



Annual Business Plan
Fiscal 2018 – 2019

Mandate & Legislated Responsibility

The Nova Scotia Liquor Corporation (NSLC) is a local company and has been since 1930. We're owned by the people of Nova Scotia through their government and 100% our profits are returned to the Province to help fund key public services. Our mandate and legislated responsibilities are identified in the Liquor Control Act (LCA) of Nova Scotia. Our role includes responsibility for the receipt, distribution, regulation and control of beverage alcohol in Nova Scotia. Safe and responsible distribution and sale of beverage alcohol, including the prevention of alcohol sales to minors, is fundamental to our mandate.

The legislation states that the objects of the Corporation are:

1. Promotion of social objectives regarding responsible drinking;
2. Promotion of industrial or economic objectives regarding the beverage alcohol industry in the Province;
3. Attainment of suitable financial revenues to government; and
4. Attainment of acceptable levels of customer service.

In relation to our legislated mandate, the Board of Directors is responsible for ensuring that the affairs of the Corporation are administered on a commercial basis and that all decisions and actions of the Board are based on sound business practices in accordance with the objects of the Corporation.

We take our responsibilities seriously and we work diligently to deliver on the responsibilities entrusted to us under the LCA. We make every effort to be a good corporate citizen and recognize the value we add in the communities we serve. Responsibility is ingrained in our corporate culture and it's the lens we use for all our business decisions - and not just because it's legislated. It's the right thing to do, for the business, our customers and our employees.

This responsibility extends to the safe and responsible sale of beverage alcohol in our stores and we consider this a fundamental part of our mandate. We take an integrated approach to Corporate Social Responsibility and have a framework that outlines our commitments. At a strategic level and within our day-to-day operations, we carefully consider what we do, how we do it and who we interact with, and how our activities impact accountability, community, responsibility and sustainability.

We operate the business to be in balance with all of our mandates, including corporate social responsibility and support for local industry. But, we are also a retailer. We have 104 retail stores, along with 61 Agency stores in primarily rural areas and four Private Wine and Specialty stores. Through this network, we work hard to provide Nova Scotians with a wide product assortment and superior customer service supported by knowledgeable employees.

In December 2017, our Shareholder announced that our mandated responsibilities have been expanded to include the retailing of recreational cannabis in our stores when it is legalized in July 2018. This is a significant and exciting change in our history and we will retail cannabis responsibly by adhering to all federal and provincial regulations. Our focus will be aligned with our Shareholder in creating a legal cannabis market, focused on public safety and responsible sales. Our priorities include:

1. Keeping cannabis out of the hands of minors
2. Creating awareness and educating customers about cannabis
3. Provide a safe supply of cannabis to Nova Scotians to help eliminate the illicit market

We have a proven track record of success retailing a controlled product in a responsible way and providing a level of customer service that our customers enjoy. We plan to apply the same retail principals and industry best practice to recreational cannabis sales.

Purpose and Vision

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

Vision: To be a superb retailer recognized for an engaging customer experience and to be a valued industry partner.

We support Nova Scotians by focusing our operations and efforts on fulfilling our mandated responsibilities, and by living our purpose and vision. As a crown corporation we support Nova Scotians and the priorities of the Government of Nova Scotia, healthcare, education, helping those who need it most, and providing opportunities for all Nova Scotians, within an overall context of fiscal sustainability and delivery of our core services efficiently and effectively. All of our profits go back to the Province to support the programs and services that matter most to Nova Scotians.

Our Purpose and Vision remain the same but our purpose will be expanded to include cannabis.



NSLC Core Focus Areas

Fiscal 2019, the fourth year of our Five-Year Strategic plan, presents new challenges and opportunities for our business as we execute on our new mandate to the same standard as our original line of business. Our new mandate to sell recreational cannabis responsibly in addition to beverage alcohol is a fundamental addition in our business model. We will continue on our journey to offer superior customer service and superb experiences at every touchpoint. The plan will be updated to include recreational cannabis and the new customer points of interaction it creates. The market, and our retail environment, will continue to evolve over time but our efforts are still focused on celebrating our people, the industry and communities while helping our customers celebrate life's occasions and responsible choices.

