



2010-2011 Annual Business Plan

April 6th 2010

Mission

To bring a world of responsible beverage enjoyment to Nova Scotia.

Mandate

The NSLC is governed by the Liquor Control Act (LCA) of Nova Scotia. This act mandates the responsibilities of the NSLC to its shareholder (the Province of Nova Scotia) and 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
- 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 products, providing the necessary financial returns to its 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 also through control of access to the product. It is important to note that the licensing and regulation of all bars, restaurants, pubs, lounges, and other licensed premises rest with the Nova Scotia Alcohol and Gaming Division.

Through all retail channels, the NSLC is focused on ensuring that the product is sold only to those of legal drinking age and on delivering a message that reinforces 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 its legislated mandate, the NSLC focuses on advocacy, raising awareness of the impact of irresponsible behaviour regarding alcohol consumption. The NSLC's approach in this regard includes partnerships with the Nova Scotia departments of Transportation, Education, Health Promotion and Protection, and Justice as well as 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 and the economic development of the Nova Scotia beverage alcohol industry, providing opportunities for 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 in what is expected from each of them and the corporation. The NSLC Purpose, Vision & Culture statement goes beyond the legislated requirements to describe and inspire its people as to the type of business the NSLC wishes to become. As the NSLC enters into the first year of its new 5-year strategic plan, it has reviewed its Purpose, Vision & Culture statement and has made slight modifications to lead the organization into the future.

Purpose

To bring a world of responsible beverage enjoyment to Nova Scotia.

Vision

To be a superb retailer recognized for sustainable business performance and engaging customer experience, eliciting the pride and enthusiasm of Nova Scotians.

Culture

- Encourages innovation and creativity
- Engages employees in achieving success
- Is driven by customer needs
- Demonstrates respect and dignity in all we do
- Is a fun and healthy place to work
- Advocates intelligent consumption and responsibility

Planning Context

Since incorporating in 2001 with a new commercial mandate, the NSLC has undergone a profound transition to become a customer-centric, leading retailer in the province. During this time (2000–2001 to 2009–2010 budgeted), the NSLC has achieved remarkable sales growth of 52 per cent (including non-liquor items), delivering a 58.2 per cent increase in net income to our shareholder. This amounts to approximately \$1.8 billion in net income (2000–2001 to 2009–2010 forecasted) for the shareholder to improve the lives of Nova Scotians.

Successful retailers provide their customers with a complete shopping experience that engages them with new and modern store designs, inviting atmosphere, wider product selection, offers that deliver value, and knowledgeable, well-trained staff who offer personalized service.

The NSLC's continued success depends on its ability to respond to the realities of our market by providing shoppers with a customer experience that meets and exceeds their evolving needs and expectations. The long-term earnings growth resulting from focusing on customer expectations will be achieved through ongoing strategic investments in all aspects of the business.

Creating the right customer experience for the right market: to deliver the NSLC's customer promise is, and continues to be, a top priority.

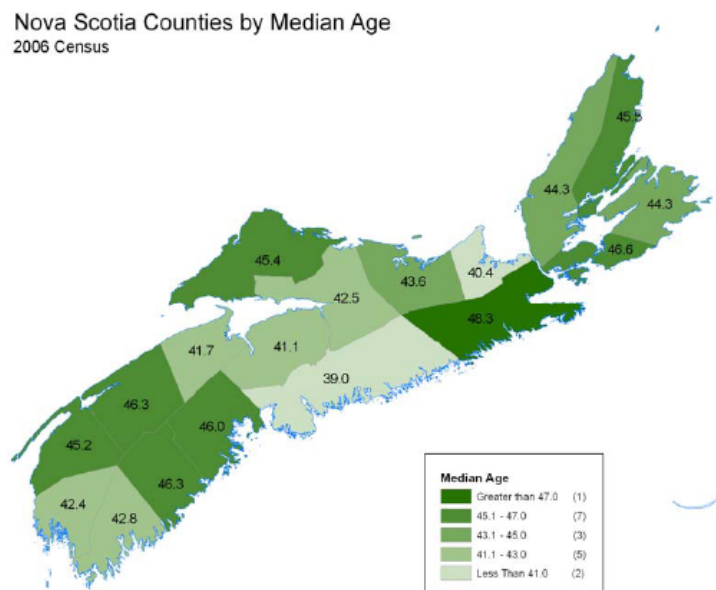
Market

Statistics Canada's 2006 census data indicate that 78.5 per cent of the Nova Scotia population is of legal age to consume beverage alcohol. NSLC surveys indicate that 26 per cent do not shop for alcohol. Hence, the NSLC customer base consists of approximately 535,000 people, most of whom visit 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 aging. An aging population combined with a lack of growth (i.e., fewer younger residents) means that the NSLC customer base will grow older, as well. This will drive changes in consumption patterns and product demand. Research indicates that consumption tends to decline as the population ages; however, customer demand for some premium products might also increase with age, somewhat balancing the impact of lower consumption in some categories.

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 (Kings, Hants, and Antigonish) have lower median ages than the more rural counties. There is a significant range of median ages between counties, HRM having the youngest (39) and Guysborough the oldest (48). This variation in the composition of the population across the province is reflected in the make-up of the NSLC's customer base, the implication being that a one-store-fits-all approach in terms of design, format, and merchandising might not be the most appropriate approach. The NSLC has endeavoured to



understand the constituency of each store and to align store experiences, products, and service being offered accordingly.

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, Antigonish, and Sydney 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. To the end of October 2009, the Nova Scotia Department of Tourism reported that there were 1,865,300 visitors to the province, a 1 per cent increase (3,000 more visitors) from the same period the previous year. Cruise ship activity was unchanged in Halifax and down 19 per cent in Sydney. The cruise ship numbers are not reported in the total of visitors, as they do not stay overnight.

The vendors and agents representing product manufacturers and wholesalers are critical stakeholders in the beverage alcohol business. There are approximately 102 beverage alcohol agencies in Nova Scotia (including all local manufacturers, wineries, microbreweries, distillers, and brew pubs) with approximately 154 registered representatives. The NSLC manages almost 6,000 products in the market and has introduced 1,500 new products in the last two years. To keep the product offerings fresh and vibrant, the plan is to add 300 to 500 new products every year.

