

Public Sector Executive Compensation Reporting Form

**British Columbia Lottery Corporation
Reporting for Fiscal Year 2013/2014**

Statement of Executive Compensation

June 2014

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June 13, 2014

Lee Doney
Interim President & CEO
Public Sector Employers' Council Secretariat
Suite 210, 880 Douglas Street
Victoria, BC V8W 2B7



*Re: Attestation letter for Executive Compensation – British Columbia Lottery Corporation,
Fiscal Reporting Period 2013/14*

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I have read the Public Sector Executive Compensation Reporting Guidelines as prepared by the Public Employer's Council Secretariat and understand it is my responsibility as Board Chair to be aware of executive compensation paid as reported by British Columbia Lottery Corporation (BCLC) management.

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I hereby attest that, the executive compensation transactions, as reported by BCLC for the fiscal period 2013/14, in all material respects, were within approved compensation plans^{1 2}.

Yours truly,

Bud Smith
Chair, Board of Directors

Enclosure(s)

¹ The approved compensation plans referenced in this attestation are comprised of the following:

1. The BCLC Compensation plan, approved by PSEC, and in effect prior to December 2012;
2. The British Columbia Lottery Corporation Compensation Plan Submission, draft 3 – updated January 25, 2013, which was presented and approved by BCLC's Board of Directors on December 10, 2012; and
3. The Revised CEO Compensation Plan dated February 13, 2013 and signed by both the Board Chair and CEO.

The combination of these three documents comprises what has been referred to in this attestation letter as the approved compensation plans.

² The CEO's salary exceeded the approved compensation plan as a result of the following:

- a) The effective reporting period coincides with pay periods March 24, 2013 to March 22, 2014; however the CEO's compensation includes payment to March 31, 2014, an additional 6 days;
- b) Fluctuation of pension, benefits and statutory benefits amount;
- c) Perquisites allowance payment for the period of March 24, 2012 to March 31, 2013; and
- d) Vacation payout of unused vacation time accrued in 2011 calendar year

Statement of Executive Compensation

1.1 PURPOSE

BCLC is required to disclose all compensation provided to the Chief Executive Officer and the next four highest paid executives for the services they have provided to the organization. This document outlines the design, provisions and total value of executive compensation for the fiscal year ending March 31, 2014 for the British Columbia Lottery Corporation (BCLC).

2.1 COMPENSATION DISCUSSION AND ANALYSIS

2.1.1 Compensation Philosophy

In order to become the Employer of Choice with a high performance workforce passionately driving the success of our business, British Columbia Lottery Corporation's Total Rewards value proposition to employees encompasses the following:

- Compensate for individual and team performance through pay for performance which contributes to the overall strategic transformation and growth of the organization.
- Ability to attract and retain the best possible people by ensuring salaries are competitively benchmarked against the average of the marketplace.
- Ensure internal and pay equity through a formalized job evaluation/classification system and "equal pay for work of equal value".
- Reward and recognize competencies and behaviours that support the Corporation's values and high performance values as those are integral to how we conduct business.
- Promote and support a healthy workplace through competitive and comprehensive benefits and work life balance programs.
- Value and appreciate staff through both informal and formal corporate recognition programs.
- Provide a workplace environment that fosters innovation, creativity, flexibility and adaptability.
- Provide a culture of continuous improvement, learning and growth – both personally and professionally.

Positions are compared against the marketplace on a regular basis to ensure they are competitive and meet the needs of the organization. Adjustments to salary levels are approved by the Board of Directors and the Public Sector Employers Compensation Secretariat (PSEC).

The compensation program includes both a base pay and re-earnable variable incentive program. It is designed to pay for performance. Employees progress through a salary range based on individual performance and mastery of the job. All employees are eligible for a re-earnable bonus based on both corporate and individual achievement of goals.

Equity is achieved through a formalized job evaluation system that evaluates jobs and level of compensation on the basis of complexity. Positions are also evaluated against "equal pay for work of equal value".

The Benefits and Work/Life balance component of the Total Rewards package is designed to provide competitive and comprehensive coverage for employees and their families and to recognize the importance of work life balance in being a contributor to a high performance culture.

Any Total Rewards offered must be within the organization's ability to pay and be approved at the Senior Executive level, as well as be in compliance with any government regulations and guidelines in place.

