



NOVA SCOTIA LIQUOR CORPORATION

2006-2007 Annual Business Plan

MANDATE

The NSLC is governed by the Liquor Control Act (LCA) of Nova Scotia. This act sets out the responsibilities of the NSLC to our shareholder - the people of Nova Scotia. The most fundamental element of the NSLC's role derived from the LCA is that the NSLC is solely responsible for the receipt of all beverage alcohol available throughout Nova Scotia. In order to ensure the safe and responsible consumption of alcohol any products sold through NSLC stores, Agency stores, Private Wine and Specialty Stores (PWSS), licensees and private importations must be received through the NSLC. Through this mandate, the Government ensures that the product is available to legal age Nova Scotians exclusively. The legislation also describes four other key responsibilities of the Corporation:

- Attainment of acceptable levels of customer service
- Promotion of social objectives regarding responsible drinking
- Promotion of economic objectives regarding the beverage alcohol industry in Nova Scotia
- Attainment of suitable financial revenue for the Government of Nova Scotia.

The NSLC has developed, based on its legislated mandate, a statement of purpose to guide all employees over the coming years. The NSLC's Purpose, Vision and Culture statement goes beyond the legislated requirements to describe and inspire our people as to the type of business we wish to become.

Purpose

Bringing a world of beverage enjoyment to Nova Scotia.

We aspire to this through our:

Vision

To be recognized as a superb retailer - known for our business performance, customer focus and vibrant shopping experience eliciting the pride and enthusiasm of Nova Scotians.

Living our Purpose and Vision entails a:

Culture

- That encourages innovation and creativity.
- That engages employees in achieving success.
- That is driven by customer needs.
- That demonstrates respect and dignity in all we do.
- That is a fun place to work.
- That advocates intelligent consumption.

PLANNING CONTEXT

The NSLC is competing in a retail marketplace that is rapidly changing to meet increasingly sophisticated and demanding consumer needs. Retailers are constantly evolving to provide a more customer sensitive environment in order to maintain and increase earnings. The NSLC is competing directly for a share of the customer's discretionary income. In this changing environment technology, convenience, service and product selection are key to modern retailing.

The NSLC's future success depends on its ability to respond to these realities and provide shoppers with a retailing experience that meets and exceeds their rapidly evolving needs. The long-term earnings growth resulting from focusing on customer expectations will be achieved through on-going investments in all aspects of the business.

Customer Base

The population base of Nova Scotia is expected to remain relatively stable without any major increase or decrease in population expected over the period of this business plan. However, there are significant changes occurring within the population of the province that impact current and future business practices of the NSLC. Population shifts, in particular, impact the delivery of our retail offering: urban/rural shifts and changes to the age of the population. According to Statistics Canada, Nova Scotia's population growth is occurring primarily in the Halifax Regional Municipality and the median age of the population is increasing.

Research also shows that sixty five percent of the Nova Scotia population is of legal age to consume beverage alcohol, while twenty six percent do not drink. The NSLC customer base is about 550,000 people with most visiting an NSLC store once a month and half visiting an NSLC store 2 to 3 times a month. The NSLC customer base increases with seasonal variations. These include the substantial increase during summer months resulting from the province's tourism industry. With almost half of the tourism visits in Nova Scotia occurring over the four month summer season of June, July, August and September the NSLC is particularly impacted in these months. With 16% of every tourism dollar spent on shopping, the NSLC continues to focus on serving these customers in high periods. The NSLC also has a modest increase from September to May as a result of the return of students to college and university. This is particularly so in the HRM, Wolfville and Antigonish markets.

The 2,100 licensed establishments in Nova Scotia (restaurants, bars, hotels, and lounges) represent 18% of the NSLC's gross sales. The NSLC is a wholesale distributor of beverage alcohol to these establishments.

The vendors and agents of those companies that manufacture the products the NSLC retails and wholesales are critical stakeholders in our business. The NSLC sells 2,600 to 3,000 products from more than 50 countries.

