



2008-2009 Annual Business Plan

MANDATE

The NSLC is governed by the *Liquor Control Act* (LCA) of Nova Scotia. This act mandates the responsibilities of the NSLC to our shareholder, the people of Nova Scotia. The most fundamental element of the Corporation's role derived from the LCA is that the NSLC is solely responsible for the receipt, distribution and control 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 only to Nova Scotians of legal drinking age. The legislation also describes four other key responsibilities of the Corporation, specifically:

- 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; and
- Attainment of suitable financial revenue for the Government of Nova Scotia.

The NSLC strives to balance its legislated mandate between the control aspects of the product, providing the necessary financial returns to our shareholder and ensuring a high level of service to Nova Scotians.

The NSLC exists, from a public policy perspective, to limit the harmful impacts of irresponsible behaviour relating to the misuse of beverage alcohol, not only through pricing policies, but through the control of access to the product. It is important to note, the licensing and regulation of all bars, restaurants, pubs, lounges etc. rests with the Nova Scotia Alcohol and Gaming Authority.

In the retail environment, the NSLC is focused on ensuring the product is sold only to those of legal drinking age and on delivering in-store messaging about the need for safe and intelligent consumption. The NSLC also has in place minimum pricing for all products to ensure that excessive discounted pricing is not used to induce harmful consumption.

Externally, in fulfilling our legislated mandate, the NSLC focuses on advocacy, raising awareness of the impact of irresponsible behaviour regarding alcohol consumption. The NSLC approach in this regard includes partnerships with the Nova Scotia departments' of Transportation, Education, Health Promotion and Solicitor General, as well as, with most police services across the province.

The NSLC is mandated to provide the government with strategic public policy advice on the regulatory aspect of the Liquor Control Act (LCA) and the economic development of Nova Scotia beverage alcohol industry, providing

opportunities for the Nova Scotia beverage alcohol producers to optimize the retail of their products.

The NSLC has developed, based on its legislated mandate, a statement of purpose to guide all employees over the coming years. The NSLC 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

- Encouraging innovation and creativity
- Engaging employees in achieving success
- Driven by customer needs
- Demonstrating respect and dignity in all we do
- That makes it a fun place to work
- Advocating intelligent consumption

PLANNING CONTEXT

Over the past few years the NSLC has undergone a profound transition to a customer-focused, retail organization vying for the consumers' entertainment dollar and disposable income. Successful retailers provide customers with a complete shopping experience. This means constantly evolving the customer shopping experience by engaging customers with store atmosphere, design, staff interaction, staff knowledge, product variety, value offers, and personalized service.

The Corporation'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 and expectations. The long-term earnings growth, resulting from focusing on customer expectations, will be achieved through on-going strategic investments in all aspects of the business.

Creating the right store and service offering for the right market in delivering on our customer promise is, and continues to be, the key priority.

Market

Statistics Canada reports show that 77% of the Nova Scotia population is of legal age to consume beverage alcohol. NSLC surveys indicate that 26% do not shop for alcohol. Hence, the NSLC customer base consists of approximately 535,000 people, most visiting an NSLC store at least once a month.

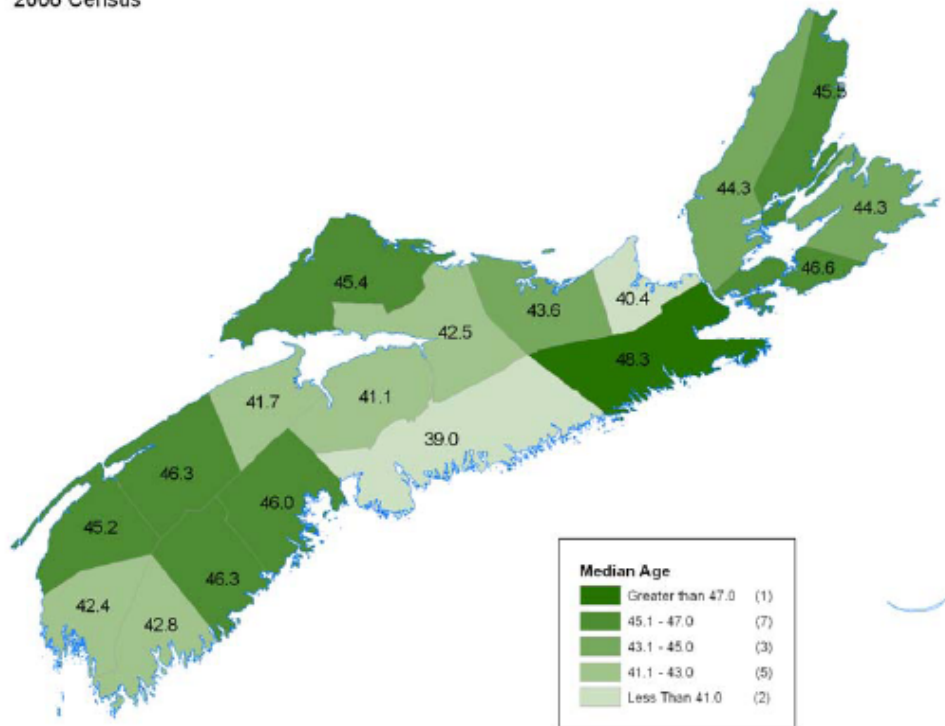
Population growth in Nova Scotia is relatively flat. Not only is the population not growing, it is rapidly aging. The Nova Scotia Department of Finance second release from the 2006 Census on *Age and Sex* notes; *"The aging of the Baby Boomers coupled with out-migration to other provinces of women of child-bearing age and increasing life expectancy has made the population of Nova Scotia one of the oldest in Canada."* An aging population combined with a lack of growth (i.e., fewer younger residents) means the NSLC customer base will grow older, as well. This will drive changes in consumption patterns and product demand.