2.1.2 Governance

The Board of Directors and the Human Resources and Compensation Committee (HR&C) have oversight of BCLC's executive compensation. The terms of reference (as it pertains to total compensation) are outlined below:

Board of Directors

- Monitor and, at least annually, review the CEO's performance against agreed upon annual objectives;
- Approve the CEO's compensation
- Review compensation plans for senior management including salary, incentive, benefit and pension plans;
- Approve certain matters relating to all employees, including:
 - The Corporation's broad compensation strategy and philosophy;
 - New benefit programs or material changes to existing programs; and
 - Material changes to the employee pension plans;

Human Resource and Compensation Committee

- Develop and review a pay for performance Compensation philosophy consistent with the corporate strategy (includes the benefit plan and the annual salary planning plan).
- Review and recommend annual goals for the President and Chief Executive Officer and, when approved ensure the process is implemented.
- Review and recommend the CEO's compensation, including incentive, bonus, benefit and retirement plans, to the Board for approval.
- In consultation with the CEO review and recommend compensation for the Executive team.
- Review and make recommendations to the Board respecting the terms and conditions of the pension plans of which BCLC is an administrator.
- Review the performance incentive plan and make recommendations to the Board regarding approval.

The Board has final approval on the above matters and the HR&C Committee then ensures decisions are implemented.

2.1.3 Forms of Compensation

Total compensation for the Executive includes base and incentive pay, benefits, pension, supplementary pension, vacation, and perquisite allowance. Following is a description of each total compensation element.

Base Pay

Base pay is established at the median based on external benchmarking data and is designed to neither lead nor lag the market. Based on the external data, as well as an internal job evaluation system outlining role accountabilities, jobs are valued and slotted within the appropriate salary range. Annual salary increases for the Executive is determined based on individual performance and placement in the salary range.

Incentive Pay

BCLC's Variable Incentive Pay Program is aimed at directly linking employee performance to pay, ensuring that accountability cascades down through the organization from the CEO to front line employees. Success is measured on the performance of both corporate goals and individual goals, formalizing how each employee directly contributes to the successful delivery of the goals of the organization.

BCLC's Variable Incentive is granted based on the achievement of a financial trigger, corporate goals and individual goal and is re-earnable each year. The incentive plan is not remunerated (corporate or individual) if the financial trigger is not achieved.

The process is as follows:

- The HR&C Committee of the Board reviews and recommends to the Board, the appropriate corporate goals and targets.
- The Service Plan, which is approved by the Ministry, and the business plan, which is approved by the Board of Directors drives the overall corporate and individual goals set for the Executive.
- The CEO's goals are determined by the Board of Directors.
- The CEO's goals are cascaded down to the Executive team and all goals established directly link to the approved business plan.
- The HR&C Committee reviews the attainment of corporate goals, and the individual goals for the CEO, and recommends to the Board the level of achievement against the target set at the end of the fiscal year.

Fiscal Year 2013/14 Targets

| Corporate Goals | Threshold | Target | Stretch |
|------------------------------------|-----------|----------|----------|
| Net Income before taxes (millions) | 1,169.11 | 1,240.00 | 1,274.91 |
| Net Win (millions) | 2,034.44 | 2,157.80 | 2,218.56 |

Benefit Plan

BCLC provides a flexible benefit program, which gives employees the flexibility to choose medical, extended health, dental, AD&D, life insurance, etc. Long Term Disability premiums are paid for by the employee. *The Executive do not have any additional perquisites in this regard.*

Vacation

20 days of vacation is provided for management staff, including the Vice Presidents, upon joining BCLC. Employees' annual rate of vacation accrual increases at established years of service until the maximum accrued vacation rate is met. The maximum accrued vacation provided to management and Executive is 35 days. 30 days' vacation is provided to the CEO.

Registered Pension Plan (RPP)

BCLC has its own defined benefit pension plan which is a shared cost between the employee and the Corporation. Employees contribute 4.4% of their monthly earnings that are less than or equal to Year's Maximum Pensionable Earnings (YMPE) and 6.0% of their annual earnings that are in excess of the YMPE. The Corporation contributes additional amounts necessary to pay for the promised pension. An actuary who is certified in the determination of pension funding requirements calculates the amount of the Corporation's contribution.

