CONSULTING: OUR STRENGTH AND PRIDE

2006 ANNUAL REPORT

SAQ

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Cover: Karine Lefebvre, employee at SAQ Sélection Saint-Laurent

HIGHLIGHTS

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

	2006	2005[1]	Variation as a %
OPERATING RESULTS			
Gross sales	**2,765.3**	2,544.7	8.7
Net sales	**2,173.1**	1,986.9	9.4
Gross earnings	**1,114.2**	995.5	11.9
Operating expenses	**457.3**	449.7	1.7
Net earnings	**656.9**	545.8	20.4
FINANCIAL SITUATION			
Total assets	**658.8**	682.8	(3.5)
Fixed assets	**272.4**	295.4	(7.8)
Working capital	**(203.6)**	(227.5)	10.5
Long-term liabilities	**46.4**	47.5	(2.3)
Shareholders' equity	**35.6**	35.6	–
ADDITIONAL FINANCIAL DATA			
Government income from operations	**1,304.7**	1,143.2	14.1
Total gross sales, excluding sales to brewers and beer distributors	**2,584.6**	2,337.7	10.6
NET SALES BY SALES NETWORK			
Outlets and specialized centres	**1,753.2**	1,506.0	16.4
Wholesale grocers	**260.4**	299.3	(13.0)
Brewers and beer distributors	**159.5**	181.6	(12.2)
Total net sales	**2,173.1**	1,986.9	9.4
NET SALES BY PRODUCT CATEGORY			
Spirits	**460.4**	405.0	13.7
	18.2 L	16.1 L	13.0
Wines	**1,467.2**	1 312.0	11.8
	116.6 L	107.6 L	8.4
Imported and microbrewery beers, ciders and coolers[2]	**86.0**	88.3	(2.6)
	12.0 L	12.4 L	(3.2)
Total net sales, excluding sales to brewers and beer distributors	**2,013.6**	1,805.3	11.5
	146.8 L	136.1 L	7.9
Beers sold to brewers and beer distributors	**159.5**	181.6	(12.2)
	122.8 L	131.7 L	(6.8)
Total net sales	**2,173.1**	1,986.9	9.4
	269.6 L	267.8 L	0.7

[1] Fiscal year disrupted by a labour conflict.

[2] Commonly known as *coolers* or *cocktails*.

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

DOES WINE INSTIL A THIRST FOR KNOWLEDGE?

"Our customers are remarkable, energetic, curious, open-minded and open to the most daring of experiences when it comes to pairing wine with food. Our drive to serve them well motivates us to explore this remarkable universe relentlessly and keep up with what's going on. It's delightful and deeply satisfying."

Paul Tamas
Wine consultant
SAQ Sélection Saint-Laurent

On the front lines, they're our connection to customers and our best ambassadors. Our wine consultants – indeed all outlet personnel – are our greatest asset, and they're valued by all.

IN GOOD COMPANY

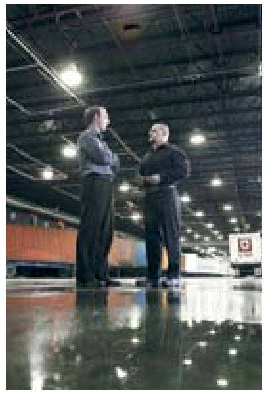
A THOUSAND ACTIONS BY A THOUSAND EMPLOYEES. A THOUSAND ACHIEVEMENTS, EACH AS DESERVING AS THE NEXT AND ACCOMPLISHED BY PEOPLE WITH AN ABUNDANCE OF KNOW-HOW AND LOVE FOR WHAT THEY DO, UNITED BY A SHARED DETERMINATION AND PASSION FOR DOING THINGS RIGHT. THE SAQ: A PUBLIC CORPORATION WITH A PERSONAL TOUCH.

LASER BEAMS AND WAREHOUSE MANAGEMENT

"Taking part in the warehouse management system upgrade project gave me a comprehensive view of our activities. It helped me better understand the issues and assess the full potential of this new technology. It was really exciting!"