Another population trend in Nova Scotia is a "hollowing out" of the rural areas of the province. More and more people, particularly young people, are moving to urban centres. The Halifax Regional Municipality (HRM) has benefited from this trend and has the youngest median age in the province.

In general, the more urban counties in the central part of the province (i.e., Kings, Hants, and Antigonish) have lower median ages than the more rural counties. There is a significant range of median ages with HRM being the youngest at 39 and Guysborough being the oldest at 48. This variation in the composition of the population across the province is reflected in the make-up of our customer base. The implication being, a "one-store fits all" approach in terms of design, format, and merchandising may not be the most appropriate approach. The organization must seek to understand the

constituency of each store, and align our product and service offering accordingly.

Nova Scotia Counties by Median Age
2006 Census



The NSLC customer base also changes with seasonal variations. These include the substantial influx of people during the summer months, resulting from the province's tourism industry. In the fall, the return of students to university affects the HRM, Wolfville, and Antigonish markets.

While the return of students in the fall is assured, the number of tourists visiting the province each year is not always as stable. However, 2007 appears to have been a successful year for the province in terms of tourism visits. According to the Nova Scotia Department of Tourism, total visits to Nova Scotia were up every month from June to November 2007. The Nova Scotia Department of Tourism website reported that Nova Scotia welcomed 2 million visitors in the first 11 months of 2007, a two percent increase over 2006.

Wholesale sales account for approximately 19% of the Corporation's gross sales. The wholesale market includes the 2,100 licensed establishments in Nova Scotia (restaurants, bars, hotels, and lounges), representing 63% of the total (wholesale market of 19%), Private Wine and Specialty Stores account for eight percent, and NSLC Agency Stores represent another 29% of the total wholesale market.

The vendors and agents, representing product manufactures and wholesalers, are critical stakeholders in our business. There are approximately 80 beverage alcohol agencies in Nova Scotia with approximately 130 registered representatives. The NSLC makes available

through various distribution channels up to 5,900 products from more than 50 countries.

Nova Scotia per Capita Consumption

Data on per Nova Scotia capita consumption rates of beverage alcohol by category indicate that 2006 consumption levels of beer and wine continue to run below the national average, even though consumption of wine has been trending steadily up for the last 6 years. In contrast, Nova Scotia's per capita consumption of spirits has been and continues to be above the national average. The data also reveal that per capita cooler consumption continues to rise in Nova Scotia, while on a national level, the data suggests that cooler consumption peaked a couple of years ago, and has started to decline.

Consumption of Alcoholic Beverages Per Capita LDA and Over, by Category, Nova Scotia vs. Canada (Litres 2001-2006)						
	2001	2002	2003	2004	2005	2006
Spirits (excludes coolers)						
Canada	5.67	5.65	5.57	5.65	5.62	5.82
Nova Scotia	7.08	7.08	6.90	7.07	7.14	7.10
Coolers						
Canada	2.12	2.96	3.25	3.20	3.04	2.80
Nova Scotia	2.31	2.90	3.14	3.56	3.47	3.71
Wines						
Canada	12.31	12.52	13.10	13.36	13.78	13.96
Nova Scotia	7.67	8.04	8.23	8.97	8.97	9.41
Beer						
Canada	90.89	91.74	90.99	91.68	89.75	89.25
Nova Scotia	84.66	86.16	85.06	87.25	84.65	86.64
Total						
Canada	110.99	112.87	112.91	113.89	112.19	111.83
Nova Scotia	101.72	104.18	103.33	106.85	104.23	106.86

Source: Brewers Association of Canada 2006 Annual Statistical Bulletin, pg37

The chart above reflects the total litres of beverage alcohol (by Spirits, Coolers, Wines and Beers) the average person (legal drinking age (LDA) and above) consumed in the year. The LDA is 19 across Canada except Quebec, Manitoba and Alberta where it is 18 years of age.

In terms of total consumption of alcohol, Nova Scotia consistently falls short of the national average.

