

BCLC

**2017/18 – 2019/20
SERVICE PLAN**

September 2017



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Board Chair Accountability Statement



The 2017/18 - 2019/20 BCLC Service Plan was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act*. The plan is consistent with government's strategic priorities and fiscal plan. The Board is accountable for the contents of the plan, including what has been included in the plan and how it has been reported. The Board is responsible for the validity and reliability of the information included in the plan.

All significant assumptions, policy decisions, events and identified risks, as of August 29, 2017, have been considered in preparing the plan. The performance measures presented are consistent with the *Budget Transparency and Accountability Act*, BCLC's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of BCLC's operating environment, forecast conditions, risk assessment and past performance.

A handwritten signature in black ink, appearing to read "Bud Smith". The signature is fluid and cursive, written over a white background.

Bud Smith
Chair, Board of Directors

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Strategic Direction and Operating Environment

Strategic Direction

In August 2017, Government provided BCLC with a [Mandate Letter](#) outlining key principles and commitments and directing BCLC to continue to manage its programs and initiatives within existing budget targets. The letter also directed BCLC to begin working with the Ministry of Attorney General to develop strategic actions through the 2018 Mandate Letter process for *Budget 2018*.

These instructions and principles have been taken into consideration as part of the revisions to our Service Plan for the *Budget 2017 Update*. This letter forms part of our strategic context and, along with economic and market trends, informs the business choices we make.

As a Crown corporation, BCLC is required to make smart, responsible investments to grow our business, while balancing our commitment to managing our operating costs in the best interest of the Province and the people of British Columbia.

Operating Environment

Since 1998 and up until 2010, BCLC had been operating in a largely supply-driven environment, where the market for gambling entertainment was under-supplied and hence revenue increased as supply was added. As of 2010, the supply gap has been largely filled, and there has been a shift from a supply-driven to a demand-driven environment that requires BCLC to meet the demands and preferences of customers who now have a wide range of entertainment and gambling options to choose from. This shift to a demand-driven environment is driving a critical need for innovation, challenging the status quo and requires investments in developing new products and services.

Mature markets and relevance of our products to a changing player base

BCLC's major lines of business (lottery and casino) are maturing, and innovation will be critical to sustaining and growing revenues. We expect the industry to remain customer-driven and dynamic, with impacts from many competitive and market forces. With fewer new distribution opportunities we will focus on customer relationship management, enhancing gambling facilities and amenities for our customers, and new product development. BCLC will also focus on leveraging and enhancing our online and mobile platforms to deliver a more tailored customer experience with relevant offerings.

Changing demographics and consumer expectations, combined with increasing direct competition from other gambling entertainment options such as online gambling, fantasy sports and social gaming, underscore the need for BCLC to continue to be agile and responsive to the marketplace. BCLC's traditional bricks-and-mortar distribution channels are close to meeting existing market demand and our gambling product portfolio is facing declining relevance due to changing demographics and expectations. Our product mix is less relevant, in particular, to younger adults who have different expectations for entertainment and service based on the experiences they encounter elsewhere. Ensuring product relevance and a strong entertainment value proposition is critical to our future success. BCLC is focused on continuing to serve our core players' expectations, attracting new

players, and increasing participation from light and casual player segments through the creation of new content and better integrating our digital and bricks-and-mortar experiences.

Evolving player expectations for new content and experiences

Driven largely by advances in technology, consumers are demanding more from the products, services and experiences they engage with. The line between physical and digital is blurring, as demonstrated in the retail sector where retailers are leveraging the capabilities of both environments together with personalization to deliver a better experience for their customers. Trends in entertainment are also changing in that experiences related to social connectivity and competition are driving the entertainment choices for many. Mobile devices are providing a convenient means for consumers to access entertainment or shopping opportunities, whether they are at home or away.

BCLC is embracing these changes and addressing player needs by investing in new content and working to deliver a seamless customer experience across channels and touchpoints. We also continue to invest in our core products, for example Lotto Max, Lotto 6/49 and our existing properties in order to meet and exceed our players' expectations.

A key aspect of a positive customer experience is minimizing any potential harms associated with the use of our products through the promotion of responsible gambling and a focus on player health. Over-consumption of any product can potentially have harmful consequences to the consumer, which is why BCLC continues to invest in GameSense (<https://gamesense.bclc.com>), the corporation's communication platform for responsible gambling awareness and support for player health.

Competition for Talent

The Government of B.C. is projecting that, starting in 2019, there will be a province-wide labour shortage and by 2022 there will be at least a 28,400-person workforce deficit.¹ Statistics Canada is also reporting a projected decrease in the unemployment rate nationally as the labour force participation rate decreases due to the aging population.