Economy

The Atlantic Provinces Economic Council reports that the Nova Scotia economy grew in 2005 by 1.7% real GDP growth. In 2006 they expect this to improve by 0.6% to 2.3%. Retail sales growth in Nova Scotia was well behind the 6.8% national average in 2005 posting an increase of 0.8% to 3.6% in 2005. NSLC sales in 2005 were up by more than 7%. In 2006 the RCC estimates that retail sales will grow at 3.5%. APEC is projecting an unemployment rate 8.4% for Nova Scotia in 2006.

Tourism plays an important role in NSLC seasonal sales. According to the Nova Scotia Department of Tourism total visits to Nova Scotia declined by 4% in 2005 after two years of robust cumulative growth of 13%. The largest decline occurred with visitors arriving by motor vehicles. The stronger Canadian dollar and higher gasoline prices impacted these numbers in 2005.

Labour Relations

NSLC has three groups of unionized employees each with its own collective agreement. All three groups are represented by the Nova Scotia Government and General Employees Union (NSGEU). Unionized employees include select head office staff, all permanent part-time and full-time Store Clerks; Store Managers and Assistant Managers; as well as maintenance staff and most employees in the Distribution Centre. All three collective agreements were renegotiated in 2005. They expire in 2007. Management will begin preparations for the next round of negotiations this year.

Business Planning

The NSLC introduced a new Five Year Strategic Plan in 2005. The continuous planning process the organization will follow will see this Plan revisited each year as the NSLC works towards its goals for 2010. This Annual Business Plan outlines the major annual projects and priorities the NSLC will be focused on delivering in the current year of the five year plan.

RETAIL ENVIRONMENT

The retail environment in Nova Scotia, as elsewhere, is undergoing significant change. Consumers are better educated, reflect greater diversity, have higher expectations and understand their shopping alternatives. Retailers are responding by investing in systems, tools and technology to allow them to better understand and measure the drivers of success in this changing retail landscape. Nova Scotians increasingly have greater choice of where and how to spend their discretionary income. According to the Retail Council of Canada (RCC) the retail industry is the largest employer in Nova Scotia accounting for 13% of the labour force and more than \$10 billion in annual sales.

Over the past ten years, there has been a strong trend of US retailers entering the Canadian marketplace. US retailers account for approximately 30% of Canadian retail sales. This shift has caused a retail trend change away from traditional downtown core shopping areas to suburban regional retail "Power Centres" where large US and Canadian retailers such as Costco, Home Depot, Walmart, Chapters, Kent and Canadian Tire are locating. In addition, the growing focus on Walmart in the grocery area will see them open 12 new "Super Centres" in Canada by the end of 2007. These new "Super Centres" will offer grocery as one of Walmart's primary product offerings. This will impact the grocery business in Canada substantially. It is not yet clear if Atlantic Canada and Nova Scotia particularly, will receive one of these new Walmart format stores.

These Power Centres offer consumers a greater depth of product offerings at a perceived lower cost. This has not only impacted the traditional downtown shopping experience, but has also reduced the consumer draw to smaller community shopping centres. The NSLC has responded to this trend by restructuring its store network so that the NSLC is now present in most shopping power centres throughout the province.

In this environment, the NSLC must find ways to improve customer access and service, increase product variety and convenience in the most cost effective manner possible. This means the NSLC must not only meet the increasingly sophisticated shopping needs of our customers with regard to product selection and availability, but that it must locate its stores in areas that are representative of current consumer shopping patterns and markets. The retail customer is looking to reduce the number of shopping trips and as a result is responding to retailers that make their shopping experience more convenient and give them "one stop" shopping opportunities. For these reasons the NSLC customer is responding favourably to the NSLC strategy of locating its stores next to major grocery stores. There is a natural shopping fit between beverage alcohol and food. The NSLC will continue to pursue locations with grocery stores within the province in response to these challenges.

The co-location of liquor and grocery stores enhances the natural association of food and beverage alcohol pairings with added convenience for the shopper. New stores or relocating of older stores to these grocery locations allows NSLC to renew its store network in a cost effective way, and to re-image the stores to best meet changing expectations.

The NSLC continues to identify communities and customer segments that are being underserved. Some smaller communities in remote areas are often some driving distance from the closest NSLC store; the NSLC will consider establishing additional Agency Stores for more convenient shopping in these communities in which the operation of a new NSLC retail store cannot be economically supported.