Christian Gagnon
Distribution clerk
Québec City Distribution Centre





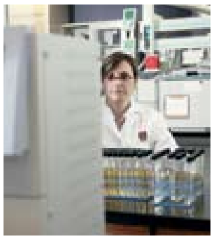
The warehouse management system may remain unnoticed by customers, but it is essential to providing good service. Having acquired the latest and most promising solution on the market, we can distribute millions of cases of product with the same agility and precision as a performance by *Les Grands Ballets Canadiens*. It's like a masterfully executed waltz…

They're young, creative and limited only by their imagination. The Marketing team has but one thing in mind: to create stimulating promotional campaigns and make sure customers all receive value for money and satisfaction.

A NEW CAMPAIGN THAT'S SO SAQ

"This year's ad campaign shines the spotlight on our in-store consultants. I think we've found the right tone to highlight their skills and recognize our customers' insatiable curiosity."

Julie Tessier
Technician
Marketing



Sporting white lab coats, our own team of Sherlock Holmeses perform organoleptic analyses on thousands of samples. Assisted by external experts, they examine, smell and taste each product under the ideal conditions provided by the new SAQ laboratory, whose spotless reputation reaches around the world.

A NEW AND IMPROVED LABORATORY!

“Continuous improvement is about field work and especially teamwork. At the end of the line, each small step forward makes a huge difference. But to get there, the solutions have to come from the people involved in the process. That’s the key!”

Éric Martel
Chemist, MBA
Quality Management

MESSAGE FROM THE ACTING CHAIR OF THE BOARD OF DIRECTORS

MICHÈLE THIVIERGE

The 2005-2006 fiscal year was remarkable on several fronts. With respect to the review and implementation of the strategic plan, the Board focused on priority projects designed to lead the SAQ toward an enhanced customer service experience and improved overall performance.

During the past fiscal year, the Board also undertook a number of steps to reform the SAQ's governance rules and align the company's way of doing business with industry best practices. Most notably, the Board's committees adopted new operating charters to further refine and strengthen their responsibilities within the general governance of the corporation. In addition, the Audit Committee developed a policy intended to monitor business risks, while continuing to review internal audit reports.

At the end of the year, the Government of Quebec released its political statement on the governance of public corporations. The SAQ's Board of Directors welcomed the new guidelines, which were widely backed by Quebecers and which, in many respects, mirror the SAQ's own ideas and its actions of the past year.

The last quarter of the 2005-2006 fiscal year was marked by unusual events. Faced with allegations surrounding cost price negotiations held with certain suppliers when exchange rates dropped at the end of December 2005, the Board directed the Audit Committee to shed some light on the matter. To help it in its mandate, the Committee sought the assistance of a forensic accounting firm and produced a report that clarified the sequence of events. The Board subsequently asked the Minister of Finance to appoint

the Auditor General of Quebec to conduct a specific audit covering all of the SAQ's business practices so as to benefit from an independent examination of these matters, to receive recommendations where applicable, and to lay the groundwork for a newer and stronger foundation on which to build the public's trust in the SAQ following these events.

The Board of Directors is well aware that public confidence must be restored and will pull out all the stops to reach this goal.

Last, but not least, the 2006-2007 fiscal year promises to be filled with exciting developments, as well as with challenges for the directors of the SAQ, beginning with the gradual implementation of the new governance rules proposed by the government. It will also be incumbent on the Board to take note and act on any recommendations the Auditor General may put forth. Under close monitoring by the Board, the pace of the various priority projects of the strategic plan will be increased. In short, we have a lot of work ahead of us, but the future looks bright for the SAQ, its customers and its employees.

To conclude, I would like to thank my predecessor, Raymond Boucher, who held this position for nearly three years and left the Board during the 2005-2006 fiscal year. As everyone knows, his contribution to the SAQ was invaluable.

MICHÈLE THIVIERGE
ACTING CHAIR OF THE
BOARD OF DIRECTORS

BOARD OF DIRECTORS

YVES ARCHAMBAULT
Member of the Board of Directors and the Executive Committee, Chair of the Human Resources Committee, company director

CHANTAL BÉLANGER
Member of the Board of Directors and the Executive Committee, Chair of the Audit Committee, company director

GARY MINTZ
Member of the Board of Directors, the Executive Committee and the Human Resources Committee, Vice-president of the American Iron and Metal Company Inc.

