THE CUSTOMER FIRST

SAQ
2005
ANNUAL
REPORT

SAQ

TABLE OF CONTENTS

GENERAL SECTION

Highlights 01
Messages from the Directors 06
Board of Directors 11
Executive Committee 12
The Year in Review 13
Trends 20

FINANCIAL SECTION

Accountability 28
Financial Review 30
Management Report 36
Auditor's Report 37
Consolidated Statement of Income and Retained Earnings 38
Consolidated Balance Sheet 39
Consolidated Cash Flows 40
Notes to the Consolidated Financial Statements 41
Quarterly Data 56
Retrospective of the Past 10 Fiscal Years 58
Code of Ethics and Professional Conduct 66

HIGHLIGHTS

Fiscal years ended the last Saturday in March (in millions of dollars and millions of litres for sales volumes)

	2005	2004	VARIATION AS A %
OPERATING RESULTS			
Gross sales	**2,544.7**	2,653.0	(4.1)
Net sales	**1,986.9**	2,070.1	(4.0)
Gross earnings	**995.5**	1,016.9	(2.1)
Operating expenses	**449.7**	446.1	0.8
Net earnings	**545.8**	570.8	(4.4)
FINANCIAL SITUATION			
Total assets	**682.8**	742.6	(8.1)
Fixed assets	**295.4**	313.7	(5.8)
Working capital	**(227.5)**	(242.8)	6.3
Long-term liabilities	**47.5**	52.2	(9.0)
Shareholders' equity	**35.6**	34.9	2.0
ADDITIONAL FINANCIAL DATA			
Government revenues from operations	**1,143 2**	1,192.2	(4.1)
Total gross sales, excluding sales to brewers and beer distributors	**2,337.7**	2,372.8	(1.5)
NET SALES BY SALES NETWORK			
Outlets and specialized centres	**1,506.0**	1,581.7	(4.8)
Wholesale grocers	**299.3**	249.9	19.8
Brewers and beer distributors	**181.6**	238.5	(23.9)
Total net sales	**1,986.9**	2,070.1	(4.0)
NET SALES BY CATEGORY			
Spirits	**403.8**	427.5	(5.5)
	16 2 L	17.3 L	(6.4)
Wine	**1,329.8**	1,322.4	0.6
	108.6 L	109.0 L	(0.4)
Imported and microbrewery beers, ciders and coolers[1]	**71.7**	81.7	(12.2)
	10.5 L	11.3 L	(7.1)
Total net sales, excluding sales to brewers and beer distributors	**1,805.3**	1,831.6	(1.4)
	135.3 L	137.6 L	(1.7)
Beer sold to brewers and beer distributors	**181.6**	238.5	(23.9)
	131.7 L	203.6 L	(35.3)
Total net sales	**1,986.9**	2,070.1	(4.0)
	267.0 L	341.2 L	(21.7)

[1] *Commonly known as coolers and cocktails.*

To conform with the basis of presentation adopted in the current year, certain figures previously reported have been reclassified.

"MY GUEST IS A REAL WINE CONNOISSEUR."

Our eternal interest in our customers is what enables us to serve them better. The only way to give them sound advice is by listening to them. And that is what we do. Every single day.

“WE LIKE TO HAVE A GLASS OF WINE EVERY NIGHT, BUT STICK TO AN EVERYDAY BUDGET.”

Thanks to a wide selection from around the world, the SAQ’s customers can find just the right wine to pair with their daily meals.

"I JUST LOVE TRYING NEW WINES!"

We share what we know. In fact, our employees' in-depth knowledge contributes to the quality of our clients' experience.

"MY FRIENDS LIKE ME TO AMAZE THEM."

Helping customers discover new products is one of our priorities. You might even say it's our specialty. The latest products from near and far are always presented in the best possible light. It goes without saying.

MESSAGE FROM THE CHAIRMAN OF THE BOARD

RAYMOND BOUCHER
CHAIRMAN OF THE BOARD

IN 2004, THE SAQ'S BOARD OF DIRECTORS APPROVED THE COMPANY'S 2004-2009 STRATEGIC PLAN, WHICH IS AS THRILLING AS IT IS AMBITIOUS.

Over the past few years, the SAQ has invested heavily in its network of outlets and in its infrastructures in order to offer Quebecers an even wider range of top-quality products in a pleasant and stimulating shopping environment. Now, the company has set its sights on increased performance, with the aim of improving commercial efficiency while providing its shareholders, the people of Quebec, with a competitive return on investment.

The goal of this undertaking is clear: to increase the 2003-2004 dividend of $570 million to $925 million by 2008-2009—a gain of 62% over five years—without increasing the mark-up rate on the SAQ's products. It's quite a tall order!

The *Société des alcools du Québec's* Board of Directors is confident that the company is being led by a management team with all the skills and know-how needed to bring the 2004-2009 strategic plan to fruition. The Board fully intends to perform its role in monitoring the company's progress, as announced in its strategic plan, by supporting President and Chief Executive Officer Sylvain Toutant, his management team and the SAQ's approximately 6 000 employees.

These people, together with their SAQ predecessors, have made this public corporation unique, admired and appreciated by all Quebecers. It is our responsibility to preserve this rich legacy.

I would like to take this occasion to thank two outgoing members of the SAQ Board of Directors: Raymond Dutil, Chief Executive Officer of *Groupe Procyle, inc.* of Saint-Georges de Beauce, and Michel Noël de Tilly, Chairman of the *Société des établissements de plein air du Québec* (SÉPAQ) of Québec City. We are especially grateful to them for the significant contributions they have each made to the SAQ Board of Directors over the past four years. On a related note, we would like to welcome three new members to the Board: Pietro Perrino, President of Laval's *Pergui Groupe Conseil*; Michèle Thiverge, Senior Partner at Brochet, Dussault, Lemieux, Larochelle, a law firm based in Québec City, and Adam Turner, President of Montréal's Divco Limited.

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

SYLVAIN TOUTANT
PRESIDENT AND CHIEF EXECUTIVE OFFICER

THE CUSTOMER FIRST

I WAS APPOINTED TO THE SAQ MANAGEMENT TEAM IN THE MIDDLE OF THE 2004-2005 FISCAL YEAR. TWO MONTHS LATER, A LABOUR CONFLICT BETWEEN THE COMPANY AND ONE OF ITS THREE UNIONS CULMINATED IN AN EXTENDED WORK STOPPAGE BY SEMB-CSN OUTLET AND OFFICE EMPLOYEES.

Despite the difficult conditions under which I took office, I felt it my duty to meet as many SAQ employees as I could. To get to know a company, you have to meet the people behind it. Whether they work in a factory or an outlet, workers are the heart, soul and culture of the organization.

People with heart

I met with hundreds of women and men whose hearts are in the right place and who believe strongly in what they do and in the company's growth. The people of the SAQ have a reputation for having a remarkably strong sense of belonging to 'their' SAQ. In truth, they have heart and courage to spare. The labour conflict we experienced was doubly painful for everyone, and some wounds have yet to heal. Still, even before the end of the fiscal year, I realized that many people had already turned the page and that we were in a position to move forward with confidence and serenity. Indeed, being able to do so is the trademark of mature companies, which can count on employees who stand behind their convictions and respect traditions.

Encouraging results

In 2004-2005, the SAQ achieved gross sales of $2.5447 billion and reported dividends of $545 million, for a total of $1.1432 billion of income for the government. These results, not surprisingly, fell short of our forecasts. However, our projections indicate that we would have reached and even surpassed our sales and financial objectives had the labour dispute not taken place. All in all, the results are highly encouraging indeed.

Win-win agreements

Signing two major collective agreements over the course of the fiscal year—those linking us to the *Syndicat des travailleurs* (STSAQ) and the outlet and office employees (SEMB-CSN)—gave us reason to look to the future with optimism and enthusiasm. These are multi-year contracts and they are, in every sense, win-win agreements. This popular expression, though sometimes overused, clearly denotes that we will be making the best possible use of these collective agreements to do things differently, improve our performance and carry out the strategic plan the company has adopted. Above all, these agreements will allow us to keep the customers as our top priority and to do so scrupulously and systematically. This annual report is called The Customer First, a title that accurately expresses just how passionate we are about making the SAQ Quebec's top retailer.

THE IMPROVEMENT IN OUR PERFORMANCE WILL RESULT IN AN AVERAGE ANNUAL 5.7% INCREASE IN GROSS SALES, WHICH WILL REACH $3.1 BILLION IN 2009, AND IN THE REDUCTION OF OUR OPERATING-EXPENSES-TO-NET-SALES RATIO, EXCLUDING SALES TO BREWERS AND BEER DISTRIBUTORS, FROM LAST YEAR'S 24.3% TO 19.8% BY 2009.

One plan, two shifts, three transformations

The 2004-2009 strategic plan tabled in May 2004 offers a wide scope that will allow us to build on the knowledge acquired by the SAQ, to correct our weaknesses and improve our overall performance. This plan focuses on two major streams: a performance shift and a customer-oriented shift. Of course, we intend to review this plan each year in the light of our results and trade commitments.

Performance shift

The improvement in our performance will result in an average annual 5.7% increase in gross sales, which will reach $3.1 billion in 2009, and in the reduction in our operating-expenses-to-net-sales ratio, excluding sales to brewers and beer distributors, from last year's 24.3% to 19.8% by 2009. The key will be to boost sales at a rate that outpaces the growth of the Quebec economy by achieving gross sales that exceed GDP growth by 2%. We will need to regain a portion of the sales being lost to retailers outside the province. In short, if economic conditions in Quebec hold steady, net profits should surpass $900 million by the turn of the next decade, representing an average annual increase of 10.4% based on 2003-2004 results.

Customer-oriented shift

One of the fundamental principles of operating any retail business is to meet customers' needs, fulfil their expectations and wishes, and ensure that their shopping experience at an SAQ outlet incites them to return.

The customer-oriented shift is inspired by this principle. In fact, we are re-examining each of our activities by asking ourselves, each time, what our customers stand to gain, the goal being to streamline where possible. With this objective in mind, we changed our executive management structure and reduced the number of divisions. I asked all the vice-presidents to do the same with their respective administrative units. The result: management was brought closer not only to those involved in the day-to-day operations, but also to the SAQ's commercial reality.

THE BUSINESS APPROACH WAS REVIEWED SO THAT PROMOTIONS WILL NOW FOCUS ON NEW PRODUCTS. IMPROVING STOCK ROTATION AND CATEGORY MANAGEMENT WILL ALLOW FOR THE INTRODUCTION OF COUNTLESS NEW REGULAR AND SPECIALTY PRODUCTS.

Custom tools

Put on the back burner over the past few years to make way for an enterprise resource planning (ERP) system, product and customer service training will resume—on a fast track and in greater depth than ever. In truth, we hope that, as a result of technological advances like portable optical readers and the application of the new collective agreement, outlet employees will be able to dedicate 25% of their time to providing customers with advice.

The marketing approach was reviewed so that promotions will now focus on new products. Improving stock rotation and category management will allow for the introduction of countless new regular and specialty products. We are working closely with all of our industry partners to revitalize our sales network. This is the only way to do business: we must work as partners. To reach our objectives, we have created a new division, led by the Vice-president of Marketing, whose role is to oversee purchasing, marketing and quality management.

Three sides of a changing SAQ

The changes the company is undergoing—and will continue to undergo—are of three distinct types. First, there are those that will affect customers directly, such as the increasingly advisory role of outlet employees, a resurgence of new products and discovery-oriented promotions. Second, new communication tools were launched, such as the new circular and *Tchin Tchin* magazine, and others are in development.

Lastly, our network of outlets will be examined in minute detail, and we fully intend to continue developing it with more stringent criteria in mind, based on the needs and population profile of each region. One thing is clear: we will continue to bank on the *SAQ Sélection banner*, the flagship of our fleet of 403 outlets, which grew by five in 2004-2005, as we opened seven new outlets and closed two. In 2005-2006, eleven new outlets will be launched, and some fifty existing outlets will be expanded and modernized.

Simplifying processes

Other transformations will affect our activities and the way we do things. We are simplifying all of our business processes to improve both the synergy between departments and our relationships with our industry partners. For example, we amalgamated three departments that handled capital development to create a single administrative unit, significantly improving efficiency in the process.

Our supply chain procedures will be enhanced and we plan to at least double the stock rotation rate by 2009. In more general terms, we are implementing measures to put a ceiling on capital expenses to keep them below depreciation expenses.

Nurturing a unique culture

Among Quebec's public corporations, the SAQ is arguably the most present in the daily lives of Quebecers, and in the over 80 years of its history, the company has developed a rich organizational culture.

As we move forward, we will nurture this culture by stressing accountability, respect, integrity, openness to innovation, the desirability of managing outside the box, and recognition of the hard work and success stories of our employees. The members of the management team will lead by example by taking an active role in developing stronger relationships with the unions and creating an environment of trust based on dialogue, the importance of which we came to understand as a result of the unfortunate conflict we experienced in 2004.

People of character

We are able to carry out these shifts and this metamorphosis of the SAQ only because we can count on employees whose hearts are in the right place and who have shown a remarkable ability to adapt. They are our strength, our best ambassadors and the business's key driver. We must convince them of the value and the merits of the changes we are proposing, and in all honesty, I feel perfectly at ease carrying out this exciting mission.

Each and every member of the SAQ team—everyone from the purchasing agent to the delivery person, the order filler and salesperson—constitutes the soul of the business: an assertion made a thousand times, perhaps, but so demonstrably true and so profoundly human. It is for no other reason that I accepted to lead this great public corporation.

THE OMBUDSMAN: IN ALL FAIRNESS

Created in 2001, the position of Ombudsman—Business Relations was entrusted to Jacques Desmeules, President and Chief Executive Officer of the SAQ from 1971 to 1978. The role of the ombudsman, who reports directly to the Board of Directors, consists in fielding complaints from business partners who feel that they did not receive a satisfactory response from the SAQ. These complaints must be analyzed and handled in a fair manner. It is important to note that the ombudsman enjoys complete independence from SAQ management so that he can carry out his mandate with total impartiality. He also has the power to make recommendations to the Board of Directors to whom he submits a report of his activities twice a year, as he did in 2004-2005. During this period, he handled many cases relating to the SAQ's business practices and gave his recommendations. Note that the ombudsman fields complaints from all SAQ suppliers and not only from suppliers of alcoholic beverages and holders of licenses issued in accordance with the Act Respecting Liquor Permits.

BOARD OF DIRECTORS

From left to right

PIETRO PERRINO Member of the Board of Directors and the Audit Committee, President, Pergui Groupe Conseil / CHANTAL BÉLANGER Member of the Board of Directors and the Executive Committee, and President of the Audit Committee, Ombudsman, Laurentian Bank / ROBERT MORIER Member of the Board of Directors, the Human Resources Committee and the Audit Committee, President, Robert Morier Inc. / YVES ARCHAMBAULT Member of the Board of Directors and the Executive Committee, and President of the Human Resources Committee, Administrator / MICHÈLE THIVIERGE Member of the Board of Directors and the Audit Committee, Lawyer, Senior Partner, Brochet, Dussault, Lemieux, Larochelle s.e.n.c. / GARY MINTZ Member of the Board of Directors, the Executive Committee and the Human Resources Committee, Vice-president, American Iron & Metal Inc. / ADAM TURNER Member of the Board of Directors and the Human Resources Committee, President, Divco Limited / RAYMOND BOUCHER Chairman of the Board of Directors and the Executive Committee / SYLVAIN TOUTANT Member of the Board of Directors, the Executive Committee and the Human Resources Committee, President and Chief Executive Officer, SAQ

EXECUTIVE COMMITTEE

From left to right

ALAIN BRUNET Vice-president of Sales Network Operations / RICHARD GENEST Vice-president and Chief Financial Officer / PHILIPPE DUVAL Vice-president of Human Resources / BENOIT DURAND Vice-president of Information Resources / SYLVAIN TOUTANT President and Chief Executive Officer / SUZANNE PAQUIN Secretary General and Vice-president of Legal Services / LAURENT MÉRIAUX Vice-president of Marketing / ALAIN PROTEAU Vice-president of Purchasing and Merchandising / LUC VACHON Vice-president of Logistics and Distribution

THE YEAR IN REVIEW

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY REPORT

FOR THE WORLD AHEAD

SELLING, YES, BUT ALWAYS WITH A CLEAR CONSCIENCE. MORE THAN EVER, THE SAQ IS DETERMINED TO PLAY A LEADING ROLE IN SOCIETY, N0T ONLY BECAUSE PUBLIC CORPORATIONS MUST LEAD BY EXAMPLE, BUT ALSO BECAUSE THEY MUST INNOVATE AND DEMONSTRATE EXTREME SENSITIVITY TOWARD THEIR HUMAN AND PHYSICAL ENVIRONMENT. AFTER ALL, BEFORE BUSINESS, THERE IS LIFE.

Thanks to its Environmental Fund, the SAQ has amassed almost $30 million since 1990, which it has subsequently invested in the community. During the 2004-2005 fiscal year, the SAQ launched several projects, including the *Chaire SAQ en valorisation du verre dans les matériaux*, which focuses on the selective collection and recycling of glass. In so doing, it maintained its financial assistance program for sorting centres and its support for the recycling program *Collecte sélective Québec*. Finally, the SAQ is now lending its support to *Éco Entreprises Québec*, a non-profit organization created in 2003 following the enactment of Bill 102, which obliges Quebec companies that market or distribute containers, packaging or printed materials to provide financial compensation to municipalities with selective waste collection programs.

The SAQ also undertook a review of its environmental program in light of the fact that the sensibilities of Quebecers and their expectations with respect to the environment have changed considerably over the years. The sustainable development program tabled by the Government in 2004 is one result of this review. The company would also like to play a role in defining the Government's environmental strategies, because at the SAQ, we believe that the community as a whole must reconcile lifestyle and the environment.

This living environment is also made up of groups and non-profit organizations working for the betterment of thousands of Quebecers, and the SAQ makes a point of supporting several of them, including hospital foundations. It therefore helped fund 332 social activities by donating close to a million dollars' worth of products and services. The SAQ's close involvement with the *Grand Bal des vins-coeurs* is proof of its fundraising commitment. Thanks to this lavish soirée, close to $1 million was raised for the Montreal Heart Institute Foundation.

The SAQ played a big part in many major and lively festivals where excitement reigns. As key sponsor of the *Festival International de Jazz de Montréal*, the *Fêtes de la Nouvelle-France SAQ*, the *Mondial des cultures de Drummondville*, the *Festival Western de St-Tite*, the *Rendez-vous du cinéma québécois* and the Quebec Winter Carnival, the SAQ backs the creative milieu and Quebec artists by lending its support to events that keep the province as a whole abuzz with activity.

Keenly interested in promoting and sharing the art of fine dining, the SAQ participated actively in some forty epicurean events, including 25 wine and spirits shows. Held throughout the province, these shows uphold Quebecers' long-held love of wining and dining, and bring people from all walks of life together at events benefiting local organizations.