In addition, the NSLC is a wholesale distributor of beverage alcohol to the 2,100 licensed establishments in Nova Scotia (restaurants, bars, hotels, and lounges). This business has traditionally represented 18% of the NSLC's gross sales. According to the Canadian Restaurant and Food Service Association sales in this sector has declined in overall sales in 2005 when compared to 2004 by 10.4%. NSLC sales to these establishments declined by more than 3% during the same period.

BUSINESS FOCUS

The NSLC has five key elements to its business: 1) Supply Chain; 2) Retail; 3) Wholesale; 4) Corporate Services; and 5) Regulatory.

Supply Chain

Like all retail businesses, the backbone of the NSLC is an effective and efficient supply chain. The logistics of getting the product from its point of manufacture anywhere in the world to the Halifax Distribution Centre in Bayer's Lake and then out to retail stores is an enormous undertaking which speaks to the efficiency of the business. In addition, the Supply Chain work of the NSLC must also meet the needs of licensees, agency stores and private wine and specialty stores in order for them to meet their customer needs.

Retail

Once the product is in Nova Scotia, the NSLC is responsible for retailing beverage alcohol to the consumer. It does so through more than 105 retail stores that range from the traditional NSLC store and the higher-end Port of Wines store to the new NSLC Winebaskets offering a convenient wine-only small format store. The NSLC is constantly examining retail market patterns to ensure that the store network is best designed to meet the constantly evolving needs of the consumer.

A key element to retail success is the knowledge, experience and talents of retail store staff. NSLC employs over 1,300 people in communities across the province and strives to support and enhance their skills to deliver superior customer service in a vibrant retail environment.

Wholesale

With the exclusive responsibility in Nova Scotia to acquire and distribute beverage alcohol the NSLC also serves as a wholesaler. The wholesale market makes up approximately 18% of all NSLC revenues. The NSLC's wholesale market involves supplying the province's licensees (restaurants, bars, lounges and hotels licensed to sell beverage alcohol); NSLC Agency Stores; and Private Wine and Specialty Stores (PWSS) with beverage alcohol products.

Corporate Services

The NSLC has a number of corporate services that enable the supply chain, retail and wholesale functions to operate efficiently and effectively. These include the choice of products offered; the marketing and promotion of those products; the financial management of the business; meeting the human resource needs of the NSLC; the development and maintenance of the NSLC's facilities and store network; the use of information technology to improve the efficiency of the business and facilitate the shopping experience; and the transparent communication of the goals of the organization both internally and externally.

Regulatory

The NSLC is responsible for aspects of the Liquor Control Act relating to regulating the activities of manufacturers, their representatives, and non-consumer (commercial/industrial/institutional) uses of alcohol. Every manufacturer or their agent must be authorized by the NSLC to represent and/or market particular products and brands.

A major part of the NSLC's regulatory obligations includes activity relates to wineries, breweries and distilleries manufacturing products within Nova Scotia. The NSLC recognizes the value that these local manufacturers add to the Nova Scotia economy, and the great potential that their products offer in markets both local and worldwide. All local producers are able, once permitted by the NSLC, to operate a retail outlet at their place of manufacture. In addition, the NSLC issues special permits for some of these producers to retail their product in areas such as farmer's markets.

THE NSLC CUSTOMER

The key to any successful retail organization is to know who the customer is, what their needs are, meet these needs, and anticipate how best to serve them in the future. Traditionally as a monopoly, the NSLC viewed its customer to be everyone in Nova Scotia. But this is not the case. For many reasons approximately 26% of legal drinking age Nova Scotians do not drink beverage alcohol. The result is that the NSLC customer is different in both profile and need from the general population.

