traditional bingo sales because a substantial number of bingo patrons smoke.

BCLC will work closely with our lottery hospitality retailers, casino, community gaming centre and bingo service providers to ensure games and facilities remain attractive to players.

Technology

Entertainment and communication technologies are continuing to evolve rapidly. Entertainment in the home, including gaming for fun and for free continues to increase.

The growth of cellular and voice over internet (VoIP) services will continue, along with high-speed wireless connectivity and a convergence in mobile technologies. This will lead to new competition and changing customer expectations.

New technologies can provide product and service innovation for our players and operational efficiencies for BCLC. BCLC will continue to identify and evaluate the most promising developments in technology and apply these to our gaming business. In particular, BCLC is reviewing new slot machine technologies, back office systems and processes that support our players and gaming integrity. BCLC will be implementing newer, more effective technologies that provide internal efficiencies and business advantages for the organization.

What BCLC is doing about our risks

BCLC faces a number of risks that could significantly impact our ability to conduct and manage gaming in British Columbia, and/or our ability to achieve our short and long-term goals. While risks can not be eliminated, BCLC has developed strategies to minimize risk or mitigate it.

BCLC has implemented a formal enterprise risk management process that involves staff, our Executive, our Board of Directors and others to identify risks that are affecting or may affect BCLC’s business. Risk mitigation strategies are developed for the most important risks, and actions to mitigate those risks are a key factor in business planning and resource decisions. Key risks that could threaten the achievement of our goals are outlined below.

BCLC is also developing a risk tolerance framework to ensure that we not only identify and mitigate risks, but that we consciously determine our tolerance for risk by establishing key risk tolerance indicators and targets. In this way BCLC can better understand the costs and benefits associated with various risk mitigation activities and better prioritize them. BCLC is also assessing the effectiveness of existing practices to minimize and manage these risks, and identifying changes to strengthen them if required.

PLAYER TRUST & SUPPORT RISK	MITIGATION STRATEGIES
<p>Our capacity to meet or exceed player, public and Shareholder expectations and our ability to generate income is threatened if players do not believe that BCLC’s gaming systems are trustworthy. An event that damages public trust and support could directly impact BCLC’s games and lead to gaming industry restrictions.</p> <p>Player trust and support encompasses the safety and integrity of a player’s wager or transaction and the potential for a player to be defrauded when playing at a BCLC facility or during the prize payout process conducted by a service provider/lottery retailer, or BCLC.</p>	<p>Through our strategy to entrench a player focus in all of our activities, BCLC has a comprehensive plan to become a player-focused gaming organization by implementing recommendations from the GPEB, Ombudsman, Blair Mackay Mynett and Deloitte reviews and audits. A key challenge will be the workload and cost associated with implementing these recommendations.</p>
DECLINE IN PUBLIC CONSENT RISK	MITIGATION STRATEGIES
<p>The view of gaming as an acceptable form of adult entertainment is key to BCLC’s ability to operate. An open and transparent environment is needed to address issues that may be caused by inappropriate gaming.</p> <p>Under the Responsible Gambling Strategy, BCLC delivers responsible gambling programs to players in gaming facilities, ensuring that players know how to play responsibly and how to access programs available to assist them.</p>	<p>BCLC must provide our games in a socially responsible manner and work to have a positive impact on British Columbia’s communities as we operate our gaming business.</p> <p>BCLC is working to strengthen our social responsibility activities through improvements to our responsible gambling actions and the delivery of other programs. We are also improving corporate transparency, particularly around issues related to player protection and support.</p>

SYSTEMS, DATA AND GAMING INTEGRITY RISKS	MITIGATION STRATEGIES
<p>Many aspects of BCLC's business depend to a large extent on information technology and internal business processes. Potential failures of or deficiencies in these systems and processes could impact our ability to operate gaming.</p>	<p>BCLC continues to focus on maintaining a sound, responsive and adaptive infrastructure and in 2008/09 will identify opportunities within our business and operating model to improve business integrity and operational efficiencies to provide the highest level of integrity and internal controls.</p>
EMPLOYEE DISENGAGEMENT & INSUFFICIENT SKILLS AND CAPACITY RISKS	MITIGATION STRATEGIES
<p>Highly motivated employees who are engaged in the work of the company are key to the success of the business, and can be a differentiating factor in exceptional performance.</p> <p>BCLC is already experiencing difficulty recruiting skilled workers in areas such as project management, purchasing, audit and information technology.</p> <p>Our service providers and the service industry in general, are having difficulty recruiting workers for gaming facilities and retail locations.</p>	<p>Reviews and audits in 2007/08 resulted in a high workload and substantive changes within the organization, negatively impacting employee engagement.</p> <p>BCLC will develop and implement a plan to identify our human resource needs and how BCLC will fulfill them. Leveraging our status as one of BC's Top 40 Employers and implementing best practices in leadership development, education and workforce flexibility are some of the areas to be reviewed.</p> <p>Business transformation plans will require additional expert employee resources and new skills sets to execute, so ensuring the appropriate people resources, skills and systems are available is critical.</p>
CHANNEL PARTNER RISK	MITIGATION STRATEGIES
<p>The effective monitoring and management of business relationships with our service providers and lottery retailers so that they act within the intended limits of their authority and perform in a manner consistent with BCLC's direction and intent could impact our ability to meet or exceed player and public expectations.</p>	<p>BCLC is updating BCLC security compliance and enforcement programs and procedures and technology to ensure the highest level of gaming integrity is delivered in all business channels and by service providers/retailers.</p>
CRISIS MANAGEMENT RISK	MITIGATION STRATEGIES
<p>BCLC needs to be able to manage its business in the event of a crisis. While BCLC has been undertaking business continuity planning, in its audit report, Deloitte identified business continuity planning for critical business functions, in particular distribution and finance, as a key area for BCLC to focus on.</p>	<p>BCLC has a Business Continuity Management program that complies with all legal and regulatory requirements, encompasses crisis management, information systems and business recovery.</p> <p>To-date, BCLC has concentrated efforts on the development of plans to respond to events that impact or have the potential to impact our ability to conduct normal business operations for an extended period of time. In 2008/09 we will implement programs to improve business integrity and operational efficiencies, with focus on those areas highlighted by Deloitte.</p>