ROBERT MORIER
Member of the Board of Directors, the Human Resources Committee and the Audit Committee, President of *Robert Morier Inc.*

PIETRO PERRINO
Member of the Board of Directors and the Audit Committee, President of *Pergui Groupe Conseil*

MICHÈLE THIVIERGE
Acting Chair of the Board of Directors and the Executive Committee, Lawyer and Associate at *Dussault Lemieux Larochelle s.e.n.c.r.l.*

SYLVAIN TOUTANT
Member of the Board of Directors and the Executive Committee, President and Chief Executive Officer of the SAQ

ADAM TURNER
Member of the Board of Directors and the Human Resources Committee, President of Divco Limited

GOVERNANCE RULES

OUR PRIDE: DISCIPLINE

When it comes to governance rules, the SAQ wishes to instil the highest possible standards and draws its inspiration from the best practices applied by publicly traded companies.

The first rule is that of role-sharing among members of the executive, in which the Chair of the Board of Directors is someone other than the person serving as president and CEO. Two positions, two activities, two distinct and independent roles to ensure a healthier balance and greater distribution of the decision-making power.

The members of the Board of Directors are appointed by government decree. A few sit on committees with clearly defined objectives, such as the Audit, Executive and Human Resources committees. Each committee has its own operating procedures and its own operating charter with entrenched rules. In addition, the Board of Directors pays particular attention to the qualifications required, in terms of both training and knowledge, to occupy the position of committee chair.

The Board of Directors' primary task is to analyze every major project at the SAQ, along with the broad policy directions. It can also follow the progress of some projects – this was the case with the Enterprise Resource Planning (ERP) system implementation project – so that they can be completed within budget.

The committee members' main tasks are to study more specific internal auditing and human resources projects, such as the analysis of a new salary scale for management, and to ensure compliance with the Pay Equity Act.

Moreover, from a functional perspective, the SAQ's Internal Audit Department reports directly to the Board's Audit Committee, a procedure advocated by governance experts.

In short, the SAQ complies with the most recognized and fundamental governance practices currently in existence and thus embodies model corporate governance.

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

SYLVAIN TOUTANT

In 2005-2006, the SAQ achieved gross sales of $2.765 billion and reported dividends of $657 million, thereby generating a total of $1.305 billion of government income. These record results are almost fully in line with the targets set out in the 2005-2006 Strategic Plan. In fact, they represent an increase in gross sales of 8.7% and of 20.4% in net earnings over those of 2004-2005[1].

First and foremost, this upsurge reflects Quebecers' growing interest and more sophisticated tastes for the alcoholic beverages sold by the SAQ, particularly for the mid-range products. It also reflects our current concern to limit the growth in operating and supply costs.

Above all, I would like to thank our employees for contributing to the SAQ's success, for it is thanks to their intelligence, dedication and relentless efforts year after year that the SAQ ranks among the industry's most successful companies and receives a strong endorsement from Quebecers for its business model.

SERVING YOU WELL

The SAQ's fundamental mission is to provide every region of Quebec with good service by offering a wide variety of quality alcoholic products at the same price throughout the province. This mission is the cornerstone and the strength of the SAQ today, and it will continue to be.

However, serving Quebecers well creates a perpetual challenge, given that changes occur rapidly in this industry, especially in these past few years. The more Quebecers become discerning consumers, thanks in part to friends and family, journalists, SAQ employees and travel experiences, the more their expectations grow and broaden. And to better meet and anticipate these expectations, the SAQ must change.

1 The 2004-2005 fiscal year was disrupted by a labour conflict.

A CONSTRUCTIVE CRISIS

Despite a significant number of accomplishments, the 2005-2006 fiscal year was also a trying time for the SAQ, its managers and personnel. In February 2006, at the invitation of the Board of Directors, the Government of Quebec requested a special audit by Quebec's Auditor General after proposals were made to certain SAQ suppliers that they increase their cost price because of lower foreign exchange rates. It is obvious that this matter sowed doubt among Quebecers. When it comes to negotiating prices, the SAQ's goal is not to increase prices; rather, it is to decrease them in order to offer Quebecers greater access to better products, avoid losing business to other jurisdictions and improve sales and earnings over the long term. This particular event also provided an opportunity to change the way things are done. In the meantime, it is important to stay focused on the quality of work we deliver for the benefit of Quebecers and to do so with even more confidence than usual.

Serving well has many dimensions, each as important as the next. Product range, availability, accessibility and the price-quality ratio, combined with experience of outlet staff, are the key elements.