Because the SAQ cares about people, their drinking behaviour, their health and the consequences of its business activities, the company handed over $2.1 million to the *Fonds Éduc'alcool*, a program whose campaigns seek to promote a reflective approach to alcohol consumption. In this respect, it is worth noting that when it comes to irresponsible consumption of alcohol, Quebec is well below the national average, possessing the best track record in Canada. In fact, the number of Quebecers who have more than five drinks on any given occasion has decreased by 8.5% over five years. It's no secret that "Moderation is always in good taste."

PURCHASING AND MERCHANDISING

THE QUIET STRENGTH OF MATURITY

FOR THIS DIVISION, WHICH DEALS WITH JUST ABOUT THE WHOLE WORLD, THE YEAR WAS CHOCK FULL OF ACHIEVEMENTS. FIRST, THE TEAM DEVELOPED AN A, B AND C CLASSIFICATION SYSTEM FOR PRODUCT PRIORITY, A METHOD COMMONLY USED IN THE FIELD OF SUPPLY MANAGEMENT. THIS STRUCTURE GREATLY IMPROVED SUPPLY CHAIN MANAGEMENT, AND THANKS TO THE DOMINO EFFECT, THE OVERALL INVENTORY WAS CUT BY 14.1% OVER THE PREVIOUS YEAR.

- Conducted 40 out of the 60 detailed analyses that need to be carried out.
- Perfected a tool used to compare prices at the SAQ and Canada's other chains of alcoholic beverage stores.
- Held discussions with our main suppliers in the aim of conducting 25 business reviews.
- Produced 10 000 planograms which visually communicate the complete of regular products that should be available at each outlet.
- Implemented 98% of these plans, which are exclusive to each outlet.
- Issued 19 calls for tenders, leading to the possible addition of 400 regular and specialty products.
- Developed a new business data transmission tool called *Infocom* designed for external clients, such as representation agencies, suppliers, people from the alcoholic beverage industry, trade commissions, and so on.

DEVELOPMENT AND REAL ESTATE

SYNERGY, EFFICIENCY, COLLEGIALITY

THE SAQ'S NETWORK OF OUTLETS IS UNDOUBTEDLY ONE OF ITS BIGGEST ASSETS. THE PROVINCE IS DOTTED WITH THE SAQ'S 403 STORES, INCLUDING ITS EXPRESS, CLASSIQUE, SÉLECTION, DÉPÔT AND SIGNATURE BANNERS, NOT TO MENTION ITS VIRTUAL OUTLET, SAQ.COM. TO MAINTAIN ITS VIABILITY, THIS EVER-DEVELOPING NETWORK REQUIRES INVESTMENT. HERE IS THE COMPANY'S DRIVING FORCE AT A GLANCE.

- In 2004-2005, seven new outlets opened, two closed, 34 were moved to new locations and 13 were given a new look.
- The overall floor area of the outlet network increased by 2.3% and was made up of 1.63 million square feet at the end of the fiscal year.
- Over the 2005-2006 fiscal year, 11 new stores will be opened and 46 more will be moved or updated.
- Members of the Development and Real Estate Division team implemented a real estate plan that led to significant savings for the leasing of administrative offices.
- It also implemented an energy-efficiency program that will save $1.2 million a year by 2008.
- This team is entrusted with the mission of supporting the Management Committee in its development activities and monitoring its strategic directions.

SALES NETWORK OPERATIONS

A SURGE OF ADRENALINE

THANKS TO A NEW FOUR-YEAR COLLECTIVE AGREEMENT THAT INCLUDES BENEFITS FOR BOTH THE EMPLOYEES AND THE COMPANY, THE SALES NETWORK OPERATIONS DIVISION HAS FELT A SURGE OF ADRENALINE. THE STABILITY OF THE TEAMS WORKING AT THE LARGER OUTLETS WILL CERTAINLY CONTRIBUTE TO THE FEELING OF BELONGING AND TO OVERALL TEAM SPIRIT. THE AGREEMENT, WHICH CALLS FOR THE CREATION OF NEW EMPLOYEE STATUSES, WILL BE THE CORNERSTONE THAT ENABLES EMPLOYEES TO PLAY A KEY ROLE AS ADVISORS AT THE OUTLETS.

- According to a study conducted by an independent firm that uses mystery shoppers to investigate the retail experience, customer service quality was maintained.
- The average customer spend increased by 6.6%, from $37 to $39.43.
- Efficiency in the management of the network of outlets increased, with the salaries-to-gross-sales ratio for the Division improving by 5% in 2004-2005.
- Earnings for the fiscal year show that the *SAQ Alimentation* and *SAQ Agences* networks can contribute significantly to the company’s bottom line.
- The twinning of stores as a means of sharing and copying best practices was a resounding success.
- The Division was entrusted with the responsibility of training outlet personnel, which allowed it to focus on recognizing and meeting the needs of customers.

FINANCES

THE NUMBERS ARE CLEAR

DURING THE 2004-2005 FISCAL YEAR, THE SAQ IMPLEMENTED A SYSTEM FOR TRANSMITTING PERIODIC OPERATING EXPENSE BUDGET REPORTS ELECTRONICALLY. THIS LED TO A CONSIDERABLE IMPROVEMENT IN THE SPEED WITH WHICH THE FINANCE DIVISION CAN HELP THE EXECUTIVE MANAGEMENT IN ITS DECISIONS.

- Produced a major call for tenders dealing with banking affairs and another for the deployment of an electronic payment solution.
- Consequently signed an agreement with a specialized firm and a major financial institution for the processing of purchases made using a credit or debit card.
- Developed the first phase of a corporate cube, a concept referring to an excerpt from a large data bank which makes it easier to understand what is at stake.
- Conducted an analysis of the payment methods offered by liquor license holders (hotels and restaurants) that use the delivery service provided by the specialized centres in Montréal and Quebec City.
- Launched a payment server project for both call centres dedicated solely to these license holders.
- Produced major reports on the incidences of workplace conflicts and on inventory turnover.

LOGISTICS AND DISTRIBUTION
THE WALTZ OF THE WINES

OVER THE PAST FEW YEARS, THE LOGISTICS AND DISTRIBUTION DIVISION SET OUT TO DO THINGS RIGHT AND HAD TO WORK HARD TO ACHIEVE THIS GOAL IN THE BEST WAY POSSIBLE. TODAY, THE DIVISION'S TEAM HAS EVERY RIGHT TO SHOUT "MISSION ACCOMPLISHED!" BECAUSE PRODUCTIVITY ROSE BY NEARLY 7% IN 2004-2005.

- Efficiency increased by 17% in two years.
- The activities with the greatest potential for improvement were reviewed.
- A diagnostic tool for internal communications was created.
- A plan was produced which provides the Division's managers with an overall communication strategy that each can apply in his or her respective sector.
- Data entry in certain departments was eliminated thanks to the introduction of the integrated management system VSOP.
- A new, six-year agreement was signed with the Division's workers' union, resulting in improved cost control in operations and increased stability of personnel.
- The stationery store was repatriated to the Montréal Distribution Centre (MDC).
- As a result, expenses linked to the leasing of buildings were reduced.

MARKETING
ACQUIRE A TASTE FOR OUR ADVICE

A PROSPEROUS AND STIMULATING YEAR FOR THE MARKETING DEPARTMENT, WHICH HAS THE WIND IN ITS SAILS. THANKS TO THE INCREASED KNOWLEDGE OF ITS OUTLET CUSTOMERS AND THE SEGMENTATION OF THIS CLIENTELE INTO FOUR GROUPS REPRESENTING 90% OF THE SAQ'S REVENUES, MARKETING REWORKED ITS APPROACH, WHICH NOW, MORE THAN EVER, PLACES ITS TARGET MARKETS AT THE HEART OF EVERY DECISION IT MAKES.

- A marketing approach focusing on major themes was launched.
- Promotional packages were offered to producers, including the new circular, which is a key element.
- Themes were promoted in all our marketing vehicles (the media, point-of-sale advertising, in-store activities, circulars, magazines, etc.).
- A new magazine, *Tchin Tchin*, was designed, targeting primarily two customer segments, the Discoverers and the Hosts.
- Several focus groups were organized to shape the latest marketing tools.
- Study of another magazine set for release in 2006 and aimed at two other customer segments: the Passionate and the Connoisseurs.
- Client courses were given to 2 800 Quebecers by the Les Connaisseurs team.
- The major international *Sélections mondiales des vins* contest was held, in which a record 2 400 products from around the globe competed.

INFORMATION RESOURCES
ON THE MOVE

DESPITE THE ADDITION OF $4 MILLION IN EXPENSES, THE OPERATING BUDGET OF THE INFORMATION RESOURCES DIVISION (IRD) DROPPED FROM $40.4 MILLION IN 2004-2005 TO $33.7 MILLION IN 2005-2006, A DECREASE OF 16.6%. ACTUAL SPENDING BY THE DIVISION FOR THE FISCAL YEAR THAT JUST ENDED WAS LIMITED TO $34.9 MILLION. MANY PROCESS IMPROVEMENT INITIATIVES AND TIGHTER MANAGEMENT WERE TO THANK FOR THESE RESULTS. IT WAS A YEAR OF SUCCESSES FOR THE IRD.

- The information systems, such as the one supporting the *Promopunch* transactional site aimed at representation agencies were improved.
- A new electronic payment solution was implemented jointly by Finance Brand and Legal Services.
- Portable optical readers were introduced in the stores as part of a project carried out in conjunction with the Sales Network Operations Division. The project won a prestigious award at Toronto's *Canadian Project Excellence Awards and Conference*.
- The final stabilization phase of VSOP, the integrated management system, was carried out.
- With the help of the Logistics and Distribution Division, the distribution centre management software, *Marc*™, was upgraded.
- Telephony and the Business Projects Bureau were integrated into the Division.

GENERAL SECRETARIAT AND LEGAL SERVICES
SENTINELS AND GUARDIAN ANGELS

THIS DIVISION BRINGS TOGETHER SEVERAL DEPARTMENTS WITH VERY DIFFERENT MANDATES, BUT WHICH SHARE A COMMON MISSION, WATCHING OVER THE COMPANY AS A WHOLE, LIKE GUARDIAN ANGELS. AMONG THE TEAMS THAT OFTEN WORK IN THE SHADOWS, BUT WHOSE IMPORTANCE IS UNDENIABLE, ARE THE DEPARTMENTS OF SEIZURES, INTERNAL AUDITING, ACCESS TO INFORMATION AND DOCUMENT MANAGEMENT. THEY ARE OUR SENTINELS.

- Legal Services negotiated and drafted a major electronic payment solution.
- Our legal specialists put together a program designed to support small-scale producers of alcoholic beverages.
- The Customer Service team handled thousands of customer contacts either by phone or by E-mail.
- They provided valuable, clear and precise information to external client groups, as well as support to the network of outlets.
- A new, cutting-edge laboratory was built and set up.
- The lab's scientific team was newly certified under Standard 17025 by the Quebec Standards Bureau.
- The laboratory team analyzed some 42 000 samples.
- They also took part in 17 international inter-laboratory studies which included 284 different experiments related to alcoholic beverages, with a success rate of 99%.

HUMAN RESOURCES

A YEAR OF GREAT CHALLENGES

IN 2004-2005, THE HUMAN RESOURCES DIVISION ENSURED PRIMARILY THAT A REASONABLE QUALITY OF CUSTOMER SERVICE WAS MAINTAINED DESPITE THE LABOUR CONFLICT THAT AFFECTED OUTLET BUSINESS FOR 12 WEEKS. ONE OF THE DIVISION'S GREATEST CONCERNS WAS THAT EVERYONE SHOULD GET OFF TO A POSITIVE NEW START TO BE ABLE TO CONTRIBUTE TO THE GROWTH OF THE COMPANY WHILE PURSUING PERSONAL GROWTH.

- Collective agreements were negotiated and signed with two unions, the *Syndicat des employé(e)s de magasins et de bureaux* (SEMB-CSN) and the Canadian Union of Public Employees, local 3535 (STSAQ).
- The company's organizational values and skill sets were updated.
- The Division was restructured, and the Workplace Relations and Workplace Safety departments were merged.
- The Internal Communications Department was added to the Division's structure.
- The SAQ's *Institut de formation* was dismantled and the responsibility for training returned to the individual business units.
- For the 2005-2006 fiscal year, a new salary scale was established for management and non-unionized employees.

WORK FORCE*
AT MARCH 26, 2005
(by sex and employee group)

	MALE	FEMALE	TOTAL
Upper managers	97	38	135
Middle managers	54	29	83
Outlet managers	311	77	388
Non-unionized personnel	9	52	61
SPTP-SAQ	263	277	540
SEMB-CSN *(offices)*	40	68	108
SEMB-CSN *(outlets)*	792	360	1,152
SEMB-CSN *(outlets – part-time)*	1,185	1,524	2,709
CUPE SL3535 (STSAQ)	586	38	624
TOTAL	**3,337**	**2,463**	**5,800**

SPTP-SAQ: Syndicat du personnel technique et professionnel (Union of technical and professional employees)
SEMB-CSN: Syndicat des employé(e)s de magasins et de bureaux (Union of outlet and office employees)
CUPE SL3535 (STSAQ): Canadian Union of Public Employees, Local 3535

* *The work force listed is complemented by 120 part-time office or temporary employees working in the administrative departments. Also, 268 temporary and non-permanent regular employees work during peak periods or as replacements for permanent employees at the warehouses.*

TRENDS

THE NEW WORLD EMERGES

At times fruity, at times full-bodied, dark or carmine, red wines are as popular as ever. In fact, in 2004-2005, red wines accounted for 77% of table wine sales made through our network of outlets.

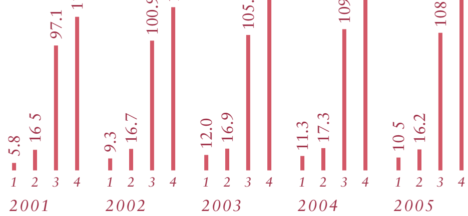
Argentinean red wines made particular strides, seeing their market share rise from 3% in 2003-2004 to 4.5% in 2004-2005. Some of the great wines from the land of the tango and the gauchos are currently the toast of Quebec!

At the same time, wines from the other side of the southern hemisphere—Australia to be specific—are gracing those same tables, capturing a 7% share of the market. In short, superior-quality wines at very competitive prices.

The relatively new-found fame of New World wines is no threat to the dominance of wines from countries with a long history of wine making, like France, which still enjoys a 41.5% share of the red wine market, and Italy, with 23.7% of this same market. The progress made by products from the so-called New World is still worth noting and confirms the interest of Quebecers from all walks of life in discovering new wines. They are a curious and eclectic lot, which is clearly reflected by current consumption trends.

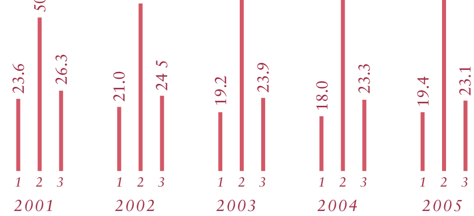
Even so, the consumption of alcohol in Quebec remains modest and rather stable. According to the latest figures from Statistics Canada, overall consumption of absolute alcohol is 7.8 litres, which puts Quebec in 7th place, tied with Ontario and British Columbia. Better still, Quebecers' alcohol consumption is more evenly distributed than elsewhere in Canada, painting a very positive picture of their responsible drinking behaviour.

SALES OF WINE, SPIRITS AND OTHER PRODUCTS
OUTLETS, SPECIALIZED CENTRES AND WHOLESALE GROCERS
(in millions of litres)



1. *Imported and microbrewery beers, ciders and coolers*
2. *Spirits*
3. *Wines*
4. *Total*

EVOLUTION OF THE WINE MARKET, BY COUNTRY OF ORIGIN
(as a percentage of the total sales volume)



1. *Wines bottled by the* Maison des Futailles *SEC*
2. *Imported wines bottled in their country of origin*
3. *Wines bottled by other Quebec producers*

PRODUCTS
SALES BY PRODUCT CATEGORY

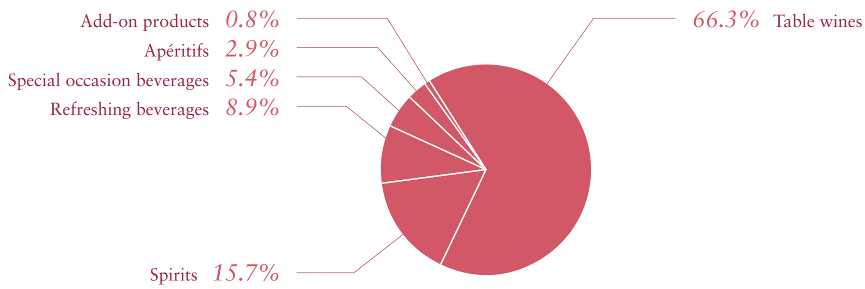
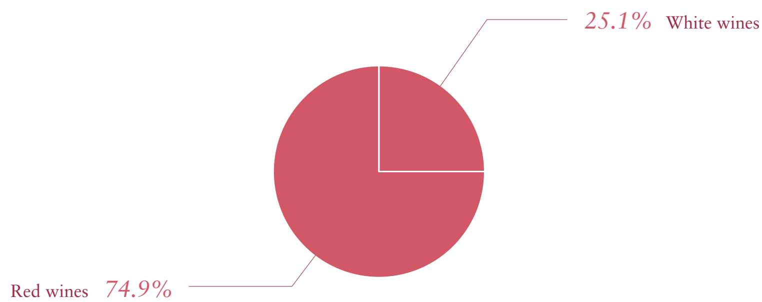
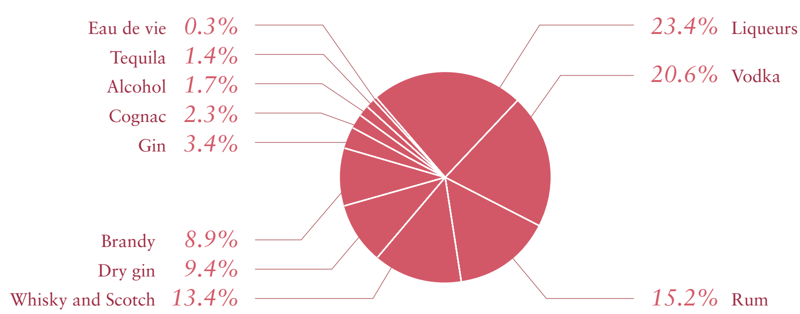


TABLE WINES
SALES OF TABLE WINES, BY CATEGORY



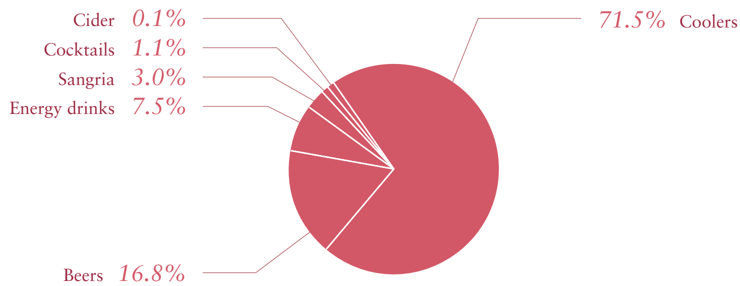
SPIRITS
SALES OF SPIRITS, BY CATEGORY



All graphs are stated as percentages of sales volume.