Here's our plan for the next three years

BCLC's Board and Executive review BCLC's mission, goals, strategies, performance measures and the associated targets on an annual basis. In response to the reviews of BCLC's lottery business and the recommendations that resulted, our Board and Executive Committee have made significant changes to BCLC's strategic and performance management framework.

[Click here](#) to review a comparison of our goals and strategies from the previous service plan to this Service Plan 2008/09–2010/11, located in the Appendix.

Mission

To generate income by offering responsible gaming entertainment

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 and for the people and communities of British Columbia

Respect: Our workplace fosters openness, mutual respect and individual development

Goals and Objectives

1. Ensure players come first
 - Grow the public trust in the integrity of, and support for, gaming BCLC manages
2. Provide an outstanding gaming experience for players and generate income
 - Increase the number of new and repeat players to BCLC's games and service provider facilities
 - Optimize net income for our Shareholder
3. Demonstrate social responsibility in all of our activities
 - Ensure our games are provided in a socially responsible manner
 - Have a positive effect on communities as we operate our business
4. Have a workforce passionately driving the success of our business
 - Create a high performing organization that strives to continually improve

How we can tell if we're doing a good job

This year, BCLC established several new performance measures that will help us assess our level of success in achieving our business plans. We will establish a baseline for new performance measures in 2008/09 and set targets for future years.

Data for BCLC's performance targets are obtained from internal and external sources. Revenue and net income results are obtained from our audited financial statements. Other financial measures are obtained from internal management reports.

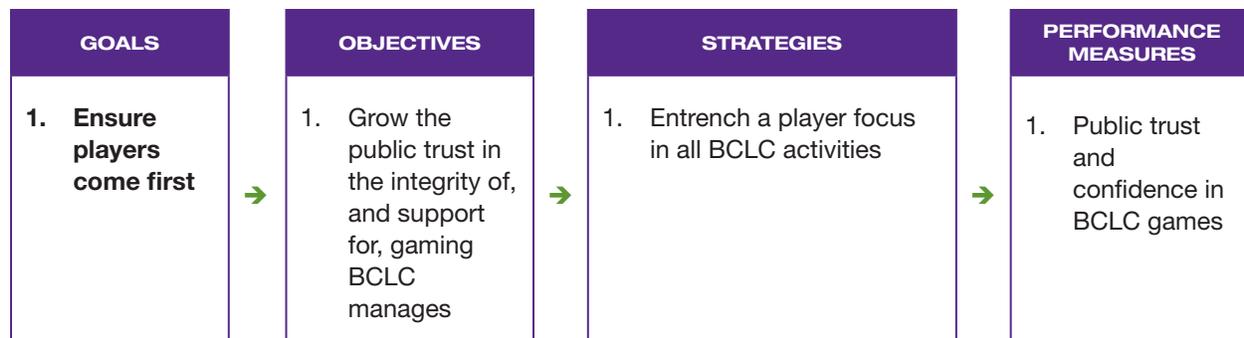
BCLC contracts with external professional agencies to conduct surveys to assess our level of success in achieving some of our performance targets by asking questions that are pertinent to our performance measures. For example, to measure "public support for gaming", questions about the support for legalized gaming are asked. The responses are scored and reviewed against the targets BCLC has set. If we're doing well, we should be reaching our targets. If we're not doing well, with a rating below our target, we need to adjust the programs we're implementing and how we're delivering them.

Click here to learn more about BCLC's [Performance Measures and Targets](#).

PERFORMANCE MEASURES	2005/06 ACTUAL	2006/07 ACTUAL	2007/08 TARGET	2007/08 FORECAST	2008/09 TARGET	2009/10 TARGET	2010/11 TARGET
Total Revenue (millions)	\$2,260.7	\$2,425.2	\$2,495.0	\$2,500.0	2,648.0	\$2,767.0	\$2,863.0
Total Net Income (millions)	\$922.7	\$1,018.8	\$1,033.0	\$1,035.0	\$1,110.0	\$1,160.0	\$1,210.0
Operating Cost Ratio (of Net Income) ³	11.1%	10.5%	11.1%	12.3%	12.5%	12.2%	11.8%
Public Trust and Confidence in BCLC Games	N/A	N/A	N/A	N/A	Baseline to be established	TBD	TBD
Public Support for Gaming	51%	56%	52%	62%	62%	63%	64%
Player Awareness of Responsible Gambling Activities	N/A	N/A	N/A	N/A	Baseline to be established	TBD	TBD
Player Satisfaction	84%	85%	88%	88%	90%	90%	90%
Employee Engagement	not measured	54%	60%	44%	55%	60%	65%

³ Actuals and targets for 2005/06 through 2007/08 are re-stated to conform to this new measure, as previous Service Plans measured the operating cost ratio based on revenue.