Through both quantitative and qualitative research the NSLC has segmented its customer base in order to offer a better retail shopping experience. Driving this segmentation is the recognition that NSLC customers buy products for specific uses or occasions. The NSLC customer buys for one or more of the following distinct reasons:

1. Celebration: For holidays and special occasions
2. Socializing: With groups of friends, relatives or colleagues
3. Simple Pleasures: At home or after a meal
4. Letting Loose: for week-ends
5. Savouring: Before and during the meal time experience
6. Unwinding: At the end of the day, through the week, alone time

These are the NSLC's customer segments. This captures well why the NSLC customer purchases. In order to fully understand customer needs the NSLC also needs to answer who is purchasing for these occasions; what are they purchasing for each occasion; when are they buying and how much are they spending when they are doing it. Based on the NSLC's new understanding, when a customer is purchasing products for one of the reasons outlined in the customer segmentation above, the questions just listed are answered by understanding our customer types. The NSLC customer is an:

1. Adventurer: Buys different products frequently across categories
2. Loyalist: Buys the same product frequently
3. Discoverer: Buys different products across categories shopping occasionally
4. Maintainer: Buys the same product shopping occasionally.

Through understanding the needs of the NSLC customer the organization will be better positioned to ensure that *"the NSLC complements all of life's occasions."* This is the Company's brand positioning.

STRATEGIC PLAN

In 2005 the NSLC released a new five year strategic plan for the organization that sets out its business objectives through 2010 and outlines the customer promise.

The NSLC's Customer Promise is:

The NSLC will provide our customers with service that:

*Aligns product availability and selection with our customer needs
Is a vibrant, interactive and inviting Nova Scotia shopping experience
Ensures discovery and personal service with friendly and professional staff*

The focus of the Strategic Plan is to "transform the NSLC from a place to buy something into a place to shop".

The NSLC has identified five strategic pillars to guide its operations during the period of the Strategic Plan:

- **Stewardship**
As a Crown Corporation the NSLC is legislated to deliver its business according to the Liquor Control Act. This pillar sets out how the NSLC will deliver on the responsibility entrusted to it by Nova Scotians.
- **Customer**
This pillar outlines how the NSLC will deliver on its customer promise.
- **Reputation**
The overall reputation of an organization impacts its financial success. This pillar sets out the NSLC's commitment to enhance reputation and measure progress.
- **People**
Having the right people, working in an enjoyable and effective work environment drives success. This pillar sets out how, as a modern retail business, the NSLC will develop its people.
- **Financial**
This pillar sets out the organization's top and bottom line performance expectations.

Each pillar is accompanied by five year strategies that will be the organization's focus in achieving its goals outlined in the 5 year plan. Each of these strategies has aligned with them the priorities of the current fiscal year that will assist the NSLC in completing the strategies. The detailed strategies can be found in the NSLC's Five Year Strategic Plan. What follows are the highlights of this year's priorities.

PRIORITIES FOR 2006-2007

Pillar: Stewardship

5 Year Goal: To provide Nova Scotians with the Corporate Stewardship entrusted to the NSLC under the Liquor Control Act

2006-2007 Priorities

Implement a Board education and development plan
In conjunction with the Audit Committee of the Board and the Finance Division, ensure that appropriate Enterprise Risk Management strategies and processes are implemented
Assist the Wine Association of Nova Scotia with its marketing efforts through an industry economic impact study
Develop and implement new advertising strategies to deliver the NSLC's mandate to promote intelligent consumption
Conduct an Economic Impact Study of the Private Wine and Specialty Store model

Pillar: Customer

5 Year Goal: To match the customer experience with the customer promise

2006-2007 Priorities

Aligns product availability and selection with our customer needs

- Introduce new category management plans for all categories and sub-categories including a regular assortment review, listing and delisting process for each sub-category to ensure product selection meets customer needs
- Implement merchandising strategy through new shelf management plans for each store ensuring product visibility and accessibility
- Develop, resource and implement a licensee service strategy
- Drive excellence in execution standards of Merchandising and Marketing programs at store level

Is a vibrant, interactive and inviting Nova Scotia shopping experience

- Enhance the impact of the Visual Merchandising System to better deliver the NSLC brand message and store sales message
- Key store design elements of the new NSLC brand will be made consistent across the entire network
- Make effective use of the new in-store signage program to provide monthly intelligent consumption messaging to customers

Ensures discovery and personal service with friendly and professional staff

- The NSLC will begin new training programs for employees encompassing sales and category education and knowledge