The Conference Board of Canada² indicates that the most anticipated challenges for B.C. employers will be recruiting in the market for:

- skilled trades
- computer and information science
- engineering and electronics
- business and management

This means it will be a job-seeker's market and BCLC will need to focus on retention and knowledge transfer as key internal strategies in order to remain competitive.

¹ [British Columbia Labour Market Outlook](#). See Appendix 1, Table 2.

² [Skills for Success: Developing Skills for a Prosperous B.C.](#)

Performance Plan

Goals, Objectives, Strategies and Performance Measures

Goal 1: Player – we are creating an integrated player-focused entertainment company.

Strategies

Focus on player health.

BCLC is committed to reducing the negative health impacts our business may have on people and communities. BCLC is implementing a new strategy and evaluation framework moving away from risk awareness and focusing on player health. Our strategy incorporates key findings from research and the harm reduction approaches applied to other types of addictions. We will move towards outcome-based performance measures of responsible gambling programs in order to track and better gauge effectiveness. Across all our games, we focus on programming that encourages healthy gambling decisions, and we will continue to engage public health stakeholders to ensure that our programs reflect best practices in harm reduction and responsible gambling. Additionally, we are expanding the GameSense Advisors program to all facilities in order to enable operational efficiencies, stronger oversight, enhanced customer service, and greater alignment with our player health strategy.

Improve the gambling entertainment experience with new content and enhanced facilities.

A major focal point of our strategy is improving the gambling experience through new content. Content represents the entertainment experience that players seek when they engage with us and includes our games, amenities at our facilities and the relationships we have with our customers. BCLC will focus on a more detailed understanding of customer preferences, the entertainment industry, and gambling trends to increase BCLC's entertainment value. This understanding will allow us to make decisions on new content and the best way to engage our players in fun and entertaining experiences. We believe that enhancing the content we offer will be key to realizing our vision and serve as a catalyst for future growth.

Improve customer relationships.

We will build on the customer relationship management (CRM) foundation currently being implemented to optimize customer communications across email, mobile push and social touchpoints to engage in relevant, personalized conversations with our players. This will deliver customized and relevant BCLC promotions, content and service to players based on an improved understanding of interactions across all BCLC touchpoints. We will continue to enhance the services delivered through the customer support centre and embrace social responsibility in how we engage customers by integrating a player health lens into our CRM approach.

Optimize our points of distribution and simplify the way our players access and experience our products.

We will continue to leverage investments in our digital and technology infrastructure to deliver exciting games and experiences to our players in our facilities and through our retailers. We will continue to ensure that current facilities are in the right locations and deliver the experiences our customers expect in order to capture the full potential of each facility. BCLC's competitive advantage is that, unlike competitors who operate solely online or solely in bricks-and-mortar, we manage products and channels in retail, hospitality, casino, community gaming centres, web and mobile to create a fulsome customer entertainment experience. We will simplify the way players access and experience our products. Our objective is to enhance the gambling experience everywhere that players choose to engage with our products.

Performance Measure 1: Player Satisfaction

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Player Satisfaction	80%	80%	80%	80%

Data Source: Continuous online tracking study conducted by third-party research professional. Study uses market research industry standard techniques to randomize the sample, while retaining a gender, age and regional balance that is consistent with B.C. population figures available from Statistics Canada's Census.

Player Satisfaction measures how successful we are in creating a player-focused entertainment company. BCLC's level of player satisfaction is already very positive and we are planning to maintain this high level in the upcoming years. To achieve this, we will continue to learn about customer preferences so we can offer relevant content and entertaining experiences that meet our players' needs.

Performance Measure 2: Player Participation (per cent at least monthly)

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Player Participation	53%	53%	53%	54%

Data Source: Continuous online tracking study conducted by third-party research professional. Study uses market research industry standard techniques to randomize the sample, while retaining a gender, age and regional balance that is consistent with B.C. population figures available from Statistics Canada's Census.

Player Participation measures the percentage of adult British Columbians who play a BCLC game in any of BCLC's gambling channels at least once a month. This measure is an indicator of how successful we are in creating entertaining and relevant experiences so players purchase our games. We have adjusted our targets based on historical and forecasted information, and are planning to grow player participation in the upcoming years, focusing on growing participation of moderate and light player segments while retaining our core players. We will continue to learn about customer preferences, enhance our content, and utilize our customer relationship management capabilities to deliver entertaining games and experiences, whether it is in our facilities, through our retailers or online.