With respect to **product range**, the 2005-2006 fiscal year saw the lifting of the moratorium on new products. Consequently, some one hundred new regular products and 700 new specialty products will be added to the inventory catalogue by the end of 2006-2007.

Regarding **availability** and **accessibility**, 2005-2006 saw the opening of eight new stores, with nine more planned for 2006-2007. Furthermore, our aim is to carry a basic assortment of some 500 core products in all our stores, making it easier for customers to find their favourites throughout the network.

As for the **price-quality ratio**, the SAQ introduced quotas for each category over the course of 2005-2006. Phased in gradually, this new approach will be used to decide which regular products are to be withdrawn and replaced, leading not only to improvements in the overall price-quality ratio, but also to new product releases on a more regular basis. The value of this approach becomes quite evident when one considers that wine production around the world is in full swing and access to products of superior quality at increasingly attractive prices has never been easier.

Insofar as **in-store experience** is concerned, the SAQ launched a comprehensive training program for its wine consultants with the help of the *Institut de tourisme et d'hôtellerie du Québec* (ITHQ). By the end of this 160-hour program, some 180 consultants will be experts in customer service, products and wine pairing.

The SAQ also renovated 32 outlets during the fiscal year and will renovate another 30 or so in 2006-2007. Re-evaluating the banners is another project that took a few steps forward over the course of the year as market research sought to define the expectations of tomorrow's consumers.

TWO OBLIGATIONS

In carrying out its service mission, the SAQ must also account for two other crucial aspects of its work: operating expenses and buying expenses.

The SAQ is required to keep operating expenses at an optimum level given the mission it must fulfill. The operating expense ratio, as a percentage of gross sales, dropped from 18.8% in 2003-2004 to 17.7% in 2005-2006, an impressive feat that will enable the SAQ to achieve the objectives of its strategic plan more rapidly. That's teamwork at its best! In the long term, the strategic plan's objective is to bring the ratio under the 16% mark by 2011. The SAQ also cut its bank indebtedness by $89 million, from $336 million to $247 million, having exerted strict financial discipline, most notably with respect to capital investments and exemplary inventory management.

However, as far as buying expenses are concerned, there is still work to be done. A long-established tradition at the SAQ has allowed suppliers to set the cost price of their products without negotiation. The SAQ has since recognized that it can make greater use of its purchasing power.

This change presents a major challenge to the company, which will need to develop new negotiation skills based on extensive and reliable market data. As a result, the SAQ hopes to offer products at a more competitive price, give customers greater access to superior products and narrow the price gap between Quebec and Ontario on low- and mid-range wines, thereby stemming the accompanying flow of dollars to the latter province and other markets. These new approaches and procedures will be introduced over the next 18 months or so and should be fully implemented by fall 2007.

OUTLOOK

Generally, customer satisfaction surveys conducted in 2005-2006 showed that a very high percentage of Quebec consumers are satisfied with the SAQ, but approval ratings are always tenuous. Consequently, the SAQ has many other plans in the works to better serve customers in the years to come.

At the core of each of these plans is the wish to be the flagship of the industry. Only by living up to its basic service and efficiency obligations will the SAQ be able to increase its value in the eyes of Quebecers. And it is by serving well and controlling costs that the SAQ will create the conditions required, on the one hand, to offer quality products at competitive prices and, on the other hand, to generate earnings which, all things considered, compare favourably with those of its peers across Canada.

SYLVAIN TOUTANT
PRESIDENT AND CHIEF EXECUTIVE OFFICER

THE OMBUDSMAN: IN ALL FAIRNESS

The position of Ombudsman – Business Relations was entrusted to someone with a wealth of experience: Jacques Desmeules, past President and Chief Executive Officer of the SAQ from 1971 to 1978. The ombudsman's role is to field complaints from employees and business partners who believe they did not receive a satisfactory response from the SAQ. He must analyze and respond to these complaints in a fair manner. The ombudsman, who reports directly to the Board of Directors, enjoys complete independence from the SAQ's management so that he can carry out his mandate with total impartiality. He 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 2005-2006. During this past year, he dealt with many cases relating to employee-management relations and the SAQ's business practices and gave his recommendations. The ombudsman receives complaints not only from suppliers of alcoholic drinks and holders of licenses issued under the *Act Respecting Liquor Permits*, but from all SAQ personnel and suppliers.