Goal #1: Ensure players come first



What BCLC and our service providers are doing to ensure the public trusts the integrity of BCLC's games

BCLC and our service providers are committed to putting the player first.

In 2006, BCLC's regulator, GPEB conducted an audit of BCLC's lottery operations. In 2007, the British Columbia Ombudsman conducted a review, BCLC engaged Blair Mynett Mackay to conduct an audit and Deloitte conducted an independent audit ordered by the Minister. None of them identified any incorrect payments of lottery prizes, but each recommended ways that BCLC can enhance the integrity and security of the lottery system, particularly prize payout and validation processes, security investigations and overall support provided to the player.

BCLC can never eliminate the potential for dishonest persons to take advantage of our players. What we can do is recognize where risks occur, minimize them, and put processes in place to monitor our risk minimization efforts so that we know they are working. We are considering the risks to players carefully as we develop and implement Player First initiatives and improve the integrity and security of all of our business channels, balancing the reduction of the risk of fraud with a reduction in player satisfaction, as well as loss of revenue.

BCLC has developed "Player First" as our most important initiative to significantly enhance our focus

on our lottery players and enhance our lottery prize payout and validation processes. Player First is a comprehensive response to implementing all 23 recommendations made by the Ombudsman and related Deloitte recommendations, and in many cases going even further, to put the player first in our lottery business. It includes initiatives that range from retailer education and training, to new messaging and technology that provides more information and control to our players, reducing the potential for an unscrupulous person to defraud a player, to player education on the appropriate steps for customers to take to adequately protect themselves.

In our major casinos BCLC is adding full time security to augment the security and surveillance provided by our service providers, as well as liaise with local police authorities where required. In community gaming centres, BCLC is also adding staff to improve our oversight of the controls and security. Our back office casino systems are being upgraded to ensure they can continue to support the integrity of gaming in casino and community gaming centres.

BCLC is also upgrading our internal controls and processes to ensure business integrity and support transparency. An increased audit and compliance

focus within BCLC and a newly formalized code of business conduct and ethical standards for our employees will support this goal. Increased staff numbers in internal audit, legal and security functions and new Player Relations and Chief Compliance Officer functions are examples of new initiatives within BCLC to effect these changes. The Business Continuity Management program will focus on warehouse/distribution and finance activities in the coming year.

A new performance measure “Public Trust and Confidence in BCLC Games” will help us assess whether or not our programs to improve the security and integrity of our gaming systems are successful, and we will adjust our programs and their delivery depending upon our success.

If you want to comment on changes we’re making to our gaming business or ask us a question, click here to send an email to consumerservices@bclc.com, or call us at 1-866-815-0222.

Goal #2: Provide an outstanding gaming experience for players and generate income

GOALS	OBJECTIVES	STRATEGIES	PERFORMANCE MEASURES
<p>2. Provide an outstanding gaming experience for players and generate income</p>	<p>1. Increase the number of new and repeat players to BCLC's games and service provider facilities</p> <p>2. Optimize net income for our Shareholder</p>	<p>1. Provide opportunities within BCLC's business and operating model to encourage innovation and better player service</p> <p>2. Build player participation and loyalty through player-focus on product innovation, continued facility improvement and customer relations management</p> <p>3. Implement programs to improve business integrity and operational efficiencies</p> <p>4. Transform and grow the lottery business</p> <p>5. Build and leverage PlayNow to achieve its potential as a robust, secure and successful channel</p>	<p>1. Net income</p> <p>2. Operating cost ratio (of net income)</p> <p>3. Player satisfaction</p>

How BCLC will provide an outstanding gaming experience for players that will generate income

BCLC's ability to continue to optimize our net income depends on our ability to provide exciting entertainment experiences for our players. BCLC will measure our success in achieving this goal through three performance measures.

BCLC will continue to develop exciting and innovative new games and services for our players. Game concepts will continue to be developed that provide a more entertaining play experience and variety, including the potential replacement of a national lotto game. The success of Pacific Hold'Em Poker will be maintained through a refresh of the character animation, and concepts for similar monitor-style

games will be pursued. SportsFunder lottery games are one kind of lottery game that will continue to be refreshed and provide unique and appealing prize opportunities for players. The lottery retail signage and other "look & feel" improvements will be reviewed with the objective of piloting a more current technology, marketing and merchandising experience for players.

We will continue to develop casinos and community gaming centre properties with a focus on entertainment and domestic and international tourism market opportunities. Providing the latest themed slot machines, exploring emerging server based slot machine technologies and new table games will continue to provide players with an interesting variety of casino gaming options. In partnership with our service providers, BCLC will continue to offer special tournaments for poker, blackjack, mah jong and slot machine players.

The development of community gaming centres will continue in 2008/09. BCLC will develop new games for bingo players using our bingo systems technology to offer additional play experiences.

Our casino and bingo business groups will continue to work in partnership with service providers to provide better customer service for our players.

BCLC's PlayNow egaming site and corporate web site bclc.com will both be redesigned to provide a more engaging player experience.

BCLC is also developing player-focused rewards and incentives across all gaming channels. Special rewards and incentives will continue to be provided to members of the BC Gold casino card and the card will be evaluated for use in community gaming centres. We'll also continue to develop special offers for PlayNow purchases. Planning for a customer relationship management solution that extends across all of our business lines will begin in 2008/09. BCLC will also investigate technology that promotes player services and business model efficiencies for all of our business channels.