Performance Measure 3: Player Awareness of Responsible Gambling Activities

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Player Awareness of Responsible Gambling Activities	79%	78%	78%	79%

Data Source: Continuous online tracking study conducted by third-party research professional. Study uses market research industry standard techniques to randomize the sample, while retaining a gender, age and regional balance that is consistent with B.C. population figures available from Statistics Canada's Census.

BCLC is committed to promoting responsible gambling programs that encourage positive gambling choices. Player Awareness of Responsible Gambling Activities measures how effective we are at educating our players regarding responsible gambling tools and resources, so they can make informed choices. We have updated our targets based on the actual results achieved in fiscal 2016/17 and, although we are shifting resources away from public awareness programs to player health programs, we expect that awareness of responsible gambling activities will remain relatively stable in the future due to continued provision of information at the point of sale. Based on recommendations made in the [Crown Review Report](#) on BCLC and the [Plan for Public Health and Gambling](#), we expect to introduce new measures of harm reduction in future service plans that better align with our player health strategy.

Performance Measure 4: Net Win per Capita

Performance Measure	2015/16 Baseline or Benchmark ¹	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Net Win per Capita	BCLC: \$501 LQ: \$307 OLG: \$378	\$503	\$506	\$513	\$514

Data Source: Net win is from BCLC's financial plan. B.C. population projections are from Statistics Canada (Table 052-0005). Actual population estimates are from Statistics Canada (Catalogue no. 91-215-X).

¹ Benchmarks are calculated using figures from Ontario Lottery and Gaming (OLG) and Loto-Québec's (LQ) fiscal 2015/16 financial statements provided in their published annual reports. BCLC figures represent 2015/16 actual results.

Net Win per Capita tells us how successful we are in growing revenue in relation to the provincial population. Net win is calculated for lottery and bingo games by deducting prizes from gross sales. Casino game prizing is paid during game play and is therefore already reported on a net win basis. The net win is divided by B.C.'s total population, based on Statistics Canada population figures, to obtain per capita metrics. Population estimates and projections are updated annually.

Indexing to the total population allows us to benchmark to other jurisdictions, as the age at which legal gambling is permitted varies between jurisdictions. Net Win per Capita will not grow if the population rate of growth is higher than the projected rate of net win growth. Since this measure is widely used in the gambling industry, consistent benchmarking is possible. BCLC has consistently outperformed the benchmark organizations. BCLC has been successful in attracting tourism to our facilities, which contributes to our net win; however, while tourism is not considered part of the population counts for B.C., including net win from tourism helps explain part of B.C.'s success in comparison to the benchmark organizations, whose figures also include net win from tourism.

In 2016/17, BCLC's Net Win per Capita increased over the previous year through innovation and capitalizing on strategic investments, primarily in the bricks-and-mortar and online channels of the slots category. This successfully offset the volatility experienced in high-limit table game revenue and the expected normalization in jackpot rolls in Lotto Max and Lotto 6/49 from the previous year.

Goal 2: People – we are building an engaged workforce and strong culture.

We strive to demonstrate the value of our work by complying with a rigorous and standardized approach to performance management and employee compensation, consistent with other provincial Crown corporations in B.C. BCLC's talent strategy provides a framework to guide the application of all aspects of our human resources practices. It is intended to achieve the outcome of "Our people and culture deliver exceptional business results." The talent strategy provides the foundation to build organizational capacity and capability, while promoting a culture of service excellence focused on employee engagement.

Strategies

We hire and develop the right talent.

BCLC will continue to focus on employee development and leadership in order to prepare for changing workforce demographics, and ensure BCLC has the right talent to deliver exceptional business results in an environment of changing demands and evolution of the business. We are developing a Strategic Workforce Plan to meet longer term business needs. This will be supported by enhancing leadership and employee development programs to support career progression opportunities.

We attract, retain and engage through a competitive employee value proposition.

For ten consecutive years, BCLC has been selected as a top employer in British Columbia. Competition for qualified talent is strong and therefore we continue to pursue excellence in the programs, services and experiences we offer to our workforce. BCLC will continue to provide a competitive total rewards program that includes rewards, recognition and developmental opportunities that meet both our workforce planning needs and individual career progression while being consistent with the Public Sector Employers' Council guidelines. In addition, we are implementing a diversity and inclusion strategy which will provide employees with the information and tools needed to create a more inclusive workplace, fostering greater innovation and customer focus.

Performance Measure 5: Employee Engagement

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Employee Engagement	87%	85%	85%	85%

Data Source: Anonymous [online survey](#) among BCLC employees, conducted by a third-party market research professional using industry standard techniques.