EXECUTIVE COMMITTEE

LUC VACHON
Vice-president, Logistics and Distribution

RICHARD GENEST
Vice-president and Chief Financial Officer

SYLVAIN TOUTANT
President and Chief Executive Officer

BENOIT DURAND
Vice-president, IT Resources

MADELEINE GAGNON
Vice-president, Human Resources

PHILIPPE DUVAL
Vice-president, Sales Network Operations

SUZANNE PAQUIN
Secretary General and Vice-president, Legal Services

ALAIN BRUNET
Vice-president, Procurement and Merchandising

ALAIN BOLDUC
Vice-president, Public Affairs and Communication, Assistant to the CEO

DISCOVER THE SAQ

SAQ

+ 6,000	+ 400	+ 7,000	+ 85
EMPLOYEES	OUTLETS	PRODUCTS	YEARS

THE SAQ'S MANDATE: TO SELL ALCOHOLIC BEVERAGES. ITS MISSION: TO PROVIDE EVERY REGION OF QUEBEC WITH GOOD SERVICE BY OFFERING A WIDE VARIETY OF QUALITY ALCOHOLIC PRODUCTS AT THE SAME PRICE THROUGHOUT THE PROVINCE.

The SAQ is 85 years young, and although the company has seen many changes, it has always been close to Quebecers and their evolving needs and expectations. The SAQ is a public company in touch with people, with its clientele. They're practically family. There's no other network like it in the world. Over 800 points of sale, over 7,000 carefully selected products from around the world. More than 3,000 suppliers in 55 countries, and wine consultants ranking among the country's best, who are as well-versed in French wines as they are in New Zealand wines. Experts in ports and scotches. Dependable, attentive people. They're great people. The SAQ is a public corporation managed like a private company, where traditions can be broken: it's a company that innovates and changes with the times, its environment and its customers. Above all, it strives to share its vitality and passion for things well done.

This annual report comes with an insert. For a copy, please contact SAQ Public Affairs at 514 254-6000, extension 5382.

THE YEAR IN REVIEW

WHILE THE YEAR WAS PUNCTUATED BY A NUMBER OF BUMPS, IT WAS ALSO THE STAGE FOR REMARKABLE PERFORMANCES IN PURCHASING, TRANSPORTATION, MARKETING AND LABOUR RELATIONS. A REVIEW OF A YEAR OF CONSOLIDATION, INCREASED PROFITABILITY AND BUSINESS DEVELOPMENT.

STRENGTH IN NUMBERS!

PROCUREMENT AND MERCHANDISING

THE 2005-2006 FISCAL YEAR SAW A MAJOR CONSOLIDATION IN THE PROCUREMENT AND MERCHANDISING DIVISION, WHICH CREATED GREATER COHERENCE AND GAVE THE SAQ MORE FLEXIBILITY AND DEXTERITY IN CARRYING OUT ITS MISSION, FROM SELECTING NEW PRODUCTS TO IMPROVING THE CUSTOMER EXPERIENCE. A SUPERB DECISION, GREAT ENTHUSIASM.

→ A new division was created on May 16, 2005, that consolidated the Purchasing and Merchandising, Marketing, and Quality Management divisions.

→ The Purchasing and Merchandising Policy was revised and approved by the Board of Directors on October 27, 2005.

→ Framework planograms were created to offer consumers 500 key regular products and ensure a certain consistency in the overall product selection available through the SAQ's network of outlets (350 products at SAQ Express stores).

→ The “Nice Advice” advertising campaign was launched.

→ *Tchin Tchin* magazine was launched.

→ The SAQ saw a twofold increase in advertising revenues generated by ad space in SAQ flyers and *Tchin Tchin* magazine, as well as through in-store merchandising. Note: the 2004-2005 fiscal year used for comparison was disrupted by a labour conflict.

→ The product selection process was accelerated so as to offer consumers a greater variety of new products more quickly.

→ The group *Les Connaisseurs* developed workshops for the general public on the subject of New World wines; the sessions were attended by more than 5,000 people.

→ The SAQ evaluated 5,000 new product proposals.

→ The laboratory and Quality Management were moved to more suitable and functional premises.

→ The SAQ received confirmation of its annual ISO-17025 certification status.