We're focused on business transformation, programs that will improve our business integrity and operational efficiencies. We've started with a comprehensive review of all our business processes, systems and infrastructure within BCLC, and are continuing to strengthen risk and policy frameworks,

systems and controls, document management, business continuity plans and developing a technology infrastructure that is sound and secure.

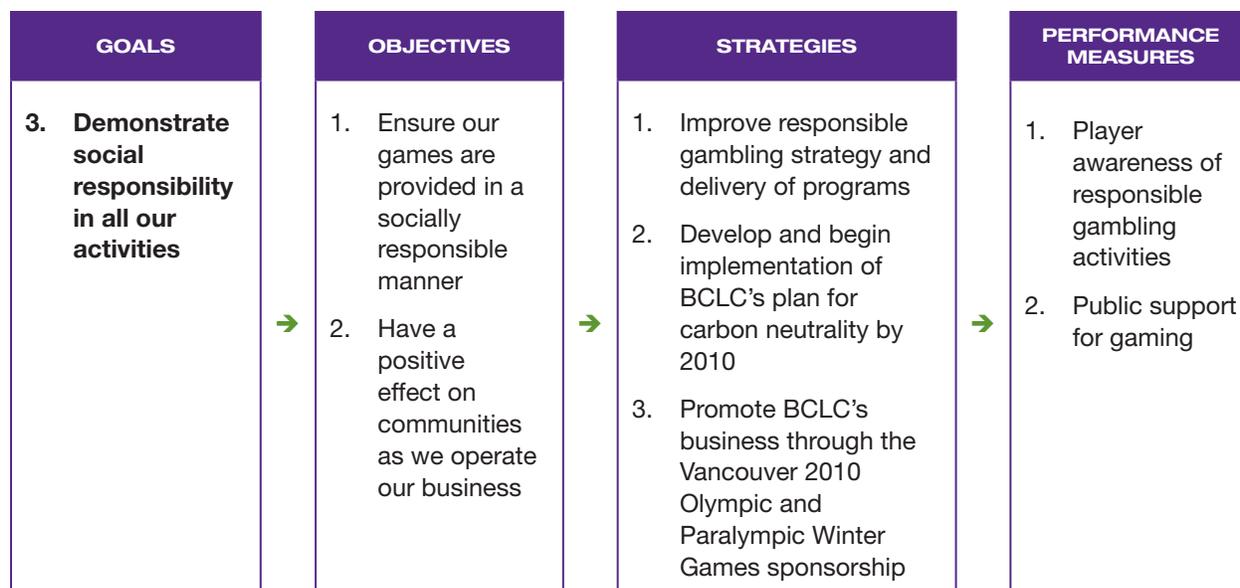
Without this effort,
we won't be able
to transform and grow
our business.

We are also working to better assess the information needs of our players and the public, so that we can be more effective in providing information to players and the public through various means, including through requests made of us through freedom of information requests.

Our success in achieving this goal will be measured against our 2008/09 net income target of \$1,110 million, which is received by Government and our 12.5% operating cost ratio target, which measures the cost of earning each dollar in income. Compared to forecasts for 2007/08, the 2008/09 targets reflect a \$75 million increase in net income and a 0.2% increase in operating cost ratio.

In 2007/08, BCLC is forecasting \$1,035 million in net income, \$2 million greater than target and a 12.3% operating cost ratio. Operating costs are 1.2% greater than the target of 11.1%, as a result of investments required to address the Ombudsman and Deloitte recommendations.

Player satisfaction with our games, services and facilities in our lottery, casino, bingo and egaming business channels will also be measured. Player satisfaction is a key factor in our continuing ability to generate income. Our targets have been set at 90% for the next three years, as the cost of programs that could increase the level of satisfaction beyond 90% may exceed the benefits and will be examined closely before being implemented.



What we are doing to ensure our games are provided in a socially responsible manner

BCLC is a key player in the BC Partnership for Responsible Gambling, whose members are BCLC, Government, 10 municipalities and our gaming service providers. BCLC's role in this partnership is to ensure that players know how to play responsibly, and have access to and can utilize responsible gambling programs.

BCLC works to ensure that our gaming delivery encourages responsible gambling and healthy choices. We do this by increasing player awareness of gaming issues and services through education, communication and game controls such as self-imposed budgets, play time limits or self exclusion programs. BCLC will have Responsible Play Information Centres at all casinos and community gaming centres in 2008/09, and will develop a self-service responsible gambling program for lottery retailers in shopping mall locations.

All gaming employees will soon have taken responsible gambling intervention training and in 2008/09 BCLC will review and update the curriculum for this training. A new program specially developed and targeted at young adults in casinos will increase the knowledge and awareness of a younger demographic of players. We will continue our

research so that we deliver programs in ways that are easily accessed and used by players who need them.

Also this year, enhancements will be made to the voluntary program that provides players experiencing difficulty with gambling the option to self-exclude from gaming activities. Both BCLC and our service provider partners comply with advertising and marketing standards to ensure that we are not marketing to those who should not be gambling.

Lottery organizations worldwide unite under the World Lottery Association, and under this umbrella have endorsed a certification process that publicly demonstrates a commitment to operating gaming products and facilities in a socially responsible manner. BCLC plans to implement this certification process beginning in 2008/09.