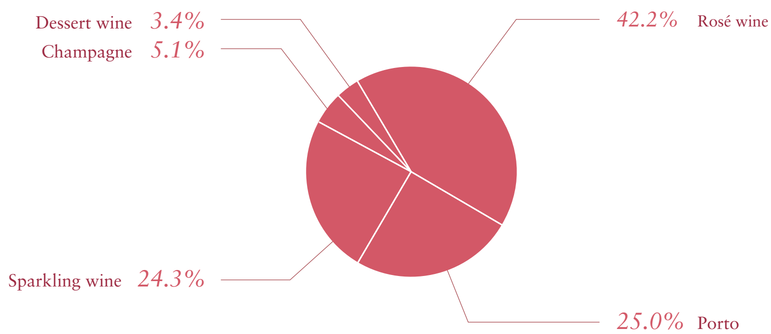
REFRESHING BEVERAGES

SALES OF REFRESHING BEVERAGES, BY PRODUCT CATEGORY



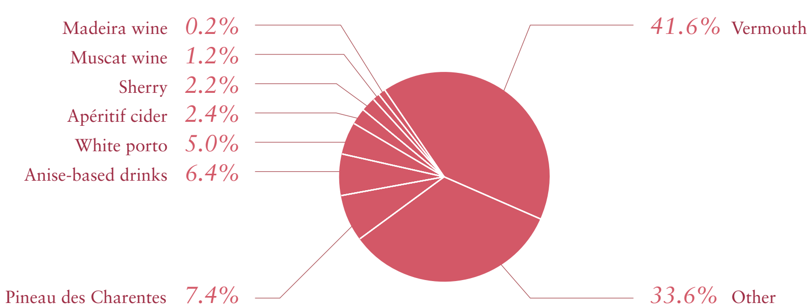
SPECIAL OCCASION BEVERAGES

SALES OF SPECIAL OCCASION BEVERAGES, BY PRODUCT CATEGORY



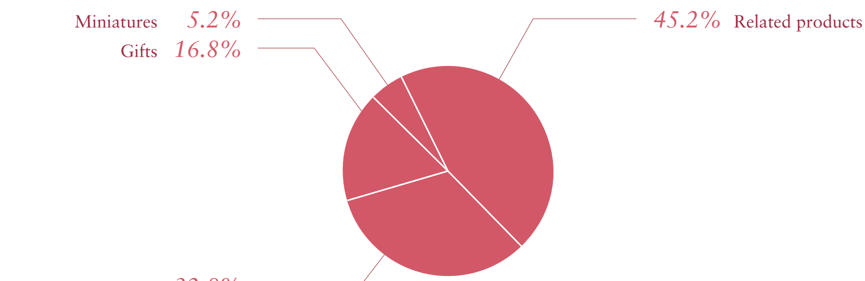
APÉRITIFS

SALES OF APÉRITIFS, BY CATEGORY

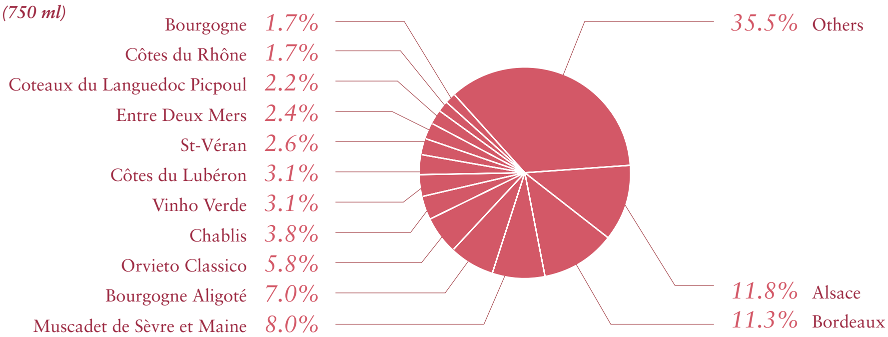


All graphs are stated as percentages of sales volume.

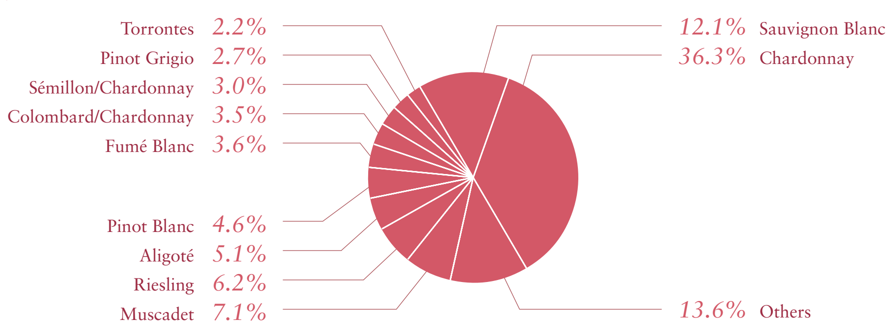
ADD-ON PRODUCTS
SALES ADD-ON PRODUCTS, BY CATEGORY



THE MOST POPULAR APPELLATIONS D'ORIGINE CONTRÔLÉE *(AOC)*
WHITE TABLE WINES (750 ml)



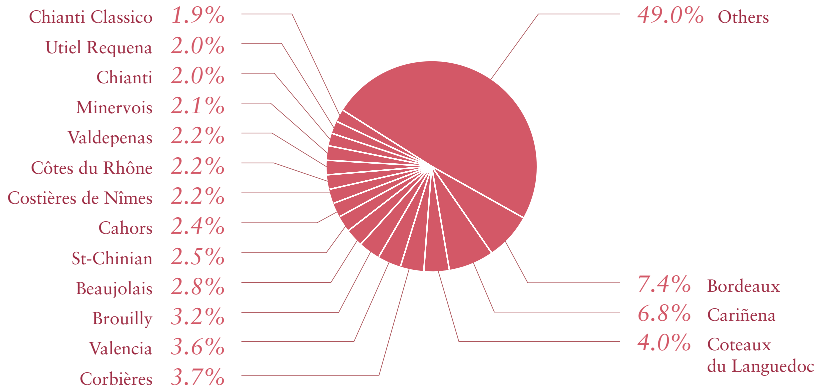
THE MOST POPULAR GRAPE VARIETIES – CCW *
WHITE TABLE WINES (750 ml)



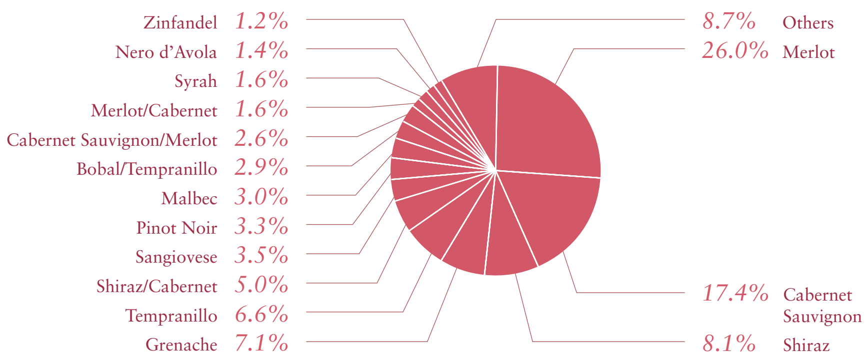
All graphs are stated in percentages of sales volume.

** CCW: Commonly consumed wines*

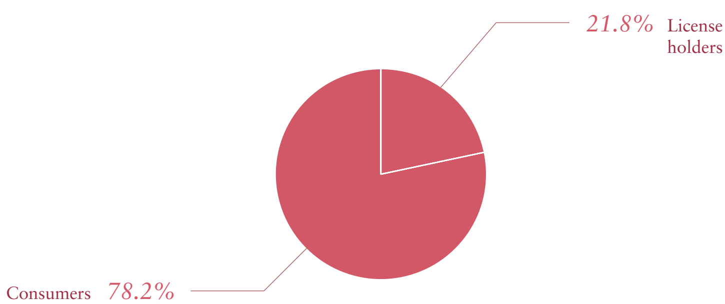
THE MOST POPULAR
APPELLATIONS D'ORIGINE CONTRÔLÉE *(AOC)*
RED TABLE WINES (750 ml)



THE MOST POPULAR GRAPE VARIETIES – CCW*
RED TABLE WINES (750 ml)



CLIENTS
SALES, BY CLIENT TYPE

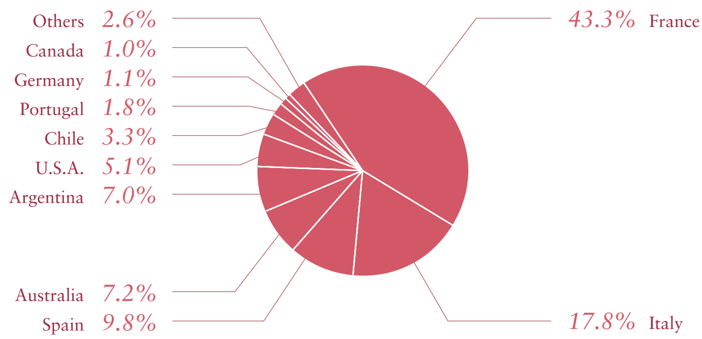


All graphs are stated as percentages of sales volume.

** CCW: Commonly consumed wines*

COUNTRY OF ORIGIN

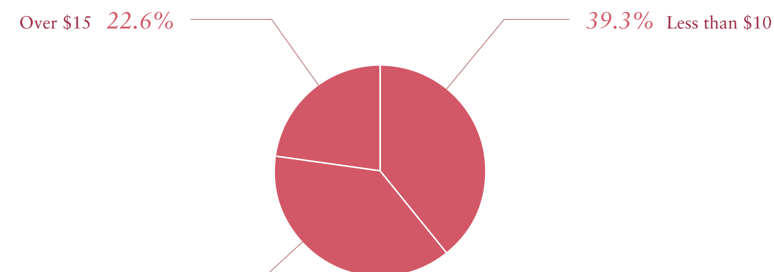
SALES OF TABLE WINES, BY COUNTRY OF ORIGIN (750 ml)



This graph is stated as percentages of sales volumes.

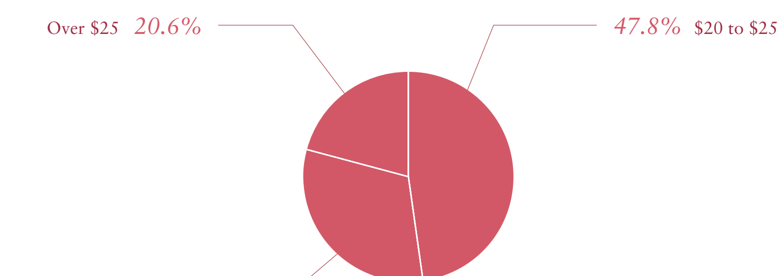
PRICE OF TABLE WINES

SALES OF TABLE WINES, BY PRICE
All sizes (based on 750 ml)



PRICE OF SPIRITS

SALES OF SPIRITS, BY PRICE
All sizes (based on 750 ml)



CONSUMPTION OF WINE, BEER AND SPIRITS

CANADIAN CONSUMPTION *

2002-2003 fiscal year
(per person aged 15 or over)

	WINE (IN LITRES)	RANK	BEER (IN LITRES)	RANK	SPIRITS (IN LITRES)	RANK	TOTAL (IN LITRES OF ABSOLUTE ALCOHOL)	RANK	VALUE (IN DOLLARS)	RANK
Yukon Territory	18.3	1	145.1	1	13.8	1	12.7	1	1,003.0	1
Northwest Territories	8.1	7	85.1	5	10.8	2	9.2	2	862.0	2
Alberta	13.9	4	89.8	4	7.6	9	8.6	3	595.9	6
Newfoundland & Labrador	6.5	11	93.3	3	7.3	10	8.0	4	669.0	3
British Columbia	14.5	3	76.6	12	9.0	7	7.8	5	603.0	5
Ontario	11.8	5	84.3	6	8.8	8	7.8	6	584.2	7
Quebec	**17.4**	**2**	**93.9**	**2**	**4.1**	**12**	**7.8**	**7**	**665.0**	**4**
Prince Edward Island	7.4	10	78.9	9	9.7	3	7.5	8	549.7	9
Nova Scotia	8.0	8	79.5	8	9.1	5	7.5	9	579.8	8
Manitoba	8.0	9	76.8	10	9.4	4	7.4	10	506.3	11
Saskatchewan	5.0	12	76.8	11	9.1	6	7.0	11	495.0	12
New Brunswick	8.4	6	79.8	7	6.8	11	6.7	12	525.5	10
Nunavut	DATA UNAVAILABLE									
Canada	13.1		85.6		7.5		7.8		602.4	

CONSUMPTION IN QUEBEC *

1998-1999 to 2002-2003 fiscal years
(per person aged 15 or over)

	2003	2002	2001	2000	1999
WINE					
in litres	17.4	16.7	16.3	15.3	14.2
in dollars	215.5	194.5	181.8	164.2	143
BEER					
in litres	93.9	94.0	93.3	95.3	94.4
in dollars	368.7	336.0	318.2	327.6	322.1
SPIRITS					
in litres	4.1	3.6	2.9	2.7	2.6
in dollars	80.8	75.3	69.8	64.8	62.5
TOTAL [1]					
in litres	115.4	114.2	112.6	113.3	111.1
in dollars	665.0	605.8	569.7	556.6	527.7

* *Source: Statistics Canada*

[1] *Due to the rounding off of figures, the data found under "total" may not accurately reflect the sum of the individual amounts.*

FINANCIAL SECTION

ACCOUNTABILITY

The need for transparency with respect to the business plans and earnings of government agencies and public corporations has led the SAQ to communicate its projections for the coming fiscal year. Consequently, this annual report contains a section entitled Accountability, which describes the SAQ's earnings, achievements and upcoming investments.

The SAQ is a public corporation whose mission is to sell alcoholic beverages, which involves importing, warehousing, distributing, marketing and selling over 7 633 products. Its slogan is to be an integral part of Quebecers' daily lives, and its mission is to serve people from all parts of the province by offering them a wide variety of quality alcoholic beverages.

OPERATING RESULTS

Fiscal years ended the last Saturday in March
(in millions of dollars)

	2006	2005		2004		2003		2002	
	FORECAST	ACTUAL[1]	FORECAST	ACTUAL	FORECAST	ACTUAL	FORECAST	ACTUAL	FORECAST
Gross sales	**2,849.2**	2,544.7	2,697.0	2,653.0	2,568.0	2,413.5	2,340.0	2,183.4	2,115.0
Net sales	**2,253.9**	1,986.9	2,115.4	2,070.1	1,991.7	1,870.0	1,821.9	1,692.0	1,649.7
Gross earnings	**1,158.8**	995.5	1,077.8	1,016.9	1,003.2	934.3	940.3	845.4	838.9
Operating expenses	**476.7**	449.7	476.8	446.1	453.0	393.9	420.6	356.7	343.9
Net earnings*	**682.1**	545.8	601.0	570.8	550.2	540.4	519.7	488.7	495.0

** The net earnings forecasts are $25 million higher than those contained in the 2004-2009 Strategic Plan.*

[1] Earnings for the fiscal year were influenced by a labour conflict.

To conform with the basis of presentation adopted in the current year, certain figures previously reported have been reclassified.

CAPITAL EXPENDITURES

Fiscal years ended the last Saturday in March
(in thousands of dollars)

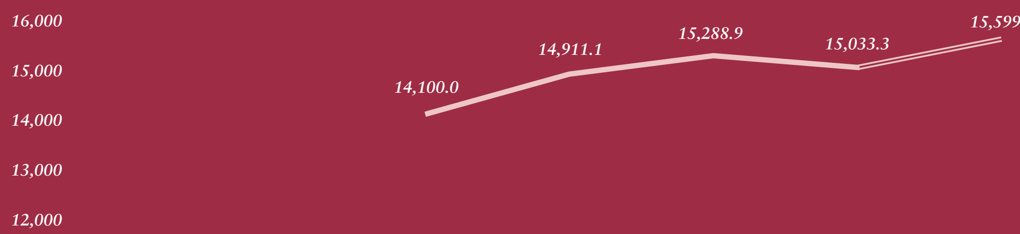
	2006	2005	2004	2003	2002
	FORECAST	ACTUAL	ACTUAL	ACTUAL	ACTUAL
Capital projects – Distribution and administrative centres	**13,436.5**	10,007.7	11,167.7	43,583.0	13,247.0
Reorganization of the outlet network	**8,503.0**	7,271.1	10,570.2	18,596.1	10,786.3
Development of information systems	**18,734.4**	10,581.4	30,588.6	44,127.5	42,897.0
Rolling stock and mobile equipment	**1,113.0**	2,776.6	3,005.5	2,468.7	2,243.2
Specific equipment	**2,528.7**	1,546.2	2,077.2	1,923.7	2,840.6
Total	**44,315.6**	32,183.0	57,409.2	110,699.0	72,014.1

To conform with the basis of presentation adopted in the current year, certain figures previously reported have been reclassified.

The following three tables present the 2005-2006 forecasts for certain aspects of the SAQ's business operations.