Total Per Capita Consumption of all Alcoholic Beverages by Province and Canada (litres, 2001-2006)						
	2001	2002	2003	2004	2005	2006
Total alcoholic beverages						
CANADA	110.99	112.87	112.91	113.89	112.19	111.83
Alberta	116.37	121.06	117.68	119.96	120.54	122.53
Quebec	118.83	120.95	120.71	120.74	118.5	121.15
Ontario	109.39	110.47	112.37	112.29	110.62	113.23
Newfoundland & Labrador	116.28	119.36	115.22	123.55	112.65	112.92
British Columbia	107.52	107.39	107.05	109.14	109.11	108.07
Nova Scotia	101.72	104.18	103.33	106.85	104.23	106.86
Prince Edward Island	100.51	109.03	103.71	105.96	105.67	105.64
New Brunswick	99.85	103.39	101.56	103.4	102.74	103.26
Manitoba	98.18	100.73	99.57	102.17	98.09	101.13
Saskatchewan	95.77	100.15	98.78	102.45	96.95	98.68

Source: *Brewers Association of Canada 2006 Annual Statistical Bulletin, pg37*

As illustrated in the above chart Alberta and Quebec have the highest per capita consumption in the country followed by Ontario and Newfoundland and Labrador, the next group is British Columbia, Nova Scotia and Prince Edward Island. The bottom three are New Brunswick, Manitoba and Saskatchewan being significantly lower than all others.

Being under the national average in per capita consumption of beverage alcohol would appear to present an opportunity for further growth. As always, this opportunity is balanced against one of our other key responsibilities --- to promote social objectives regarding responsible drinking.

Economy

NSLC gross sales are projected to increase by 5.3% for the 2007/2008 fiscal year, outperforming the market. For 2008-2009, the NSLC projects gross sales to increase by 4.5%.

Retail Sales

Retail sales in Nova Scotia grew by 4.0% in 2007 compared to the previous year. The Nova Scotia Department of Finance is forecasting retail sales to grow by 4.4% (or \$12.2 billion) in 2008, and to grow by 4.9% (or \$12.8 billion) in 2009.

Gross Domestic Product

In December of 2007, the Nova Scotia Department of Finance adjusted its 2007 GDP growth forecast from 2.3% down to 1.6%, as a result of lower consumer spending and a decline in business investment. For 2008 the Nova

Scotia Department of Finance is forecasting real gross domestic product to grow at 1.7% and projects continued growth of 2.5% for 2009.

Employment

The Department of Finance forecasts employment in Nova Scotia to grow a 0.9% in 2008 and 1.2% in 2009.

Personal Income and Spending

Retail sales comprise 52% of personal consumer spending on goods and services. Nova Scotians' personal income grew by 5.0% in 2006, and for the period ending in December 2007, total wages and salaries grew by 6.3%. Looking ahead, the Department of Finance forecast personal disposable income to grow at 4.2% in 2008 and continue at that same rate in 2009.

The Consumer Price index is forecasted to grow at a rate of 2% for 2008 and 2009.

Labour Relations

Almost half of NSLC employees are unionized and are represented by the Nova Scotia Government and General Employees Union (NSGEU). Those in the bargaining unit include all full-time and part-time store clerks, but exclude those working on a casual basis. All store managers and assistant managers are unionized, as are maintenance and warehouse employees. In addition, certain office clerical roles are unionized.

All three of the NSGEU collective agreements were renewed in the last quarter of 2007-2008 and the new agreements are in effect until March 31, 2010. All three settlements were achieved amicably and without a work stoppage.

The labour climate continues to be characterized by an open and collaborative relationship, using a problem-solving approach to address workplace issues as they arise. This is reflected in a reduction in the number of concerns which reach the stage of a formal grievance and, for those which do result in grievances, the ability to settle the majority without resort to arbitration. It's fair to say that the NSLC has a positive labour relations climate.

Business Planning

The NSLC introduced a Five-Year Strategic Plan in 2005. The organization follows a continuous planning process, ensuring this plan is reviewed each year as the NSLC works towards its goals for 2010. The Annual Business Plan outlines the major annual projects and priorities on which the NSLC will focus and deliver in the current year of the five year plan.

RETAIL ENVIRONMENT

According to the Retail Council of Canada (RCC), the retail industry is the largest employer in Nova Scotia accounting for approximately 13% of the labour force and more than \$10 billion in annual sales.

All retailers are vying for a larger piece of the Nova Scotia consumer's disposable income. The NSLC is no exception; therefore, we compete with all retail businesses for this portion of income. The Nova Scotia Department of Finance 2007-2008 budget estimated that Nova Scotians' personal disposable income is expected to increase 3.5% in 2008. This increase provides the NSLC with a further opportunity for growth.

The NSLC has successfully implemented strategies that have gained an increased share of disposable income over the past number of years. In addition to the increased, varied and improved product offering, the NSLC has made it more convenient to shop for beverage alcohol with an expanded number of stores, increased hours of operation, Sunday store openings and an expansion of the Agency Store Program. The co-location of approximately 50% of the store network to a major grocery retailer has dramatically improved customer shopping convenience, and increased customer satisfaction to the point where the NSLC is now viewed by customers as one of the top retailers in the province.