Our three key focus areas outlined in the plan as it relates to the beverage alcohol side of our business, is also consistent with our new line of business. These include: our customers, supporting local industry and our fiscal (financial) obligations. These key focus areas are supported by technology and infrastructure as well as our people, and together these provide a strong and stable foundation for the business. We will continue to manage our business by making decisions that consider and support our key focus areas while always keeping our mandates, our people and responsible sales top-of-mind. Throughout all of our objectives and actions outlined below, we consider the well-being of our employees a critical success factor. Providing employees with a safe and healthy work environment, while supporting their growth and development is key to achieving our business objectives. Focusing on

our people supports Nova Scotia's goals of enhancing workplace participation and health and wellness outcomes while making a positive contribution in the communities where we live and work.

Our journey to be a superb retailer continues to drive the organization, especially as it relates to leadership and employee development. We continue to assess our business processes and functions to make sure employees are supported in their day-to-day work environments. The new leadership structure introduced in the fall of 2016, creates a framework for greater accountability, collaboration and teamwork. The structure offers strong integration across all customer touchpoints; improving our level of customer service and satisfaction, as well as execution of our mandate to sell beverage alcohol and recreational cannabis with public safety and responsible sales being top priorities.

Customer: To achieve exceptional customer satisfaction through engaged and personalized experiences.

We strive to delight our customers and create awareness about responsible choices. We are relentlessly focused on our customers, and that focus is critical to ensure we continue to engage with them as the retail landscape changes.

Reviewing trends and insights allows us to provide relevant and innovative product offers and services. The design of our retail network is based on customer demands and improving our customer satisfaction is at the forefront of all our activities. We continue to add diversity in our retail network with our banner strategy. During the last fiscal year, three new NSLC Express format stores were opened – two downtown locations, Park Lane and Scotia Square and the third in Burnside on Wilkinson Avenue. Also opening at the beginning of this fiscal year will be our first 'Select Plus' store located in the Nova Centre.

Review of our main store space continues and focuses on ensuring our store environment stays on pace with changing category dynamics, including retail of cannabis and customer expectations, and delivers a forward thinking, seamless customer experience. As part of this multi-year project, two proto-type stores, Portland Street and Joe Howe will be the first of our 'Signature' stores to be completed in fiscal 2019 as part of our overall banner strategy implementation.

Incorporating the sale of recreational cannabis into our retail network will be a focus for fiscal 2019. This market is brand new and we want to make sure we can adapt as the market matures. Initially we plan to sell recreational cannabis in nine stores across the province. Eight of these will be a "store-in-store" concept and one will be a stand alone store located on Clyde Street in downtown Halifax. These nine locations are population hubs in the Province which will allow us to service a large majority of the population. Customers will also be able to purchase cannabis online. Results in these nine stores, as well as through e-commerce will help us understand how our customers interact with cannabis; and help us assess future customer demand and response.

Actions for 2018/19:

We will:

- Continue to leverage insights across marketing, merchandising and network planning activities.
- Deliver an integrated Guest Strategy in support of customer experience goals.
- Continue implementation of and support for new customer programs.
- Continue to build capacity of Retail Product Specialist's (RPS) as leaders in their stores

- Recognize that employee training and development is key to providing a great work experience as well and delivering exceptional customer service. Learning will focus on core competencies to help our employees be even more successful in their work.
- Continue to improve performance management efforts.
- Implement network diversification to clarify customer offering and satisfy demand.

Local Industry: To provide an engaged and collaborative business environment for local producers.

Supporting local industry is an important part of our mandate and one of our three key focus areas as identified in our Five-Year Strategic Plan. Nova Scotians' continue to support the "Buy Local" movement, and so do we. The local beverage alcohol industry in Nova Scotia is growing. We work hard to do our part to contribute to the success of the industry by providing listings and promoting the products our local producers bring to market, and by providing advice and support to help local products succeed.

As a business, we also look to support the agricultural sector, as well as private businesses, which all contribute to the economic well-being of Nova Scotia. These efforts support entrepreneurship, which is a key directive in the One Nova Scotia Report, helping operators of small and medium-sized enterprises in Nova Scotia be successful.

Actions for 2018/19:

We will:

- Continue to collaborate with local industry to support their growth by directly utilizing our retail network and retail expertise to promote their products which will help grow their businesses.
- Continue to assess and recommend regulation and policy changes which reduce red tape and make it easier for business owners to navigate regulations and programs to achieve business objectives. We will do this in large part by working with Industry Associations and the Province.
- Ensure local product offering is clearly reflected in our retail stores and communications.
- Execute technology and business process solutions to provide efficiency and effectiveness in interactions with our various industry customers. We will also seek to create efficiencies through the introduction of more sustainable business practices, and by streamlining processes and communication efforts.

