

Public Sector Executive Compensation Reporting Form

British Columbia Lottery Corporation
Reporting for 10/11

Statement of Executive Compensation

June 2011

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June 20, 2011

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Dear Sir:

Re: Attestation letter for Executive Compensation
British Columbia Lottery Corporation, Fiscal Reporting Period 10/11

I have read the Public Sector Executive Compensation Reporting Guidelines as prepared by the Public Employer's Council Secretariat and understand it is my responsibility as Board Chair to be aware of executive compensation paid as reported by British Columbia Lottery Corporation (BCLC) management.

I hereby attest that, the executive compensation transactions, as reported by BCLC for the fiscal period 10/11, in all material respects, were within approved compensation plans.

Yours truly,

A handwritten signature in black ink, appearing to read 'John McLernon', is written over a horizontal line.

John McLernon
Chair, Board of Directors

Enclosure(s)

Statement of Executive Compensation

ITEM 1 – GENERAL PROVISIONS

PURPOSE

British Columbia Lottery Corporation (BCLC) must disclose all compensation provided to the Chief Executive Officer and the next four highest paid executives for the services they have provided to the organization in accordance with Bill 33.

ITEM 2 - COMPENSATION DISCUSSION AND ANALYSIS

1. COMPENSATION DISCUSSION AND ANALYSIS

BCLC manages Executive compensation in accordance with the compensation policy approved by PSEC.

Our compensation philosophy is to pay total compensation at the 50th percentile of our relevant market comparator groups as approved by PSEC, which considers primarily general industry.

Compensation principles for Executive compensation include the following:

- All Executive compensation falls within the PSEC guidelines and supports a performance based culture.
- Vice President's compensation is aligned and managed below the CEO's total compensation.

The Human Resource and Compensation Committee (HR&C) of the Board has the responsibility to review and make recommendations to the Board on the items detailed below, in accordance with corporate governance:

- The job description of the CEO;
- The appointment of the CEO;
- The CEO's performance against agreed upon annual objectives, at least annually;
- The CEO's compensation;
- The senior management structure including such duties and responsibilities to be assigned to officers of the Corporation;
- On the recommendation of the CEO, review and recommend the officers of the Corporation who report to the CEO;
- The compensation plans for senior management including salary, incentive, benefit and pension plan.
- Certain matters relating to all employees, including:
 - the Corporation's broad compensation strategy and philosophy;
 - new benefit programs or material changes to existing programs; and
 - material changes to the employee pension plans
- Ensure succession planning programs for the CEO and Senior Management are in place, including programs to train and develop management; and
- Provide advice and counsel to the CEO in the execution of the CEO's duties.

The Board has final approval on the above matters and the HR&C Committee then ensures decisions are implemented.

The objective of the compensation program is to pay competitively with the external marketplace, with a total compensation philosophy to pay and reward for performance. Annual salary increases and incentive pay are based on individual, divisional and corporate performance. Base pay is designed to neither lead nor lag the market.

Total compensation for the Executive includes base and incentive pay, benefits, pension, supplementary pension, vacation, and perquisite allowance. Following is a description of each total compensation element.

Base Pay

Base pay is established at the median based on external benchmarking data. Based on the external data, as well as an internal job evaluation system outlining role accountabilities, jobs are valued and slotted within the appropriate salary range. Annual salary increases for the Executive is determined based on individual performance and placement in the range.

Incentive Pay^{*}

BCLC's short term incentive plan is split between corporate (50%) and individual (50%) goals and is a variable pay program re-earnable each year. The incentive plan does not pay out any monies (corporate or individual) if corporate triggers are not met.

In addition to the short term incentive plan, the CEO is eligible for an annual incentive based on performance of corporate financial goals which is paid on a three year deferral basis.

The process is as follows:

- The Human Resources and Compensation Committee (HR&C) of the Board reviews and recommends to the Board, the appropriate corporate goals and targets.
- The Service Plan, which is approved by the Ministry, and the business plan, which is approved by the Board of Directors drives the overall corporate and individual goals set for the Executive.
- The CEO's goals are determined by the Board of Directors.
- The CEO's goals are cascaded down to the Executive team and all goals established directly link to the approved business plan.
- The HR&C Committee reviews the attainment of corporate goals, and the individual goals for the CEO, and recommends to the Board the level of achievement against the target set at the end of the fiscal year.