Nova Scotia per Capita Consumption

Data on per capita consumption rates of beverage alcohol by product category in Nova Scotia indicate that 2008 consumption levels of beer and wine continue to be below the national average in spite of steady growth in wine consumption over the past six years. In contrast, per capita consumption of spirits in Nova Scotia remains above the national average; however, growth in this category has stalled since peaking in 2005. The data also reveal that per capita consumption of coolers continues to rise in Nova Scotia, while on a national level, cooler consumption has waned in recent years.

Consumption of Alcoholic Beverages Per Capita, LDA and Over By Category Nova Scotia vs. Canada (litres, 2003-2008)						
	2003	2004	2005	2006	2007	2008
Spirits (excludes coolers)						
CANADA	5.5	5.58	5.56	5.72	5.82	5.88
Nova Scotia	6.85	7.01	7.11	7.07	6.92	6.97
Coolers						
CANADA	3.19	3.15	3.09	2.98	2.97	3
Nova Scotia	3.11	3.53	3.45	3.69	4.05	4.3
Wine						
CANADA	12.57	12.99	13.23	13.72	14.57	15.06
Nova Scotia	8.16	8.43	8.93	9.37	9.73	10.43
Beer						
CANADA	90.06	90.58	89.61	90.48	90.51	91.23
Nova Scotia	84.34	86.52	84.23	86.28	86.68	87.42
Total						
CANADA	111.32	112.3	111.49	112.9	113.87	115.17
Nova Scotia	102.46	105.49	103.72	106.41	107.38	109.12

*Please note that all per capita data have been revised to reflect Statistics Canada revisions

Source: Brewers Association of Canada 2008 Annual Statistical Bulletin, p. 35

The chart above gives the total litres of beverage alcohol (by spirits, coolers,

wine, and beer) consumed by the average person of legal drinking age (LDA) and above in each of the years from 2003 to 2008. The LDA is 19 years of age across Canada, except in Quebec, Manitoba, and Alberta, where it is 18.

In terms of total consumption of alcohol, Nova Scotia represents a moderate consumption environment consistently below the national average.

Total per Capita Consumption of all Alcoholic Beverages by Province and Canada (litres, 2003-2008) LDA & Over						
	2003	2004	2005	2006	2007	2008
Total						
CANADA	111.32	112.30	111.49	112.90	113.87	115.17
Yukon Territory	180.22	180.76	180.20	172.76	173.70	176.58
Newfoundland	120.85	120.12	117.28	118.71	120.62	124.99
Québec	119.71	119.65	121.26	120.93	121.27	124.36
Alberta	114.71	116.56	115.78	116.68	122.49	121.07
Ontario	110.75	111.22	109.26	112.05	111.34	112.46
Prince Edward Island	102.80	104.89	104.60	106.11	107.09	109.23
Nova Scotia	102.46	105.49	103.72	106.41	107.38	109.12
British Columbia	103.86	106.24	106.48	106.65	108.55	108.75
Saskatchewan	98.08	101.58	96.53	98.46	101.50	105.14
Manitoba	98.52	100.84	97.16	100.33	104.51	104.89
New Brunswick	101.22	103.32	103.03	104.29	104.60	104.33
N.W.T. & Nunavut	111.27	105.07	92.93	92.60	92.54	96.96

*Please note that all per capita data have been revised to reflect Statistics Canada revisions

Source: Brewers Association of Canada 2008 Annual Statistical Bulletin, p. 35

As illustrated in the chart on the previous page, Yukon Territory, Newfoundland & Labrador, and Quebec have the highest per capita consumption in the country, followed by Alberta and Ontario. Nova Scotia falls in eighth place, just slightly behind Prince Edward Island.

Being under the national average in per capita consumption of beverage alcohol would appear to present a moderate opportunity for further growth. As always, this opportunity is balanced against one of the NSLC's key strategic responsibilities—to promote social objectives regarding responsible drinking.

Volume of sales of alcoholic beverages in litres of absolute alcohol and per capita 15 years and over, fiscal years ended March 31						
	2003	2004	2005	2006	2007	2008
Canada	7.7	7.8	7.8	8	8.1	8.2
Yukon	12.7	12.9	13	12.7	12.7	13.2
Alberta	8.6	8.9	9	9.2	9.6	9.5
Newfoundland & Labrador	8	8.6	8.2	8.4	8.7	9
British Columbia	7.8	8	8.1	8.2	8.6	8.7
N.W.T. & Nunavut	9.2	8.6	7.9	8.1	8.1	8.5
Prince Edward Island	7.5	7.6	7.7	7.8	7.9	8.2
Quebec	7.8	7.8	7.7	8	8.2	8.1
Nova Scotia	7.5	7.8	7.7	7.9	7.9	8
Manitoba	7.4	7.6	7.4	7.6	7.8	8
Saskatchewan	7	7.2	7	7.1	7.4	7.8
Ontario	7.6	7.5	7.5	7.7	7.7	7.7
New Brunswick	6.7	6.9	6.9	7	7.1	7.1

Source: Statistics Canada. Table 183-0019

Economy

The recession did not hit Nova Scotia as severely as it did other parts of Canada; nonetheless, the impact was felt. Any recovery is expected to be slow by historical standards, and risk and uncertainty remain. As the NSLC prepares this year's business plan, it is cautiously optimistic. NSLC sales projections for this past year reflect the reality of the economy, with the lowest level of growth since 2001.

Retail Sales

The Nova Scotia Department of Finance (December 2009 forecast) forecast retail sales to decline by 1.5 per cent in 2009 and to grow by 3.7 per cent in 2010.

Gross Domestic Product

The Nova Scotia Department of Finance (December 2009 forecast) forecast real GDP growth of 0.2 per cent in 2009 and 1.8 per cent in 2010.

Employment

The Nova Scotia Department of Finance (December 2009 forecast) expected employment in Nova Scotia to increase 0.1 per cent in 2009 and 1.0 per cent in 2010.

Personal Income and CPI

The Nova Scotia Department of Finance (December 2009 forecast) projected Nova Scotians' personal income to grow 1.4 per cent in 2009 and 3.2 per cent in 2010.

The consumer price index (CPI) is expected to shrink by 0.7 per cent in 2009 and to grow at a rate of 1.8 per cent in 2010.