In the past two years, the NSLC has been recognized with 36 awards by third party organizations, both nationally and internationally. In 2007, the NSLC has been nominated for business of the year by the Halifax Chamber of Commerce and finally recognized in Progress magazine's top 101 companies in Atlantic Canada (4th in Nova Scotia, 11th in Atlantic Canada).

The NSLC received a North American Occupational Health and Safety award for its implementation of a new occupational health and safety (OHS) management system --- the first company in Nova Scotia, and one of the first in Canada to adopt the new standards.

The Retail Council of Canada awarded the NSLC the 2007 Excellence in Retailing Award for In-store Merchandising. The NSLC has also received the IABC Gold Quill Award of Excellence the 2007 and is a finalist in the World Retail Congress Marketing Campaign of the Year award, both its 'Lots of Ways' social responsibility campaign.

Customer Satisfaction

The NSLC measures customer satisfaction against other retail businesses in the province. This rating includes: top-of-mind customer impressions of which are the top retailers in the province; which retailers offer the best shopping experience; and a ranking of retailers by actual shopping experience.

The overall shopping experience provided by the NSLC is rated by its customers as the second best performance of all retailers mentioned. This

represents a significant improvement compared to a year ago, when we placed at 6th best performance on the same assessment.

The NSLC has measured customer satisfaction of the key elements of our current five-year plan for the past seven quarters. Since then, our performance has increased five percent, from 82% of customers giving us satisfied ratings, to 87% in our last quarter ended December, 2007.

Performance

In addition to the improved customer satisfaction, the growth in the return to our shareholder has been unparalleled in our 77 year history. In fiscal 2007-2008, the NSLC forecasts to exceed budget expectations on both top-line and bottom-line growth, achieving net income from operations of \$198.1 million on net sales of \$529.1 million. The top-line is expected to grow by 4.8% with bottom line growth at 5.2%, compared to the previous fiscal year, and is forecasted to exceed the business plan by 0.5 percent.

Additionally, as of the end of February 2008, the NSLC wholesale market (which includes licensees, private wine stores and agency stores), is showing good growth in fiscal 2007-2008 with sales of \$93.5 million, representing a 8.8% increase as compared to the previous fiscal year. The growth was largely due to increased sales for both agency stores (+66.6%) and private wine stores (+23.8%). Sales to licensees have decreased by 4.2% as compared to the 2.1% drop in the previous fiscal year. The wholesale market represents approximately 19% of our gross sales.

Corporate Responsibility

The Province's *Sustainable Prosperity* initiative points out that Nova Scotians want to achieve prosperity and growth in an environmentally and sustainable manner. They are looking for Nova Scotia businesses to meet today's needs, while not compromising our future.

Nova Scotians are no different then consumers and investors globally, who are seeking greater efforts by business to act in a corporately responsible manner. Higher standards are expected and being delivered in the business approach to the environment, trade standards, labour standards, adherence to basic human rights and sustainable growth.

In addition to the Corporation's extensive efforts in the area of the socially responsible consumption of beverage alcohol, the NSLC will be developing all aspects of its business and future planning to ensure sustainable prosperity with a new corporate responsibility plan. The NSLC will also be introducing Codes of Conduct for both its employees and its suppliers to make clear both expectations and responsibilities around the ethics of conducting business.

NSLC CUSTOMERS

The key to any successful retail organization is to know your customers, their needs and expectations, how to meet these needs, and anticipate how best to serve them in the future. Traditionally, as a monopoly, the NSLC considered its customers to be everyone in Nova Scotia. However, this is not the case. For many reasons, approximately 26% of legal, drinking-age Nova Scotians do not shop at the NSLC, resulting in the NSLC customer being somewhat different, in both profile and needs, 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:

- **Celebration:** For holidays and special occasions
- **Socializing:** With groups of friends, relatives or colleagues
- **Simple Pleasures:** At home or after a meal
- **Weekenders:** Socializing on week-ends
- **Savouring:** Before and during the meal time experience
- **Unwinding:** At the end of the day, through the week, alone time

These different occasion types capture why NSLC customers purchase our products. In order to fully understand customer needs and expectations, the NSLC must also answer who is purchasing for these occasions, what they are purchasing for each occasion type, when are they buying, and how much are they spending. The NSLC segments its customers based on their behaviours (captured in answers to the aforementioned questions), and then by grouping them into four customer segments:

- **Adventurers:** Buy different products across categories, shop more frequently and spend more on average
- **Loyalists:** Buy the same product, shop more frequently and spend more on average
- **Discoverers:** Buy different products across categories, shop occasionally and spend less on average
- **Maintainers:** Buy the same product, shop occasionally and spend less on average

Through understanding the needs and expectations of our customers the organization is well positioned to ensure that *"the NSLC complements all of life's occasions."* This is the essence of the NSLC brand positioning.

Although there may be opportunities to increase revenues with all customer segments, analysis reveals that close to four in ten of our customers (37%) are good candidates for sales growth. More specifically, 8% of the customer base is considered to exhibit the "best potential" for growth, and a further 29% is considered to exhibit "very good" potential for growth.