This year a new performance measure “Player Awareness of Responsible Gambling Activities” will assess the percentage of BCLC’s customers who are aware of the symptoms of problem gaming, the assistance available for problem gamblers and how to access it. The results will help us assess whether or not our responsible gambling programs are successfully reaching our players, and we will adjust our programs and their delivery depending upon our success.

BCLC will continue to measure “Public Support of Gaming”. In 2005/06 we experienced a decline in public support for gaming to 51%, followed by a higher than forecast 56% result in 2006/07. The 62% forecast for public support in 2007/08 is primarily the result of BCLC’s continued development of casino facilities and community gaming centres.

How BCLC will have a positive effect on communities as we operate our business

BCLC positively affects communities in many ways through our business.

BCLC is very proud to be an Official Supporter of the Vancouver 2010 Olympic and Paralympic Winter Games. There are some great things we'll be able to do leading up to and during the games that will benefit our players as well as the public. Our sponsorship has three objectives:

1. Enhance BCLC games to provide outstanding gaming experiences for our players and strengthen corporate social responsibility;
2. Demonstrate employee leadership and increase engagement; and
3. Engage communities around British Columbia in the Olympic Games experience.

In October, BCLC launched the first of our SportsFunder lottery games to offer players chances to win exciting 'once in a lifetime' experiences, with prizes of tickets to Olympic Opening Ceremony and sporting events. Proceeds from the sale of SportsFunder games go to support athletes, coaches and amateur sports programs in British Columbia. Since the launch of SportsFunder lottery games, BCLC has already provided \$2.2 million to benefit all levels of amateur sports in British Columbia. BCLC will be exploring opportunities to work with its service providers and host local Government to identify ways to engage them in the Olympic Games experience through our products and services. As part of our Olympic sponsorship, BCLC has 50 volunteer positions that will be made available to staff to allow them to provide leadership and support for the games.

This year BCLC will begin our activities to be carbon neutral by 2010. Our plan includes establishing our carbon footprint in 2008/09 to determine the sources of our carbon emissions. Once we've established the sources of our carbon emissions, we will identify our key activities that will allow us to reduce them, and/or

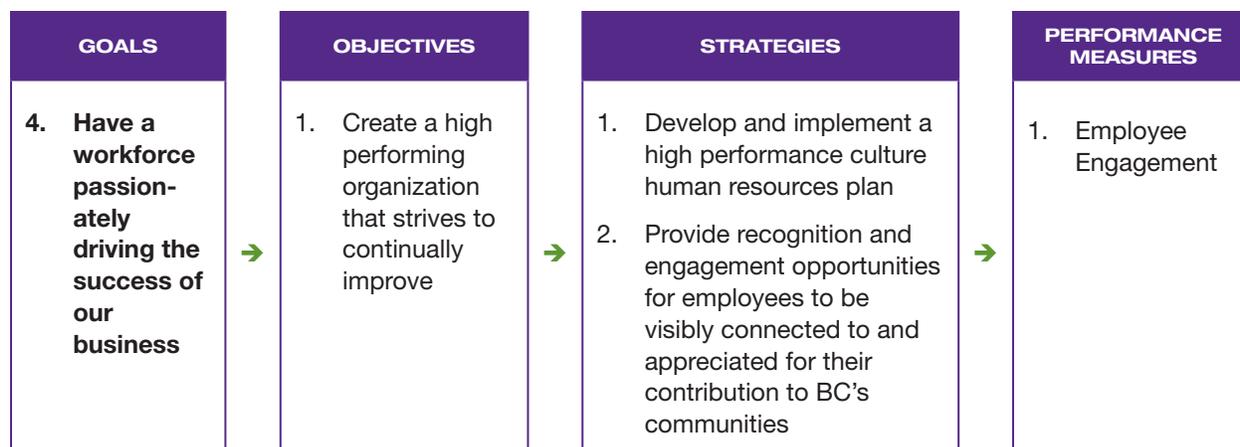
ways to offset them. This may include adopting eco-friendly rated vehicles as the standard for BCLC's vehicle fleet, recycling, using less power, flying less or other initiatives.

BCLC has made the environment a priority, and our practice is already to reuse and recycle. From equipment trade-ins to asset resale, disposal, donation and recycling, we've been working on "going green" in partnership with our suppliers for a number of years. It's good for the organization—recycling reduces costs and storage requirements—and the environment.

BCLC's employees are busy making sustainable behaviour a permanent part of BCLC's culture. A self-organized employee group "Living Green" promotes environmental awareness and has developed programs such as recycling of slot machines, old computers and other technology and personal electronic waste recycling, so that BCLC staff can make the earth a little healthier.

Since 1994, BCLC employees have raised funds for the United Way. From just over \$5,000 in donations in 1994 to the current total of over \$35,000 for 2007, employees make a difference in their local communities. Two BCLC Christmas Charity staff groups also volunteer their time to enable BCLC employees to help disadvantaged families in the community. In 2006, nine families that included 34 children received gift and grocery hampers to make the season special. Other donations of over \$8,000 were provided to the Food Bank and Christmas Amalgamated; and in Kamloops, BCLC staff cook, serve and clean-up at dinners held at the Salvation Army and Community Crisis Response mobile kitchen facilities.