Supplemental Registered Pension Plan (SRP)

BCLC has a Supplemental Registered Plan for its Vice-Presidents. The SRP provides a pension payable at retirement on or after age 55. The pension is calculated using the formula from the RPP, without *Income Tax Act* maximum pension limits imposed on the RPP. The excess over the RPP pension is payable from the SRP. In other words, the SRP provides the pension that the *Income Tax Act* will not allow to be paid from the RPP. The SRP is simply a mirror of the RPP, with two exceptions: The Vice President does not have to contribute to the SRP. And, if a Vice President terminates employment before age 55, no benefit is payable from the SRP.

Supplemental Registered Pension Plan (CEO)

The CEO Supplemental Registered Pension is similar to the SRP for Vice Presidents with one exception; the CEO receives 1.5 years of pension credit for each year worked.

Perquisite Allowance

Vice Presidents already employed at BCLC prior to the Executive Compensation Policy changes (July 2012) are provided with a perquisite allowance in the amount of \$12,000 per annum. Any Vice President who joined or will join BCLC after July 2012 is not eligible for the perquisite allowance.

2.1.4 New Policies, Actions or Decisions

As a result of the Executive Compensation Policy changes and the Public Sector Employers Act, BCLC eliminated the Perquisite Allowance Program ("the allowance") effective January 1, 2013. In order to transition off of the perquisite allowance, all eligible Vice Presidents were provided a notice period of 18 months. The notice period is effective January 1, 2013 and will end on June 30, 2014. The CEO's perquisite allowance was eliminated on April 1, 2013.

ITEM 3 - SUMMARY COMPENSATION TABLE

| Name and Position (a) | Salary (b) | Bonus and / or Incentive Plan Compensation (c) | Benefits (d) | Pension (e) | All Other Compensation (f) | 2013/14 Total (g) | Previous Two Years Totals | |
|---|---------------|---|-----------------|----------------|----------------------------------|----------------------|---------------------------|------------|
| | | | | | | | 2012 / 13 | 2011 / 12 |
| Michael Graydon President and Chief Executive Officer | \$ 327,910 | \$ 35,656 | \$ 10,919 | \$ 99,970 | \$ 32,345 | \$ 506,800 | \$ 465,000 | \$ 461,419 |
| Jim Lightbody Vice President, Casino and Community Gaming | \$ 225,667 | \$ 41,701 | \$ 11,589 | \$ 26,420 | \$ 16,339 | \$ 321,715 | \$ 344,796 | \$ 320,259 |
| Lynette DuJohn, Chief Information Officer | \$ 202,800 | \$ 42,545 | \$ 11,210 | \$ 18,020 | \$ 21,359 | \$ 295,934 | \$ - | \$ - |
| Kevin Gass Vice President, Lottery Gaming | \$ 213,129 | \$ 42,581 | \$ 11,023 | \$ 30,620 | \$ 12,000 | \$ 309,353 | \$ 318,757 | \$ 307,247 |
| Jervis Rodrigues Vice President, Finance & Corporate Services & Chief Financial Officer | \$ 203,000 | \$ 20,840 | \$ 12,034 | \$ 7,860 | \$ - | \$ 243,734 | \$ - | \$ - |
| Marsha Walden Vice President, Strategy, Transformation and Social Responsibility | \$ 139,581 | \$ - | \$ 4,083 | \$ 24,110 | \$ 18,066 | \$ 185,840 | \$ 316,811 | \$ - |
| Tom Williamson Vice President, Finance & Corporate Services & Chief Financial Officer | \$ 4,842 | \$ - | \$ 9,827 | \$ 33,720 | \$ 252,771 | \$ 301,160 | \$ 326,644 | \$ 306,518 |