- Introduce more detailed product information for customers on-shelf
- Develop consistent store operating standards across the network

Pillar: Reputation

5 Year Goal: To be recognized as a leading retailer in Nova Scotia

2006-2007 Priorities

Conduct and establish performance targets for the annual survey to rank leading retailers in Nova Scotia

Develop a retail customer service centre of excellence to facilitate improved customer service and more efficient service delivery

Provide transparent and pro-active communication of the NSLC's business success

Introduce enhancements to the store network that continue to elicit the pride and enthusiasm of Nova Scotians

Develop product vendor partnership strategy enhancing business performance

Pillar: People

5 Year Goals: To have a highly motivated and engaged workforce.

To develop our workforce including our leaders to meet the evolving needs of the Corporation.

To have a highly productive workforce.

2006-2007 Priorities

Develop an employee recognition program to identify and reward those who perform above and beyond expectations

Increase use of cross functional teams and meetings including quarterly head office communications meetings; executive participation in regular regional store manager meetings; an annual conference of all employees; and for special initiatives such as Project 360

Create development and succession planning for management and the executive

Develop and roll out a tiered training program with certification for staff including sales skills and product segment knowledge at a beginner, intermediate and advanced level.

Identify and reduce activities at the Distribution Centre & retail stores that do not support NSLC's ability to deliver on the customer promise and ensure Supply Chain efficiencies

Establish and implement updated safety management system

Introduce wellness initiatives in support of a healthy workplace

Pillar: Financial

5 Year Goal: To reach a 4.1% annual growth rate over the next five years (ending 2010)

2006-2007 Priorities

To deliver \$494 million in net sales (this will produce a two year CAGR of 4.6%)

- Move consumers up within categories through the use of promotions, advertising and shelf management principles
- Introduce a disciplined approach to category management focused on SKU profitability and assortment driven by customer segmentation and analysis
- Review Social Reference Price and category price banding strategies

5 Year Goal: To contribute \$215 million to the province by 2010

2006-2007 Priorities

To return \$184.4 million net income from operations to the shareholder

- Examine strategies to improve Gross Margin
- Implement SAP software and design new business processes through Blueprint, Realization, Final Preparation, and Go live stages for the Finance and Supply Chain Divisions.
- Implement SAP-Retail software, integrate a new point-of-sale system and design new business processes through Blueprint, Realization, and Final Preparation stages for the retail store network.
- Review Supply Chain efficiencies to improve performance to retail, licensee, and PWSS and explore replenishment strategies with vendors and other liquor jurisdictions

5 Year Goal: To effectively use our capital

2006-2007 Priorities

Decrease/eliminate unproductive inventory in both the store network and the Distribution Centre

Develop as part of Category Management an exit strategy for delisted product

Complete the final year of the Network Development Plan and create the a new network plan for the years ahead

Establish a Return on Investment (ROI) hurdle rate model for prioritizing capital expenditures

STRATEGIC ENABLERS

Across the entire business there are a number of key initiatives that the NSLC will focus on this year that are essential elements of moving the organization forward to deliver its customer promise and on shareholder expectations. Three important enablers over this year are the NSLC brand, the NSLC Corporate Marketing Plan and our business process improvement initiatives.

The NSLC brand

The effective implementation of the NSLC brand brings together all customer touch points leaving an overall impression of the organization to our customers. These include the physical store environment; staff interaction; logo; product selection and availability; promotions and advertising; impressions left by news media; events and many other more intangible elements. Every place a customer can interact with your company is a touch point, and that touch point affects how you are perceived. Perception impacts a customer's willingness to respond to a business's effort to get them to purchase products.

Brand = Promise + Performance + Perception

This past year the NSLC introduced across its store network, a new logo and a new look for store staff. This is derived from the new positioning for the NSLC that drives our brand:

The NSLC complements all of life's occasions

From this brand positioning for the company the NSLC has a new tagline:

Make it a social occasion

Building on this positioning and tagline is our marketing magazine *Occasions* and our customer segmentation approach based on purchasing occasions.