SALES GROWTH, BY VOLUME *

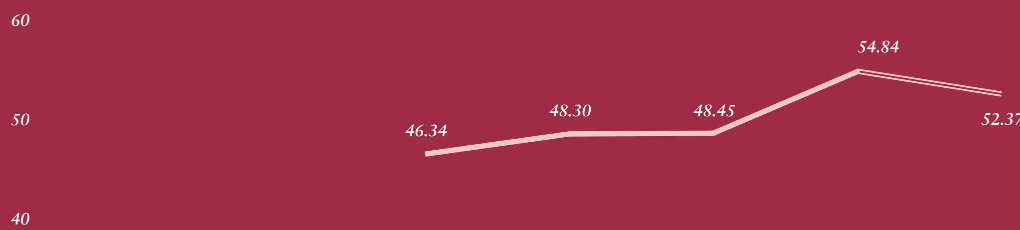
(in thousands of cases)



	2002 *ACTUAL*	2003 *ACTUAL*	2004 *ACTUAL*	2005 *ACTUAL*	**2006** *FORECAST*
Sales volume *(in thousands of cases)*	14,100.0	14,911.1	15,288.9	15,033.3	**15,599.0**
Variation *(in thousands of cases)*	833.0	811.1	377.8	(255.6)	**565.7**
Variation *(%)*	6.3	5.8	2.5	(1.7)	**3.8**

GROWTH OF THE AVERAGE PURCHASE **

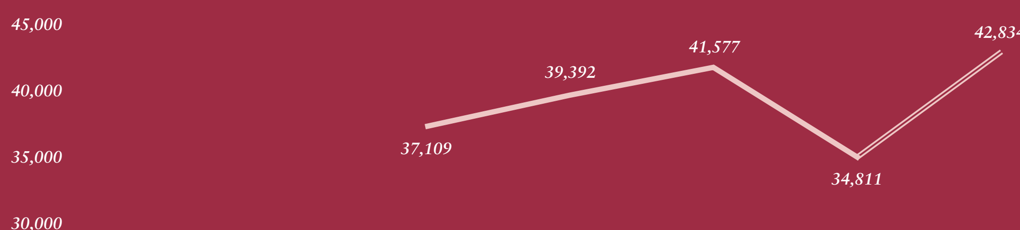
(in dollars)



	2002 *ACTUAL*	2003 *ACTUAL*	2004 *ACTUAL*	2005 *ACTUAL*	**2006** *FORECAST*
Average purchase *(in dollars)*	46.34	48.30	48.45	54.84	**52.37**
Variation *(%)*	1.3	4.2	0.3	13.2	**(4.5)**

GROWTH OF CUSTOMER TRAFFIC

(in thousands of transactions)



	2002 *ACTUAL*	2003 *ACTUAL*	2004 *ACTUAL*	2005 *ACTUAL*	**2006** *FORECAST*
Number of transactions	37,109	39,392	41,577	34,811	**42,834**
Variation *(%)*	9.0	6.2	5.5	(16.3)	**23.0**

* *The growth in sales is also demonstrated by the volume of cases sold. These cases are standard units of measure consisting of twelve (12) 750 ml bottles. Sales by volume exclude transactions between the SAQ and brewers and beer distributors.*

** *NOTE: The gross sales figures used to calculate the average purchase include the sales of outlets and specialized centres. To conform with the basis of presentation adopted in the current year, certain figures previously reported have been reclassified.*

FINANCIAL REVIEW

During the 2004-2005 fiscal year, the SAQ launched the initiatives contained in its 2004-2009 Strategic Plan. The plan was a simple one: make the SAQ an increasingly successful business, one that evokes not only pride in the hearts of Quebecers and the company's employees, but also the enthusiasm of its customers.

However, the SAQ went through a rough period during the fiscal year. A labour conflict between the company and its outlet and office employees disrupted the SAQ's activities from November 19, 2004, until February 11, 2005. The SAQ needed to find a solution to its problems, while continuing to manage its daily activities effectively. The signing of a collective agreement, not only with its outlet and office employees, but also with its warehouse employees, brought an end to the conflict and provided the SAQ with a stable operating environment. As a result, the company and its employees can now look to the future and work as a team to reach the company's goals.

Gross sales for the 2004-2005 fiscal year, excluding transactions with brewers and beer distributors, amounted to $2.3377 billion. Compared with the previous year's gross sales figure of $2.3728 billion, this represented a decline of $35.1 million, or 1.5%. Consequently, earnings dropped to $545.8 million from $570.8 million in 2003-2004, a net decline of $25 million or 4.4%. Moreover, the amounts paid in 2004-2005 to both levels of government amounted to $1.1432 billion, compared with $1.1922 billion in the previous year, a drop of $49 million or 4.1%.

Consolidated financial statements

The SAQ's interest in *Maison des Futailles, SEC* is recognized using the proportionate consolidation method.

Also, during the 2004-2005 fiscal year, the SAQ acquired an additional interest of 5% in *Société d'investissement M.-S., SEC*, bringing its total interest in this joint venture to 50%. Interest in this company was recognized on an equity basis up to the acquisition date of October 31, 2004, after which, interest was recognized using the proportionate consolidation method.

Consequently, the consolidated financial statements analyzed by management include the SAQ accounts and its proportionate ownership of the assets, liabilities, products and expenses of *Maison des Futailles, SEC* and *Société d'investissement M.-S., SEC*. For the 2004-2005 fiscal year, the SAQ's proportionate ownership of joint venture earnings was $3.6 million.

For more information on the SAQ's interest in joint ventures, please refer to the Notes to the Consolidated Financial Statements.

Net sales

Net sales for the 2004-2005 fiscal year, excluding transactions with brewers and beer distributors, reached $1.8053 billion, compared with $1.8316 billion for the 2003-2004 fiscal year, a decline of $26.3 million, or 1.4%, over the previous year. The sales volume decreased from last year's level of 137.6 million litres to 135.3 million litres, down 1.7%. This decline is due both to a 7.2 million-litre loss in sales by the network of outlets and specialized centres, which were directly affected by the labour conflict, and to an increase of 4.9 million litres sold through wholesale grocers.

By network

Net sales through the network of outlets and specialized centres diminished by $75.7 million, or 4.8%, over the 2003-2004 fiscal year, totalling $1.506 billion. A strong first half compensated for the significant drop seen during the third quarter, which was seriously affected by the labour conflict.

Moreover, net sales through the wholesale grocer network were strong, totalling $299.3 million for the 2004-2005 fiscal year, compared with $249.9 million for the previous year, an increase of $49.4 million, or 19.8%.

Also, net sales to brewers and beer distributors totalled $181.6 million for the 2004-2005 fiscal year, an increase of $56.9 million, or 23.9%, over the previous year. Sales during the 2003-2004 fiscal year increased sharply, the result of a labour conflict that disrupted operations at one of Quebec's major breweries.

By product category

The only category that saw an increase in 2004-2005 was the wine category, where sales rose by $7.4 million, an increase of 0.6% over the previous year. Net sales of spirits dropped by 5.5%, from $427.5 million to $403.8 million. Sales for the category consisting of imported and microbrewery beers, ciders and coolers also declined by $10 million in 2004-2005. The sales volume, excluding transactions with brewers and beer distributors, fell by 2.3 million litres, or 1.7%, in 2004-2005, closing the year at 135.3 million litres. Other than the wine category, which remained relatively stable, each of the other product categories experienced a decline in sales volume during the 2004-2005 fiscal year.

Government income

As a public corporation, the SAQ hands over substantial sums to both levels of government in the form of taxes and duties; it also pays a dividend to the Government of Quebec. In 2004-2005, the amounts paid to the governments of Quebec and Canada amounted to $1.1432 billion, compared with $1.1922 billion the previous year, representing a drop of $49 million or 4.1%.

In total, the SAQ paid $857.9 million to the Government of Quebec, compared with $895.8 million the previous year, representing a downward variation of $37.9 million, or 4.2%. This decrease is clearly due to a dividend that was $25 million lower than the previous year, the result not only of a drop in net earnings linked to the labour conflict, but also to the decrease in provincial sales tax collected because of lower sales for the year, once again due to the labour conflict. The federal government's share also dropped by $11.1 million, to a total of $285.3 million, compared with $296.4 million for the previous year. This variation was due, for the most part, to the decrease in the goods and services tax collected as a result of the drop in sales for the period.

Government income from operations

(in millions of dollars)	**2005**	2004
GOVERNMENT OF QUEBEC		
Dividend	545.0	570.0
Provincial sales tax	169.1	179.5
Specific tax	98.7	100.9
License holders' fees [1]	12.1	25.8
Specific license holders' tax [1]	33.0	19.6
	857.9	**895.8**
GOVERNMENT OF CANADA		
Excise tax and customs duties	137.7	139.7
Goods and services tax	147.6	156.7
	285.3	**296.4**
AMOUNTS PAID DIRECTLY TO BOTH LEVELS OF GOVERNMENT BY THE SOCIÉTÉ DES ALCOOLS DU QUÉBEC	**1,143 2**	**1,192 2**

[1] *The license holders' fee was replaced on September 1, 2004, by a specific tax pursuant to the changes made to the Licenses Act and the Act respecting the Québec sales tax.*

Cost of products sold and gross margin

For the SAQ, the cost of products sold includes the products' acquisition cost, the cost of shipping by sea or land to the distribution centres, as well as the associated federal taxes and duties.

The cost of products sold in 2004-2005 was $991.4 million, compared with $1.532 billion for the 2003-2004 fiscal year, resulting in gross earnings of $995.5 million, compared with $1.169 billion the previous year. The gross margin expressed as net sales increased to 50.1% from the previous year's 49.1% margin. Excluding the transactions concluded with brewers and beer distributors, which generate no gross earnings, the gross margin was 55.1%, compared with 55.5% the previous year.

Operating expenses

Operating expenses for the 2004-2005 fiscal year, including finance charges and fixed asset depreciation costs, were $449.7 million, compared with $446.1 million for the previous year, an increase of $3.6 million, or 0.8%.

Higher fixed asset costs combined with increased building occupation expenses and other operating costs contributed to a $16.1 million rise in overall operating costs. However, this was compensated for in part by a $12.5 million reduction in operating costs attributed to the labour conflict that occurred during the fiscal year.

Salaries and benefits

(in millions of dollars)	**2005**	2004
COMPENSATION		
Salaries	192.4	218.2
Overtime	14.4	10.0
	206.8	**228 2**
BENEFITS	38.4	36.9
	245 2	**265.1**

Investments in fixed assets

The SAQ invested $32.2 million in fixed assets during the 2004-2005 fiscal year. Over $10.5 million was invested in information assets, including $5 million for optical readers and a telephone system. The SAQ also attributed $10 million toward various real estate projects, including the relocation of its laboratory at a cost of nearly $5 million. The company also injected close to $7.3 million in the reorganization of its network of outlets, and invested in the acquisition of rolling stock and specific equipment.

Financial situation

The SAQ's total assets as at March 26, 2005, were $682.8 million, a decrease of $59.8 million over the 2003-2004 figure. Fixed assets and inventory account for 43.3% and 36.6% of the balance sheet value, respectively.

The value of fixed assets was $295.4 million, a decline of $18.3 million, or 5.8%, compared with the previous fiscal year. The value of inventory declined by $41 million, or 14.1%.

The value of current liabilities diminished by $55.8 million. This variation is due primarily to a drop of nearly $100 million in bank indebtedness, which was mitigated by a $56.7 million increase in accounts payable.

Cash flow

In 2004-2005, the SAQ's activities generated net liquid assets of $92.7 million. The cash situation changed considerably, from a cash deficiency of $46.4 million in 2003-2004 to $46.3 million in cash assets in 2004-2005.

For the fiscal year ended March 26, 2005, cash flow linked to operations increased by $204.2 million. This increase is due to the creation of liquidity in the amount of $227.2 million from non-cash elements of the working capital. This variation was the result of an increase in accounts payable, offset by decreases in both receivables and the value of inventory.

Investment activities required cash assets of $30.9 million, compared with $54.6 million during the previous fiscal year. This variation is due primarily to a $25.2 million decrease in fixed asset acquisitions.

Moreover, $603.9 million was committed to financing activities, including dividend payments, compared with $519.2 million for the 2003-2004 fiscal year.

Sources of financing

The SAQ assumes the sole responsibility for financing its operations and must turn to the money market for financing. Consequently, the SAQ is authorized by the Government of Quebec to contract term loans with terms of less than one year, as long as the sum total of its loans does not exceed $400 million.

The average loan balance was $336.4 million, and the highest amount borrowed was $351.5 million. At the end of the fiscal year, the balance sheet showed a term loan balance of $267.9 million, compared with $312.5 million as at March 27, 2004.

The financing of the company's activities on the money markets generated loan interest of close to $7.9 million, a decrease compared with the previous fiscal year during which the carrying charges amounted to nearly $8.6 million. It is worth noting, however, that the average interest rate in 2004-2005 was 2.3%, compared with 2.8% in 2003-2004.

Risk and uncertainty

The SAQ was faced with various claims and lawsuits, primarily for damages. For more on this subject, refer to the Note to the Consolidated Financial Statements, specifically the note entitled "Contingencies and Commitments".

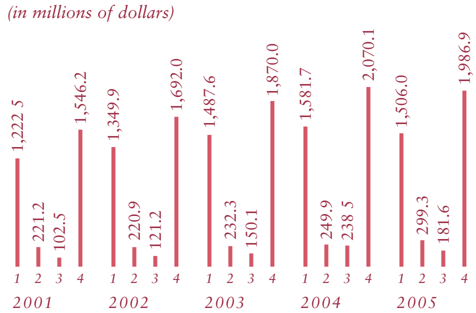
Outlook

Admittedly, the SAQ went through a rough period during the 2004-2005 fiscal year, one from which the company emerged stronger. With a stable labour environment, a revised organizational structure that simplifies the decision-making process and a new marketing approach, the SAQ is looking toward the next fiscal year with confidence and enthusiasm. Thanks to its work groups, the SAQ is ready to reach the primary goal of its strategic plan. It is determined to make the customer the focus of all its business decisions, while improving its financial and operational performance to evoke feelings of pride in the hearts of Quebecers and of its employees.

NET SALES BY PRODUCT CATEGORY
(in millions of dollars)

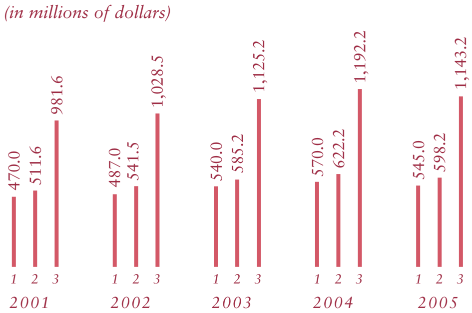
1. *Wines*
2. *Spirits*
3. *Imported and microbrewery beers, ciders and coolers*
4. *Beers sold to brewers and beer distributors*
5. *Total*

NET SALES BY SALES NETWORK
(in millions of dollars)



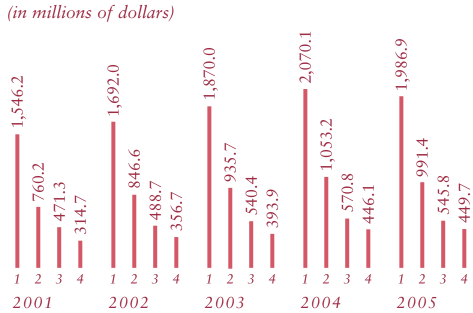
1. *Outlets and specialized centres*
2. *Wholesale grocers*
3. *Brewers and beer distributors*
4. *Total*

GOVERNMENT INCOME FROM OPERATIONS
(in millions of dollars)



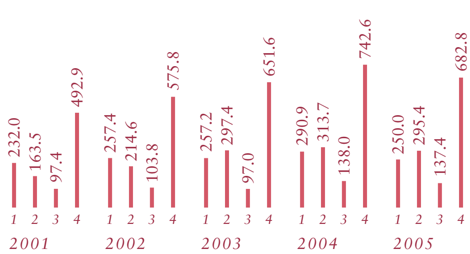
1. *Dividend*
2. *Taxes and duties paid to the governments*
3. *Total*

OPERATING RESULTS
(in millions of dollars)



1. *Net sales*
2. *Cost of products sold*
3. *Net earnings*
4. *Operating expenses*

ASSET MIX
(in millions of dollars)

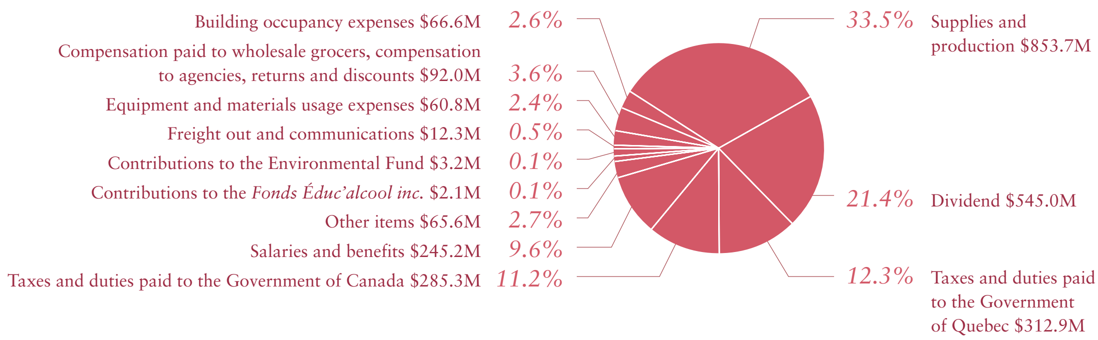


1. *Inventory*
2. *Fixed assets*
3. *Other assets*
4. *Total*

To conform with the basis of presentation adopted in the current year, certain figures previously reported have been reclassified.

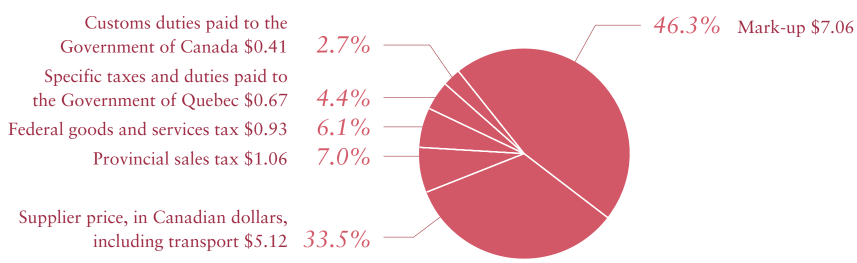
ITEMS CONSTITUTING GROSS SALES IN THE 2004-2005 FISCAL YEAR

(in millions of dollars and as a percentage)
Total gross sales $2,544.7M



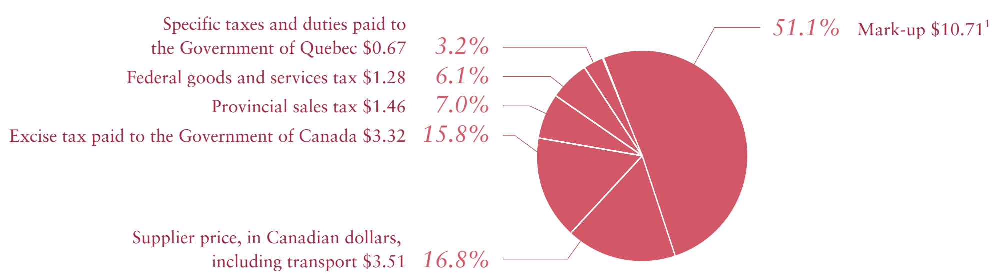
BREAKDOWN OF THE SELLING PRICE

***IMPORTED WINE** (750 ml)*
(in dollars and as a percentage)
Retail price: $15.25 per bottle
March 26, 2005



BREAKDOWN OF THE SELLING PRICE

***LOCAL SPIRITS** (750 ml)*
(in dollars and as a percentage)
Retail price: $20.95 per bottle
March 26, 2005



[1] *The mark-up covers selling, marketing, distribution and administrative expenses, as well as a substantial dividend paid to the* ministère des Finances.