Employee Engagement is defined as the intellectual and emotional commitment employees have in an organization, and reflects the dedication employees exert to contribute to the organization's success. A passionate and engaged workforce is more productive and will help to drive the success of our business, delivering the fun entertainment experiences our players expect.

In 2016/17, we achieved an exceptionally high employee engagement score. Based on this result, we have made a slight increase to our future targets. We expect employee engagement to remain high based on our commitment to maintaining an engaged workforce through regular measurement and action. However, we recognize that maintaining the exceptionally high result may not be realistic over time, and we have reflected this in our future targets.

Performance Measure 6: Employee Turnover Rate

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Employee Turnover Rate	5.5%	8%	8%	8%

Data Source: BCLC internal sources. Data is measured on a monthly basis with the year-end calculated by averaging the monthly rates.

Employee Turnover Rate measures the combined percentage of voluntary and involuntary turnover relative to BCLC's total headcount. This measure helps us determine how successful we are in attracting and retaining talent to drive the success of our business. It is an indicator of our competitiveness in the labour market, as well as the effectiveness of our training, development and retention programs. We will continue to invest in leadership and employee development. In 2016/17, we achieved a lower than expected employee turnover rate. Future targets reflect our recent results, as well as our historical average.

Goal 3: Public – our business and the benefits it creates are understood, trusted and supported by British Columbians.

Strategies

We are a partner for socio-economic growth in communities.

BCLC strives to make business decisions that reflect and include local perspectives, and provide benefits to the community that are broader than the bottom line.

We are open and accountable.

We are committed to sharing information with municipal, business and community stakeholders and the public about BCLC and the gambling industry to create awareness and understanding. We will proactively disclose relevant information about BCLC via bclc.com and the BCLC Social Responsibility Report. We will proactively communicate major corporate initiatives and activities to the public, the media and our employees in order to be transparent, accountable and build awareness and understanding of our organization.

Our games are fair, our facilities and platforms are safe and secure.

Sustaining net income depends on BCLC’s ability to build the public’s understanding, trust and support of our business by being a good corporate citizen, demonstrating integrity in what we deliver and how we deliver it, and being transparent in how we manage and conduct our business. It is paramount the public understands our products are fair and our facilities are safe.

As a priority, BCLC strives to protect its casinos from money laundering threats through a comprehensive anti-money laundering program built to meet or exceed federal requirements under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, and through formal cooperative efforts with police. BCLC is committed to continuously improving its anti-money laundering efforts by conducting periodic and independent reviews of its program, and through a strong professional working relationship with the federal regulatory body responsible for anti-money laundering – the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC).

We will continue to support the Joint Illegal Gaming Investigation Team (JIGIT) whose objective is to disrupt organized crime and gang involvement in illegal gambling, and prevent criminals from using B.C. gambling facilities who may seek to legalize the proceeds of crime.

Performance Measure 7: Public Recognition of Positive Contributions

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Public Recognition of Positive Contributions	73%	74%	74%	75%

Data Source: Continuous online tracking study conducted by third-party market research professional. Study uses market research industry standard techniques to randomize the sample, while retaining a gender, age and regional balance that is consistent with B.C. population figures available from Statistics Canada’s Census.

This metric measures the percentage of adult British Columbians who agree that BCLC makes positive contributions to the Province of B.C. BCLC’s success depends on maintaining and growing its “social licence” to operate gambling on behalf of British Columbians. This measure helps us gauge our success in building the public’s recognition of the positive contributions of our gambling business so that our business and its benefits are better understood, trusted and supported by British Columbians. We have increased our targets based on historical and forecasted information, and our plans to continue to communicate the positive contributions of BCLC’s business.

Performance Measure 8: Public Perceptions of BCLC's Transparency

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Public Perceptions of BCLC's Transparency	64%	64%	65%	65%

Data Source: Continuous online tracking study conducted by third-party market research professional. Study uses market research industry standard techniques to randomize the sample, while retaining a gender, age and regional balance that is consistent with B.C. population figures available from Statistics Canada's Census.

To build the public's trust and support of our business, it is important that we are transparent so that our business and its benefits are understood by British Columbians. Public perception of BCLC's transparency helps us gauge our success in becoming increasingly open and accountable. We have increased our targets based on historical and forecasted information, and our openness and accountability strategy. We will continue to act with integrity, be proactive in our communication about our business, and engage with municipal, business and community stakeholders and the public.