Moving forward the NSLC is going to focus on improving the staff knowledge of the products we sell, and improving the overall sales message in the store. In addition there will be increased focus on providing self education tools for customers both in-store and through our website www.thenslc.com as well as the NSLC's special events.

The NSLC brand will continue to evolve to move the organization closer to delivering on the Customer promise.

The Corporate Marketing Plan

The NSLC will introduce this year a Corporate Marketing Plan to help guide the organization on meeting its commitments under the Five Year Strategic Plan. It puts "meat on the bones" of the Strategic Plan. The Corporate Marketing Plan analyzes the business as it currently stands, and provides a blueprint as to how the NSLC will reach the goals set out in the Five Year Strategic Plan. This includes details on the customer experience; what is the sales culture the NSLC is trying to create; who is the customer; what is the

customer offer to look like in 2010; what is the NSLC's optimum product offer for profitability; and how does the organization maximize financial performance through the use of pricing and gross margin.

Multi-year Divisional plans, the NSLC Annual Business Plan, and Annual Divisional Plans will use the Corporate Marketing Plan to deliver each part of the business.

Business Process Improvement

Getting better at determining the mix of products customers desire, and ensuring that they are on the shelves when customers need them is why the NSLC is investing considerable resources this year and next in our core technology and business processes. At the heart of this business process are our core technologies for product ordering, financial management, human resource management; data warehousing and the point-of-sale system.

A major focus of the NSLC this year will be the design and implementation of business processes and technology to replace these legacy systems. The NSLC has chosen the SAP-Retail solution to move the organization forward in this regard. The NSLC purchased this retail software from SAP, the largest world-wide provider of business software solutions. This system is used by many of the world's most successful retail businesses. Our Point-of-Sale system replacement will be tendered during the year and a new system chosen to work with our new business technology.

We have called this major initiative Project 360 because this name reflects our desire to have "one view" of all aspects of our business. This means all data and information are collected in one system providing one "look and understanding" for everyone who uses the system. Better business intelligence for the NSLC will assist in making business decisions based on customer insight and intelligence. By improving decisions the NSLC will offer an improved shopping experience for our customers and increase financial return for our shareholder.

Over the next two years this will change how we do our business and provide the necessary tools and information to help NSLC achieve its goal of becoming a superb retailer.

RISK FACTORS

The ability of the NSLC to meet these commitments can be impacted by factors beyond its control. Some of these include the impact that weather throughout the province can have on sales. Severe winter weather has in past years resulted in the closure of stores across the province reducing overall sales. Unseasonably cool summers, rain and fog also tends to impact sales.

The beer segment is particularly subject to sales fluctuations in this regard. With 80% of the volume of product sold by the NSLC represented by the beer category this is an area of great vulnerability to weather conditions.

The products sold by the NSLC are purchased with the discretionary income of customers. General economic conditions of the province effect discretionary income and could reduce NSLC sales and overall profitability.

With regard to the risks associated with weather and the economy, the NSLC has put in place monitoring and performance measures to enable management to make off-setting decisions minimizing the risk associated with these factors.

Major business process initiatives associated with the implementation of SAP carry inherent risk factors that can temporarily impact product supply and payment when they first go live. Due diligence has been performed by the NSLC in undertaking this initiative to mitigate against possible business interruption.

The perspective of the Government of Nova Scotia as the sole shareholder of the NSLC, can impact the NSLC's business plan. Shifts in public policy and the public interest as voiced by the Government, will impact the NSLC's ability to deliver this business plan as outlined.

The Board of Directors and management have also committed to ensure that appropriate Enterprise Risk Management strategies and processes are implemented during this year.