Labour Relations

Most NSLC employees are unionized and are represented by the Nova Scotia Government and General Employees Union (NSGEU). Those in bargaining units include all full-time and part-time store clerks, all store managers and assistant managers, maintenance and warehouse employees, and some office clerical roles. Recently, most casual store clerks and warehouse staff have been added to the same bargaining unit as full-time and part-time store clerks.

All three of the NSGEU collective agreements are in effect until March 31, 2010, so collective bargaining will commence during this fiscal year. The expected economic climate and the addition of casual employees to the bargaining unit will both likely add greater complexity to this round of bargaining.

The overall labour climate continues to be characterized by a generally open and collaborative relationship, relying on a problem-solving approach to address workplace issues as they arise. It's fair to say that the NSLC has a positive labour relations climate, and this will provide a solid foundation for upcoming collective bargaining.

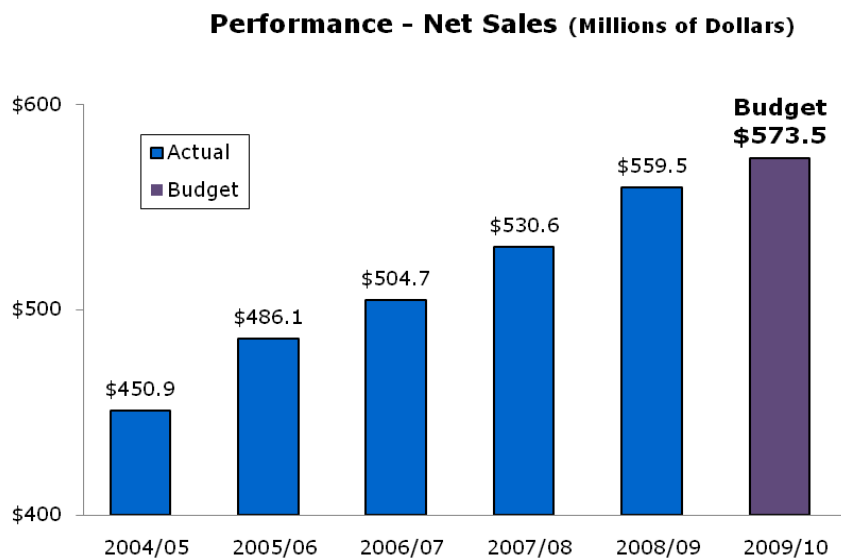
Business Planning

The guiding force to successfully meet and exceed NSLC business objectives is the NSLC's annual business planning process and 5-year strategic plan. These two documents provide the tools for the board, executive, management, and all employees to implement strategies that ensure the individual targets of each business unit and the overall financial goals of the NSLC are met or exceeded.

This year's business plan represents the first year of the NSLC new 5-year strategic plan. The organization follows a continuous planning process, ensuring that this plan is reviewed each year as the NSLC works toward its goals for 2015.

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 5-year strategic plan.

The planning process has worked well. The NSLC consistently outperformed net sales targets in each of the last five years, growing by 27 per cent to \$573.5 million, as budgeted, and producing a compound annual growth rate (CAGR) of 4.9 per cent.



Retail Environment

Retailers have experienced change in consumer behavior resulting from economic uncertainty and perception. Consumers try to save money and search out value more than ever before. They stayed closer to home due to pressure on disposable income, economic uncertainty, and a desire to maximize value. Grocery stores and one-stop-shopping locations benefit, whereas out-of-home entertainment and restaurants had a difficult year.

The NSLC's monopoly status as the province's retailer of beverage alcohol does not exempt it from the necessity to compete for a share of Nova Scotians' discretionary income. The NSLC is fundamentally in the retail business. Like all other retailers across the province, from chains to independents, the NSLC needs to provide customers with a proposition that includes convenient locations, a broad range of products, friendly and helpful staff, and product promotions, including sales.

Over the last number of years, the NSLC has made changes to all facets of the organization that reflect these retail realities. These changes, and the response they have elicited from its customers, have contributed significantly to its financial performance.

As the NSLC enters the first year of its new 5-year strategic plan, the economic forecasts for the coming year are at best uncertain. Nova Scotia, and specifically Halifax, have not been as dramatically affected by the global economic downturn as other parts of the country. However, as noted in other parts of this document, modest NSLC growth is forecast for this year, and NSLC is confident of its ability to meet the key financial objective of the new strategic plan.

To help develop its forecasts, the NSLC performs economic analysis of the Nova Scotia economy. A number of economic and socio-economic variables are analysed. One of the key economic indicators we look at is the inflation rate (CPI). The latest projections by the Conference Board of Canada suggest that CPI will increase at an annualized rate just over 1.2 per cent for Nova Scotia in 2010 and just under that rate for Canada as a whole. The CPI affects discretionary income and the amount of real revenue increase the NSLC can achieve. Through examining eight economic factors such as these, the NSLC is able to more accurately project its business performance.

To accomplish its objectives, the NSLC will continue to invest in the business and its employees, investments that it believes have made a difference to both the NSLC and our customers over the last number of years. The NSLC is firmly committed to the ultimate goal of encouraging Nova Scotians to enhance their social occasions through the responsible use and enjoyment of beverage alcohol.

Research into customer behaviour suggests that for people to spend more money when shopping, the NSLC needs to design a customer experience that

- increases the amount of time customers spend in the store
- increases the customer interaction in the store with staff and merchandising

All retailers are vying for a larger piece of the consumer's disposable income. The NSLC is no exception and is well positioned to offer affordable luxuries

for every occasion.

The NSLC has successfully implemented strategies that have competed for a share of the customer's disposable income over the past five years. In addition to the increased, varied, and improved product offering, the NSLC has made it convenient to shop for beverage alcohol with the redesign and location changes of NSLC stores, the introduction of agency stores, extending hours of operation, Sunday store openings, and the co-location of approximately 50 per cent of the store network with grocery retailers. These initiatives have 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.

The NSLC continues to be recognized as one of Canada's leading retailers nationally and internationally and has received significant award recognition. In 2009, social responsibility campaigns led the way for the NSLC. Jonzed, the innovative anti-binge drinking campaign, received two prestigious International Association of Business Communicators Awards of Excellence; the NSLC was the only Canadian company to receive this honour. Jonzed was also the recipient of the coveted Canadian Marketing Association Gold Award and four Applied Arts Interactive Awards.