→ Some 48,000 samples were analyzed, predominantly of new arrivals.

→ A product selection committee was created that included external tasters not associated with the SAQ.

LINKS OF THE SAME CHAIN

SALES NETWORK OPERATIONS

THE YEAR SHONE THE SPOTLIGHT ON THE STRENGTH OF THE OUTLET NETWORK AND ON IMPROVED AND BETTER-THAN-EVER CUSTOMER SERVICE THANKS TO THE DEDICATED SALES TEAMS WHICH DEMONSTRATED GREAT SKILL AND AN INNATE SENSE OF COMMITMENT.

→ A new direction was established for *SAQ Restauration* to improve service to customers in the restaurant, hotel and bar business, known collectively as license holders.

→ An accreditation program for wine consultants was developed in partnership with the *Institut de tourisme et d'hôtellerie du Québec* (ITHQ).

→ Outlet efficiency was improved through the use of wireless technology (radio frequency readers) and by simplifying a number of operational procedures.

→ A schedule of weekly flash meetings was organized to facilitate communication and strengthen relationships within individual teams.

→ In July 2005 a new in-store marketing approach was adopted.

→ The sales networks made a valuable contribution to performance by applying strict limits on operating expenses (12.1% of net sales).

THE ESSENCE OF SYNERGY: COMMUNICATION!

LOGISTICS AND DISTRIBUTION

FOR THE LOGISTICS AND DISTRIBUTION DIVISION, PERFORMANCE AND COMMUNICATION RESULTED IN A YEAR OF CONSOLIDATION. DOING THINGS WELL IS ALL ABOUT DISCUSSING THE BEST STRATEGIES. THIS DIVISION IS A STELLAR EXAMPLE OF INTERNAL COHESION.

→ Efficiency increased by nearly 7%, and a number of procedures were improved, including merchandise receiving, cyclical counting and order processing quality.

→ The *Marc*™ warehouse management system at the distribution centre in Québec City (CDQ) was updated, an assignment carried out with gusto and without any impact on customers thanks most notably to the IT Resources team.

→ A B2B transactional platform was set up between the SAQ and transport companies to track orders every step of the way, from the moment they are sent to suppliers to the time the products reach the distribution centres.

→ Order processing at the outlets was improved to enable just-in-time restocking based on actual sales and to reduce delivery time.

→ Regular communication sessions with employees were held. The foundation has been laid; all that remains is to develop the mechanisms that will allow the entire company to benefit from the ideas and opinions of its personnel.

→ Operating costs relating to license holder transactions were reduced. Small orders are now handled by the outlets, while larger orders are processed more frequently by the specialized centres in Montréal and Québec City.

THE YEAR IN REVIEW

A WINNING TEAM!

IT RESOURCES

MAJOR TECHNOLOGICAL CHANGES HELPED THE COMPANY ACHIEVE ITS STRATEGIC GOALS, THANKS TO TEAMWORK AND INDIVIDUAL EFFORTS. IN ADDITION, CONTINUOUS WORK TO IMPROVE OPERATING AND DELIVERY PROCESSES HELPED LIMIT OPERATING EXPENSES, EXCLUDING DEPRECIATION COSTS FOR THE DIVISION, TO $26.9 MILLION, DOWN 13.8% FROM THE 2004-2005 AMOUNT OF $31.2 MILLION.

→ In collaboration with the Logistics and Distribution team, the IT Resources team implemented the new *Marc*™ warehouse management system at the Québec City distribution centre (QDC), installed a new radio frequency infrastructure in Montréal and Québec City, and launched an order tracking portal to improve supply chain performance.

→ A new gift card was introduced.

→ IP telephony was adopted, multifunction printers were installed, the central computer was put into operation and better service agreements were established with suppliers to cut IT-related operating costs.

→ An IT back-up plan was implemented to replace the central computer system in case of physical damage, major breakdown or natural disaster.

→ The IT processes linked to planning, portfolio management and project management were streamlined.