Financial Plan

	Actual	Actual	Projected	Budget	
	2003/2004	2004/2005	2005/2006	2006/ 2007	Change
	\$	\$	\$	\$	
Spirits	135,605,145	138,031,068	145,522,000	147,705,000	1.5%
Wine	69,766,469	74,152,151	80,666,000	85,151,000	5.6%
Beer	217,663,830	224,344,466	239,960,000	245,983,000	2.5%
Ready To Drink	15,993,285	16,048,807	17,284,000	17,975,000	4.0%
Non liquor	527,462	633,504	300,000	300,000	0.0%
Total Gross Sales	439,556,190	453,209,996	483,732,000	497,114,000	2.8%
Less: Discounts	2,404,073	2,255,353	2,515,000	2,650,000	5.4%
Net Sales	437,152,117	450,954,643	481,217,000	494,464,000	2.8%
Cost of Sales	213,307,519	216,981,780	230,681,000	236,942,000	2.7%
Gross Profit	223,844,598	233,972,863	250,535,000	257,522,000	2.8%
Less: Store Operating Expenses	37,989,204	41,993,977	45,000,000	47,200,000	5.0%
Gross Operating Profit	185,855,394	191,978,886	205,566,000	210,322,000	
Less: Warehousing & Distribution	5,439,214	5,160,908	4,850,000	4,900,000	1.0%
Corporate Services	10,577,704	13,533,774	16,583,000	16,575,000	0.0%
Other Expenses	4,415,557	4,091,659	5,397,000	4,800,000	-11.2%
Add: Other Revenue	4,528,761	4,833,735	6,071,000	6,150,000	1.3%
Total Expenses (Excluding Stores)	15,903,714	17,952,606	20,759,000	20,125,000	-3.1%
Operating Income before Depreciation	169,951,680	174,026,280	184,807,000	190,197,000	2.9%
Less: Depreciation	3,199,983	3,991,970	4,930,000	5,700,000	15.6%
Income From Operations	166,751,697	170,034,310	179,877,000	184,497,000	2.6%
Volume Growth					
Spirits	5,138,650	5,229,430	5,209,000	5,209,000	0.0%
Wine	6,174,890	6,562,865	6,919,000	7,196,000	4.0%
Beer	62,115,530	61,922,196	63,027,000	63,342,000	0.5%
Ready To Drink	2,586,480	2,537,039	2,664,000	2,771,000	4.0%

Performance Measurement

The NSLC will meet or exceed the following key financial performance measure for the organization:

Net Income

	Actual 2003-2004	Actual 2004-2005	Projected 2005-2006	Budget 2006-2007	Year 2 CAGR
Income From Operations	166,752,697	170,034,310	179,900,000	184,500,000	5.0%

Supporting Operating Initiatives

In managing the business, the NSLC some of the indicators used to ensure maximum shareholder return is achieved while operating a modern retail business are outlined below.

Customer Satisfaction Index

The NSLC has redesigned the CSI in order to provide management with more specific information on how to improve the customer experience. A baseline performance was established in 2005-2006. Baseline performance will be established during 2006-2007 performance targets on specific customer measures will be set.

Retail Ranking

The NSLC is establishing a ranking of retailers through an annual survey. The NSLC will establish baseline performance measures against public expectation of retail businesses.

Balanced Scorecard

The NSLC will introduce detail metrics for managing progress on the business. These metrics include both financial and non-financial performance ensuring alignment with the Five Year Strategic Plan. This Scorecard is the key to managing the financial measures of the Five year Strategic Plan including the 2010 goals of a 4.1% Compound Annual Growth Rate (CAGR) on the top line and the net return to the shareholder of \$215 million in 2010.

Net Sales (millions)

ACTUAL	ACTUAL	ACTUAL	PROJECTED	BUDGET	Year 2 CAGR
2002-2003	2003-2004	2004-2005	2005-2006	2006- 2007	2006-2007
\$412.4	\$437.2	\$451.0	\$481.2	\$494.4	4.8%

Operating Expense Ratio

ACTUAL	ACTUAL	ACTUAL	PROJECTED	BUDGET
2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
12.8%	13.1%	14.2%	14.7%	14.7%

Operating Expense Ratio (excluding depreciation and amortization)

ACTUAL	ACTUAL	ACTUAL	PROJECTED	BUDGET
2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
11.9%	12.3%	13.3%	13.7%	13.6%

Net Income Ratio

ACTUAL	ACTUAL	ACTUAL	PROJECTED	BUDGET
2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
36.2%	38.2%	37.7%	37.4%	37.3%

Store Operating Ratio

ACTUAL	ACTUAL	ACTUAL	PROJECTED	BUDGET
2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
8.7%	8.7%	9.3%	9.3%	9.5%