The ICE Awards (Atlantic Canadian marketing and advertising awards) presented the NSLC with a total of eight ICE Awards showcasing the Jonzed campaign, the Single Serve Beer Fridge marketing campaign, the newly designed reusable bags, and the radio ad "No Wine for You."

The NSLC's environmental efforts earned a finalist spot in the International Summit Leadership in Green Procurement, finalist in PR News Corporate Social Responsibility Awards (Green PR Campaigns), and the Lyreco Reducing Together Our Footprint on Earth Award, the first to be awarded to a Nova Scotia company.

The NSLC has been ranked ninth on the Progress Top 101 Companies in Atlantic Canada and fifth in Nova Scotia. Atlantic Business also named Bret Mitchell, NSLC President and CEO, one of the top 50 CEOs for 2009. The NSLC has been ranked by Strategy as the 32nd most creative advertiser in Canada out of 400 companies and the top beverage alcohol advertiser in this regard.

Since 2006, the NSLC has been recognized with 68 national and international awards and continues to design responsible campaigns that showcase the seriousness of its legislated mandate while being a customer- and performance-focused organization.

Customer Satisfaction

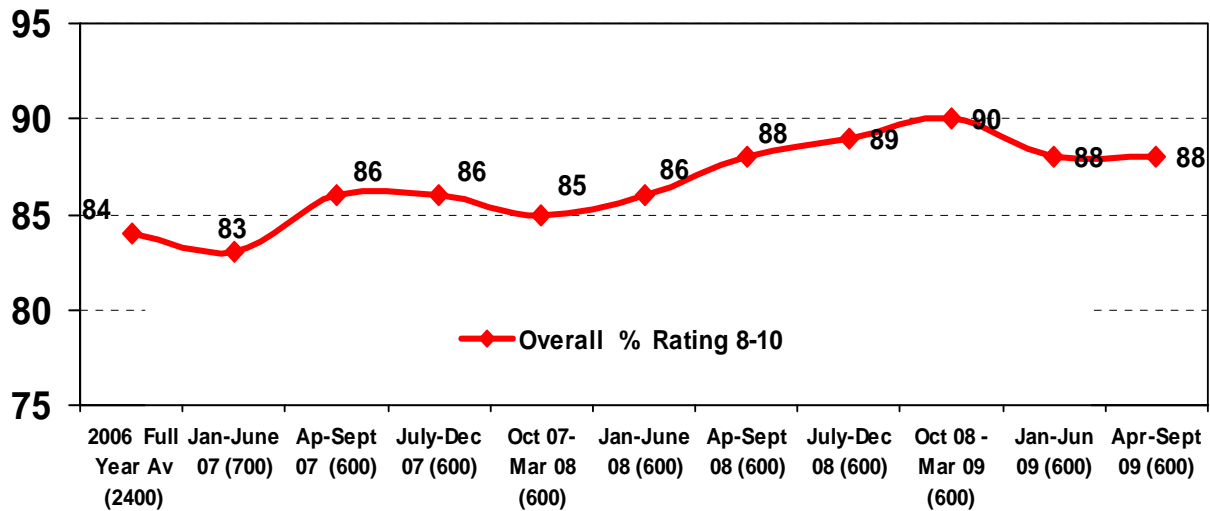
The NSLC measures its customer satisfaction among those who shop at its stores. Since 2006, the NSLC has also conducted an annual survey of Nova Scotians to examine their views of us as a retailer and to compare the shopping experience provided to them to that offered by other large retailers in the province.

Successive waves of this study have consistently demonstrated that NSLC is ranked among a small number of retailers that routinely provide an excellent

shopping experience. This year's results were no different, giving NSLC a ranking tie for second place overall in the province.

The NSLC has measured customer satisfaction with the key elements of its current five-year plan for the past four years. Since then, NSLC's performance has increased four percentage points, from 84 per cent in the spring of 2006 to 88 per cent in September 2009.

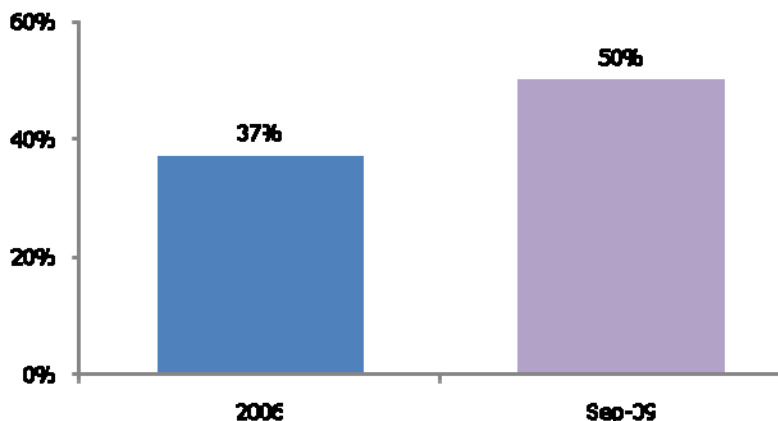
Customer Satisfaction: Overall Results March 2006–September 2009



Note: For the graphs on this page the vertical scale represents % and the horizontal scale represent time frame and sample size

The percentage of customers who gave the NSLC a perfect score of 10 out of 10 increased to 50 per cent in September 2009, up from 37 per cent in 2006, a 13 percentage point increase.

Percentage of NSLC Customers Rating Their Overall Satisfaction with the NSLC a 10 out of 10



The NSLC regularly monitors its Customer Satisfaction Index (CSI) using 11 driving factors of success. Since 2006, our customers have become increasingly satisfied with the NSLC on each of these key attributes, most notably attributes related to NSLC staff (helpful staff, proactive staff, knowledgeable staff).

Drivers of Satisfaction	March 2006	Sept 2009	Percentage Point Change
SKU alignment and availability	70%	72%	2 pts
Store layout & checkout speed	77%	81%	4 pts
Retail shopping experience	80%	85%	5 pts
Preferred product	79%	79%	0 pts
Helpful staff	76%	84%	8 pts
Knowledgeable staff	73%	79%	6 pts
Proactive staff	65%	78%	13 pts
Product sales and promotions	43%	45%	2 pts
Sampling	47%	53%	6 pts
Store accessibility	74%	81%	7 pts
Cool zone / Chilled beer	75%	84%	9 pts

Performance

In addition to the increased customer satisfaction, the growth in the return to the NSLC's shareholder has been unparalleled in its 79-year history. In fiscal 2009–2010, the NSLC budgeted both top-line and bottom-line growth to achieve net income from operations of \$217.0 million on net sales of \$573.5 million.