DISCIPLINE + MORE DISCIPLINE = SUCCESS

FINANCES

DURING THE 2005-2006 FISCAL YEAR, A MEDIA CIRCUS EMERGED OVER THE SAQ'S PURCHASING AND PRICING POLICIES. MEANWHILE, THE FINANCE TEAMS WERE ON THE BALL. AS A RESULT, THE COMPANY RETURNED TO PROFITABILITY, RATIOS IMPROVED AND THE ESCALATING COSTS WERE BROUGHT TO A HALT. BETTER STILL, AVERAGE BANK INDEBTEDNESS LEVELS MELTED AWAY LIKE SNOW IN JULY, NOT TO MENTION ALL THE EFFORTS DEDICATED TO SUSTAINABLE DEVELOPMENT. A BEHIND-THE-SCENES SUCCESS STORY.

→ Fifty-three business risks were identified, evaluated and categorized according to their probability and potential impact.

→ A number of technology projects were carried out to optimize financial data processing, including the roll-out of a payment server for the two call centres, the transfer of electronic data to financial institutions (payroll, etc.) and mass payments to foreign suppliers.

→ An investment committee was set up to raise the quality of investment decisions by financially analyzing and monitoring the earnings of the projects that were proposed.

→ A real-estate master plan was implemented to improve office space management. Two phases of the plan were implemented with an employee satisfaction rate of 90% (of those concerned), generating annual savings of $1.3 million.

→ Eight new outlets were opened, nine outlets were relocated to new premises, five changed banners and 32 were renovated.

→ Biodegradable and cotton bags bearing the SAQ logo were introduced.

→ An environmental compliance audit was conducted by an external firm.

THE PROTECTION, TRANSPARENCY AND INTEGRITY OF INFORMATION

GENERAL SECRETARIAT AND LEGAL SERVICES

THIS DIVISION INCLUDES A NUMBER OF DEPARTMENTS THAT OVERSEE THE SMOOTH OPERATION OF THE COMPANY AND ENSURE COMPLIANCE WITH THE LAWS AND REGULATIONS TO WHICH THE SAQ IS SUBJECT.

→ The Legal Services division helped revise the purchasing and marketing policies and served on interdepartmental committees. The division's legal specialists provided professional services and advice in areas such as IT contracts and labour relations.

→ The Access to Information and Document Management departments handled some 200 access-to-information and document requests. The staff offered valuable advice to other SAQ departments to ensure that the personal information in the SAQ's possession remains as well-protected as possible.

→ The role of the Internal Audit Department was strengthened, enabling it to become a pillar of good governance.

→ The General Secretariat helped revise the Audit Committee and Human Resources Committee charters in order to equip them with regulatory guidelines inspired by the principles of governance.

FOR THE WORLD OF TOMORROW

PUBLIC AFFAIRS AND COMMUNICATIONS

CHANGES TO THE SAQ'S CORPORATE DONATION AND SPONSORSHIP POLICIES HAVE TRANSFORMED THE COMPANY'S IMAGE. RELATIONS WITH THE MEDIA HAVE ALSO TAKEN AN UNEXPECTED TURN. A GLANCE AT CONCRETE ACCOMPLISHMENTS IN TURBULENT TIMES.

→ The SAQ sponsored some 500 public events, took part in charitable associations' fundraising campaigns, and attended 25 wine shows, activities on which the organization spent $5 million.

→ A new corporate donations and sponsorships policy was implemented, favouring organizations linked to the health, education and culture sectors.

→ The department handled 70,000 instances of customer contact, including 60,000 phone calls and 10,000 e-mail messages.

→ It organized 12 tasting sessions for wine journalists.

→ It held press conferences on important issues.

→ It launched and held official openings for eight new outlets.

→ The Internal Communications, Public Affairs, Corporate Donations and Sponsorships, and Customer Service departments were all combined to form a single division.

THE YEAR IN REVIEW

EVERY DEPARTMENT'S BUSINESS PARTNER

HUMAN RESOURCES

IN 2005-2006, THE HUMAN RESOURCES DIVISION POSITIONED ITSELF AS A BUSINESS PARTNER BY GETTING CLOSELY INVOLVED IN CHANGE-ORIENTED PROJECTS. EFFORTS WERE DEVOTED TO EMPOWERING OUTLET EMPLOYEES AND DEVELOPING THEIR CUSTOMER-CONSULTING EXPERTISE AND TO HELP MANAGERS DEVELOP THEIR LEADERSHIP SKILLS. A GREAT DEAL OF EFFORT WAS ALSO APPLIED TO DRAFTING A NEW COLLECTIVE AGREEMENT FOR OUTLET PERSONNEL AND TO DEVELOP A NEW LABOUR/MANAGEMENT RELATIONS FRAMEWORK.