Goal #4: Have a workforce passionately driving the success of our business



We're passionate about our business

BCLC has been recognized for two years in a row as one of BC's Top 40 Employers

BCLC needs a passionate workforce to drive the successful operation and management of our gaming business, but our employee engagement score continues to be lower than the targets we have set. In 2006 and 2007 several factors such as the review and audits of BCLC, negative media and public attention to lottery issues, and organizational changes negatively affected employee morale.

BCLC's new business direction will require significant internal and external business changes. A new human resources plan will be undertaken in 2008/09 to ensure that our human resources activities align with our business needs. The human resources plan will include an analysis of our workforce and demographics, recruitment and retention activities, leadership development and employee compensation and communications best practices and will provide

a plan of activities to ensure we have a flexible, innovative and responsive high performing culture.

To assess our success in meeting this goal, BCLC will continue to use the performance measure of the level of employee engagement. BCLC uses an external firm to undertake a survey to measure the intellectual and emotional involvement employees have in their work for BCLC. Employee engagement is directly linked to the effort and dedication employees contribute to achieve success for the organization, as well as BCLC's ability to attract and retain employees. BCLC's targets to increase employee engagement over the next three years are aggressive. The BCLC leadership team will continue to place emphasis on increasing it and the intent of the new human resources plan is to positively impact BCLC's employee culture.

How much we're selling, spending and providing to Government

Government utilizes gaming income to fund public, charitable and community programs that benefit all British Columbians.

REVENUE \$ millions	2005/06 ACTUAL	2006/07 ACTUAL	2007/08 TARGET	2007/08 FORECAST	2008/09 TARGET	2009/10 TARGET	2010/11 TARGET
Lottery	\$962.2	\$983.1	\$1,000.0	\$950.0	\$980.0	\$1,000.0	\$1,015.0
eGaming	5.2	14.3	25.0	18.0	28.0	37.0	48.0
	967.4	997.4	1,025.0	968.0	1,008.0	1,037.0	1,063.0
Casino	1,085.3	1,208.9	1,240.0	1,302.0	1,400.0	1,450.0	1,510.0
Bingo							
Community Gaming Centres	53.7	75.0	108.4	115.7	179.9	249.8	284.1
Commercial Halls	154.3	143.9	121.6	114.3	60.1	30.2	5.9
	208.0	218.9	230.0	230.0	240.0	280.0	290.0
	\$2,260.7	\$2,425.2	\$2,495.0	\$2,500.0	\$2,648.0	\$2,767.0	\$2,863.0
EXPENDITURES							
Lottery	688.1	700.5	716.3	710.5	731.2	747.6	755.1
eGaming	6.1	13.4	21.2	17.6	24.2	30.0	37.1
Casino	463.7	510.3	538.7	553.6	607.7	641.4	666.9
Bingo	180.1	182.2	185.8	183.3	174.9	188.0	193.9
	\$1,338.0	\$1,406.4	\$1,462.0	\$1,465.0	\$1,538.0	\$1,607.0	\$1,653.0
NET INCOME							
Lottery	274.1	282.6	283.7	239.5	248.8	252.4	259.9
eGaming	(0.9)	0.9	3.8	0.4	3.8	7.0	10.9
Casino	621.6	698.6	701.3	748.4	792.3	808.6	843.1
Bingo	27.9	36.7	44.2	46.7	65.1	92.0	96.1
Paid to Gov't	\$922.7	\$1,018.8	\$1,033.0	\$1,035.0	\$1,110.0	\$1,160.0	\$1,210.0
Debt	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Capital Expenditures	82.8	43.9	85.0	93.7	123.9	115.8	117.3
FTEs	575	596	633 ⁴	645	784	798	778

⁴ BCLC's Service Plan 2007/08–2009/10 FTE Target is 625. For 2008/09–2010/11 BCLC modified our definition of FTEs to include temporary staff previously not included. The 2007/08 target has been updated to reflect temporary staff for comparison purposes.

Financial Analysis

- Total revenue is projected to increase by \$363 million or 14.5% over the forecast period.
- Net income is projected to increase by \$175 million or 16.9% over the forecast period. Increases in net income over the three-year planning period reflect a shift in product mix to higher contribution casino-style games.
- Lottery revenue targets have been revised downward to reflect the maturity of existing lottery products and slower than anticipated growth in the hospitality and egaming channels. Lottery revenue growth of \$65 million or 6.8% over the forecast period will come from the introduction of new innovative games.
- eGaming revenue targets have been revised downward to reflect slower market growth than anticipated. Revenue growth of \$30 million or 166% over the forecast period will be generated as consumer acceptance for the internet gaming channel grows and new, innovative games are introduced.
- Casino revenue targets have been revised upward over the three-year planning period to better reflect current estimates. Casino growth of \$208 million or 16.0% over the forecast period will come from enhancements to existing casino facilities and development of tourism markets.
- Growth in the bingo channel has been partially offset by the expected negative impact on traditional bingo revenue from the introduction of new smoking regulations by Government. This impact is expected to be in the range of 20–25% of traditional bingo revenue, or approximately \$40 million. Bingo revenue growth of \$60 million or 26% will come from the continuing development of community gaming centres with slot machines.
- Direct costs as a percentage of revenue are declining, reflecting a shift in product mix to lower cost casino-style games.
- Operating costs are projected to increase from \$127.5 million in 2007/08 (12.3% of net income) to \$142.9 million in 2010/11 (11.8% of net income). In addition to providing for growth in the business, operating costs are increasing in order to implement the recommendations contained in the Ombudsman report and to also address issues resulting from the Deloitte independent audit; this program is referred to as Player First. The additional operating costs also include funding to upgrade BCLC's lottery, casino, bingo and egaming systems with the objective of ensuring that all systems have the highest level of internal control and integrity.
- Capital expenditures in 2008/09 will continue to support gaming operations in over 4,000 lottery locations, 17 casinos, 12 community gaming centres, 15 commercial bingo halls and on PlayNow. Additional capital expenditures will also be incurred to upgrade BCLC's gaming and back office systems to ensure the highest level of gaming integrity and internal controls.