Corporate Social Responsibility

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

Nova Scotians are no different than consumers and investors globally who are seeking greater efforts by business to act in a corporately responsible

manner. Higher standards are expected and are being delivered in the business approach to the environment, trade standards, labour standards, adherence to basic human rights, and sustainable growth.

In addition to extensive efforts in the area of socially responsible consumption of beverage alcohol, NSLC is also developing all aspects of its business and future planning to ensure sustainable prosperity with a new Corporate Social Responsibility Plan. This CSR plan goes beyond the promotion of socially responsible consumption of alcohol to a new level of attention to the organization's impact in society. The first step in the CSR plan was the announcement in April 2008 to eliminate the 290,000 pounds (132,000 kg) of plastic bags that land in provincial landfills every year, a result of the 10 million plastic bags used in NSLC retail stores. In 2009–2010, the NSLC focused on establishing its carbon footprint, conserving energy, managing waste more efficiently, and promoting recycling.

The NSLC annual Sustainability Report analyses the NSLC's environmental and corporate responsibility efforts and outlines the progress made and the business targets in this area over the next few years.

NSLC Customers

The key to any successful retail organization is to know its customers, their needs and expectations, and how to meet these needs and anticipate how best to serve them in the future.

Through both quantitative and qualitative research, the NSLC has identified and segmented its customer base in order to offer a better retail shopping experience. Driving this segmentation is a behavioural approach that recognizes that NSLC customers buy products for specific 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 occasions capture why NSLC customers purchase products. To fully understand customer needs and expectations, the NSLC also has to understand who is purchasing for these occasions, what they are purchasing for each occasion, when they are buying, and how much are they spending.

The NSLC segments its approx 535,000 customers based on their behaviours (captured in answers to the aforementioned questions) and then groups them into four customer segments:

- **Adventurers** (31%): Buy different products across categories, shop more frequently and spend more on average
- **Loyalists** (27%): Buy the same product, shop more frequently and spend more on average
- **Discoverers** (21%): Buy different products across categories, shop occasionally and spend less on average

- **Maintainers (21%):** Buy the same product, shop occasionally and spend less on average

By understanding the needs and expectations of its customers, the NSLC is well positioned to deliver on its business objectives.

There are many opportunities to increase revenues with all customer segments; recent analysis reveals that four in ten of our customers (41%) are good candidates for sales growth. More specifically, 6 per cent of the customer base is considered to exhibit the “best potential” for growth and a further 35 per cent is considered to exhibit “very good” potential for growth.

Growth Composite by Customer Type

		Type of Customer				Total
		Loyalists 27%	Adventurers 31%	Maintainers 21%	Discoverers 21%	
Growth Composite	Extremely Low Potential	42%	20%	41%	11%	23%
	Below Average Potential	32%	24%	45%	41%	36%
	Very Good Potential	25%	57%	13%	44%	35%
	Best Potential	0%	16%	1%	4%	6%
Total		100%	100%	100%	100%	100%

Higher-potential customers can be found throughout the customer base and across the entire province. That said, several demographic characteristics serve to distinguish the high-potential segments from the remaining customer base. They tend to be younger and better educated, with higher amounts of household income, and they are more likely to live in HRM.

Creating the right store for the right market was, and continues to be, one of the NSLC’s key priorities. Walk into any NSLC retail outlet; it shares a similar vision and standard with all the others, yet provides an individual experience. The multi-store retail strategy, together with customer research, ensures a better understanding of the customers’ needs and helps the NSLC align its network and service offerings.

Generally, the Nova Scotia population base shows relatively no growth and is aging. The NSLC’s opportunity for growth lies in creating the right store in the right location, diversifying the beverage alcohol products available to the market, educating the customer on the products, and encouraging trial of better-quality products, all while continuing to reinforce intelligent consumption.

The NSLC’s research indicates that since 2005 the Adventurer customer group has grown from 23 per cent to 31 per cent of its customer base. This is an important development for the NSLC because the Adventurer segment of the market spends more than average on beverage alcohol at retail. Further analysis reveals that what is behind the growth in this segment is an increase in the number of Nova Scotians who claim to enjoy discovering different types of beverage alcohol.

Looking back over the period of the last 5-year strategic plan, the NSLC set out to transform itself from “a place to buy” to “a place to shop.” The growth in the Adventurer segment of the market suggests that the NSLC has enjoyed success in executing its first strategic plan, which has just ended. Customers falling into the Adventurer segment of the market are more

experimental by nature and more experimental when they buy beverage alcohol. They browse NSLC stores more than average and are also more inclined to make impulse purchases. The growth in this segment of the market suggests the NSLC's efforts to transform itself are being rewarded.

Since 1930, the public policy choice by most governments in Canada in how to regulate the sales of beverage alcohol has been to control the sale of alcohol for societal reasons through government institutions. The reasons for this choice include the fact that this product, if abused, can have negative health impacts on individuals and societies. As such, the most effective manner to moderate the negative health impacts on society and also ensure to the greatest extent possible that minors do not have access to the product is through state-controlled enterprises. In fact, this is also the chosen policy route in 19 U.S. states. By doing this, government institutions balance the retail price to an extent that reduces the harm to society of alcohol (low prices increase consumption and the health impacts according to most studies, including the World Health Organization) with the reality that consumers will find a way to access the product through black markets if pricing is too high. Balancing these aspects of pricing is a challenge. There are many advocates on the health-care side that believe our pricing is still too low.

In Nova Scotia, the public policy choice by governments since 1930 has been that the profits from the sale of alcohol are to be used for improving the public good, such as better education and health care. Only through government control can these objectives be achieved. As such, the NSLC provides the public policy balance between those who would want uncontrolled consumer access in order to maximize profit and those who wish an outright reduction or ban on the product's availability.

The World Health Organization (WHO) recently proposed a strategy suggesting a wide range of measures to tackle excess drinking. Action on pricing was identified as a key theme in the strategy document, with policy recommendations ranging from excise tax increases to minimum pricing. The draft WHO document offers to governments several policy options on pricing identified as effective ways to tackle harmful use of alcohol. Minimum pricing, or social reference pricing, is one of the options. "Increasing the price of alcoholic beverages is one of the most effective interventions to reduce harmful use of alcohol," states the draft.