Growth Composite by Customer Type

% within Quadrant Type of Customer

		Type of Customer				Total
		Loyalists" (HV)	Adventurers (HO)	Maintainers " (LV)	Discoverers (LO)	
Growth Composite	0 Extremely Low Potential	33%	11%	38%	15%	25%
	1 Below Average Potential	40%	28%	42%	43%	39%
	2 Very Good Potential	23%	44%	17%	33%	29%
	3 Best Potential	3%	17%	3%	10%	8%
Total		100%	100%	100%	100%	100%

The table above illustrates our best opportunity for increasing revenue lies with the Adventurers and Discoverers customer segments, although some Loyalists and Maintainers are also candidates for increased sales.

Two discernable demographic characteristics serve to distinguish the high potential segments from the remaining customer base. Firstly, high potentials tend to be younger (64% under 45 years of age), and female. Secondly, they are more likely to live in Halifax. Fully 43% of all Adventurers and 44% of all Discoverers live in HRM. Additionally, they show a slight preference for shopping at newer versus older stores.

The unique characteristics of each customer segment and number of like customer segments by store suggest the NSLC maybe able to tailor its activities (e.g., store design, category assortment, displays, impulse opportunities, sales training, added value offering, etc.) to appeal to one customer type or another. However, as a monopoly it remains our responsibility to provide appropriate levels of customer service for all customer segments, in all stores.

Generally, as the Nova Scotia population base shows relatively flat growth and is rapidly ageing, our opportunity for growth lies in diversifying the beverage alcohol product available to the market, educating the consumer on the products available, and encouraging trial of better quality products, all while continuing to advocate for intelligent consumption.

ORGANIZATIONAL ELEMENTS

The NSLC has five key organizational 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 work of Supply Chain must also meet the needs of Licensees, Agency Stores and Private Wine and Specialty Stores each with unique customer requirements.

Retail

Once the product is in Nova Scotia, the NSLC is responsible for retailing beverage alcohol to the consumer. It does so through 106 retail stores, ranging from the Wine Baskets located in grocery stores to the high-end Port of Wines store, and 55 agency stores. The NSLC is constantly examining market retail 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. The NSLC employs over 1,500 people in communities across the province and strives to support and enhance their skills to deliver superior customer service in a vibrant shopping environment.

Wholesale

With the exclusive responsibility to acquire and distribute beverage alcohol in Nova Scotia, the NSLC also serves as a wholesaler. The wholesale market makes-up approximately 19% of NSLC revenue. The NSLC 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 strategic planning and financial management of the business; the merchandising and marketing of products; developing the human resource needs; the development and maintenance of our facilities and the 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 in the province.

A major component of the Corporation's regulatory obligations includes activity related 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, both local and world, markets. 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.

STRATEGIC PLAN

In 2005, the NSLC released a new Five Year Strategic Plan for the organization, identifying business objectives through 2010, and outlining the customer promise.

Our **Customer Promise** states:

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 2005-2010 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 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 as outlined in the strategic plan. Each of these strategies has alignment with the priorities of the current fiscal year. The detailed strategies can be found in the NSLC Five Year Strategic Plan. What follows are the highlights of this year's priorities.

PRIORITIES FOR 2008-2009

STEWARDSHIP

5 Year Goal:

- **To provide Nova Scotians with the Corporate Stewardship entrusted to the NSLC under the Liquor Control Act**

2008-2009 Priorities

- Develop an inventory of skills and competencies required for the Board to deliver on its mandate.
- Design a framework, including skills assessment and member development tools, to support improved Board governance.
- Implement Enterprise Risk Management through the development of both reporting and governance processes, including integration with business planning, Board & Executive committee reporting, and ongoing risk/mitigation re-assessment.
- Establish effectiveness measures for intelligent consumption investment.
- Obtain approval and identify funding for a comprehensive Nova Scotia Wine development strategy in conjunction with government and industry stakeholders.

CUSTOMER

5 Year Goal:

- **To match the customer experience with the customer promise**
(as defined on page 15)

2008-2009 Priorities

- Formalize the implementation of the operating standards and monitor performance.
- Develop and appoint Product Specialists.
- Improve assortment and promotions efficiency and effectiveness.
- Operationalize the wholesale customer strategy.
- Develop online strategy, supported by enhancements to the external website and its functional capabilities.
- Enhance retail promotional capabilities supported by technology.
- Re-develop and implement the customer event strategy.
- Complete store format/customer experience model and gap analysis.
- Adopt revised NSLC regulations, reflecting change in social and business norms since original enactment, and support innovation while minimizing intrusion.
- Renew our focus on the national Check 25 program, a preventative measure to underage access, by reviewing current practices and implementing further improvements to the program.

REPUTATION

5 Year Goal

- **To be recognized as a leading retailer in Nova Scotia**

2008-2009 Priorities

- Complete store format/customer experience model gap analysis.
- Develop and implement the environmental strategy.
- Initiate preliminary work on the 2010–2015 Strategic Plan.
- Develop a corporate responsibility plan and report.