Performance Measure 9: Level of Greenhouse Gas Emissions

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Level of Greenhouse Gas Emissions (CO ₂ e metric tonnes by calendar year)	2016: 833	2017: 900	2018: 900	2019: 900

Data Source: Data is obtained from the suppliers of electricity, natural gas, fleet vehicle fuel and paper from internal procurement reporting. Data for electricity and natural gas consumption is verifiable from billable consumption figures supplied by the respective utilities companies. Usage for our offsite data facility is calculated from meter readings. Fleet vehicle fuel consumption is verified from our fleet vehicle management company reporting. Paper consumption of all types of reportable paper is measured internally each month.

Our reportable greenhouse gas (GHG) emissions result from the use of buildings, fleet vehicles and certain office paper supplies. BCLC uses calculations provided by the Province to convert and report our GHG emissions in a standard format. This calculation is completed and reported in metric tonnes of carbon dioxide emissions (CO₂e) by calendar year.

Since 2010, BCLC has been mandated to meet the requirements for carbon neutrality set out in the *Greenhouse Gas Reductions Target Act*, and pursue actions to minimize GHG emissions. Sustainability is a key component of our social responsibility mandate and we are advancing environmentally sustainable behaviours in our organizational culture. Future targets have been set using historical and forecast information. As of 2015, BCLC has surpassed its long-term goal of reducing reportable emissions to 1,034 metric tonnes by 2020, a 33 percent drop from a 2007 baseline year. Future targets have been set at a constant level due to the consistent nature of BCLC's operations and unpredictable nature of winter temperatures that are the main cause of year-to-year variability in BCLC's annual emissions.

Goal 4: Profit – we will optimize net income through investing to sustain the long-term health of our business.

BCLC has strengthened its cost management capabilities and fosters a culture of cost-consciousness. The organization is committed to continuous improvement to ensure we are operating efficiently and effectively to contain costs. As part of our mandate, we will optimize BCLC’s financial performance and sustain net return to the Province in accordance with government policy, directives under the *Gaming Control Act* and Treasury Board direction.

Strategies

Define and integrate the innovative experiences our players want.

We will leverage investments in the PlayNow.com infrastructure to provide the digital connection with our bricks-and-mortar environment in order to create a better player experience. We continue to monitor consumer trends so that we can deliver relevant products and experiences that meet player expectations and provide value for money. With player understanding as a cornerstone, and working with best-in-class partners, we will continue to invest in content innovation to deliver engaging gambling experiences to our players and grow net income in a socially responsible manner.

Improve operational efficiency and effectiveness.

We will continue to manage the business in alignment with government direction.

Performance Measure 10: Net Income

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Net Income (\$ millions)	1,339.0	1,311.3	1,320.9	1,339.0

Data Source: BCLC’s financial plan, see page 16.

Net Income is the total amount of income generated by BCLC and delivered to the Province and benefits all British Columbians by funding public health care, education and charitable community programs. Actual results are calculated in accordance with International Financial Reporting Standards (IFRS). This measure is a direct indicator of our success in meeting our mandate to generate net income for the benefit of all British Columbians.

Future targets have been increased to reflect the continued return on fiscal 2016/17 innovation and strategic investments, primarily in the bricks-and-mortar and online channels of the slots category, and to incorporate the exceptional fiscal year 2016/17 results of Keno and the Instant category.

Performance Measure 11: Comprehensive Cost Ratio

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
Comprehensive Cost Ratio (% of Net Win)	42.0 %	43.6 %	44.5 %	44.4 %

Data Source: BCLC's financial plan, see page 16.

The Comprehensive Cost Ratio (CCR) is the sum of direct, gaming support, operating, amortization and other costs (excluding interest and taxes) divided by net win and expressed as a percentage. Cost ratios are used to gauge operational efficiency. During 2016/17, CCR was amended to exclude interest so that it better reflects operational efficiency from areas within BCLC's control. Prior year actual results have been restated for comparability purposes.

Increasing future year budgets are primarily a reflection of BCLC transitioning to a new commission structure for its Casino and Community Gaming service providers, which will drive better strategic alignment with its service providers and drive incremental market growth in the long term. Retailer and service provider commissions comprise the majority of the comprehensive cost base.