MANAGEMENT REPORT

The consolidated financial statements provided below were prepared by the management of the Société des alcools du Québec and approved by its Board of Directors. Management is responsible for the data and statements contained in these consolidated financial statements and in the other sections of the annual report. The consolidated financial statements were prepared in accordance with the agreements and procedures established by the management and with Canadian generally accepted accounting principles.

Within the framework of its responsibilities, the management of the Société des alcools du Québec maintains an internal control system designed to provide reasonable assurance that the company's assets are suitably protected, that all operations taking place are duly authorized by management, and that the accounting records constitute a reliable basis for the preparation of accurate and timely financial statements. Moreover, the Internal Control Department regularly reviews the accounting procedures and management systems. Its findings and recommendations are then provided to the management, which acts accordingly.

The Société des alcools du Québec's Board of Directors, all of whose members, except for the Chief Executive Officer, are outside directors, is responsible for ensuring that management fulfils its obligations with respect to the preparation of financial statements and to the financial control of company operations. The Board also studies the reports on accounting policies and methodologies, as well as on the internal control systems.

The consolidated financial statements were audited by the firm Raymond Chabot Grant Thornton, Chartered Accountants, in accordance with Canadian generally accepted auditing standards. Their responsibility is to express a professional opinion as to the fairness of the financial statements. The auditor's report, shown opposite, specifies the extent of their audit and presents their opinion on these financial statements.

In management's opinion, these financial statements take into account, within reasonable limits, all important elements and data available as of May 11, 2005.

SYLVAIN TOUTANT
PRESIDENT AND CHIEF EXECUTIVE OFFICER

RICHARD GENEST
VICE-PRESIDENT AND
CHIEF FINANCIAL OFFICER

AUDITOR'S REPORT

MICHEL AUDET
Minister of Finance
Société des alcools du Québec shareholder

We have verified the consolidated balance sheet of the SOCIÉTÉ DES ALCOOLS DU QUÉBEC as at March 26, 2005, and the consolidated statements of earnings, retained earnings and cash flows for the fiscal year ended on the above date. These financial statements are the responsibility of the SAQ's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was carried out in accordance with Canadian generally accepted auditing principles, which require that we plan and perform an audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the financial statement.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Société des alcools du Québec as at March 26, 2005, and the results of its operations and its cash flows for the year ended on the above date, in accordance with Canadian generally accepted accounting principles. As prescribed by the Auditor General Act (R.S.Q. c. V-5.01), we hereby declare that, in our opinion, these principles were applied in the same manner as the previous fiscal year.

Raymond Chabot Grant Thornton S.E.N.C.R.L.

RAYMOND CHABOT GRANT THORNTON SENCRL
CHARTERED ACCOUNTANTS
MONTRÉAL, MAY 11, 2005

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Fiscal year ended March 26, 2005
(in thousands of dollars)

	2005	2004
GROSS SALES (note 6)	**$ 2,544,715**	$2,653,024
Taxes, duties, discounts and other (note 6)	**557,811**	582,948
NET SALES (note 6)	**1,986,904**	2,070,076
OPERATING EXPENSES		
Cost of products sold (note 6)	**991,397**	1,053,159
Selling and marketing, distribution and administrative expenses	**392,630**	396,008
	1,384,027	1,449,167
EARNINGS BEFORE FINANCING EXPENSES, DEPRECIATION, OTHER INCOME (EXPENSE) AND INCOME TAX EXPENSE	**602,877**	620,909
FINANCING EXPENSES AND DEPRECIATION		
Financing expenses (note 7)	**7,798**	8,301
Depreciation of fixed assets	**48,444**	40,251
Depreciation of the building rented under a capital lease	**407**	407
Depreciation of other assets	**245**	245
	56,894	49,204
EARNINGS BEFORE OTHER INCOME (EXPENSE) AND INCOME TAX EXPENSE	**545,983**	571,705
OTHER INCOME (EXPENSE)		
Share in the earnings of a company subject to significant influence	**(462)**	(1,188)
Amortization of the deferred gain on the disposal of assets to a joint venture	**270**	270
Minority interest in the earnings of the subsidiary of a joint venture	**(8)**	–
	(200)	(918)
EARNINGS BEFORE INCOME TAX EXPENSE	**545,783**	570,787
INCOME TAX EXPENSE		
Current	**18**	–
Future	**14**	–
	32	–
NET EARNINGS	**545,751**	570,787
RETAINED EARNINGS AT BEGINNING OF YEAR	**4,860**	4,073
DIVIDEND	**(545,000)**	(570,000)
RETAINED EARNINGS AT END OF YEAR	**$ 5,611**	$ 4,860

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

March 26, 2005
(in thousands of dollars)

	2005	2004
ASSETS		
CURRENT ASSETS		
Cash and short-term investments (note 20)	$ 46,282	$ 8,460
Accounts receivable (note 8)	59,219	99,772
Inventory (note 9)	249,967	290,941
Prepaid expenses	16,772	13,493
	372,240	412,666
Debentures, 8.66%, maturing July 1, 2009	2,000	2,500
Interest in a company subject to significant influence	–	1,698
Fixed assets (note 10)	290,472	308,382
Building rented under a capital lease (note 11)	4,884	5,291
Other assets (note 12)	13,235	12,062
	$ 682,831	$ 742,599
LIABILITIES		
CURRENT LIABILITIES		
Overdrafts and bank loans (note 13)	$ 267,930	$ 367,427
Suppliers and other creditors (note 14)	266,817	210,087
Dividend	65,000	78,000
	599,747	655,514
Debentures, 8.66%, maturing July 1, 2009 (note 15)	2,000	2,500
Capital lease obligation (note 16)	7,996	8,883
Deferred gain on the disposal of the assets to a joint venture (note 17)	3,757	4,027
Accrued benefit liability – cumulative sick leave credits (note 18)	32,752	36,085
Accrued benefit liability – retirement plan (note 18)	900	730
Future income taxes payable by the subsidiary of a joint venture	40	–
Minority interest in the equity capital of the subsidiary of a joint venture	28	–
	647,220	707,739
CAPITAL		
EQUITY / SHARE CAPITAL		
Authorized, issued and paid		
300,000 shares valued at $100 each	30,000	30,000
RETAINED EARNINGS	5,611	4,860
	35,611	34,860
	$ 682,831	$ 742,599

Contingencies and commitments (note 19)

The accompanying notes are an integral part of the consolidated financial statements.

ON BEHALF OF THE BOARD OF DIRECTORS

RAYMOND BOUCHER
CHAIRMAN OF THE BOARD

CHANTAL BÉLANGER
PRESIDENT OF THE AUDIT
ADMINISTRATION COMMITTEE

CONSOLIDATED CASH FLOWS

Fiscal year ended March 26, 2005
(in thousands of dollars)

	2005	2004
OPERATING ACTIVITIES		
Net earnings	**$ 545,751**	$ 570,787
Non-cash items:		
Depreciation	**49,096**	40,903
Loss on sale of fixed assets	**196**	345
Share in the earnings of a company subject to significant influence	**462**	1,188
Amortization of the deferred gain on the disposal of assets to a joint venture	**(270)**	(270)
Minority interest in the earnings of the subsidiary of a joint venture	**8**	–
Future income taxes	**14**	–
Expenses relating to sick leave credits	**(369)**	7,252
Expenses relating to the retirement plan	**170**	–
	595,058	620,205
Net change in non-cash items of working capital (note 20)	**135,439**	(91,784)
Use of cumulative sick leave credits	**(2,964)**	(4,633)
Cumulative sick leave credits transferred to employees' registered retirement savings plans	**–**	(501)
Cash flows provided from operating activities	**727,533**	523,287
INVESTMENT ACTIVITIES		
Business acquisition (note 5)	**(1,458)**	–
Acquisition of additional interest in a company subject to significant interest (note 17)	**(400)**	–
Debentures receivable	**500**	2,500
Acquisition of fixed assets	**(32,183)**	(57,409)
Sale of fixed assets	**2,712**	149
Other assets	**(90)**	126
Cash flow used for investment activities	**(30,919)**	(54,634)
FINANCING ACTIVITIES		
Variation in bank loans	**(44,570)**	90,000
Debentures payable	**(500)**	(2,500)
Reimbursement of the capital lease obligation	**(795)**	(712)
Dividend	**(558,000)**	(606,000)
Cash flow used for financing activities	**(603,865)**	(519,212)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**92,749**	(50,559)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**(46,467)**	4,092
CASH AND CASH EQUIVALENTS AT END OF YEAR (note 20)	**$ 46,282**	$ (46,467)

The accompanying notes are an integral part of the consolidated financial statements.

1. STATUTES

The Société des alcools du Québec (the SAQ) is constituted under the *Act respecting the Société des alcools du Québec* (R.S.Q., c. S-13).

2. FISCAL YEAR

The SAQ's fiscal year ends on the last Saturday in the month of March. Consequently, the fiscal years ended March 26, 2005, and March 27, 2004, each consist of 52 weeks of operations.

3. CHANGES TO ACCOUNTING POLICIES

Fiscal year ended March 26, 2005

Revenue recognition

In December 2003, the Emerging Issues Committee (EIC) of the Canadian Institute of Chartered Accountants (CICA) published the Abstract of Issues Discussed no. 141 (EIC-141), entitled "Revenue Recognition", which provides interpretative guidance on the application of Section 3400 of the CICA Handbook entitled "Revenue". Specifically, EIC-141 states the criteria to be respected in order that the recognition of revenue be deemed to have occurred. The SAQ applied the guidelines of EIC-141 prospectively as of March 28, 2004, and their application had no major impact on the consolidated financial statements of the fiscal year ended March 26, 2005.

Hedging Relationships

In December 2001, the CICA published Accounting Guideline AcG-13, "Hedging Relationships", and in June 2002, EIC-128, "Accounting for Trading Speculative or Non-Hedging Derivative Financial Instruments". AcG-13 deals with the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying the principles of hedge accounting. Under these guidelines, the information relating to hedging relationships must be documented, and the effectiveness of the hedge must be demonstrated and documented. If the criteria of AcG-13 are not complied with, the derivative instrument must be recognized in accordance with the guidelines of EIC-128. EIC-128 stipulates that a derivative instrument that does not meet the conditions of hedge accounting outlined in AcG-13 must be recognized in the balance sheet at fair value, and that the variations in the fair value must be recognized in the income statement for the fiscal year. The SAQ adopted the recommendations of AcG-13 and EIC-128 at the start of the fiscal year and concluded that its forward exchange contract did not meet the hedge accounting conditions outlined in AcG-13. Consequently, the SAQ recognizes its forward exchange contracts at fair value. The fair value is re-evaluated each quarter and a gain or loss is recognized in the consolidated income statement. For the fiscal year ended March 26, 2005, the sum of approximately $100,000 is included in the operating expenses, representing the fair value of the out-of-the-money forward exchange contracts at the end of the fiscal year.

3. CHANGES TO ACCOUNTING POLICIES (cont'd)

Employee future benefits

In January 2004, the CICA modified the recommendations contained in Section 3461 of the CICA Handbook, entitled "Employee Future Benefits". Section 3461 requires additional disclosures about the assets, cash flows and net periodic benefit cost of defined benefit pension plans and other employee future benefit plans. These recommendations have no impact on the measurement of these plans. The SAQ adopted the new recommendations during the fiscal year, and the additional required information is presented in note 18.

Retirement Obligations

In March 2003, the CICA published Section 3110 of the CICA Handbook, entitled "Asset Retirement Obligations", the recommendations of which were applied by the SAQ at the start of the fiscal year. The Section establishes the standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. It applies to the legal obligations related to the retirement of long-term intangible assets resulting from acquisitions, construction, layout or regular operations. The new recommendations stipulate that the fair value of a liability be recognized with respect to the obligations related to asset retirement during the fiscal year in which the obligations occur, if a reasonable estimate of the fair value can be established. Thereafter, the asset retirement costs must be expensed using a rational and systematic method over the useful life of the assets. After having reviewed the leases of its outlets, the SAQ concluded that the adoption of these new recommendations had no impact on the consolidated financial statements of the fiscal year ended March 26, 2005.

Impairment of long-lived assets

In December 2002, the CICA published Section 3063 of the CICA Handbook, entitled "Impairment of Long-Lived Assets". These recommendations provide accounting guidance for the recognition, measurement and disclosure of impairment of long-lived assets, including property, plant and equipment and intangible assets with finite useful lives. They require the recognition of an impairment loss for a long-lived asset when events or changes in circumstances cause its carrying value to exceed the total undiscounted future cash flows expected from its use and eventual disposition. The impairment loss is calculated by deducting the fair value of the asset from its carrying value. The application of the recommendations of this section at the start of the fiscal year had no major impact on the consolidated financial statements for the fiscal year ended March 26, 2005.

Fiscal year ended March 27, 2004

Consolidated goodwill

At the start of the fiscal year, the SAQ prospectively adopted the new CICA recommendations relating to consolidated goodwill. According to the new recommendations, the consolidated goodwill presented in the balance sheet is no longer amortized, but rather, are subjected to an impairment test annually or more frequently if events or situations occur which indicate that it might be impaired. When the new recommendations were adopted, the SAQ performed the first step of the consolidated goodwill impairment test and determined that it had not been subject to impairment.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. The critical accounting policies applied in the preparation of the consolidated financial statements are summarized below.

Scope of consolidation

The consolidated financial statements include the accounts of the SAQ and the proportionate ownership of the asset and liability items, the revenues and expenses of Maison des Futailles, SEC, a joint venture in which the SAQ has a 50% interest. This interest is recognized using the proportionate consolidation method. During the fiscal year, the SAQ acquired an additional interest of 5% in Société d'investissement M.-S., SEC, bringing its total interest in this joint venture to 50%. The SAQ's interest in *Société d'investissement M.-S., SEC* was recognized on an equity basis up to the acquisition date, after which, interest in the *Société d'investissement M.-S., SEC* was recognized using the proportionate consolidation method.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that SAQ management make use of estimates and assumptions that affect the reported amounts of the assets and liabilities, the disclosure of contingent asset and liability at the date of the financial statements, and liabilities, the disclosure of contingent asset as well as the revenues and expenses recognized during the fiscal year. Actual results could differ from those estimates.

Revenue recognition

Sales to consumers, agencies, license holders, authorized distributors and brewers and beer distributors are recognized when transacted, i.e. at the time the products are delivered to the customers, less discounts and returns; and, specifically with respect to license holders, authorized distributors, brewers and beer distributors, when there is persuasive evidence that an agreement exists, that the amounts are or can be determined, and that collection is reasonably assured.

Conversion of foreign currency

Monetary items are translated at the exchange rate in effect at the balance sheet date, whereas non-monetary items are translated at the rate in effect on the respective transaction dates. Revenues and expenses denominated in foreign currencies are translated at the average rate for the fiscal year. The foreign exchange gains and losses are included in the fiscal year's income statements. Exchange losses amounting to $300,000 and $1.5 million are included in the 2005 and 2004 income statements, respectively.

Derivative instruments

The SAQ partially manages its foreign exchange risk on the expected foreign currency outflow through the use of forward exchange contracts. However, these forward exchange contracts do not meet the hedge accounting conditions prescribed by Canadian generally accepted accounting principles. Consequently, the SAQ recognizes its forward exchange contracts at their fair value, and the resulting gains and losses are included in the operating expenses. While these forward exchange contracts fail to meet the hedge accounting conditions, the SAQ believes that, from the perspective of operations and cash flows, these contracts enable it to minimize the potential negative effects of a drop in the Canadian dollar on foreign exchange markets. The SAQ does not use forward exchange contracts for speculative purposes.

March 26, 2005 (in thousands of dollars for the tables)

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income taxes

The SAQ is a public corporation of the Government of Quebec and, as such, is not subject to income taxes.

The income taxes presented in the consolidated financial statements are related to the SAQ's interest, recognized in accordance with the proportionate consolidation method, in the accounts of *Maison des Futailles*, *SEC,* a joint venture which itself owns a share in an incorporated subsidiary that is subject to income taxes. These income taxes are recognized in accordance with the liability method. Under this method, future tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of the assets and liabilities. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws expected to apply in the years in which assets and liabilities are expected to be recovered or settled.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, short-term investments with maturities of less than three months, and bank overdrafts.

Inventory

Inventory is valued at the lower of cost or net realizable value, the cost being established according to the first in, first out method.

Fixed assets

Fixed assets are stated at cost and depreciated over their estimated useful life. Depreciation is calculated using the straight-line method, except in the case of rolling stock acquired before March 28, 1999, where the diminishing balance method is used. The following annual rates are used:

Buildings	2.5% and 10%
Furniture and equipment	Rate varying between 2.8% and 50%
Rolling stock	Rate varying between 10% and 30%
Leasehold improvements	According to the duration of the leases, which vary from 5 to 15 years
Paving and parking	8%

Building rented under a capital lease

A building rented under a capital lease is stated at cost, which is the present value of the minimum payments stated in the lease. Depreciation on the building is calculated using the straight-line method at the annual rate of 2.5%.

Other assets

The other assets, recognized at cost, include the SAQ's share of goodwill as well as of the organization charges of *Maison des Futailles, SEC*, and the goodwill of *Société d'investissement M.-S., SEC*. Goodwill is not amortized, but tested annually or more frequently if events or changes in circumstances indicate that they might be impaired. All goodwill items are related to operating units, and any possible impairment is detected by comparing the book value of the operating units to their fair value. If possible impairment is noted, it is quantified by comparing the book value of the goodwill with its fair value; a loss in value must be recognized in the income statements for an amount equal to the excess. The fair value of operating units is estimated based on current cash flows.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Other assets (cont'd)

Organization charges are amortized using the straight-line method over a period of seven years.

Depreciation of long-lived assets

Long-term assets are subjected to a recoverability test when events or changes in circumstance indicate that their carrying value may not be recoverable. A loss in value is recognized when the carrying value exceeds the undiscounted cash flows resulting from their use or eventual disposal. The impairment loss is measured as being the amount by which the asset's carrying value exceeds its fair value.

Employee benefits plans

Cumulative sick leave credits

The SAQ administers a defined benefit pension plan that guarantees most of its employees the payment of sick leave credits. The cost of the future benefits as a payment of sick leave credits earned by SAQ employees participating in the plan is established using actuarial calculations by projecting the costs on a prorata basis for the number of years of service, and charged to the income statement as employees render the service. These actuarial calculations take into account the most likely assumptions established by the management with respect to the progression of salaries, the age of retirement and the rate at which sick leave credits are used. The SAQ amortizes the unrecognized cumulative net actuarial gains and losses that are greater than 10% of forecast amount of cumulative sick leave credits on the average residual duration of activity of the unit of active employees participating in the plan. The average residual activity duration of the group of employees covered by the cumulative sick leave credit plan was 17 years at March 26, 2005 and at March 27, 2004.