Service Plan assumptions

British Columbia Real Gross Domestic Product

This plan assumes GDP growth of 2.9% forecast for 2008, 3.1% for 2009 and 3.3% for 2010.

Lottery

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

Casino

Openings, upgrades and relocation of existing casinos will be on schedule.

Bingo

The planned openings, upgrades and relocation of existing commercial bingo halls to community gaming centres will be on schedule.

eGaming

Planned product releases of new games will be on schedule.

Government Approvals

Revenue and net income assumptions are based on BCLC obtaining all necessary provincial and host local Government and regulator approvals required under the *Gaming Control Act* for the opening of new facilities and to launch new games.

Gaming Market

- Casino revenue is not further impacted by cross-border competition.
- Unregulated internet gaming will not be a significant competitive threat to British Columbia gaming revenue.
- British Columbia casino and bingo marketplace capacity studies are accurate.
- BCLC market forecasts for new lottery products are accurate.

Cost of Services

Inflation has been assumed at 2% over the planning period. Interest rates have been assumed at 4.6% for 2007/08 and 4.8% for 2008/09, 2009/10 and 2010/11.

Gaming Policy

- No major changes are made to BCLC's mandate or Government's gaming policy.
- No major changes are made to Gaming Policy Enforcement Branch (GPEB) mandate, regulations or policy.

Provincial Smoking Ban

All facilities will become smoke-free and this has been taken into consideration in the forecast and targets in this Service Plan.

Net income that may be at risk

BCLC net income estimates are made after careful consideration of the trends, opportunities, challenges and risks and mitigation strategies described in previous sections. Risk occurrences could negatively impact BCLC's revenue targets resulting in a decrease in the net income delivered to Government. These potential variances are shown below.

GAMING CHANNEL \$ millions	2007/08	2008/09	2009/2010	2010/2011
Net income				
Lottery	4.0	13.0	17.0	21.0
eGaming	1.0	2.0	3.0	4.0
Casino	5.0	25.0	33.0	43.0
Community Gaming Centres	1.0	12.0	17.0	22.0
Bingo	1.0	3.0	5.0	5.0
Total	\$12.0	\$55.0	\$75.0	\$95.0

Net Income Risk Factors

- Delays in obtaining host local Government approvals for the development or rebuilding of casino and bingo properties;
- The capacity and ability of our casino and bingo service providers to build out approved facilities;
- Substantial work effort associated with implementing Ombudsman, Deloitte and other recommendations;
- The number and size of lottery jackpots;
- Our ability to develop and launch innovative new lottery products to transform a mature lottery business and achieve projected lottery revenue;
- Economic issues that result in a reduction to personal disposable income;
- Increasing competition from regulated and unregulated gaming competitors; and
- The change to non-smoking in public places proposed for April 2008.

Spending on gaming and corporate systems and facilities

\$ millions	2005/06 ACTUAL	2006/07 ACTUAL	2007/08 TARGET	2007/08 FORECAST	2008/09 TARGET	2009/10 TARGET	2010/11 TARGET
Gaming Systems							
Lottery	\$21,911	\$7,804	\$20,400	\$13,700	\$11,900	\$15,000	\$17,400
eGaming	0	1,502	2,600	2,600	6,000	2,700	2,100
Casino	53,007	22,001	44,500	37,200	48,400	45,000	45,000
Community Gaming Centres	0	6,445	8,600	9,000	12,800	12,900	12,900
Bingo	4,063	779	1,900	7,000	7,100	6,000	6,900
Player First	N/A	N/A	0	17,300	19,800	0	0
	\$78,981	\$38,531	\$78,000	\$86,800	\$106,000	\$81,600	\$84,300
Corporate Systems	2,296	4,933	4,500	5,000	14,000	31,200	30,000
Facilities	1,603	463	2,500	1,900	3,900	3,000	3,000
	\$3,899	\$5,396	\$7,000	\$6,900	\$17,900	\$34,200	\$33,000
Total Capital	\$82,880	\$43,927	\$85,000	\$93,700	\$123,900	\$115,800	\$117,300

- BCLC does not have any capital projects that individually exceed \$20 million.
- The primary driver of BCLC's capital expenditures is the acquisition of gaming equipment to support revenue generation in the lottery, casino, bingo and egaming channels. This includes gaming equipment to support over 4,000 lottery locations, 17 casinos, 12 community gaming centres, 15 commercial bingo halls and the PlayNow egaming site.
- BCLC will also be incurring capital expenditures over the next several years to improve systems and processes that support the security and integrity of our lottery prize payout systems. Expenditures will include improvements to retailer validation systems, deployment of new consumer ticket validation technology in all retail locations, deployment of self-service terminals in all hospitality locations and development of monitoring systems for retailer prize winners, consumer complaints and incident tracking.
- Capital expenditures will also be incurred to support the upgrading of casino, bingo and back office support systems to provide the highest level of internal control and integrity.