Financial Plan

Summary Financial Outlook

Consolidated Corporate Operations				
	2016/17	2017/18	2018/19	2019/20
\$ millions	Actual	Budget	Budget	Budget
Revenue	3,143.9	3,163.7	3,211.4	3,252.8
Prizes (Bingo and Lottery only)	741.3	730.0	718.2	725.8
Net Win	2,402.6	2,433.7	2,493.2	2,527.0
Direct Costs	749.8	788.0	818.4	826.9
Gaming Support Costs	38.6	41.7	43.1	44.1
Operating Costs	145.2	152.4	160.7	162.0
Amortization and Other	75.9	81.0	87.2	91.1
Total Costs	1,009.5	1,063.1	1,109.4	1,124.1
Net Income Before Taxes	1,393.1	1,370.6	1,383.8	1,402.9
Taxes	54.1	59.3	62.9	63.9
Net Income	1,339.0	1,311.3	1,320.9	1,339.0
Liabilities	496.3	512.5	536.8	562.1
Accumulated Surplus / (Deficit)	(17.1)	(17.1)	(17.1)	(17.1)
Accumulated Other Comprehensive Loss	(23.3)	(23.3)	(23.3)	(23.3)
Total Deficit	(40.4)	(40.4)	(40.4)	(40.4)
Capital Expenditures	86.2	90.0	105.0	105.0

Key Forecast Assumptions, Risks and Sensitivities

Net income targets are updated through a reforecasting process that analyzes recent revenue trends for each product category to build a projection of baseline contribution margin (revenues less direct costs). Baseline costs for 2017/18 were estimated using a zero-based budgeting approach. Incremental revenues and costs from strategic initiatives are incorporated into baseline projections and result in the financial plan.

Revenue is projected to increase \$108.9 million, or 1.1 per cent compounded annually, over the three-year period (fiscal year 2016/17 – fiscal year 2019/20). Due to an expected shift in product mix, with lottery and bingo comprising a lower share of the mix, prizes are estimated to decrease by \$15.5

million, or 0.7 compounded annually, over the three-year period. Net win, which is revenue after prizes paid, is projected to increase by \$124.4 million, or 1.7 per cent compounded annually, over the three-year period.

Direct costs include private sector service provider and retailer commissions, lottery ticket and bingo paper printing, supplies and leases. These are driven by revenue projections of each product category. Direct costs are forecasted to increase \$77.1 million, or 3.3 per cent compounded annually, over the three-year period. The increase in direct costs is primarily related to BCLC transitioning to a new commission structure in its Casino and Community Gaming division.

Gaming support costs are expenses that support revenue generation including systems support, data transmission, equipment installation, product delivery, sports odds-setting and internet-based software licence and service fees. These costs are projected to increase by \$5.5 million, or 4.5 per cent compounded annually, over the three-year period. Costs in this area are forecasted to increase in line with industry trends as BCLC continues to make investments in technology to sustain and enhance core systems that support our player experiences. Also, systems support costs associated with maintaining our online and mobile-enabled gambling site, PlayNow.com, are expected to rise to keep pace with upgrades to our players' desktop operating systems, browsers, security systems and mobile devices.

Operating costs include marketing investment, staffing costs, research and development, professional fees, rent, equipment and goods, communications and financial costs. Operating costs are projected to increase by \$16.8 million, or 3.7 per cent compounded annually, over the three-year period to support and sustain continued year-over-year growth in net win. Included in this increase are the estimated operating costs required to replace Lottery legacy systems. This project involves the replacement of equipment identified as high risk as it is near anticipated end-of-life and the majority of lottery revenue relies on this critical equipment.

Sensitivity Analysis

As indicated above, the business planning process involves a thorough analysis of revenue trends by product category to determine baseline organic growth assumptions. Incremental revenue is added from new and strategic initiatives. As a result, the three-year plan is sensitive to changes in sales mix, along with risks associated with future initiatives such as execution risk, market acceptance and success of new products and facilities. Below is a table outlining the sensitivities at a net win level given the above factors.

	2017/18		2018/19		2019/20	
	High	Low	High	Low	High	Low
Net Win Target	2,434	2,434	2,493	2,493	2,527	2,527
Forecast Risks and Sensitivities						
1% change in Slot Growth Assumption	13	(13)	13	(13)	13	(13)
Volatility in High Limit Table play		(22)		(22)		(22)
Market adoption/success of new initiatives		(15)		(45)		(80)
Net Win Risk Adjusted	2,447	2,384	2,506	2,412	2,540	2,412

Management's Perspective on the Financial Outlook

Delivering on our net income commitments to Government continues to be challenging given market conditions and trends. The overall gambling industry in B.C. is at a mature stage with stable net income and a modest growth outlook.

Our two major business units (lottery and casino) are mature and face market saturation. Revenues are flattening and margins are sensitive to shifts in product mix. Lottery revenues are heavily dependent on the national games' jackpot rolls, resulting in lottery revenue volatility. As well, revenues from these business units rely predominantly on a core, aging player base.