Retirement plans

SAQ employees participate in retirement plans for government employees and public organizations. These plans, which are administered by the Commission administrative des régimes de retraite et d'assurances (CARRA), are defined benefit programs which provide retirement and death benefits. Defined contribution plan accounting is applied to these plans. Moreover, the SAQ administers a supplemental retirement pension plan for senior management. This is a defined benefit pension plan that also includes retirement and death benefits. The actuarial valuation of the liability with respect to the accrued pension benefits in relation to the retirement contributions is established using the cost method projected on a prorata basis according to the years of service. The evaluation was carried out using management's best estimate of the future changes in salary levels, retirement age and other actuarial factors. The excess of net year-to-date actuarial gains (net year-to-date actuarial losses) on 10% of the obligation with respect to the contributions recognized is amortized over the average remaining service life of the active employee group covered by the plans. The average residual activity duration of active employees covered by the supplemental retirement plan was 6.6 years on March 26, 2005 and on March 27, 2004.

March 26, 2005 (in thousands of dollars for the tables)

5. BUSINESS ACQUISITION

On June 30, 2004, the joint venture *Maison des Futailles, SEC* acquired 90% of the common shares and 100% of the outstanding preferred shares of Clos Saint-Denis Inc., a producer, bottler and distributor of alcoholic beverages. The total consideration of $3.0 million in cash was paid.

The transaction was accounted for by the purchase method. The acquisition cost was itemized into the acquired assets and the assumed liabilities at their estimated fair value on the date of the transaction. The final distribution of the acquisition cost should be established as soon as the management of the joint venture gathers all important information deemed necessary to complete the distribution.

The operating results of Clos Saint-Denis Inc. are included in the joint venture's consolidated income statement as of July 1, 2004.

The values attributed to the net assets acquired in this transaction are as follows:

Cash	$ 75
Working capital	103
Fixed assets	773
Consolidated goodwill	2,131
Future income tax liability	(51)
Share of the non-controlling shareholder	(40)
Net assets acquired	$ 2,991
Consideration paid in cash	$ 2,991
Cash acquired	(75)
Net amount paid	$ 2,916
SAQ's proportionate ownership	$ 1,458

Following the end of the fiscal year, the joint venture purchased the non-controlling shareholder's remaining interest of 10% in Clos Saint-Denis Inc. for a cash consideration of $200,000, thereby securing full ownership of the subsidiary.

6. NET SALES AND COST OF PRODUCTS SOLD

	STORE UNITS AND SPECIALIZED OUTLETS	WHOLESALERS-GROCERS	SUBTOTAL	BREWERS AND BEER DISTRIBUTORS[1]	TOTAL 2005	TOTAL 2004
GROSS SALES	$ 1,908,988	$ 428,739	$ 2,337,727	$ 206,988	**$ 2,544,715**	$ 2,653,024
Less:						
- Provincial sales tax	129,116	26,413	155,529	13,528	**169,057**	179,553
- License holder fees[2]	12,128	–	12,128	–	**12,128**	25,809
- Specific tax	67,682	31,021	98,703	–	**98,703**	100,858
- Specific license holder tax[2]	32,995	–	32,995	–	**32,995**	19,565
- Federal goods and services tax	112,740	23,040	135,780	11,810	**147,590**	156,706
- Discounts and returns	37,435	–	37,435	–	**37,435**	51,510
- Compensation to agents	6,740	–	6,740	–	**6,740**	4,172
- Compensation to wholesalers-grocers	–	47,882	47,882	–	**47,882**	39,560
- Contributions to the Environmental Fund	2,465	710	3,175	–	**3,175**	3,029
- Contributions to the *Fonds Éduc'alcool inc.*	1,707	399	2,106	–	**2,106**	2,186
	403,008	129,465	532,473	25,338	**557,811**	582,948
NET SALES	$ 1,505,980	$ 299,274	$ 1,805,254	$ 181,650	**$ 1,986,904**	$ 2,070,076
COST OF PRODUCTS SOLD	$ 663,272	$ 146,475	$ 809,747	$ 181,650	**$ 991,397**	$ 1,053,159

[1] *Holders of a brewer's license and holders of a beer distributor's license sell and deliver, within the province of Quebec, beers produced in other Canadian provinces or abroad, either by themselves or by affiliated companies. These products must be bought exclusively from the SAQ.*

[2] *The fee paid by license holders was replaced on September 1, 2004, by a specific tax pursuant to the changes made to the Licenses Act and the Act respecting the Quebec sales tax.*

March 26, 2005 (in thousands of dollars for the tables)

7. FINANCING EXPENSES

	2005	2004
Interest on bank loans	$ **4,169**	$ 4,034
Interest on term loans made to a business under shared control	**3,772**	4,573
Interest on debentures payable	**227**	450
Interest relating to the capital lease obligation	**1,025**	1,108
	9,193	10,165
Less: Interest on investments, term deposits and others	**(1,168)**	(1,414)
Interest on debentures receivable	**(227)**	(450)
	(1,395)	(1,864)
	$ **7,798**	$ 8,301

8. ACCOUNTS RECEIVABLE

	2005	2004
Wholesalers-grocers	$ **20,183**	$ 32,703
Licensed establishments, institutions and other commercial accounts	**38,451**	66,569
Short-term portion of debentures receivable	**500**	500
Income taxes receivable from the subsidiary of a joint venture	**85**	–
	$ **59,219**	$ 99,772

9. INVENTORY

	2005	2004
Bottled beverages	$ **240,515**	$ 282,100
Beverages in bulk and production materials	**8,093**	6,872
Miscellaneous supplies	**1,359**	1,969
	$ **249,967**	$ 290,941

10. FIXED ASSETS

			2005	2004
	COST	ACCUMULATED AMORTIZATION	NET VALUE	NET VALUE
Land	$ 11,108	$ –	$ **11,108**	$ 11,796
Buildings	110,836	21,400	**89,436**	85,776
Furniture and equipment	307,644	150,367	**157,277**	175,387
Rolling stock	14,805	7,162	**7,643**	7,146
Leasehold improvements	44,515	20,319	**24,196**	27,412
Paving and parking	3,221	2,409	**812**	865
	$ 492,129	$ 201,657	$ **290,472**	$ 308,382

11. BUILDING RENTED UNDER A CAPITAL LEASE

			2005	2004
	COST	ACCUMULATED AMORTIZATION	NET VALUE	NET VALUE
Building	$ 16,280	$ 11,396	$ **4,884**	$ 5,291

12. OTHER ASSETS

			2005	2004
	COST	ACCUMULATED AMORTIZATION	NET VALUE	NET VALUE
Consolidated goodwill	$ 14,874	$ 2,486	$ **12,388**	$ 11,060
Organization charges	1,664	1,392	**272**	517
Other	575	–	**575**	485
	$ 17,113	$ 3,878	$ **13,235**	$ 12,062

13. OVERDRAFTS AND BANK LOANS

	2005	2004
Overdrafts	$ **–**	$ 54,927
Term loans	**267,930**	312,500
	$ **267,930**	$ 367,427

The SAQ is authorized by the Government of Quebec and by the SAQ's Board of Directors to obtain term loans that do not exceed one year, as long as the total sum of its loans do not exceed $400 million. As of March 26, 2005, bank loans consisted of 7 term loans, including 3 loans totalling $106.6 million to a business under shared control (5 at March 27, 2004, including 3 loans totalling $201.5 million to a business under shared control). These loans bear interest at rates ranging from 2.55% to 2.57% (2.30% in 2004) and mature in 9 days or less (6 days or less in 2004).

Moreover, an SAQ joint venture has at its disposal an operating credit of up to $5 million (in 2005 and 2004), which is guaranteed by a general movable hypothec on the whole of its accounts receivable and inventory, bears interest at the preferential rate and is renewable annually.

14. SUPPLIERS AND OTHER CREDITORS

	2005	2004
Suppliers	$ **146,840**	$ 131,687
Government taxes and fees	**67,126**	41,320
Salaries and benefits	**51,464**	35,785
Short-term portion of debentures payable and of the capital lease obligation	**1,387**	1,295
	$ **266,817**	$ 210,087

March 26, 2005 (in thousands of dollars for the tables)

15. DEBENTURES

This sum represents the SAQ's interest in the debentures of a joint venture in the amount of $10 million ($12 million in 2004). These debentures are reimbursable in three annual payments of $2 million and one final payment of $4 million on July 1, 2009. The SAQ's share of these payment amounts is $500,000 and $1 million, respectively.

In the event of a default, the SAQ has the right to convert any portion of the principal and interest accrued to a number of shares in the joint venture, equal to the amount of the converted debentures divided by the book value of one share at the time of conversion.

16. CAPITAL LEASE OBLIGATION

	2005	2004
Liability resulting from the rental of a building, repayable until April 11, 2012, in monthly payments of $150,000, including interest calculated at an annual rate of 11%, capitalized semi-annually.	**$ 8,883**	$ 9,678
Less: portion of the liability due within one year	**(887)**	(795)
	$ 7,996	$ 8,883

Payments in each of the following fiscal years:	PRINCIPAL	INTEREST	TOTAL
2006	$ 887	$ 933	$ 1,820
2007	989	831	1,820
2008	1,104	716	1,820
2009	1,231	589	1,820
2010	1,374	446	1,820
2011-2012	3,298	397	3,695
	$ 8,883	$ 3,912	$ 12,795

17. INTERESTS IN JOINT VENTURES

Maison des Futailles, SEC

On May 31, 1999, the SAQ, the *Fonds de solidarité des travailleurs du Québec, Les Vins Andrès du Québec Ltée* and 9072-3479 Québec inc. merged their respective business activities, consisting in the bottling and marketing of certain wines and spirits, to constitute *Maison des Futailles, SEC*, a joint venture in which the SAQ acquired a 35% interest. The reported gain from this transaction was $3.8 million at March 26, 2005 ($4.0 million at March 27, 2004), and is amortized over 20 years. On April 1, 2001, the SAQ and the *Fonds de solidarité des travailleurs du Québec* acquired the shares held by *Les Vins Andrès du Québec Ltée* and 9072-3479 *Québec inc.*, thereby increasing the SAQ's share in the joint venture to 50%.

17. INTERESTS IN JOINT VENTURES (cont'd)

Société d'investissement M.-S., SEC

On October 31, 2004, the SAQ acquired from J.F. Hillebrand an additional interest of 5% in *Société d'investissement M.-S., SEC* for a cash consideration of $400,000, thereby increasing the SAQ's interest in *Société d'investissement M.-S., SEC* to 50% and making it a joint venture of the SAQ. The SAQ's interest in this joint venture was recognized on an equity basis up to the date of acquisition, and an expense of $500,000 was recognized in the combined statement of income and retained earnings as an interest in the earnings of a business subject to significant influence.

As of November 1, 2004, the proportionate method of consolidation was used to recognize the SAQ's interest in *Société d'investissement M.-S., SEC*. Thus, the share in the revenue and expenses of *Société d'investissement M.-S., SEC* is included in the combined statement of income and retained earnings.

The following amounts represent the SAQ's interest in the joint ventures, including the revenues, expenses and inter-corporate accounts that were eliminated upon consolidation.

	2005	2004
INCOME STATEMENT		
Net sales	$ 42,334	$ 39,482
Cost of products sold	27,257	26,652
	15,077	12,830
Operating expenses	9,697	8,416
Financing costs	453	895
Depreciation	1,337	1,035
Non-controlling shareholder's interest in the earnings of a subsidiary	8	–
	11,495	10,346
Earnings before income taxes	3,582	2,484
Income taxes	32	–
Net earnings	$ 3,550	$ 2,484
BALANCE SHEET		
Current assets	$ 21,724	$ 18,130
Long-term assets	22,543	20,976
	$ 44,267	$ 39,106
Current liabilities	$ 9,465	$ 8,288
Long-term liabilities	4,166	5,104
Shareholders' equity	30,636	25,714
	$ 44,267	$ 39,106
CASH FLOW		
Cash flows provided from operating activities	$ 3,502	$ 7,717
Cash flows used for financing activities	$ (1,004)	$ (5,037)
Cash flows used for investment activities	$ (2,227)	$ (1,257)

March 26, 2005 (in thousands of dollars for the tables)

18. EMPLOYEE FUTURE BENEFITS

Total cash payments

Total cash payments on account of employee future benefits for 2005, consisting of the SAQ's contributions to the retirement plans and the sums paid directly to the beneficiaries of the cumulative sick leave credits, amounted to $10.3 million ($11.4 million in 2004).

Defined benefit pension plans

For accounting purposes, the SAQ evaluates its obligations relating to contributions on December 31 of each year. The most recent actuarial valuation of the cumulative sick leave credit plan and the Executive's supplemental retirement plan was carried out on December 31, 2004, and the next valuation must be completed by December 31, 2005.

Reconciliation of the funded status of the employee benefit plans to the amounts recognized in the financial statements

	CUMULATIVE SICK LEAVE CREDITS PLAN		EXECUTIVE'S SUPPLEMENTAL RETIREMENT PLAN	
	2005	2004	**2005**	2004
Pension benefit obligations (funded status)	**$ 22,608**	$ 25,721	**$ 1,203**	$ 1,041
Variation due to changes in assumptions	**–**	(3,706)	**–**	–
Unamortized balance	**10,144**	14,070	**(303)**	(311)
Accrued benefit liabilities appearing on the SAQ's balance sheet	**$ 32,752**	$ 36,085	**$ 900**	$ 730

Cost of employee future benefits recognized during the fiscal year

	SICK LEAVE CREDITS PLAN		RETIREMENT PLANS	
	2005	2004	**2005**	2004
Defined benefit pension plans	**$ 64**	$ 7,252	**$ 170**	$ 70
Defined contribution pension plans	**$ –**	$ –	**$ 6,940**	$ 6,285

Compared with the prior fiscal year, the significant decrease in costs recognized for the cumulative sick leave credits plan, assessed by actuarial calculations, is attributable to the following:

Since January 1, 2005, a greater number of SAQ employees are no longer accumulating sick leave credits. The result is a curtailment gain of $2.1 million, which was fully recognized during the fiscal year ending March 26, 2005.

As of the 2004-2005 fiscal year, the cost of benefits paid over the course of the active career of all employees participating in the plan ceased being an integral part of the actuarial valuation. The impact of this is a $4.3 million decrease in the recognized costs.

Consequently, the amortization of net actuarial gains increased by $800,000.

18. EMPLOYEE FUTURE BENEFITS (cont'd)

Benefits paid

Benefits paid by the cumulative sick leave credits plan amounted to $3.4 million in 2005 ($5.1 million in 2004), whereas no benefits were paid in 2005 by the supplemental retirement plan for executives ($20,000 in 2004).

Principal assumptions

The principal assumptions used are as follows:

	CUMULATIVE SICK LEAVE CREDITS PLAN		EXECUTIVE'S SUPPLEMENTAL RETIREMENT PLAN	
	2005	2004	**2005**	2004
Obligations for pension benefits accumulated at the end of the fiscal year				
Discount rate	**5.5%**	6.0%	**5.5%**	6.0%
Compensation growth rate	**3.0%**	3.0%	**3.0%**	3.0%
Usage rate of sick leave credits	*	65%	–	–

** From 40% to 65% depending on the employee group*

Cost of benefits for the fiscal year				
Discount rate	**6.0%**	6.5%	**6.0%**	6.5%
Compensation growth rate	**3.0%**	3.0%	**3.0%**	3.0%
Usage rate of sick leave credits	*	65%	–	–

** From 40% to 65% depending on the employee group*

19. CONTINGENCIES AND COMMITMENTS

Contingencies

In the normal course of its operations, the SAQ is faced with various claims and lawsuits, primarily for damages, totalling nearly $5.7 million. The management of the SAQ contests these litigations and is opposed to handling the resulting claims. No provisions are recognized in the SAQ's accounting records with respect to these contingencies.

Commitment

For its operating leases, the SAQ is committed to paying a total amount of $302.5 million for the leasing of stores and certain warehouses. The payments for the coming fiscal years will amount to:

2006	$ 36,710
2007	$ 35,972
2008	$ 34,345
2009	$ 32,786
2010	$ 31,885
2011-2017	$130,850

Environment

The SAQ's activities are subject to environmental laws, regulations and guidelines enacted by the various governments. Management considers that the environmental risks are being handled in an adequate manner and that no current or potential liability exists with respect to these risks.

March 26, 2005 (in thousands of dollars for the tables)

20. CASH FLOW DATA

Cash flows related to operating activities include the following elements:

	2005	2004
Interest paid	$ **9,087**	$ 10,339
Income taxes paid by the subsidiary of a joint venture	**79**	$ –
The net variation in the non-cash items of working capital is detailed as follows:		
Accounts receivable	$ **40,553**	$ (41,598)
Inventory	**40,974**	(33,779)
Prepaid expenses	**(3,279)**	922
Suppliers and other creditors	**57,191**	(17,329)
	$ **135,439**	$ (91,784)
Cash and cash equivalents at the end of the fiscal year include the following items:		
Cash and short-term investments	$ **46,282**	$ 8,460
Bank overdraft	**–**	(54,927)
	$ **46,282**	(46,467)

Short-term investments include 600,000 shares in a mutual fund redeemable at book value at any time.

21. FINANCIAL INSTRUMENTS

Fair value of financial instruments

	2005		2004	
	FAIR VALUE	BOOK VALUE	FAIR VALUE	BOOK VALUE
Debentures receivable, 8.66%, maturing July 1, 2009	$ **2,505**	$ **2,500**	$ 3,037	$ 3,000
Debentures payable, 8.66%, maturing July 1, 2009	$ **2,505**	$ **2,500**	$ 3,037	$ 3,000
Capital lease obligation	$ **10,238**	$ **8,883**	$ 11,143	$ 9,678

The book value of certain financial instruments maturing in the short term is presumed to correspond to their fair value. These financial instruments include cash and short-term investments; receivables other than the short-term portion of debentures receivable and earnings receivable from the subsidiary of a joint venture; overdrafts; bank loans; suppliers and other creditors, excluding government taxes and fees and the short-term portion of debentures payable; a capital lease obligation; and dividends.

21. FINANCIAL INSTRUMENTS (cont'd)

The fair value of debentures receivable and payable was determined by discounting future cash flows at interest rates the SAQ could currently obtain for debentures with similar conditions and dates of maturity.

The fair value of the capital lease obligation represents the capitalized value of future monthly payments at the annual interest rate offered by Government of Québec bonds, capitalized every 6 months and maturing in 2012. That rate is 6.70% in 2005 (7.33% in 2004).

Interest-rate risk

Debentures receivable bear a fixed interest rate and expose the SAQ to the risk that market interest rates exceed the interest rate linked to this asset.

The capital lease obligation and the debentures payable bear a fixed interest rate and expose the SAQ to the risk that market interest rates will be lower than the interest rates linked these liabilities.