Summary Other Compensation Table

| Name and Position | All Other Compensation | Severance | Vacation payout | Leave payout | Vehicle / Transportation Allowance | Perquisites / other Allowances | Other (k) |
|--|------------------------|------------|-----------------|--------------|------------------------------------|--------------------------------|-----------|
| Michael Graydon President and Chief Executive Officer | \$ 32,345 | \$ - | \$ 32,114 | \$ - | \$ - | \$ 231 | \$ - |
| Jim Lightbody Vice President, Casino and Community Gaming | \$ 16,339 | \$ - | \$ 4,339 | \$ - | \$ - | \$ 12,000 | \$ - |
| Lynette DuJohn, Chief Information Officer | \$ 21,359 | \$ - | \$ 9,359 | \$ - | \$ - | \$ 12,000 | \$ - |
| Kevin Gass Vice President, Lottery Gaming | \$ 12,000 | \$ - | \$ - | \$ - | \$ - | \$ 12,000 | \$ - |
| Jervis Rodrigues Vice President, Finance & Corporate Services & Chief Financial Officer | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Marsha Walden Vice President, Strategy, Transformation and Social Responsibility | \$ 18,066 | \$ - | \$ 10,220 | \$ - | \$ - | \$ 7,846 | \$ - |
| Tom Williamson Vice President, Finance & Corporate Services & Chief Financial Officer | \$ 252,771 | \$ 204,972 | \$ 47,522 | \$ - | \$ - | \$ 277 | \$ - |

ITEM 3.1 – SUMMARY COMPENSATION TABLE DISCUSSION

| | | | | | | | | | | | | | | | | | | | | | | |
|--|---|---|--|----------------|-----------------------------|----------------|--|--|-------------------|------|--|---|-----------------------|--|-----------------------|----------------|---------------------------------|------|--|---------------------------|----------------------------------|--|
| A | Name and Principal Position | <ul style="list-style-type: none"> Jim Lightbody became Acting President & CEO effective February 4, 2014. | | | | | | | | | | | | | | | | | | | | |
| B | Base Salary | <ul style="list-style-type: none"> Payroll system limitations restrict salary reporting to whole pay periods. The salary reported is for the pay periods of March 24, 2013 – March 22, 2014. | | | | | | | | | | | | | | | | | | | | |
| C | Incentive Plan Compensation Earned | <ul style="list-style-type: none"> Incentive compensation reported above is for the achievement of fiscal 2013/14 goals and paid in fiscal 2014/15. | | | | | | | | | | | | | | | | | | | | |
| D | Benefits | <ul style="list-style-type: none"> Total includes employer contributions for MSP, Benefit Credits, Dental, Extended Medical, Basic and Optional AD&D, Basic Life Insurance, and Statutory Benefits (WCB, EI and CPP). | | | | | | | | | | | | | | | | | | | | |
| E | Pension | <ul style="list-style-type: none"> The total includes both Registered Pension and Supplemental Registered Pension amounts. The calculated pension amounts are established using the actuarial assumptions for plan funding purposes. All of the assumptions are shown below: <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 35%;">Discount rate</td> <td style="width: 30%;">6.00% per year</td> <td style="width: 35%;">Consumer Price Index</td> <td style="width: 30%;">2.25% per year</td> </tr> <tr> <td>Pensionable earnings definition</td> <td><i>Basic salary rate as of December 31, 2013 plus target bonus</i></td> <td>Withdrawal</td> <td>None</td> </tr> <tr> <td>Increases in pensionable earnings</td> <td> <ul style="list-style-type: none"> - 2014/15 0.00% - Next 5 years 0.85% - Thereafter 2.25% </td> <td>Retirement age</td> <td>Age 60 or April 1, 2014 if over age 60 at April 1, 2013.</td> </tr> <tr> <td>YMPE increases</td> <td>3.25% per year</td> <td>Pre-Retirement Mortality</td> <td>None</td> </tr> <tr> <td>Increases in maximum pension permitted under the Income Tax Act</td> <td>3.25% per year after 2014</td> <td>Post-Retirement Mortality</td> <td>95% CPM2014Publ mortality table with mortality improvement using scale CPM-B</td> </tr> </table> | Discount rate | 6.00% per year | Consumer Price Index | 2.25% per year | Pensionable earnings definition | <i>Basic salary rate as of December 31, 2013 plus target bonus</i> | Withdrawal | None | Increases in pensionable earnings | <ul style="list-style-type: none"> - 2014/15 0.00% - Next 5 years 0.85% - Thereafter 2.25% | Retirement age | Age 60 or April 1, 2014 if over age 60 at April 1, 2013. | YMPE increases | 3.25% per year | Pre-Retirement Mortality | None | Increases in maximum pension permitted under the Income Tax Act | 3.25% per year after 2014 | Post-Retirement Mortality | 95% CPM2014Publ mortality table with mortality improvement using scale CPM-B |
| Discount rate | 6.00% per year | Consumer Price Index | 2.25% per year | | | | | | | | | | | | | | | | | | | |
| Pensionable earnings definition | <i>Basic salary rate as of December 31, 2013 plus target bonus</i> | Withdrawal | None | | | | | | | | | | | | | | | | | | | |
| Increases in pensionable earnings | <ul style="list-style-type: none"> - 2014/15 0.00% - Next 5 years 0.85% - Thereafter 2.25% | Retirement age | Age 60 or April 1, 2014 if over age 60 at April 1, 2013. | | | | | | | | | | | | | | | | | | | |
| YMPE increases | 3.25% per year | Pre-Retirement Mortality | None | | | | | | | | | | | | | | | | | | | |
| Increases in maximum pension permitted under the Income Tax Act | 3.25% per year after 2014 | Post-Retirement Mortality | 95% CPM2014Publ mortality table with mortality improvement using scale CPM-B | | | | | | | | | | | | | | | | | | | |