Minimum pricing or social reference pricing is one of several policy options on pricing offered to governments in the draft that is identified as an effective policy to tackle harmful use of alcohol. This has long been the tradition in Nova Scotia, with the NSLC setting a minimum price under which the product cannot be sold—the Social Reference Price (SRP). The NSLC reviews and adjusts this SRP floor price annually. The NSLC also recognizes that the higher the content of alcohol in a drink, the greater the chance of harm. NSLC pricing also takes this into consideration by charging more for products as the alcohol content increases. As a result, NSLC pricing reflects the balance that public policy desires by preventing excessively low-cost alcohol, which can harm society, while recognizing that responsible consumption is a normal part of daily life.

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 supply chain coordinates not only delivery of products from the NSLC's partner suppliers around the world but also manages the logistics of getting the product from its warehouse to NSLC retail stores and wholesale customers.

The ongoing goal of the supply chain is to improve the speed of all deliveries and to carry a minimal level of inventory while simultaneously meeting the needs of all its customers. The impact of technology has been critical in providing exceptional logistics execution to improve efficiencies and satisfy customer needs. In the past calendar year, the adjusted fill rate for wholesale was 98.9 per cent, with retail coming in at 97.4 per cent (the goal for both was 98 per cent). Combined inventory turns for the calendar year were 13.61 on a goal of 12.

Retail

The NSLC is the province's single largest corporate retail banner in the province. It operates through 106 retail stores, ranging from the Wine Baskets located in grocery stores to the high-end Port of Wines store, and 54 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: the right store—with the right products—in the right location.

A key element to retail success is the knowledge, experience, and talent of retail store staff. The 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 shopping environment.

Wholesale

With the exclusive responsibility to acquire and distribute beverage alcohol in Nova Scotia, the NSLC also serves as a wholesaler that makes up approximately 20 per cent of NSLC net sales revenue. The NSLC wholesale market involves supplying beverage alcohol products to the province's 2,070 licensed premises (restaurants, bars, lounges, and hotels licensed to sell beverage alcohol).

Of the NSLC's wholesale net sales revenue, licensees make up 59 per cent, NSLC agency stores 34 per cent, and private wine and specialty stores (PWSS) 6 per cent.

For fiscal 2009–2010, the NSLC wholesale market has budgeted sales of \$115.3 million. This is a 4.3 per cent increase as compared to the previous

fiscal year. The growth is largely due to increased sales forecasts for both agency stores and private wine stores

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 customer insights, strategic planning and financial management of the business, the merchandising and marketing of products, the development of human resource needs, the development and maintenance of NSLC 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. The use of technology has greatly improved the execution and efficiencies of all parts of the NSLC through access to improved and more-accurate data.

Regulatory

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

A major component of the NSLC'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 products in areas such as farmer's markets.

As part of the emerging markets development strategy, the NSLC introduced the Nova Scotia wine industry pricing policy to help accelerate the growth of this rapidly developing industry in our province. The NSLC is committed to working with industry and government in this exciting area of our business.

Strategic Plan

In 2005, the NSLC released its first 5-year strategic plan, identifying business objectives through 2010 and outlining the customer promise. During this planning year the NSLC launches its new 5-year strategic plan, which will guide the organization to achieving our goals from 2010 to 2015.

The NSLC's Customer Promise is to develop customer experiences across multiple business channels that

- *align products, services, and events with customers' needs*
- *offer vibrant, interactive, and inviting Nova Scotia shopping experiences*
- *ensure discovery and personal service with friendly and professional staff*

The theme of the new strategic plan is to

"Build trusted customer and community experiences that matter."

The NSLC has identified five strategic pillars to guide its operations during the period of the 2010–2015 strategic plan:

- **Stewardship:** To deliver the stewardship entrusted to the NSLC in relation to the Liquor Control Act
- **Customer:** To deliver exceptional customer experiences and personalized services in dynamic retail environments
- **Reputation:** To be a leading corporate citizen building strategic community engagements
- **People:** To have an enthusiastic and engaged team recognized for excellence
- **Financial:** To contribute \$1.2 billion to our shareholder over five years and \$275 million in 2015 while employing sustainable business practices

Each pillar is accompanied by five-year strategies that are 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 5-Year Strategic Plan. What follows are the highlights of this year's priorities.

Priorities for 2010–2011

Stewardship

To deliver the stewardship entrusted to the NSLC in relation to the Liquor Control Act.

2010–2011 Priorities

- Implement recommendations from the craft beer economic study.
- Take a leadership role in developing provincial social responsibility policy objectives by recommending full implementation of the board-approved social responsibility charter.
- Implement international financial reporting standards (IFRS).

Customer

To deliver exceptional customer experiences and personalized services in dynamic retail environments.

2010–2011 Priorities

- Improve our understanding of customers by developing and defining levels of engagement and through a further refinement of the customer satisfaction index (CSI) to include the multiple channels of customer contact.
- Research and consider options for data collection to support a deeper understanding of shopper behaviour.
- Develop a cross-functional team (Customer Insights, Marketing, Category Management, Operations) to effectively turn customer insights into actionable initiatives.
- Complete Phase 1 and design Phase 2 of the external online strategy, developing programs to build communities of like-minded customers.
- Refine the Premium Wine offering throughout the network, based on customer insight.

Reputation

To be a leading corporate citizen building strategic community engagements.

2010–2011 Priorities

- Implement Phase 2 of the Corporate Social Responsibility plan, including a new Energy and Environment Investment program.
- Implement a four-pillar targeted community relations program.
- Develop and implement reputation management benchmark research.
- Develop and implement a new Responsible Retailing / Age Identification program.

People

To have an enthusiastic and engaged team recognized for excellence.

2010–2011 Priorities

- Enhance and evolve the NSLC intranet to support employee engagement and facilitate communication.
- Champion a corporation-wide performance measurement reporting framework.
- Design and implement enhancements to the corporate-wide training and development program.
- Undertake collective bargaining to renew three collective agreements.
- Increase the focus on organizational health to complement personal health and occupational health and safety.
- Establish safety and security standards, identifying and removing gaps.

Financial

To contribute \$1.2 billion to our shareholder over five years and \$275 million in 2015 while employing sustainable business practices.