Derivative instruments

To reduce the potential negative effects of a drop in the value of the Canadian dollar on exchange markets, the SAQ and one of its joint ventures entered into forward exchange contracts. Forward exchange contracts with terms of less than 12 months denominated in euros, in U.S. dollars and in Australian dollars, were in effect at the end of the fiscal year ended March 26, 2005 (forward exchange contracts denominated in euros were in effect at the end of the fiscal year ended March 27, 2004).

	2005		2004	
Foreign currencies (in thousands)	*WEIGHTED AVERAGE FORWARD EXCHANGE RATE*	*CONTRACT AMOUNT*	*WEIGHTED AVERAGE FORWARD EXCHANGE RATE*	*CONTRACT AMOUNT*
Euro	**$ 1.6122**	**5,250**	$ 1.6455	5,000
U.S. dollar	**$ 1 2290**	**750**	$ –	–
Australian dollar	**$ 0.9288**	**150**	$ –	–

On March 26, 2005, the fair value of accrued out-of-the-money forward exchange contracts was $100,000.

22. COMPARATIVE FIGURES

To conform with the basis of presentation adopted in the current year, certain figures previously reported have been reclassified.

QUARTERLY DATA

Fiscal years ended March 26, 2005, and March 27, 2004
(unaudited data)

	2005				
NUMBER OF WEEKS	*FISCAL YEAR* 52	*Q4* 12	*Q3* 16	*Q2* 12	*Q1* 12
FINANCIAL PERFORMANCE *(in millions of dollars)*					
Gross sales	2,544.7	502.8	885.1	602.4	554.4
Net sales	1,986.9	393.3	689.8	472.1	431.7
Gross earnings	995.5	190.7	353.7	234.5	216.6
Operating expenses	449.7	111 2	137.3	99.4	101.8
Net earnings	545.8	79.5	216.4	135.1	114.8
Payments to shareholder	558.0	167.0	168.0	112.0	111.0
NET SALES BY SALES NETWORK *(in millions of dollars)*					
Outlets and specialized centres	1,506.0	290.7	494.5	375 2	345.6
Wholesale grocers	299.3	61.3	141.8	52.0	44 2
Brewers and beer distributors	181.6	41.3	53.5	44.9	41.9
Total	1,986.9	393.3	689.8	472.1	431.7
SALES VOLUMES *(in millions of litres)*					
Spirits	16 2	3 2	5.5	3.9	3.6
Wines	108.6	20.7	39.5	25.3	23.1
Imported and microbrewery beers, ciders and coolers	10.5	1.4	2.8	3.6	2.7
Total sales excluding beers sold to brewers and beer distributors	135.3	25.3	47.8	32.8	29.4
Beers sold to brewers and beer distributors	131.7	33.9	30 2	36.5	31.1
Total	267.0	59 2	78.0	69.3	60.5

To conform with the basis of presentation adopted in the current year, certain figures previously reported have been reclassified.

	2004				
NUMBER OF WEEKS	*FISCAL YEAR* 52	*Q4* 12	*Q3* 16	*Q2* 12	*Q1* 12
FINANCIAL PERFORMANCE *(in millions of dollars)*					
Gross sales	2,653.0	512.0	958.6	609.0	573.4
Net sales	2,070.1	390.4	739.4	493.2	447.1
Gross earnings	1,016.9	200.6	387.0	212.3	217.0
Operating expenses	446.1	112.3	140.4	101.7	91.7
Net earnings	570.8	88.3	246.6	110.6	125.3
Payments to shareholder	606.0	205.0	154.0	103.0	144.0
NET SALES BY SALES NETWORK *(in millions of dollars)*					
Outlets and specialized centres	1,581.7	306.1	591.6	349.6	334.4
Wholesale grocers	249.9	55.6	96.0	36.0	62.3
Brewers and beer distributors	238.5	28.7	51.8	107.6	50.4
Total	2,070.1	390.4	739.4	493.2	447.1
SALES VOLUMES *(in millions of litres)*					
Spirits	17.3	3.4	6.6	3.8	3.5
Wines	109.0	22.1	39.3	22.9	24.7
Imported and microbrewery beers, ciders and coolers	11.3	1.6	3.2	3.5	3.0
Total sales excluding beers sold to brewers and beer distributors	137.6	27.1	49.1	30.2	31.2
Beers sold to brewers and beer distributors	203.6	19.9	122.0	29.0	32.7
Total	341.2	47.0	171.1	59.2	63.9

RETROSPECTIVE OF THE PAST 10 FISCAL YEARS

Fiscal years ended the last Saturday in March
(unaudited data)

	2005	2004	2003
OPERATING RESULTS *(in millions of dollars)*			
Gross sales	**2,544.7**	2,653.0	2,413.5
Net sales	**1,986.9**	2,070.1	1,870.0
Gross earnings	**995.5**	1,016.9	934.3
Operating expenses	**449.7**	446.1	393.9
Net earnings	**545.8**	570.8	540.4
FINANCIAL SITUATION *(in millions of dollars)*			
Total assets	**682.8**	742.6	651.6
Fixed assets	**295.4**	313.7	297.4
Working capital	**(227.5)**	(242.8)	(230.7)
Long-term liabilities	**47.5**	52.2	53.4
Shareholders' equity	**35.6**	34.9	34.1
CASH FLOW *(in millions of dollars)*			
Cash assets linked to operating activities	**727.5**	523.3	580.5
Acquisition of fixed assets	**32 2**	57.4	110.7
Payments to shareholder	**558.0**	606.0	509.0

** 53-week fiscal year*

NOTE: Changes which, over the years, have affected various fiscal aspects included in product selling prices make the comparison of data contained in this table difficult.

To conform with the basis of presentation adopted in the current year, certain figures previously reported have been reclassified.

2002	2001*	2000	1999	1998	1997	1996*
2,183.4	1,996.9	1,806.1	1,611.0	1,450.1	1,383.9	1,311.7
1,692.0	1,546.2	1,404.5	1,255.0	1,135.5	1,075.7	1,040.7
845.4	786.0	713.8	635.6	587.8	564.0	537.1
356.7	314.7	272.3	227.6	209.7	192.4	186.2
488.7	471.3	441.5	408.0	378.1	371.6	350.9
575.8	492.9	372.5	310.6	256.3	246.7	211.8
214.6	163.5	103.2	82.5	76.9	74.3	67.9
(148.8)	(99.2)	(33.9)	(9.3)	(3.4)	(4.9)	(6.2)
54.5	53.0	37.7	26.7	28.2	28.1	28.0
33.7	32.0	46.9	46.4	45.4	41.3	33.7
544.4	417.9	433.7	391.9	395.7	376.2	356.6
72.0	74.3	34.0	16.5	10.5	13.7	8.9
441.0	529.0	421.0	385.0	378.0	339.0	374.0

RETROSPECTIVE OF THE PAST 10 FISCAL YEARS

Fiscal years ended the last Saturday in March
(unaudited data)

	2005	2004	2003
ITEMS CONSTITUTING GROSS SALES *(in millions of dollars)*			
AMOUNTS PAID DIRECTLY TO THE GOVERNMENT OF QUEBEC			
Dividend	**545.0**	570.0	540.0
Taxes and duties	**312.9**	325.8	302.0
	857.9	895.8	842.0
AMOUNTS PAID DIRECTLY TO THE GOVERNMENT OF CANADA			
Taxes and duties	**285.3**	296.4	283.2
AMOUNTS PAID DIRECTLY TO THE GOVERNMENTS BY THE SAQ	**1,143 2**	1,192.2	1,125.2
SUPPLIES AND PRODUCTION	**853.7**	913.5	792.8
OPERATING EXPENSES	**449.7**	446.1	393.9
OTHER ITEMS			
Returns, discounts, compensation paid to wholesale grocers and compensation to agencies	**92.0**	95.2	96.1
Contributions to the *Fonds Éduc'alcool inc.*	**2.1**	2.2	2.0
Contributions to the Environmental Fund	**3 2**	3.0	3.1
Increase (decrease) in retained earnings	**0.8**	0.8	0.4
	98.1	101.2	101.6
TOTAL GROSS SALES	**2,544.7**	2,653.0	2,413.5
LESS: GROSS SALES TO BREWERS AND BEER DISTRIBUTORS [1]	**(207.0)**	(280.2)	(172.5)
GROSS SALES EXCLUDING SALES TO BREWERS AND BEER DISTRIBUTORS	**2,337.7**	2,372.8	2,241.0

** 53-week fiscal year*

[1] *Gross sales to brewers and beer distributors are subtracted from total gross sales to facilitate interpretation of the data presented.*

NOTE: Changes which, over the years, have affected various fiscal aspects included in product selling prices make the comparison of data contained in this table difficult. To conform with the basis of presentation adopted in the current year, certain figures previously reported have been reclassified.

2002	2001*	2000	1999	1998	1997	1996*
487.0	470.0	441.0	407.0	374.0	364.0	350.0
283.0	258.7	237.8	219.1	188.9	179.9	160.7
770.0	728.7	678.8	626.1	562.9	543.9	510.7
258.5	252.9	233.1	207.1	190.1	182.8	177.0
1,028.5	981.6	911.9	833.2	753.0	726.7	687.7
715.7	623.3	563.2	506.7	443.3	410.4	405.2
356.7	314.7	272.3	227.6	209.7	192.4	186.2
76.1	72.4	55.0	41.2	39.1	45.0	30.0
1.9	1.0	1.0	0.9	0.8	0.8	0.8
2.8	2.5	2.2	0.4	0.2	1.0	0.9
1.7	1.4	0.5	1.0	4.0	7.6	0.9
82.5	77.3	58.7	43.5	44.1	54.4	32.6
2,183.4	1,996.9	1,806.1	1,611.0	1,450.1	1,383.9	1,311.7
(139.3)	(117.9)	(111.6)	(79.2)	(66.5)	(54.5)	(79.2)
2,044.1	1,879.0	1,694.5	1,531.8	1,383.6	1,329.4	1,232.5

RETROSPECTIVE OF THE PAST 10 FISCAL YEARS

Fiscal years ended the last Saturday in March
(unaudited data)

	2005	2004	2003
OPERATING EXPENSES			
(in millions of dollars)			
Salaries and benefits	**245 2**	265.1	241.1
Building occupancy expenses	**66.6**	64.7	57.4
Equipment use and supply expenses	**60.8**	54.2	42.9
Freight out and communications	**12.3**	12.6	12.2
Other operating expenses	**64.8**	49.5	40.3
Extraordinary items	**–**	–	–
Operating expenses	**449.7**	446.1	393.9
OPERATING RATIOS			
(as a percentage of net sales)			
Gross earnings [1]	**55.1**	55.5	54.3
Net earnings [1]	**30 2**	31.2	31.4
(as a percentage of gross sales)			
Supplies and production [1]	**28.8**	28.5	28.7
Amounts paid to the governments [1]	**48.9**	50.2	50.2
Operating expenses [1, 2]	**19 2**	18.8	17.6
OTHER DATA			
(at the end of the fiscal year)			
Number of employees [3]	**4,494**	4,803	4,511
Number of outlets	**403**	398	398
Number of agencies	**403**	403	401
Number of products sold	**7,633**	7,148	6,755

** 53-week fiscal year*

[1] Calculated by excluding transactions carried out with brewers and beer distributors.
[2] Calculated by excluding the extraordinary items.
[3] The number of employees is expressed according to the annual use of regular, temporary and part-time staff on the basis of full-time equivalence (persons/year).

NOTE: Changes which, over the years, have affected various fiscal aspects included in product selling prices make the comparison of data contained in this table difficult. To conform with the basis of presentation adopted in the current year, certain figures previously reported have been reclassified.

2002	2001*	2000	1999	1998	1997	1996*
216.3	195.2	189.2	156.3	149.4	136.6	134.3
47.8	40.8	34.5	32.9	31.0	30.0	29.8
34.6	27.1	21.6	19.1	16.2	14.4	13.9
10.5	7.8	5.5	5.0	4.5	4.2	4.2
47.5	43.8	27.6	14.3	8.6	7.2	4.0
–	–	(6.1)	–	–	–	–
356.7	314.7	272.3	227.6	209.7	192.4	186.2
53.8	54.4	54.6	53.6	54.6	54.9	55.4
31.1	32.6	33.7	34.4	35.1	36.2	36.2
29.1	27.7	27.5	28.5	27.7	27.2	26.9
50.3	52.2	53.8	54.5	54.6	54.8	56.1
17.5	16.7	16.4	14.9	15.2	14.5	15.1
4,242	4,078	3,406	3,131	2,794	2,773	2,684
380	370	341	341	337	342	339
399	252	153	154	154	155	155
7,250	7,386	6,575	5,299	4,884	4,194	3,851

RETROSPECTIVE OF THE PAST 10 FISCAL YEARS

Fiscal years ended the last Saturday in March
(unaudited data)

	2005	2004	2003
NET SALES BY SALES NETWORK			
(in millions of dollars and millions of litres)			
Outlets and specialized centres	**1,506.0**	1,581.7	1,487.6
	101.0 L	108.2	105.3
Wholesale grocers	**299.3**	249.9	232.3
	34.3 L	29.4	28.9
Net sales excluding beers sold to brewers and beer distributors	**1,805.3**	1,831.6	1,719.9
	135.3 L	137.6	134.2
Brewers and beer distributors	**181.6**	238.5	150.1
	131.7 L	203.6	110.1
TOTAL NET SALES	**1,986.9**	2,070.1	1,870.0
	267.0 L	341.2	244.3
NET SALES BY PRODUCT CATEGORY			
(in millions of dollars and millions of litres)			
Spirits	**403.8**	427.5	414.2
	16 2 L	17.3	16.9
Wines	**1,329.8**	1,322.4	1,221.9
	108.6 L	109.0	105.3
Imported and microbrewery beers, ciders and coolers	**71.7**	81.7	83.8
	10.5 L	11.3	12.0
Beers sold to brewers and beer distributors	**181.6**	238.5	150.1
	131.7 L	203.6	110.1
TOTAL NET SALES	**1,986.9**	2,070.1	1,870.0
	267.0 L	341.2	244.3
AREA OF COMMERCIAL SPACE			
(in thousands of square feet)			
Outlets and specialized centres	**1,633.1**	1,595.7	1,542.9
Warehouses	**983.0**	983.0	983.0

** 53-week fiscal year*

NOTE: Changes which, over the years, have affected various fiscal aspects included in product selling prices make the comparison of data contained in this table difficult. To conform with the basis of presentation adopted in the current year, certain figures previously reported have been reclassified.

2002	2001*	2000	1999	1998	1997	1996*
1,349.9	1,222.5	1,095.8	991.8	892.9	838.6	799.8
97.7	89.0	79.0	76.4	70.8	67.2	64.6
220.9	221.2	211.7	194.4	184.3	189.3	170.1
29.2	30.4	32.0	30.8	29.6	31.7	29.3
1,570.8	1,443.7	1,307.5	1,186.2	1,077.2	1,027.9	969.9
126.9	119.4	111.0	107.2	100.4	98.9	93.9
121.2	102.5	97.0	68.8	58.3	47.8	70.8
84.4	83.8	76.6	62.9	53.1	43.6	69.9
1,692.0	1,546.2	1,404.5	1,255.0	1,135.5	1,075.7	1,040.7
211.3	203.2	187.6	170.1	153.5	142.5	163.8
400.7	385.3	357.1	342.8	334.2	328.7	327.6
16.7	16.5	15.2	14.5	14.2	14.2	14.2
1,104.6	1,015.9	909.6	785.9	687.1	645.2	592.5
100.9	97.1	89.9	82.7	76.3	75.2	71.0
65.5	42.5	40.8	57.5	55.9	54.0	49.8
9.3	5.8	5.9	10.0	9.9	9.5	8.7
121.2	102.5	97.0	68.8	58.3	47.8	70.8
84.4	83.8	76.6	62.9	53.1	43.6	69.9
1,692.0	1,546.2	1,404.5	1,255.0	1,135.5	1,075.7	1,040.7
211.3	203.2	187.6	170.1	153.5	142.5	163.8
1,306.3	1,404.0	1,157.6	1,147.0	1,114.6	1,118.5	1,117.0
877.9	848.1	758.8	658.8	658.8	672.3	770.8

CODE OF ETHICS AND PROFESSIONAL CONDUCT OF THE SOCIÉTÉ DES ALCOOLS DU QUÉBEC

PREAMBLE

Whereas members of the board of directors are required to adopt a code of ethics and professional conduct in compliance with the principles and rules enacted by the Regulation respecting the ethics and professional conduct of public office holders (hereinafter called the "Regulation") appended to the Act respecting the Ministère du Conseil exécutif (R.S.Q., c. M-30, s. 3.01 and 3.02; 1997, c. 6, s. 1);

Whereas the Act and the Regulation respecting the ethics and professional conduct of public office holders prescribe principles of ethics and rules of professional conduct applicable to directors, which are partly reproduced for information purposes in Schedule 1 of this code;

Whereas the adoption of a code of ethics and professional conduct is intended to preserve and reinforce the citizens' bond of trust in the integrity and impartiality of the Société's board of directors, encourage transparency and make directors and public office holders aware of their responsibilities;

Whereas members of the board of directors wish to provide the corporation with its own code of ethics and professional conduct;

In consideration of the foregoing, members of the board of directors shall adopt the following code of ethics and professional conduct:

SECTION 1. *INTERPRETATION*

1. In this code, unless otherwise indicated by the context:

a) "director" means a member of the Société's board of directors, whether full-time or not;

b) "association" means an association or group of persons with a direct or indirect interest in the alcoholic beverages trade or the organization of such trade;

c) "relevant authority" means the assistant secretary general responsible for top positions at the Ministère du Conseil exécutif;

d) "spouse" means spouses and persons living as husband and wife for more than one year;

e) "board" means the Société's board of directors;

f) "contract" includes a proposed contract;

g) "corporation" means any form of economic unit for the production of goods or services or any other business of a commercial, industrial or financial nature;

h) "immediate family" means the spouse and dependent children;

i) "Act" means the Act respecting the Société des alcools du Québec, R.S.Q., c. S-13, as amended and modified from time to time; and

j) "Société" means the Société des alcools du Québec.

2. In this code, a prohibited action includes any attempt and/or encouragement to perform such action.

SECTION 2. *GENERAL PROVISIONS*

3. The object of this code is to establish the Société's ethical principles and rules of professional conduct.

The ethical principles take into account the Société's mission, the values underlying its action and its general management principles.

The rules of professional conduct apply to the directors' duties and obligations; they clarify and illustrate them in an indicative manner.

4. In the performance of his duties, a director is required to comply with the ethical principles and rules of professional conduct prescribed by law and the Regulation respecting the ethics and professional conduct of public office holders, as well as the principles and rules set forth in this code of ethics and professional conduct. In case of discrepancy, the more stringent provisions shall apply.