BCLC's gambling products are mature and we depend heavily on the performance of our core six products (Slots, Tables, Lotto Max, Lotto 6/49, Keno, and Scratch & Win), which comprise more than 90 per cent of our total contribution margin (revenue less prizes and direct costs).

The projections presented above position BCLC to continue our focus on innovation to retain our existing players by supporting and enhancing existing products (e.g. replacing Lottery legacy systems), and to broaden our player base and engage new players by developing new content and experiences. These opportunities require time and investment before we will realize net income growth but are necessary to ensure the long-term health of our business.

One of these opportunities is the implementation of a new Operating Service Agreement (OSA) in our Casino and Community Gaming division, to achieve better strategic alignment with our service providers and drive incremental market growth. Although these changes will result in increased direct costs for BCLC, the terms of the OSA contracts are an effective method to secure service provider investment commitments across the Province, and are expected to drive incremental revenue from an enhanced facility offering and stronger service provider performance.

BCLC is committed to managing our business responsibly in this ever-evolving environment. Investment decisions carefully consider risk, expected return and benefits, the size of the investment required, and our commitments for future net income. We are continually managing costs and looking for ways to operate our business more efficiently and effectively.

Major Capital Projects

Currently there are no major capital projects (over \$50 million) approved through our business planning process.

Kamloops Head Office Property Development

BCLC's head office in Kamloops, B.C. is over 53-years-old and requires significant upgrades and maintenance. Avison Young (Commercial Real Estate Advisor) has been hired to assist in determining the next steps for the Kamloops head office property development, including the evaluation of building needs and business requirements, as well as assisting with the request for pre-qualification and request for proposal processes. As the project is currently in the requirements analysis phase, an estimate cannot be reasonably determined at this time and accordingly, is not included in the capital expenditure projections.

Significant IT Projects

Lottery Terminal Replacement

This project involves the replacement of equipment identified as high risk as it is near its anticipated end-of-life and the majority of lottery revenue relies on this critical equipment. Management identified this project as a priority, and this was further supported by Government in the 2014/15 Crown Review of BCLC which recommended replacement of key legacy systems. Overall replacement of key legacy systems includes this particular project as well as other software and hardware utilized to generate lottery revenue. The capital estimate available at this time is approximately \$40M over the next two fiscal years and the project is estimated to complete in FY 2018/19.

Appendix A: Hyperlinks to Additional Information

Corporate Governance

- [Governance and Oversight](#)
- [BCLC Senior Executive](#)

The Board governance information on the corporation's website includes all information required by the [Board Resourcing and Development Office](#)'s board governance disclosure requirements.

Organizational Overview

- [Mission and Values](#)
- [Who we are](#)
- [What we do](#)
- [Customer support](#)

Appendix B: Subsidiaries and Operating Segments

Active Subsidiaries

The consolidated financial statements of BCLC include a wholly-owned subsidiary, B.C. Lottotech International Inc. (“Lottotech”). The primary purpose of Lottotech is to purchase capital assets for BCLC. These assets are leased back to BCLC and the major expense is the amortization on the capital acquisitions. The management and oversight of Lottotech is consolidated within BCLC operations and the Board reviews and approves capital budgets through the business planning process.

All BCLC capital expenditures (refer to Financial Plan) are planned to be purchased through Lottotech, the only exception being employee costs related to developing assets or attributable to preparing the asset for its intended use.

Lottotech’s business activities are in alignment with BCLC’s mandate, strategic priorities and fiscal plan.

Summary Financial Outlook Table for Each Active Subsidiary

\$ Millions	2016/17 Actual	2017/18 Budget	2018/19 Budget	2019/20 Budget
Revenues	59.2	64.6	70.0	73.5
Expenses	59.0	64.4	69.8	73.3
Income from Operations	0.2	0.2	0.2	0.2
Other Income (Expenses)	(1.7)	(0.1)	(0.1)	(0.1)
Net Income	(1.5)	0.1	0.1	0.1

Lottotech’s publicly available financial statements can be found in BCLC’s [2016/17 Annual Service Plan Report](#).