2010–2011 Priorities

- Initiate the development of a corporate-wide controls framework in support of strengthening the financial and operational controls environment.
- Launch the 5-year strategic plan for 2010–2015.
- Create enhanced gross margin opportunities.
- Implement warehouse management system efficiency enablers to support additional warehouse capacity.
- Improve strategic reporting capabilities and business analytics.
- Create an overall SAP maintenance strategy and implement priorities.
- Investigate areas for future business development.

Strategic Enablers

There are important strategic enablers that allow the NSLC to deliver on its 2010–2011 priorities in support of the 5-year strategic plan and ultimately allow the NSLC to meet its customers and shareholder expectations. These important enablers are the capital and operating expense plan, customer experience, business planning process, and business analytical capabilities.

Capital and Operating Expense Plan

Prior to the NSLC's becoming a Crown corporation in 2001, its 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.

Since becoming a Crown corporation, the NSLC has increased spending to invest in the long-term health of the business. Investments include capital expenditures for the replacement of the core technology that runs the business, now SAP; a new point-of-sale system; and the renewal of the store network.

The capital investment from 2004 to 2007 in SAP has increased planned depreciation and amortization until 2010–2011. In addition, during 2007–2008, the NSLC made an additional major capital investment with the replacement of the point-of-sale system. This will affect the amortization and depreciation expense line begun in 2008–2009 until 2012–2013.

Additionally, from 2004 to 2007, the NSLC 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 the NSLC has optimized this opportunity. In future, continued store enhancements that meet the ROI-hurdle rate model for capital expenditures will be funded by the NSLC.

On an ongoing basis, the business requires operating expenditure investments to enhance the customer experience at retail, manage the supply chain, introduce modern marketing and merchandising practices, improve financial reporting and analysis, and train employees.

IT Enablers

A number of key IT corporate initiatives enable efficient and effective management of the NSLC. In the past five years, there have been significant changes and additions to the IT infrastructure. In 2010–2011, there will be a focus on updating key IT systems to ensure optimum performance and reliability. There will also be additional features added to the new myNSLC.com website and a new internal intranet project focused on improved communication, operational efficiency, and collaborative information sharing among staff.

Customer Experience

The NSLC brand presents an overall impression of the organization to our customers and the public through all customer touch points. Brand touch points include the physical store environment, staff interaction, the logo, product selection and availability, promotions and advertising, impressions left by news media, events, online interaction, and many intangible elements. Every place a customer can interact with a company is a touch point, and that touch point affects how the NSLC is perceived. Perception affects a customer's willingness to respond to a retailer's effort to get them to purchase products:

Brand = Promise + Performance + Perception

Based on extensive research, the NSLC brand flows from its brand positioning statement: "The NSLC compliments life's occasions, those special times we share in life." This positioning statement then leads to

Brand NSLC = Complimenting life's social occasions

In becoming a leading customer-centric retailer, everything the NSLC has done, from store design and product selection to customer engagement and staff training, is a reflection of Brand NSLC. Part of the NSLC brand structure is how it expresses the brand in its tagline:

"Make it a Social Occasion"

This tagline brings the NSLC's brand to life by connecting with customers in a manner that reflects how they interact with the products and service offered by the NSLC. The NSLC retail experience has become an integral part of the customer's social occasion.

Business Planning

The NSLC has developed its business planning process to help guide the organization in meeting its commitments under the new 5-year strategic plan.

The corporate business planning process analyses the business as it currently stands and provides a blueprint for reaching the goals set out in the new 5-year strategic plan. These include a vision of the customer experience, the service culture to which the NSLC aspires, definition and segmentation of the customer base, the optimal cross-category strategy for profitability, a multi-format network strategy, and how to achieve and maximize financial performance through the use of pricing and gross margin.

The annual business plan and annual business unit plans then are aligned with the 5-year strategic plan to ensure that the NSLC delivers on stated objectives.

Leading retail businesses use customer research and behavioural data together with shopper marketing to drive customer satisfaction and increased profitability. Based on customer needs and performance analysis, shopper marketing will strategically define and drive product selection, product pricing, product placement (e.g., which stores, where in store, where on shelf), and product promotion.

Business Process Improvement

Technology supports key business processes such as product ordering, financial management, human resource management, data warehousing, and customer behavioural insights. These systems and the resulting new business processes improve decision making and enhance the execution of strategies and operational needs. Realizing the benefits of the SAP implementation continues to improve the NSLC's evolving business processes and provides the necessary tools and information to help the NSLC achieve its goals and objectives.

Risk Factors

Risk, simply put, is anything that impacts the ability to achieve objectives. Therefore, it is important to outline the risk factors beyond the control of the NSLC that can affect its ability to meet its commitments and objectives. One factor is the impact weather can have on sales. Severe winter weather has, in past years, resulted in the closure of stores across the province, thus reducing overall sales. Unseasonably cool summers, rain, and fog also negatively impact sales. The beer category is particularly subject to

sales fluctuations in this regard. Weather conditions represent an area of great vulnerability, since approximately 80 per cent of the volume of product sold is in 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.

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 performed by the NSLC during any evolving process to mitigate possible business interruption.

The Royal Bank of Canada and TD Merchant 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 affected.

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

Ultimately, changes in customer tastes and attitudes can also have an impact.

Enterprise Risk Management

The board of directors and the executive are committed to ensuring that appropriate Enterprise Risk Management (ERM) strategies and processes are in place and revisited yearly to mitigate as many risks (aforementioned and otherwise) as possible. 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.

The ERM process is a form of due diligence that systematically isolates the challenges that might affect NSLC's business, using three criteria:

- The identified risk must be significant enough to make a material difference to the plan.
- It must be something that the NSLC can either control or influence.
- It must be something that, in its judgment, the NSLC is not currently controlling or influencing in an adequate fashion.

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. The benefits of an ERM process include

- strengthened corporate governance and accountability
- improved and proactive management focus
- increased awareness of risk and enhanced accountability
- established and integrated view of risk across the organization
- effective cost management and resource allocation

- better management of internal and external stakeholders' expectations and requirements

The risk assessment initiative conducted in 2009–2010 by the NSLC identified and prioritized risks, which in turn require the corporation to adopt mitigation strategies overall or for 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. Business unit managers were asked to review the key risks identified and incorporate mitigation plans in their annual business unit plans for 2010–2011.