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**

2008-2009 Priorities

- Develop a formal retail recognition program.
- Conduct an employee opinion survey, communicate results and integrate into business planning.
- Introduce retail management training program.
- Develop a corporate business planning process that improves linkages between the corporate plan and individual business unit plans, conducted by the senior management group.
- Develop a pool of potential store management leadership successors, using individual development plans and goals.
- Review casual recruitment strategies, practices and technology.
- Improve internal web capability to enhance online support for learning, business processes and improved internal communications.
- Complete development of the HR technology support strategy and implement any HR pay/functionality the strategy dictates should be delivered.
- Develop and start initiation of a sustainable Healthy Workplace strategy.

FINANCIAL

5 Year Goals

- **To reach a 4.1% annual growth rate over the next five years (ending 2010)**
- **To contribute \$215 million to the province by 2010**
- **To effectively use our capital**

2008-2009 Priorities

- To deliver \$554 million in net sales (this will produce a four year CAGR of 5.28%)
- Grow sales based on information derived through improved business analytics capabilities.
- Improve assortment and promotions efficiency and effectiveness.
- Review Social Reference Price and category price bands.
- Implement first phase of SAP benefits realization.
- Complete stabilization of the new Point-of-Sale system.
- Develop and assess Distribution Centre technology strategy to support our retail and wholesale business

- To return \$210 million net income from operations to the shareholder
- Assess and determine options from the findings of the joint study between the four Atlantic Liquor Jurisdictions and the Atlantic Gateway Initiative for a Regional Inventory Distribution Model
- Reduce less productive inventory in the DC and the retail store network.
- Implement second year of the 3-year network renewal plan.
- Continue ROI hurdle rate model for prioritizing capital expenditures.

STRATEGIC ENABLERS

There are important strategic enablers, allowing us to deliver on our 2008-2009 priorities in support of our Five Year Strategic Plan, and ultimately allowing us to meet our customer and shareholder expectations. These important enablers are the capital and operating expense plan, customer experience, business planning process and business analytical capabilities.

Capital & Operating Expense Plan

Prior to becoming a Crown Corporation in 2001, our growth was impeded by the lack of investment in the business. The result was technology and a store network barely able to keep pace with the demands of a modern retail business to a degree that fundamental elements of the business were at risk.

The NSLC has increased spending since becoming a Crown Corporation to invest in the long-term health of the business. These investments include capital expenditures for the replacement of the core technology that runs the business, now SAP; a new Point-of-Sale system developed last fiscal year and the renewal of the store network.

The capital investment over the past three years in SAP has added to our depreciation and amortization for the next three years. In addition, during 2007-2008 the NSLC made an additional major capital investment with the replacement of the Point-of-Sale system. This will impact the amortization and depreciation expense line beginning in 2008-2007, and continue over the following four years. The NSLC also made a major operating expenditure in the 2007-2008 fiscal year to improve service to the licensee community. This initiative will take three years to show a positive return-on-investment.

Additionally, over the past three years, the NSLC has partnered with major grocery chains in many of its locations to provide a convenient and improved shopping experience. Some of the capital investment was provided by these grocery partners, and for the most part, we have optimized this opportunity. In future, continued store enhancements, which meet the ROI hurdle rate model for capital expenditures, will in part be funded by the NSLC.

On an ongoing basis, the business requires operating expenditure investments to enhance the supply chain, the introduction of modern marketing and merchandising practices, improved financial reporting and analysis, and training of employees.

Customer Experience

The re-launch of the NSLC brand presents an overall impression of the organization to our customers through all customer touch points. These include: the physical store environment; staff interaction; the logo; product selection and availability; promotions and advertising; impressions left by news media; events; online; many intangible elements etc. 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 retailer's effort to get them to purchase products.

Brand = Promise + Performance + Perception

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

Business Planning

The NSLC has developed its business planning process to help guide the organization in meeting its commitments under the Five Year 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: a vision of the customer experience; the sales culture to which the NSLC aspires; definition and segmentation of the customer base; the optimal cross-category strategy for profitability; and how to achieve and maximize financial performance through the use of pricing and gross margin.

The Annual Business Plan, Category Management Plans and Annual Business Unit Plans then use the Five Year Strategic plan and the Corporate Marketing Plan to deliver each part of the business.

Leading retail businesses use category management to drive increased profitability and customer satisfaction. The NSLC is in its third year of implementing category management discipline in all four product categories (beer, wine, spirits and ready-to-drink). This includes strategies for product sub-categories the NSLC wishes to grow aggressively, grow strategically, maintain, or harvest in step with customer trends and business requirements. Category management plans strategically define and drive product selection (based on performance analysis and customer needs), product pricing, product placement (e.g. which stores, where in-store, where on shelf), and product promotion.

As we approach 2010, the end of our current Five Year Strategic Plan, we will have to begin to prepare for the setting strategic direction for 2010-2015 timeframe.