5. Within 30 days of the adoption of this code by the board of directors, every director shall complete and sign the attestation reproduced in Schedule 2 of this code. Once completed, the attestation shall be remitted to the chairman of the board of directors, who shall entrust it to the Société's secretary for safekeeping.

Every new director shall do likewise within 30 days of being appointed.

6. Directors undertake to cooperate withthe chairman of the board of directors and comply with the opinions they may be called upon to give verbally or in writing.

SECTION 3. *PRINCIPLES OF ETHICS*

7. For the duration of his mandate, a director shall act with caution, diligence, honesty and loyalty in the Société's interest.

A director shall discharge his functions effectively and assiduously, and in accordance with the law and principles of fairness.

In the performance of his duties, a director shall give his colleagues and the Société the benefit of the knowledge and skills he has acquired in the course of his career.

8. A director may not discharge his functions in his own interest or that of a third party.

9. A director shall make decisions so as to ensure and maintain the bond of trust between the Société, its customers, suppliers and partners, as well as the government.

10. A director shall assure and maintain the confidentiality of the information obtained in the course of his duties; he shall ensure that any confidential document that is no longer required to carry out his duties is destroyed; he shall show discretion in his conversations so as not to favour one party over another in business relations they may or might have with the Société.

11. For the sake of transparency, board decisions are public, unless otherwise decided by the board of directors for serious reasons; however, the members' discussions, viewpoints and votes are confidential.

SECTION 4. *RULES OF PROFESSIONAL CONDUCT*

12. A director shall avoid placing himself in a situation of conflict between his personal interest and the duties of his office. He shall avoid placing himself in any situation likely to cast reasonable doubt on his ability to discharge his duties with absolute loyalty.

13. A full-time director may not, on penalty of dismissal, have a direct or indirect interest in an organization, corporation or association entailing a conflict between his personal interest and that of the Société. Notwithstanding the foregoing, such dismissal shall not occur if such interest devolves on him by succession or gift, provided that he renounces it or disposes of it promptly.

Any other director who has or whose employer has a direct or indirect interest in an organization, corporation, contract or association shall disclose this interest in writing to the chairman of the board of directors and, where applicable, shall abstain from participating in any discussion or decision pertaining to the organization, corporation, contract or association in which he has said interest. In addition,

he shall withdraw from the sitting for the duration of the deliberations and the vote concerning that matter.

He shall also reveal, as he becomes aware of them, any rights that he may assert against the Société, and shall indicate, where applicable, their nature and value.

14. A director is bound to discretion in regard to anything that comes to his knowledge in the performance or during the performance of his duties and is at all times bound to maintain the confidentiality of information thus received.

Any document identified as confidential by the board of directors or the secretary general shall be treated as such and its content shall not be transmitted or disclosed to anyone by a director without specific authorization from the board.

15. A director may not accept any gift, hospitality or other advantage from a person who has a business relationship with the Société or is involved in the trade of alcoholic beverages, except what is customary and is of modest value.

Any other gift, hospitality or advantage received shall be returned to the giver or shall be remitted to the Société.

16. A director may not accept nor seek for his or a third party's advantage or benefit from a person, corporation or association doing business with the Société, or acting on behalf or for the benefit of such a person, corporation or association, if such advantage or benefit is intended or likely to influence him in the performance of his duties or to generate such expectations.

17. Subject to this code, a director shall not make any commitments to third parties nor offer them any guarantee about a vote he may be called upon to take or any decision whatsoever the board of directors may be called upon to make.

18. A vote given by a director contrary to the provisions of this code or while the director has failed to produce the statement described in article 22 shall not be decisive.

SECTION 5. DISCLOSURE AND ABSTENTION

19. The disclosure required under article 13 is made at the first meeting:

a) where the contract or matter in question is discussed; or

b) after the director who had no interest in the contract or matter in question acquires one; or

c) after the director acquires an interest in a contract already entered into; or

d) after any person having an interest in a contract or a matter under examination becomes a director.

20. A director shall make the disclosure required under article 13 as soon as he becomes aware of a contract described in this article and which, in the normal course of business of the Société, does not require the approval of the directors.

21. Articles 12, 13, 19 and 20 shall also apply when the interest in question is held by a member of the director's immediate family.

22. A director shall remit to the chairman, within 30 days of his appointment and on March 31 of every year he remains in office, a statement in the form prescribed by Schedule 3 containing the following information:

a) the name of any corporation in which he holds, directly or indirectly, securities or equity, including common shares, specifying their nature and number, the percentage of securities held and the value of the equity;

b) the name of any corporation for which he performs functions and in which he holds a direct or indirect interest in the form of a claim, share right, priority, mortgage or significant commercial or financial advantage;

c) the name of any association in which he performs functions or to which he belongs, specifying his functions, where applicable, and the purpose of the association.

A director to whom the provisions of paragraphs a) to c) do not apply shall make a statement to this effect and remit it to the chairman of the board of directors.

A director shall also produce such a statement within 30 days of any significant change in its content.

Statements remitted under this article shall be deemed confidential and treated accordingly.

23. The chairman of the board of directors shall hand over the statements received in application of articles 13 and 19 to 22, to the Société's secretary, who shall keep them in the Société's corporate files.

SECTION 6. DIRECTORS APPOINTED TO OTHER BOARDS OF DIRECTORS

24. A person appointed by the Société to perform the duties of director with another organization or corporation (hereinafter referred to as the "Appointed Person") shall be bound by the ethical principles and rules of conduct under the law, the Regulation and this code, as well as those set forth in the code of ethics and professional conduct of such organization or corporation. In case of discrepancy, the more stringent principles and rules shall apply.

25. During his tenure as a Board member, a director is only entitled to the corresponding compensation. This compensation shall not include, even in part, cash benefits such as those made possible by profit-sharing based on changes in stock value or on investment in capital stock of the company. However, any compensation awarded to the chief executive officer or a full-time officer of the Société shall be paid directly to the Société.

26. Without prejudice to confidentiality agreements and the duty to act with honesty and loyalty and, more generally, commitments of the same nature under the law and the code of ethics of the organization or corporation in which the Appointed Person performs the duties of a director, said Person shall inform the Société of any issue raised on the agenda of a board of directors' meeting of the organization or corporation that many have a significant impact on the finances, reputation or operations of the Société. The Appointed Person shall inform the Société of any such issue within a reasonable time, prior to the directors' vote on the issue.

SECTION 7. EXEMPTIONS

27. The provisions of this code related to statements and conflicts of interest do not apply to the following:

a) the holding of interests through a mutual fund in whose management the director does not take part directly or indirectly;

b) the holding of interests through a trust fund on whose composition the beneficiary has no right of review;

c) an interest which, by its nature and scope, is common to the population in general or to a particular sector in which the director is involved;

d) the holding of securities issued or guaranteed by a government organization or corporation under the terms of the Auditor General Act (R.S.Q., c. V-5.01) with conditions that are identical for all.

SECTION 8. DISCIPLINARY PROCESS

28. The chairman of the board of directors shall see to the application of this code, interpret its provisions and ensure the directors' compliance with the principles of ethics and rules of professional conduct.

29. The chairman of the board of directors has a mandate to:

a) initiate and supervise the process of developing and evaluating the code of ethics and professional conduct;

b) train and inform directors about the contents and modes of enforcement of the code of ethics and professional conduct;

c) give advice and support to the Société and any director faced with a situation that he deems to be a problem;

d) deal with any inquiry about this code;

e) investigate on his own initiative or upon report of any alleged irregularities with regard to this code.

30. The secretary of the Société shall maintain archives where shall be kept any statements, disclosures and attestations that must be submitted to him under this code, as well as reports, decisions and advisories.

31. The chairman of the board of directors may seek or receive advice from external advisors or experts on any matter he shall deem appropriate.

32. The chairman of the board of directors shall preserve the anonymity of complainants, claimants and informers unless they manifestly intend otherwise. He shall not be compelled to reveal any information likely to disclose their identity, unless required by law or the courts.

33. If he has reasonable grounds to believe a director has failed to comply with one of the provisions of this code, the chairman of the board of directors shall immediately inform the relevant authority and remit a complete copy of his file.

34. Any Société employee, officer or director may, on his own initiative, file a complaint with the relevant authority against a director.

35. The complaint shall be dealt with by the relevant authority and, where applicable, sanctions shall be applied against the director at fault, in conformity with the Regulation respecting the ethics and professional conduct of public office holders.

SECTION 9. FINAL PROVISIONS

36. This code of ethics and professional conduct shall come into effect as of the meeting following its adoption by the board of directors.

It shall not be retroactive.

37. Unless members of the Société's board of directors who are present give their unanimous consent, any motion of amendment to this code of ethics and professional conduct shall be introduced at a regular meeting of the board of directors preceding the meeting where it shall be discussed.

SCHEDULE 1. EXCERPTS FROM ACTS AND THE REGULATION RESPECTING THE ETHICS AND PROFESSIONAL CONDUCT OF PUBLIC OFFICE HOLDERS

ACT RESPECTING THE SOCIÉTÉ DES ALCOOLS DU QUÉBEC

[Conflict of interest]
13. No member of the board of directors exercising his functions full time shall, under pain of forfeiture of office, have any direct or indirect interest in an undertaking putting his personal interest in conflict with that of the Société. However, such forfeiture is not incurred if such an interest devolves to him by succession or gift, provided he renounces or disposes of it with all possible dispatch.

[Disclosure of interest]
Any other member of the board of directors having an interest in an undertaking shall, under pain of forfeiture of office, disclose it in writing to the chairman and abstain from participating in any decision involving the undertaking in which he has such interest.

Quebec Civil Code
Art. 321. A director is considered to be the mandatary of the legal person. He shall, in the performance of his duties, conform to the obligations imposed on him by law, the constituting act or the by-laws and he shall act within the limits of the powers conferred on him.

Art. 322. A director shall act with prudence and diligence. He shall also act with honesty and loyalty in the best interest of the legal person.

Il doit aussi agir avec honnêteté et loyauté dans l'intérêt de la personne morale.

Art. 323. No director may mingle the property of the legal person with his own property nor may he use for his own profit or that of a third person any property of the legal person or any information he obtains by reason of his duties, unless he is authorized to do so by the members of the legal person.

Art. 324. A director shall avoid placing himself in any situation where his personal interest would be in conflict with his obligations as a director.

A director shall declare to the legal person any interest he has in an enterprise or association that may place him in a situation of conflict of interest and of any right he may set up against it, indicating their nature and value, where applicable. The declaration of interest is recorded in the minutes of the proceedings of the board of directors or the equivalent.

Art. 325. A director may, even in carrying on his duties, acquire, directly or indirectly, rights in the property under his administration or enter into contracts with the legal person.

The director shall immediately inform the legal person of any acquisition or contract described in the first paragraph, indicating the nature and value of the rights he is acquiring, and request that the fact be recorded in the minutes of proceedings of the board of directors or the equivalent. He shall abstain, except if required, from the discussion and voting on the question. This rule does not, however, apply to matters concerning the remuneration or conditions of employment of the director.

Art. 326. Where the director of a legal person fails to give information correctly and immediately of an acquisition or a contract, the court, on the application of the legal person or a member, may, among other measures, annul the act or order the director to render account and to remit the profit or benefit realized to the legal person.

The action may be brought only within one year after knowledge is gained of the acquisition or contract.

REGULATION RESPECTING THE ETHICS AND PROFESSIONAL CONDUCT OF PUBLIC OFFICE HOLDERS

Chapter II
Ethical principles and general rules of professional conduct

4. Public office holders are appointed or designated to contribute, within the framework of their mandate, to the accomplishment of the State's mission and, where applicable, to the proper administration of its property.

They shall make their contribution in accordance with law, with honesty, loyalty, prudence, diligence, efficiency, application and fairness.

5. In the performance of his duties, a public office holder is bound to comply with the ethical principles and the rules of professional conduct prescribed by law and by this Regulation, as well as the principles and rules set forth in the code of ethics and professional conduct applicable to him.

In case of discrepancy, the more stringent principles and rules shall apply.

In case of doubt, he shall act in accordance with the spirit of those principles and rules. He shall, in addition, arrange his personal affairs in such a manner that they cannot interfere with the performance of his duties.

A public office holder is bound by the same obligations where, at the request of a government agency or corporation, he performs his duties within another government agency or corporation, or is a member thereof.

6. A public office holder is bound to discretion in regard to anything that

comes to his knowledge in the performance or during the performance of his duties and is at all times bound to maintain the confidentiality of information thus received.

That obligation does not have the effect of preventing a public office holder from consulting or reporting to a specific interest group that he represents or to which he is linked, except where the information is confidential by law or where the board of directors requires that confidentiality be maintained.

7. In the performance of his duties, a public office holder shall make decisions regardless of any partisan political considerations.

8. A chairman of the board of directors, a chief executive of an agency or corporation and a full-time public office holder shall demonstrate reserve in the public expression of their political opinions.

9. A public office holder shall avoid placing himself in a situation of conflict between his personal interest and the duties of his office.

He shall reveal to the agency or corporation within which he is appointed or designated to an office any direct or indirect interest that he has in an agency, corporation or association likely to place him in a situation of conflict of interest, as well as any rights that he may assert against the agency or corporation, and shall indicate, where applicable, their nature and value.

A public office holder appointed or designated to an office within another agency or corporation shall, subject to section 6, also reveal any such situation to the authority that appointed or designated him.

10. full-time public office holder may not, on penalty of dismissal, have a direct or indirect interest in an agency, corporation or association entailing a conflict between his personal interest and that of the agency or corporation within which he is appointed or designated to an office. Notwithstanding the foregoing, such dismissal shall not occur if such interest devolves on him by succession or gift, provided that he renounces it or disposes of it promptly.

Any other public office holder who has a direct or indirect interest in an agency, corporation or association entailing a conflict between his personal interest and that of the agency or corporation within which he is appointed or designated to an office shall, on penalty of dismissal, reveal the interest in writing to the chairman of the board of directors and, where applicable, shall abstain from participating in any deliberation or any decision pertaining to the agency, corporation or association in which he has that interest. In addition, he shall withdraw from the sitting for the duration of the deliberations and the vote concerning that matter.

This section does not prevent a public office holder from expressing opinions about conditions of employment applied at large within the agency or corporation and that could affect him.

11. A public office holder shall not treat the property of the agency or corporation as if it were his own property and may not use it for his own benefit or for the benefit of a third party.

12. A public office holder may not use for his own benefit or for the benefit of a third party information obtained in the performance or during the performance of his duties.

That obligation does not have the effect of preventing a public office holder from consulting or reporting to a specific interest group that he represents or to which he is linked, except where the information is confidential by law or where the board of directors requires that confidentiality be maintained.

13. A full-time public office holder shall perform exclusively the duties of his office, except where the authority having appointed or designated him also appoints or designates him to other duties. Notwithstanding the foregoing, he may, with the written consent of the chairman of the board of directors, engage in teaching activities for which he may be remunerated or in non-remunerated activities within a non-profit organization.

The chairman of the board of directors may likewise be so authorized by the Secretary General of the Conseil exécutif. However, the chairman of the board of directors of a government agency or corporation that holds 100% of the shares of a second government agency or corporation is the authority who may give such an authorization to the chairman of the board of directors of that second agency or corporation.

14. A public office holder may not accept any gift, hospitality or other advantage, except what is customary and is of modest value.

Any other gift, hospitality or advantage received shall be returned to the giver or shall be remitted to the State.

15. A public office holder may not, directly or indirectly, grant, solicit or accept a favour or an undue advantage for himself or for a third party.

16. In the decision-making process, a public office holder shall avoid allowing himself to be influenced by offers of employment.

17. A public office holder who has left public office shall conduct himself in such a manner as not to derive undue advantages from his previous service with the agency or corporation.

18. It is prohibited for a public office holder who has left public office to disclose confidential information or to give anyone advice based on information not available to the public concerning the agency or corporation for which he worked, or concerning another agency or corporation with which he had a direct and substantial relationship during the year preceding the end of his term of public service.

Within one year after leaving office, a public office holder shall not act for or on behalf of anyone else in connection with a proceeding, negotiation or other transaction to which the agency or corporation that he served is a party and about which he has information not available to the public.

A public office holder of an agency or corporation referred to in the second paragraph may not, in the circumstances referred to in that paragraph, deal with a public office holder referred to therein for one year following the end of his term of public service.

19. The chairman of the board of directors shall ensure that the public office holders of the agency or corporation comply with the ethical principles and rules of professional conduct.

SCHEDULE 2.
ATTESTATION

I, the undersigned, ______________________ , domiciled and residing at ______________________ , in the city of ______________________ , Province of Quebec, Director of the Société des alcools du Québec, declare that I have read the Code of Ethics and Professional Conduct of Directors of the Société des alcools du Québec adopted by the board of directors on ______________________ and understand its meaning and scope.

I hereby declare myself bound to the Société des alcools du Québec by every provision of the aforementioned Code of Ethics and Professional Conduct of Directors of the Société des alcools du Québec just as if it were a contractual obligation on my part.

SIGNED AT ______________ , ON THIS ___ DAY OF THE MONTH OF ______________ 200 ___ .

______________________ ______________________

Witness Director

SCHEDULE 3.
WARNING

The declarant, to understand the scope of his obligations, should refer to the Code of Ethics and Professional Conduct of Directors of the Société des alcools du Québec and, in particular, to the notions of corporation and interest as they are defined in the Code of Ethics and Professional Conduct.

Declaration:

I ______________________ , (Director of the Société des alcools du Québec), hereby declare the following interests:

1. Functions I perform or interests I have in the following corporations, as this term is defined in the Code of Ethics and Professional Conduct:

NATURE OF THE RELATIONSHIP OR THE INTEREST

Corporation	Position	Creditor	Number of shares or ownership equity	Other	Percentage of ownership equity

2. To the best of my knowledge, the list of corporations, as this term is defined in the Code of Ethics and Professional Conduct, in which my employer, a legal entity, a company, or any corporation of which I am owner, shareholder, director or officer, holds functions or interests:

NATURE OF THE RELATIONSHIP OR THE INTEREST

Corporation	Position	Creditor	Number of shares or ownership equity	Other	Percentage of ownership equity

3. Functions I, my employer, the legal entity, the company, or the corporation of which I am owner, shareholder, director or officer, performs in the following associations, as this term is defined in the Code of Ethics and Professional Conduct:

NATURE OF THE RELATIONSHIP OR THE INTEREST

Association	Position	Member	Purpose

______________________ ______________________ ______________________

Signature Position Date

SAQ
Public Affairs Department
905 De Lorimier Avenue
Montréal, Quebec H2K 3V9
Telephone: (514) 873-5598
Fax: (514) 873-3332

Printed in Quebec

ISSN 0845-924X
ISBN 2-550-44594-5
Legal deposit – 2nd Quarter 2005
National Library of Canada
Bibliothèque nationale du Québec

DESIGN: WWW.NOLIN.CA

SAQ

WWW.SAQ.COM