| | | | |
|---|-------------------------------|--|--|
| F | All Other Compensation | <p>Perquisite Allowance – NEOs already employed at BCLC prior to the Executive Compensation Policy changes (July 2012) are provided with a perquisite allowance in the amount of \$12,000 per annum which is remitted on a biweekly basis. Any Vice President who joined or will join BCLC after July 2012 is not eligible for the perquisite allowance.</p> <p>Effective January 1, 2013 all eligible NEOs received notice of plan termination and were provided with 18 months notice. All perquisite allowance payments will cease on June 30, 2014. The CEOs perquisite allowance ended on April 1, 2013.</p> <p>Vacation Paid – Unused vacation time accrued in calendar year 2011 for use in calendar year 2012.</p> | |
| G | Total | Michael Graydon | <p>Mr. Graydon left BCLC on February 4, 2014.</p> <p>Notable changes in total compensation from previous reporting year:</p> <ul style="list-style-type: none"> • Salary disclosed includes pay in lieu of notice of \$48,135.91 • Salary Holdback – achievement based on performance criteria as determined annually by the Board of Directors in consultation with the Minister. • Pension – decrease as a result of calculation based on funding assumptions. • Vacation payout – unused vacation time accrued in calendar year 2011 for use in calendar year 2012. • Perquisite allowance was eliminated April 1, 2013. |
| | | Jim Lightbody | <p>Mr. Lightbody became Acting President & CEO effective February 4, 2014 with no change to compensation.</p> <p>Notable changes in total compensation from previous reporting year:</p> <ul style="list-style-type: none"> • Incentive Plan – achievement based on corporate and individual performance. • Pension – decrease as a result of calculation based on funding assumptions. • Vacation payout – unused vacation time accrued in calendar year 2011 for use in calendar year 2012. |
| | | Lynette DuJohn | <p>This is the first year that Ms. DuJohn has been reported on the Executive Compensation Disclosure.</p> |
| | | Kevin Gass | <p>Notable changes in total compensation from previous reporting year:</p> <ul style="list-style-type: none"> • Incentive Plan – achievement based on corporate and individual performance. • Pension – decrease as a result of calculation based on funding assumptions. |
| | | Jervis Rodrigues | <p>This is the first year that Mr. Rodrigues has been reported on the Executive Compensation Disclosure. Mr. Rodrigues started with BCLC on February 4, 2013 and replaced Mr. Tom Williamson.</p> <p>Mr. Rodrigues is eligible to receive up to a 10% salary holdback payment based on the achievement of corporate and individual goals.</p> |

| | | | |
|--|--|----------------|--|
| | | Marsha Walden | <p>Ms. Walden left BCLC on November 15, 2013. Her position was not replaced.</p> <p>Notable changes in total compensation from previous reporting year:</p> <ul style="list-style-type: none"> • Pension – decrease as a result of calculation based on funding assumptions. • Vacation payout – unused vacation time accrued in calendar year 2011 for use in calendar year 2012. |
| | | Tom Williamson | <p>Mr. Williamson left BCLC on April 1, 2013.</p> <p>Notable changes in total compensation from previous reporting year:</p> <ul style="list-style-type: none"> • Pension – increase as a result of calculation based on funding assumptions. • Vacation payout – unused vacation time accrued in calendar year 2011 for use in calendar year 2012. • Mr. Williamson is currently receiving severance payments which started April 1, 2013. |