The corporate goals for fiscal 10/11 were as follows:

1. Financial / Operations

Targets:

- Net income of \$ 1,115 million
- Net win of \$ 2,072 million

2. Public / Planet

Targets:

- Player Satisfaction of 74.0%

Benefit Plan

The flexible benefit program offered at BCLC provides all employees with an opportunity to purchase benefits based on their lifestyle needs. Employees are provided with preference credits, which are used to purchase medical, extended health, dental, AD&D, life insurance, etc. Long Term Disability premiums are paid for by the employee.

The Executive do not have any additional perquisites in this regard.

^{*} Incentive pay at BCLC is pensionable.
BCLC does not have a long term incentive program.

Pension

BCLC has its own defined benefit pension plan which is a shared cost between the employee and the Corporation. Employees contribute 4.4% of their monthly earnings that are less than or equal to Year's Maximum Pensionable Earnings (YMPE) and 6.0% of their annual earnings that are in excess of the YMPE. The Corporation contributes additional amounts necessary to pay for the promised pension. An actuary who is certified in the determination of pension funding requirements calculates the amount of the Corporation's contribution.

Supplemental Pension

BCLC has a Supplementary Plan for its Vice-Presidents (the "SRP"). The SRP provides a pension payable at retirement on or after age 55. The pension is calculated using the formula from the RPP, without *Income Tax Act* maximum pension limits imposed on the RPP. The excess over the RPP pension is payable from the SRP. In other words, the SRP provides the pension that the *Income Tax Act* will not allow to be paid from the RPP. The SRP is simply a mirror of the RPP, with two exceptions: The VP does not have to contribute to the SRP. And, if a VP terminates employment before age 55, no benefit is payable from the SRP.

CEO Supplemental Pension

The CEO Supplemental Pension is similar to the SRP for Vice-Presidents with one exception; the CEO receives 1.5 years of pension credit for each year worked.

Vacation

20 days of vacation is provided for management staff, including the Vice Presidents, upon joining BCLC. Employees' annual rate of vacation accrual increases at established years of service until the maximum accrued vacation rate is met. The maximum accrued vacation provided to management and Executive is 35 days. 30 days' vacation is provided to the CEO.

Perquisite Allowance

A perquisite allowance is provided to the Vice Presidents and the Chief Executive Officer[†] in the amount of \$1,000 per month.

2. NEW POLICIES, ACTIONS or DECISIONS

There have been no new policies, actions or decisions made since the end of the fiscal year that affect a fair understanding of the Executive compensation for 2010/2011.

[†] Effective April 1, 2010

ITEM 3 - SUMMARY COMPENSATION TABLE

Name and Principal Position	Base Salary ¹	Incentive Plan Compensation Earned ²	Pension ³	All Other Compensation ⁴	Total	Previous 2 Years Totals
	(\$)	(\$)	(\$)	(\$)	(\$)	
Michael Graydon President & Chief Executive Officer	240,000	72,000	67,795	41,289	421,084	2009/10: \$ 382,881 2008/09: \$ 370,973
Jim Lightbody Vice President, Lottery Gaming	210,637	35,808	27,195	22,494	296,134	2009/10: \$ 286,009 2008/09: \$ 288,844
Scott Norman Vice President, Information Technology & Chief Information Officer	211,799	30,711	27,695	22,349	292,554	2009/10: \$ 288,907 2008/09: \$ 291,957
Tom Williamson Vice President Finance & Corporate Services & Chief Financial Officer	193,793	31,976	24,095	33,724	283,588	<i>N/a – first year reported.</i>
Kevin Gass Vice President, Corporate Affairs	198,885	33,810	25,695	22,514	280,904	2009/10: \$ 270,286 2008/09: \$ 260,573

Notes:

¹ Payroll system limitations restrict salary reporting to whole pay periods. The salary reported is for the pay periods of March 28, 2010 – March 26, 2011.

² Incentive compensation reported above is for the achievement of 10/11 goals and paid in fiscal 11/12. Mr. Graydon's incentive compensation payment is comprised of annual variable incentive (\$48,000) and a three year deferred variable incentive (\$24,000) as per his employment contract.

³ The total includes both RPP and SRP amounts. The following assumptions were used in pension calculations.

Discount rate	• 6.0% per year
Pensionable earnings definition	• Basic salary rate plus target bonus.
Increases in pensionable earnings	• 4.0% per year
YMPE increases	• 3.50% per year
Increases in maximum pension permitted under the Income Tax Act	• 3.50% per year after 2011
Consumer Price Index	• 3.0% per year
Mortality	• UP94 projected to year 2015
Withdrawal	• None
Retirement age	• Age 62

**The target bonus percentage is 20% of earnings.*

⁴ This includes any accrued vacation that is paid, CPP, EI and WCB contributions made by BCLC, employer paid benefits and perquisite allowance.