Economic Risk

NSLC sales remain strong, bucking the trend of the previous two Canadian recessions. The NSLC's performance is a testament to the changes in business strategy that focused on renewed stores, improved product selection, and, most importantly, the investment in employee training, all of which have resulted in vastly improved customer satisfaction.

The global recession impacting Canada has been more severe in other parts of Canada than in Nova Scotia. Nova Scotia did not experience two consecutive quarters of negative GDP growth—the measure of a recession.

The economic recovery is expected to be sluggish by historical standards, and risk remains. The products sold by the NSLC are purchased with the discretionary income of customers. General economic conditions of the province affect discretionary income and, as in any retail business, can impact NSLC sales and overall profitability.

Before the recession last year, the previous 10 years were characterized by steady growth in the Nova Scotia economy, which in turn has provided a solid foundation for the growth in revenues and profit the NSLC has generated for its shareholder. Indeed, over the past several years, the NSLC has exceeded its financial targets and delivered even more profit to Nova Scotians than it had committed.

Looking ahead, the economic picture is far from certain. The NSLC is taking steps to ensure that it mitigates the risks posed by the global economy as much as possible.

One certainty is that the NSLC of today is a different organization than it was the last time the province faced challenging economic times. The NSLC has evolved into a modern retailer and has at its disposal a broader array of measures that it can employ to manage the effects of a downturn in its business. From state-of-the-art inventory management and control to engaging stores, from active marketing and merchandising programs to much-more-sophisticated understanding of our customer's shopping habits and purchasing preferences, the NSLC is better equipped than in the past to respond to the uncertain business environment we now all face.

As the NSLC enters the first year of its new 5-year strategic plan, it faces an uncertain economic environment. The NSLC's plan for 2010–2011 is based on prudent estimates of growth. NSLC budget assumptions take into account the uncertain economic conditions it now faces. Its revenue and profitability estimates are aggressive but realistic, given these prudent assumptions. NSLC does not envisage the growth rates that it has had in the past but plans to meet or exceed its financial targets.

Performance Measurements

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

Actual 2005–06	Actual 2006–07	Actual 2007–08	Actual 2008–09	Budget 2009–10	Budget 2010–11	5-Year CAGR
Net Income (millions)						
\$181.3	\$188.2	\$198.7	\$212.6	\$217.0	\$223.5	4.27%
Net Sales (millions)						
\$486.1	\$504.7	\$530.6	\$559.5	\$573.5	\$593.3	4.07%
Operating Expense Ratio (including depreciation)						
14.8%	14.7%	15.4%	15.3%	15.5%	15.9%	5.70%
Operating Expense Ratio (excluding depreciation)						
13.8%	13.7%	14.0%	13.7%	13.8%	14.1%	4.48%

Budget Context

Financial Plan

	Actual 2005–06 (\$)	Actual 2006–07 (\$)	Actual 2007–08 (\$)	Actual 2008–09 (\$)	Budget 2009–10 (\$)	Sales (%)	Budget 2010–11 \$	Change (%)
Spirits	146,511,096	148,457,956	153,513,558	160,878,622	163,844,886		162,491,956	
Wine	81,794,281	87,609,246	97,095,979	104,476,332	109,825,449		114,793,517	
Beer	242,597,682	251,363,331	263,737,652	276,188,679	281,113,029		296,147,793	
Ready-to-drink	17,487,170	20,536,527	21,958,794	23,899,411	24,917,989		26,317,698	
Non-liquor	295,271	196,624	109,955	183,477	195,209		190,000	
Total Gross Sales	488,685,500	508,163,684	536,415,938	565,626,519	579,896,561	101.1%	599,940,963	3.5%
Less: Discounts	2,601,763	3,445,895	5,863,669	6,111,955	6,366,392	1.1%	6,666,942	
Net Sales	486,083,737	504,717,789	530,552,269	559,514,564	573,530,169	100.0%	593,274,021	
Cost of Sales	233,107,815	242,344,875	250,065,446	261,364,917	267,709,991	46.7%	274,216,344	
Gross Profit	252,975,922	262,372,914	280,486,823	298,149,647	305,820,178	53.3%	318,057,677	
Less: Store Operating Expenses	45,875,122	47,066,297	48,844,827	49,085,992	50,983,131	8.9%	53,356,365	
Gross Operating Profit	207,100,800	215,306,617	231,641,996	249,063,656	254,837,047	44.4%	264,701,312	
Less: Supply Chain	4,834,430	5,261,682	5,994,062	4,760,762	5,324,575	0.9%	5,964,753	
Corporate Services	17,401,405	17,161,160	19,686,367	21,479,351	21,333,394	3.7%	22,454,455	
Other Expenses	4,875,266	6,130,390	5,594,455	6,000,520	6,468,167	1.1%	6,162,895	
Add: Other Revenue	5,741,118	6,320,501	5,630,063	4,521,749	4,801,338	0.8%	4,222,682	
Total Expenses (excl. stores)	21,369,983	22,232,731	25,644,821	27,718,884	28,324,798	4.9%	30,539,420	
Operating Income before Depreciation	185,730,817	193,073,886	205,997,175	221,344,771	226,512,249	39.5%	234,341,892	

Less: Depreciation	4,475,489	4,832,930	7,325,729	8,731,567	9,503,056	1.7%	10,883,278	
Income from Operations	181,255,328	188,240,956	198,671,446	212,613,204	217,009,193	37.8%	223,458,615	3.0%
Total Expenses (not depreciation)	67,245,105	69,299,028	74,489,648	76,804,876	79,307,929	13.8%	83,715,785	
Total Expenses	71,720,594	74,131,958	81,815,377	85,536,443	88,810,985	15.5%	94,599,063	

Volume (hectolitres)						Change (%)		Change (%)
Spirits	52,230	51,230	51,940	52,650	52,610	-0.1%	51,887	-1.6%
Wine	69,210	72,090	77,800	81,150	84,540	4.2%	87,550	3.5%
Beer	637,500	641,640	651,990	657,120	655,280	-0.3%	655,785	0.0%
Ready-to-drink	27,300	29,910	32,080	33,430	34,220	2.4%	35,441	3.5%
Total	786,260	794,890	813,820	824,370	826,660	0.3%	830,664	0.5%