Business Units' Income Statements

\$ millions	Actual <u>2016/17</u>	Budget <u>2017/18</u>	Budget <u>2018/19</u>	Budget <u>2019/20</u>
Lottery				
Revenue	1,127.9	1,090.5	1,064.5	1,076.5
Prizes	<u>642.9</u>	<u>627.7</u>	<u>612.4</u>	<u>618.2</u>
Net win	485.0	462.8	452.1	458.3
Less: direct expenses	<u>83.1</u>	<u>81.9</u>	<u>80.6</u>	<u>81.7</u>
	<u>401.9</u>	<u>380.9</u>	<u>371.5</u>	<u>376.6</u>
Operating expenses:				
General Operating	44.6	46.6	53.2	52.8
Gaming Support	13.6	14.3	14.7	15.0
Amortization	7.8	7.6	12.7	15.0
Other	<u>0.3</u>	<u>1.4</u>	<u>1.4</u>	<u>1.4</u>
	<u>66.3</u>	<u>69.9</u>	<u>82.0</u>	<u>84.2</u>
Net Income Before Taxes	335.6	311.0	289.5	292.4
Taxes	<u>10.8</u>	<u>11.4</u>	<u>12.4</u>	<u>12.7</u>
Net income	<u>324.8</u>	<u>299.6</u>	<u>277.1</u>	<u>279.7</u>
e-Gaming				
Revenue	157.6	174.5	192.7	204.2
Prizes	<u>52.0</u>	<u>58.1</u>	<u>62.5</u>	<u>65.2</u>
Net win	105.6	116.4	130.2	139.0
Less: direct expenses	<u>18.4</u>	<u>22.3</u>	<u>27.9</u>	<u>29.7</u>
	<u>87.2</u>	<u>94.1</u>	<u>102.3</u>	<u>109.3</u>
Operating expenses:				
General Operating	16.0	13.6	14.1	14.2
Gaming Support	7.7	8.6	9.7	9.9
Amortization	6.4	6.6	4.4	3.4
Other	<u>(0.3)</u>	<u>0.8</u>	<u>0.8</u>	<u>0.8</u>
	<u>29.8</u>	<u>29.6</u>	<u>29.0</u>	<u>28.3</u>
Net Income Before Taxes	57.4	64.5	73.3	81.0
Taxes	<u>4.4</u>	<u>4.9</u>	<u>5.5</u>	<u>5.6</u>
Net income	<u>53.0</u>	<u>59.6</u>	<u>67.8</u>	<u>75.4</u>
Casino & Community Gaming				
Revenue	1,858.4	1,898.7	1,954.2	1,972.1
Prizes	<u>46.4</u>	<u>44.2</u>	<u>43.3</u>	<u>42.4</u>
Net win	1,812.0	1,854.5	1,910.9	1,929.7
Less: direct expenses	<u>648.3</u>	<u>683.8</u>	<u>709.9</u>	<u>715.5</u>
	<u>1,163.7</u>	<u>1,170.7</u>	<u>1,201.0</u>	<u>1,214.2</u>
Operating expenses:				
General Operating	84.6	92.2	93.4	95.0
Gaming Support	17.3	18.8	18.7	19.2
Amortization	50.7	57.3	60.5	63.0
Other	<u>11.0</u>	<u>7.3</u>	<u>7.4</u>	<u>7.5</u>
	<u>163.6</u>	<u>175.6</u>	<u>180.0</u>	<u>184.7</u>
Net Income Before Taxes	1,000.1	995.1	1,021.0	1,029.5
Taxes	<u>38.9</u>	<u>43.0</u>	<u>45.0</u>	<u>45.6</u>
Net income	<u>961.2</u>	<u>952.1</u>	<u>976.0</u>	<u>983.9</u>

Capital Expenditures for each Operating Segment

\$ Millions	2016/17 Actual	2017/18 Budget	2018/19 Budget	2019/20 Budget
Gambling Systems				
Lottery	11.5	22.2	37.7	25.0
eGaming	1.6	3.7	4.0	5.0
Casino & Community Gaming	64.0	56.7	52.6	63.5
Total Gambling Systems	77.1	82.5	94.3	93.5
Infrastructure & Corporate				
Systems	6.9	6.9	9.4	11.0
Corporate Facilities	2.2	0.6	1.3	0.5
Other Capital	9.1	7.5	10.7	11.5
Total Capital	86.2	90.0	105.0	105.0

Lottery

Lottery's key initiative is the replacement of legacy systems and equipment, which was recommended by Government in its 2014/15 Crown Review of BCLC, as the current infrastructure is near its anticipated end-of-life. Other initiatives include the continued expansion of distribution into major grocery store chains through Lotto Express multilane technology.

eGaming

eGaming continues to expand PlayNow.com's casino gaming content and build applications to improve player experiences through mobile devices.

Casino & Community Gaming

Casino & Community Gaming key initiatives in 2017/18 include supporting the successful opening of the new Parq Vancouver gambling facility and renewing and refreshing slot machines and table games to meet player expectations for exciting new game content.