Business Process Improvement

Technology support key business processes such as product ordering, financial management, human resource management, data warehousing and customer behavioural insights, to name a few. These systems and the resulting new business processes improve decision-making, and enhance the execution of strategies and operational needs. Over the next three years, realizing the benefits of the SAP implementation will continue to improve our business processes and provide the necessary tools and information to help NSLC achieve its goal of becoming a superb retailer.

RISK FACTORS

Risk, simply put, is anything that impacts the ability to achieve objectives. Therefore, it is important to outline the risk factors beyond our control that can impact the Corporation's ability to meet its commitments and objectives.

Factors include the impact 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 negatively impact sales. The beer category is particularly subjected to sales fluctuations in this regard. Weather conditions represent an area of great vulnerability, since approximately 80% of the volume of product sold is represented by the beer category.

Our products are purchased with the discretionary income of customers. General economic conditions of the province affect discretionary income, and could reduce NSLC sales and overall profitability as in any retail business. Particularly, the looming potential of a recession in the United States always has the possibility of crossing the border, despite strong Canadian economic indicators.

The NSLC has put in place monitoring and performance measures to enable management to make decisions mitigating the risk associated with weather and economic factors.

Major business process initiatives associated with the implementation, stabilization and benefits realization of new technology carry inherent risk factors that can impact the business. Due diligence is being performed by the NSLC during this evolving process to mitigate against possible business interruption.

The replacement of the point-of-sale (POS) system is critical to the business. The NSLC has performed due diligence in choosing the hardware and software, along with the processes for activating the new system. Issues arising from the POS launch and stabilization could temporarily inhibit the Corporation's ability to process transactions and report sales, causing customer issues and reduced transactions.

The Royal Bank of Canada and Moneris supply the clearing system for financial transactions used by the NSLC. These systems rarely fail even temporarily. However, if they do, the NSLC would be impacted.

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

Enterprise Risk Management

The Board of Directors and the Executive have also committed to ensure that appropriate Enterprise Risk Management strategies and processes are in place and revisited yearly to mitigate as many risks (aforementioned and otherwise) as possible.

Enterprise Risk Management (ERM) is a structured and disciplined risk management approach, considering strategy, process, people, technology and knowledge with the purpose of continually evaluating and managing risks to business strategies and objectives on an enterprise-wide basis. ERM is a continuous activity that aggregates and integrates risk management activities across all types of risk in order to achieve maximum risk-adjusted returns.

Benefits of having an ERM process in place include:

- Strengthen corporate governance and accountability
- Improved and proactive management focus
- Risk awareness and enhanced accountability
- Establishes and integrated view of risk across the organization
- Effective cost management and resource allocation
- Manages internal and external stakeholders' expectations and requirements

The risk assessment initiative conducted in 2007/08 by the NSLC resulted in the identification and prioritization of risks, which in turn require mitigation strategies to be adopted by the corporation overall or the appropriate business units within the organization. The next step is to develop both the reporting and governance processes, including integration with strategic and business planning, Board and Executive committee reporting, and ongoing risk/mitigation re-assessment.

FINANCIAL

	Actual 2004/ 2005	Actual 2005/ 2006 \$	Actual 2006/ 2007 \$	Forecast 2007/ 2008 \$	Budget 2008/ 2009 \$	% Sale	%Change
Spirits	138,031,068	146,511,096	148,457,956	153,432,233	158,386,274		3.2%
Wine	74,152,151	81,794,281	87,609,246	96,667,514	106,375,861		10.0%
Beer	224,344,466	242,597,682	251,363,331	263,159,128	272,105,028		3.4%
Ready To Drink	16,048,807	17,487,170	20,536,527	21,624,411	22,074,779		2.1%
Non liquor	633,504	295,271	196,624	123,069	100,000		-18.7%
Total Gross Sales	453,209,996	488,685,500	508,163,684	535,006,354	559,041,942	100.9%	4.5%
Less: Discounts	2,255,353	2,601,763	3,445,895	5,892,155	5,031,377	0.9%	-14.6%
Net Sales	450,954,643	486,083,737	504,717,789	529,114,199	554,010,565	100.0%	4.7%
Cost of Sales	216,981,780	233,107,815	242,344,875	250,175,202	260,599,257	47.0%	4.2%
Gross Profit	233,972,863	252,975,922	262,372,914	278,938,997	293,411,307	53.0%	5.2%
Less: Store Operating Exp	41,993,977	45,875,122	47,066,297	49,173,532	49,553,717	8.9%	0.8%
Gross Operating Profit	191,978,886	207,100,800	215,306,617	229,765,465	243,857,590	44.0%	6.1%
Less: Supply Chain	5,160,908	4,834,430	5,261,682	5,972,384	5,652,232	1.0%	-5.4%
Corporate Services	13,533,774	17,401,405	17,161,160	18,881,354	19,411,300	3.5%	2.8%
Other Expenses	4,091,659	4,875,266	6,130,390	5,674,336	5,661,834	1.0%	-0.2%
Add: Other Revenue	4,833,735	5,741,118	6,320,501	5,692,352	5,286,352	1.0%	-7.1%
Total Exp (Excl Stores)	17,952,606	21,369,983	22,232,731	24,835,722	25,439,014	4.6%	2.4%
Op Income before Depr.	174,026,280	185,730,817	193,073,886	204,929,742	218,418,576	39.4%	6.6%
Less: Depreciation	3,991,970	4,475,489	4,832,930	6,829,271	8,397,467	1.5%	23.0%
Income From Operations	170,034,310	181,255,328	188,240,956	198,100,471	210,021,109	37.9%	6.0%
Total Expenses (not Depr'n)	59,946,583	67,245,105	69,299,028	74,009,255	74,992,732	13.5%	1.3%
Total Expenses	63,938,553	71,720,594	74,131,958	80,838,526	83,390,199	15.1%	3.2%