What we plan to do differently, and why

BCLC’s Board and Executive review BCLC’s mission, goals, strategies, performance measures and the associated targets on an annual basis.

This year BCLC’s mission statement has been updated to “To generate income by offering responsible gaming entertainment” removing “for the public good”. BCLC’s net income is provided to Government, and Government makes all decisions about how to distribute gaming income for public benefit.

operate gaming in British Columbia to generate revenue and our corporate social responsibility. Updated strategies describe how we will achieve this balance. Performance measures and targets have also been revised to reflect an increased focus on our players and strengthened social responsibility.

BCLC has added one new goal, and updated the first two of our four goals to reflect a better balance between our mandate to conduct, manage and

This chart compares the goals in our previous Service Plan 2007/08–2009/10 to the goals in this year’s Service Plan 2008/09–2010/11.

2007/08 – 2009/10 SERVICE PLAN GOALS	2008/09 – 2010/11 SERVICE PLAN GOALS	COMMENTS
To be a respected organization that has a broad base of public support	Ensure players come first	It is important that the gaming BCLC’s manages has the support of the public in order for BCLC to continue to generate and maximize revenue.
To provide outstanding gaming entertainment, generating income for the public good	Provide an outstanding gaming experience for players and generate income	Our primary focus is on the games, service, facilities and overall support we provide to our players. Government determines how gaming income will be distributed and distributes it.
N/A	Demonstrate social responsibility in all of our activities	This new goal and associated activities will place more emphasis on ensuring social responsibility and better balance between this goal and that of generating revenue.
To have a workforce passionately driving the success of our business	Have a workforce passionately driving the success of our business	Minor wording change.

Data to evaluate progress in meeting BCLC’s performance targets will continue to be obtained from internal and external sources. Revenue and net income results are obtained from our audited financial statements. Other financial measures, including the

operating cost ratio, are obtained from internal and public management reports. Public and player performance data are provided by independent research agencies that utilize statistical sampling and survey methodologies.

This chart compares the performance measures and targets in our previous Service Plan 2007/08–2009/10 to the performance measures and targets in this year’s Service Plan 2008/09–2010/11.

PERFORMANCE MEASURES	2007/08 SERVICE PLAN	2007/08 FORECAST ⁵	2008/09 TARGET	2010/11 TARGET
Revenue	\$2,495.0	\$2,500.0	\$2,648.0	Revenue forecasts have been updated to reflect strong casino and community gaming centre revenue growth, which is partially offset by a more conservative lottery forecast and a decline in bingo revenue.
Net Income	\$1,033.0	\$1,035.0	\$1,110.0	Net income forecasts have been increased to reflect a shift in product mix to higher margin contribution casino-style games.
Operating Cost Ratio (of Net Income) ⁶	11.1%	12.3%	12.5%	Previous plans measured our operating cost ratio based on total revenue; going forward BCLC plans to measure our cost to deliver a dollar of net income to Government.
Public Trust and Confidence in BCLC Games	N/A	N/A	Baseline to be established	This new measurement will provide BCLC with an understanding of whether our activities to enhance the integrity and security of the games we manage are increasing the public’s trust and confidence in gaming. We will adjust programs and delivery if needed based on actual performance. A baseline will be established in 2008/09 and ongoing targets subsequently set.
Public Support for Gaming	52%	62%	62%	No change in the measure.
Player Awareness of Responsible Gambling Activities	N/A	N/A	Baseline to be established	BCLC’s role in the Responsible Gambling Strategy is to communicate to our players and provide players access to responsible gaming programs. This measure will assess whether we are successful in making players aware of how to play responsibly, and what programs are available. A baseline will be established in 2008/09 and ongoing targets subsequently set.

5 Forecasts are based on actual results for the first three quarters of 2007/08

6 BCLC previously measured operating cost ratio based on revenue, and is showing 2007/08 operating cost ratio on net income for comparison purposes only

PERFORMANCE MEASURES	2007/08 SERVICE PLAN	2007/08 FORECAST ⁵	2008/09 TARGET	2010/11 TARGET
Public Awareness of Beneficiaries of Gaming	35%	35%	N/A	Removed; BCLC does not distribute gaming income, Government does. BCLC also does not advertise where gaming revenue goes. As a result, it is not appropriate for BCLC to measure public awareness of the distribution of gaming revenue.
Player Satisfaction	88%	88%	90%	No change in the measure.
Employee Engagement	60%	44%	55%	No change in the measure.
Public Support for BCLC	65%	62%	N/A	Removed; what matters is whether or not the public has trust and confidence in the gaming activities BCLC oversees, not whether the public supports BCLC as an organization.
Player Participation	67%	58%	N/A	Removed; BCLC's mandate is to generate income for Government, which is a result of player participation.
Public Recognition of Social Responsibility	56%	59%	N/A	Removed; a new measure better aligned with BCLC's mandate will measure player awareness of responsible gaming activities.
FTEs	633 ⁷	645	N/A	Removed; BCLC will measure operating cost ratio as a percentage of net income to ensure that costs are contained within approved levels. A major component of these costs includes human resources.

⁵ Forecasts are based on actual results for the first three quarters of 2007/08

⁷ BCLC's Service Plan 2007/08–2009/10 FTE Target is 625. For 2008/09–2010/11 BCLC modified our definition of FTEs to include temporary staff previously not included. The 2007/08 target has been updated to reflect temporary staff for comparison purposes.