Financial responsibility: To strategically maintain profitability, delivering \$1.16B in earnings over the five years, and demonstrating value to Nova Scotians by balancing financial objectives with other legislative mandates.

Protecting financial return to Nova Scotians is at the forefront of our decision making. Economic and demographic factors play a large role in our performance as well as the impacts of the emerging cannabis market. We continue to manage margin and expenses carefully, working through disciplined and sustainable management practices. We have a vested interest in supporting the province's priorities including recommendations from the One Nova Scotia report.

Customer satisfaction is a driver for improved financial returns. We are constantly working to improve this through training and development for our employees, and by providing the right products in the right place and the right time in our network. We are committed to providing the

best possible experience for our customers at all touchpoints. We are all relentlessly focused on our customer and employee experience: they are equally important factors in our success.

Actions for 2018/19:

We will:

- Continue to review and refine processes, bringing efficiencies into the workplace.
- Continue our efforts to put data strategy best practices in place.
- Execute on information technology infrastructure items, ensuring our systems are protected and maintained in a fiscally responsible manner.
- Continue to assess pricing and category dynamics to ensure profitability.
- Ensure a communications approach is included in our continued efforts to integrate Enterprise Risk Management within our business.
- Implement Year four of our Network Plan while integrating sale of cannabis into our main store space.
- Execute on facilities renewal with focus on scheduled and preventative maintenance.
- Continue to invest in training and development for our employees.
- Deliver \$233.6M in net income to the province.

Performance Measures

In order to manage our operations effectively, we monitor a core set of metrics - key performance indicators (KPIs), which ensure we stay focused on delivering our set goals. Our corporate KPI's and stated targets in our Five Year Strategic Plan are shown below and were established based on our beverage alcohol business. New targets which incorporate both beverage alcohol and recreational cannabis business will not be established until there is a better understanding of how our customers interact with the product, the demand for the product, and its impact on our beverage alcohol business. Fiscal 2019 budget Net Sales, Net Income and Budget Context charts, presented below incorporate both the beverage alcohol and cannabis lines of business.

Customer:

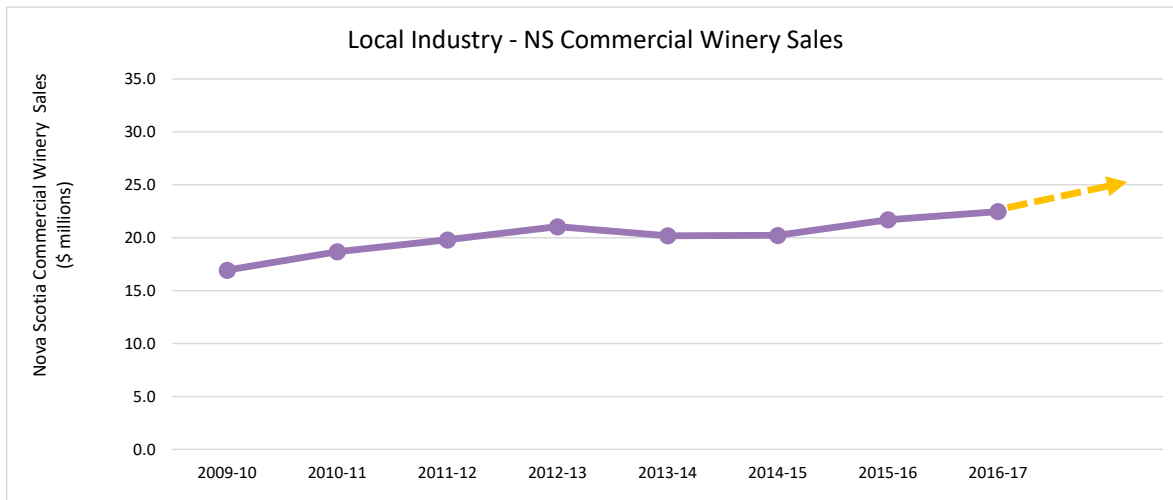
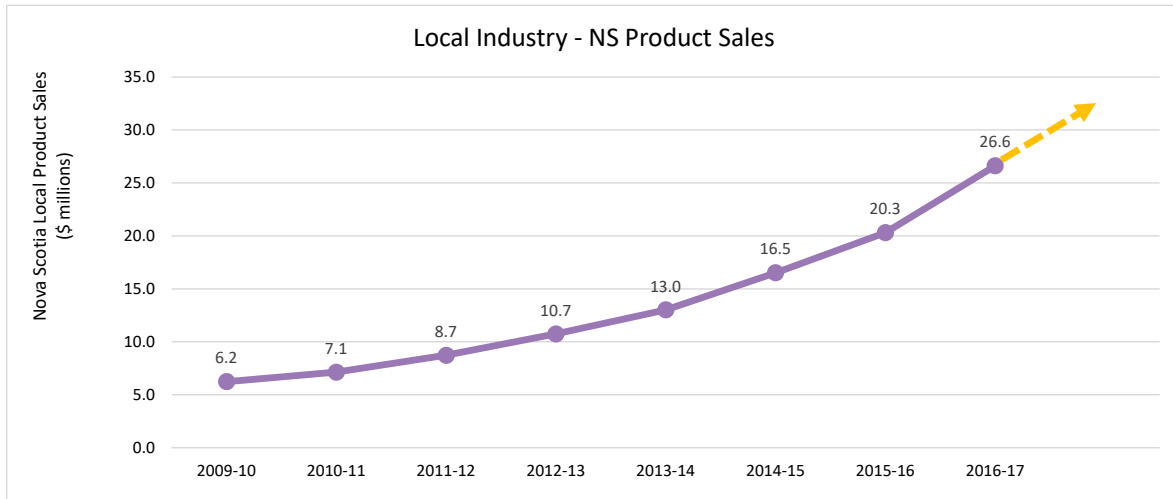
- Customer Satisfaction:

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Ongoing Target
83%	85%	89%	87%	86%	88%	88%	88%	90%	90%	89%	90%

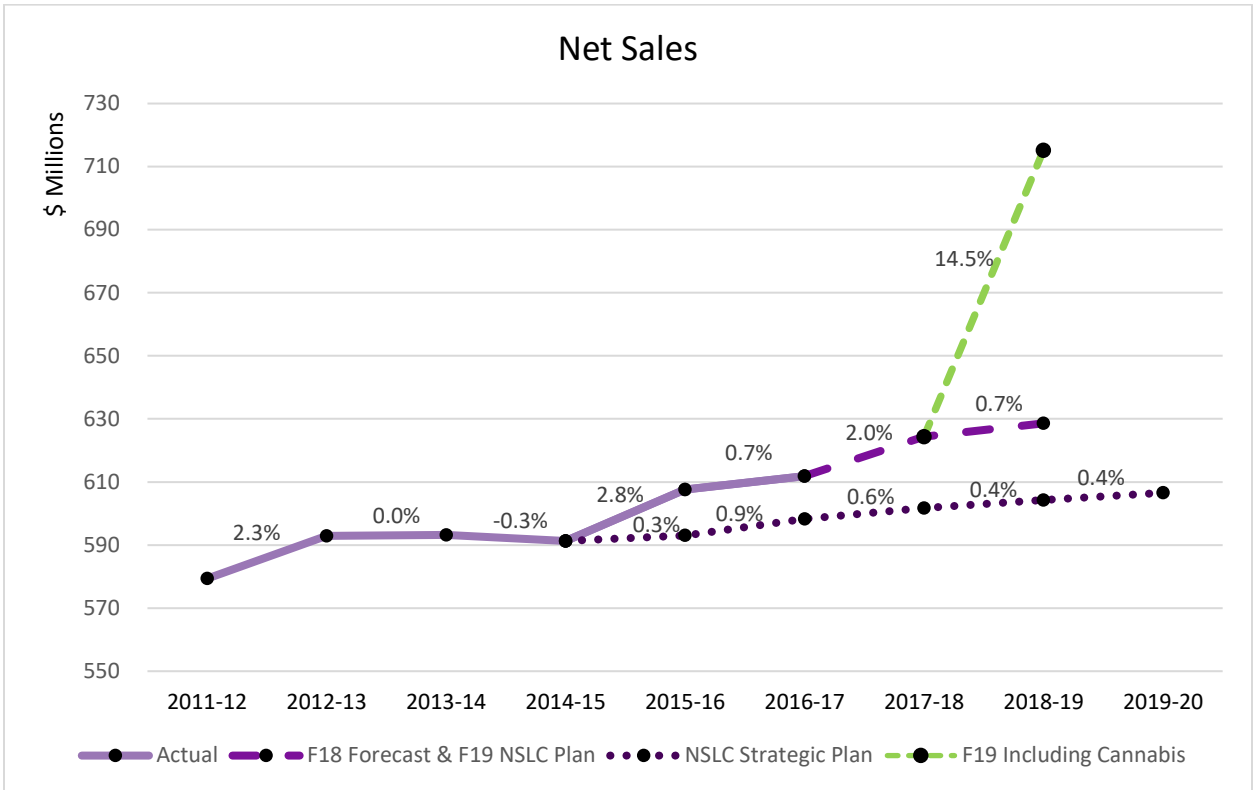
- Employee Engagement:

2003	2005	2008	2011	2013	2015	2017	2020 Target
75.8	76.6	73.7	72.8	76.0	76.3	76.1	80.0

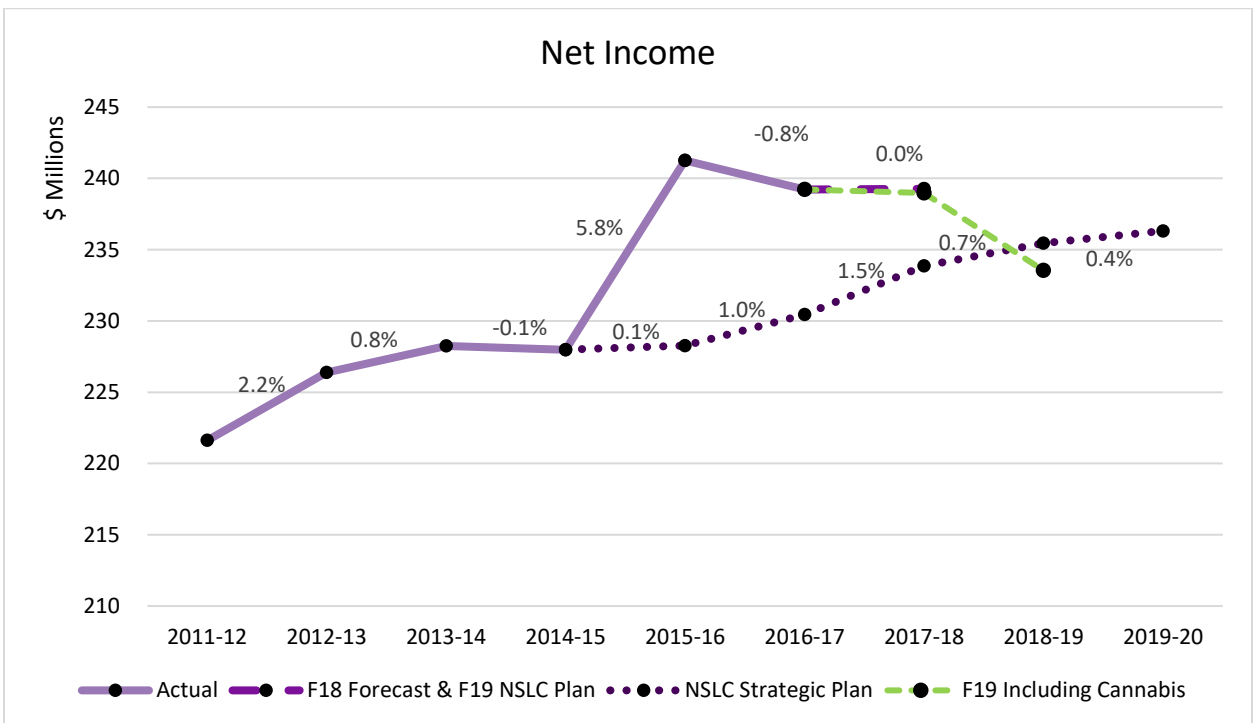
Local Industry:



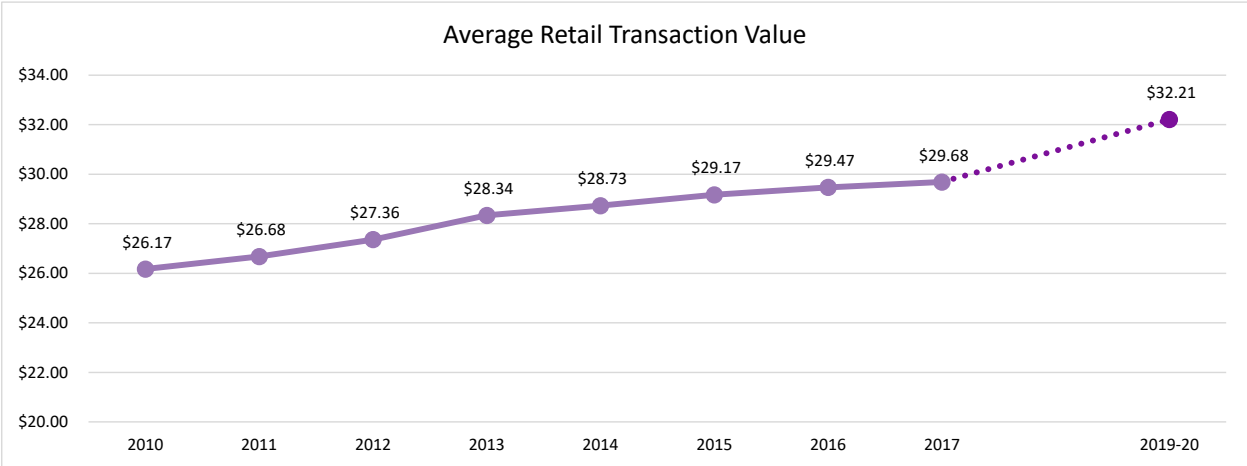
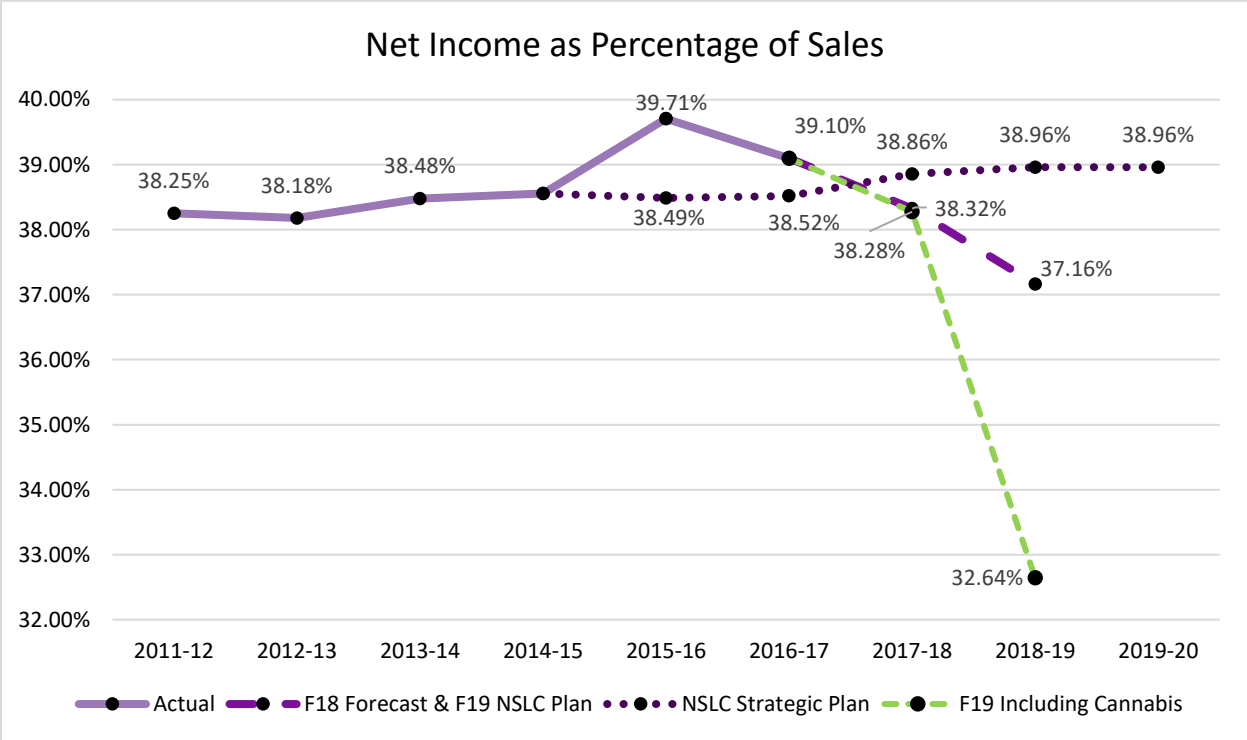
Financial:



Percentage indicates the percentage change in Net Sales from previous year.