Volume						%Change
Spirits	5,229,430	5,223,280	5,123,551	5,198,816	5,224,810	0.5%
Wine	6,562,860	6,921,600	7,209,359	7,782,992	8,366,717	7.5%
Beer	61,922,190	63,750,550	64,164,780	65,109,637	65,760,733	1.0%
Ready To Drink	2,537,040	2,730,090	2,991,671	3,179,068	3,258,545	2.5%
Total	76,251,520	78,625,520	79,489,361	81,270,513	82,610,805	1.6%

PERFORMANCE MEASUREMENT

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

Net Income (millions)

Actual 04-05	Actual 05-06	Actual 06-07	Forecast 07-08	Budget 08-09	Year 4 CAGR
\$170.0	\$181.2	\$188.2	\$198.1	\$210.0	5.42%

Net Sales (millions)

ACTUAL 04-05	ACTUAL 05-06	ACTUAL 06-07	Forecast 07-08	BUDGET 08-09	Year 4 CAGR
\$450.9	\$486.1	\$504.7	\$529.1	\$554.0	5.28%

Operation Expense Ratio (including depr'n) (%)

ACTUAL 04-05	ACTUAL 05-06	ACTUAL 06-07	Forecast 07-08	BUDGET 08-09	Year 4 CAGR
14.2%	14.8%	14.7%	15.3%	15.1%	6.87%

Operation Expense Ratio (excluding depr'n) (%)

ACTUAL 04-05	ACTUAL 05-06	ACTUAL 06-07	Forecast 07-08	BUDGET 08-09	Year 4 CAGR
13.3%	13.8%	13.7%	14.0%	13.5%	5.76%

Supporting Operating Initiatives

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

Customer Satisfaction Index (CSI)

The NSLC has been measuring customer satisfaction around the key elements of our current five year plan for the past seven quarters. Since then, our performance has increased from 82% of customers giving us satisfied ratings (8-10 out of 10), to 85% in our last quarter ended December, 2007.

Our satisfaction survey tracks a customer assessment of 21 separate items impacting customer satisfaction with the organization. Of those 21 items, statistical analysis of the data has highlighted six major factors, grouping these individual items.

Despite inevitable fluctuations from quarter to quarter, the trend line on five of these six items is up compared to the spring of 2006:

- Evaluations regarding the helpfulness of our staff have risen a full 15 points to 84%;
- Assessments of our overall retail environment have risen fully 13 points to 86%;
- Assessments of our store layouts, and check-out speed, have risen 10 points to 79%;
- Similar evaluations related to the product knowledge of our staff have risen smartly by 9 points to 78%;
- Appraisals of the accessibility and location of our stores have risen a more modest 3 points, to 77%.

The one driver of customer satisfaction that has not moved in step with these other measures relates to our product selection. While virtually all customers are satisfied that they can get the product they are looking for, there are instances where rare brands and SKU's can be temporarily unavailable due to many factors. We are sure with the measures and management in place we will make those rare occasions even rarer in the future, if not a thing of the past.

Retail Ranking

The NSLC has also conducted two annual retail benchmark surveys. The overall objective of this survey is to compare customers' perceptions of our products and services to those of other retailers in the province.

Of the many items covered in the survey, the key, summary measure that this study reports is an evaluation of the "overall shopping experience" provided by the NSLC. In our most recent study, NSLC customers rated our overall shopping experience as second of all retailers mentioned. This represents a significant improvement from our first study in the spring of 2006, where we tied for fifth on the same assessment.

The retail benchmark survey asks a random sample of 400 of our customers to volunteer the name of a Nova Scotia retailer that they believe provides them with an excellent overall shopping experience.

Next, the survey asks them to rate the overall shopping experience particular retailers deliver, using a scale from 0-10. In addition, customers are asked to rate that retailer across a number of broad service assessments. They are then asked to rate the Corporation's overall shopping experience, using the same 0-10 scale. This approach allows the NSLC to benchmark against other retailers our customers report as the best in the province.

On that basis, 82% of our customers gave the NSLC a rating of 8-10 when we last asked this series of questions earlier this year. Only one retailer scored better, with 89% of those surveyed.