Percentage indicates the percentage change in Net Income from previous year.



Budget Context:

	Actual 2013-14*	Actual 2014-15	Actual 2015-16	Actual 2016-17	Forecast 2017-18	Sales (%)	Budget 2018-19**	Change (%)
Spirits	\$ 167,166,069	\$ 163,265,323	\$ 165,636,957	\$ 165,837,842	\$ 167,684,555		\$ 167,911,973	
Wine	133,211,335	135,160,664	141,348,224	143,569,801	150,899,634		156,634,879	
Beer	278,635,186	275,454,680	281,484,342	278,893,578	281,903,647		279,291,536	
Ready-to-drink	23,895,350	28,040,206	30,557,393	34,962,836	37,234,907		38,422,645	
Non-liquor	119,965	125,883	121,396	130,786	134,715		134,715	
Cannabis	0	0	0	0	0		87,151,665	
Total Gross Sales	603,027,904	602,046,757	619,148,313	623,394,843	637,857,459	102.2%	729,547,413	14.4%
Less: Discounts	9,861,940	10,746,737	11,563,725	11,549,801	13,515,616	2.2%	13,808,390	
Net Sales	593,165,964	591,300,020	607,584,588	611,845,042	624,341,843	100.0%	715,739,023	
Cost of Sales	268,001,097	263,507,143	269,611,009	274,909,681	283,658,446	45.4%	362,499,279	
Gross Profit	325,164,867	327,792,876	337,973,579	336,935,361	340,683,397	54.6%	353,239,744	
Less: Store Operating Expenses	60,900,062	61,281,852	61,231,677	61,334,942	63,532,786	10.2%	72,678,705	
Gross Operating Profit	264,264,805	266,511,024	276,741,902	275,600,419	277,150,611	44.4%	280,561,039	
Less: Supply Chain	6,762,224	6,922,635	7,048,509	7,058,180	7,337,752	1.2%	10,479,119	
Corporate Services	23,618,485	24,860,627	24,697,017	24,530,382	25,326,141	4.1%	29,704,836	
Other Expenses	1,139,452	2,694,644	-40,017	1,729,630	1,800,000	0.3%	1,800,000	
Add: Other Revenue	5,148,656	5,321,491	5,387,396	5,565,709	4,921,503	0.8%	4,315,620	
Total Expenses (excl. stores)	26,371,505	29,156,416	26,318,113	27,752,483	29,542,390	4.7%	37,668,335	
Operating Income before Depreciation	237,893,300	237,354,609	250,423,789	247,847,936	247,608,221	39.7%	242,892,703	
Less: Depreciation	9,647,840	9,368,127	9,166,691	8,626,736	8,636,737	1.4%	9,261,102	
Income from Operations	228,245,460	227,986,481	241,257,098	239,221,200	238,971,484	38.3%	233,631,601	-2.2%
Actuarial Loss (Gain)	(2,295,500)	2,123,100	(3,297,500)	265,700	0	0.0%	0	
Comprehensive Income	230,540,960	225,863,381	244,554,598	238,955,500	238,971,484	38.3%	233,631,601	-2.2%
Total Expenses (not depreciation)	87,271,567	90,438,268	87,549,790	89,087,425	93,075,176	14.9%	110,347,040	
Total Expenses	96,919,407	99,806,395	96,716,481	97,714,161	101,711,913	16.3%	119,608,142	

						Change (%)		Change (%)
Volume (hectolitres)								
Spirits	49,085	48,872	49,240	48,171	49,027	1.8%	48,800	-0.5%
Wine	92,901	93,250	97,056	100,147	99,822	-0.3%	102,018	2.2%
Beer	607,852	594,402	599,552	569,377	586,247	3.0%	577,590	-1.5%
Ready-to-drink	32,547	39,362	42,909	53,925	51,287	-4.9%	52,953	3.2%
Total	782,385	775,886	788,756	771,619	786,383	1.9%	781,361	-0.6%
Volume (Kilograms)								
Cannabis	-	-	-	-	-	0.0%	12,000	-

*Historic expense numbers have been adjusted to reflect a reallocation of credit card fees causing a reduction in Other Expenses and an increase in Store Operating Expenses. This has resulted in no change in the Income from operations for these years.

**F18-19 budget figures include beverage alcohol and recreational cannabis lines of business.