→ Employee recognition and management training programs were developed.

→ Organizational skills were integrated into the performance management process.

→ A succession planning and selection process was developed for the vice-president and outlet management positions.

→ An integrated change-management approach was developed to support managers of priority projects.

→ The new collective agreement between the SAQ and the *Syndicat des employé(e)s de magasins et de bureaux* (SEMB-CSN) came into effect, and negotiations with the *Syndicat du personnel technique et professionnel* (SPTP) commenced.

→ An agreement regarding pay equity was reached with the *Syndicat des employé(e)s de magasins et de bureaux* (SEMB-CSN).

WORK FORCE
(by sex and employee group)
At March 25, 2006

	Men	Women	Total
Senior managers	89	35	124
Middle managers	56	31	87
Outlet managers	302	90	392
Non-unionized personnel	7	52	59
SPTP-SAQ	251	271	522
SEMB-CSN (offices)	30	58	88
SEMB-CSN (outlets)[1]	1,116	743	1,859
SEMB-CSN (outlets – part-time)	955	1,278	2,233
CUPE SL3535 (STSAQ)	592	38	630
TOTAL[2]	**3,398**	**2,596**	**5,994**

SPTP: 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

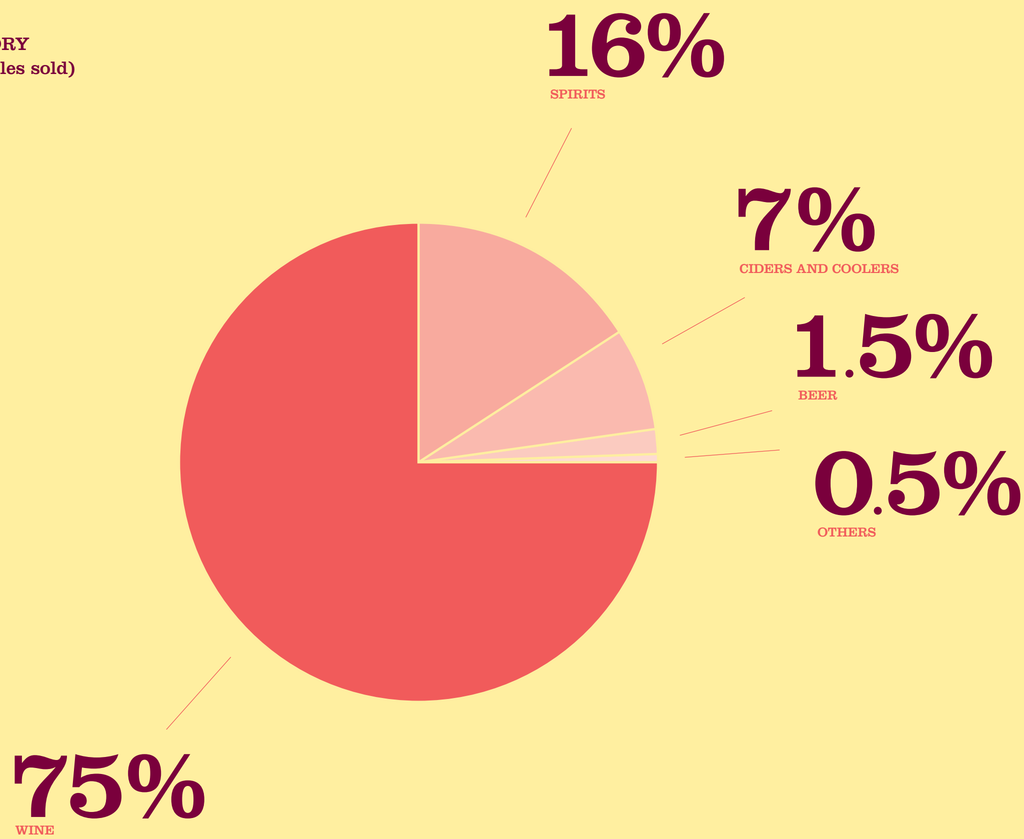
1 This category includes new regular weekend positions.

2 The work force listed is complemented by 103 part-time office or temporary employees working in the administrative departments. Also, 272 temporary and non-permanent regular employees work during peak periods or as replacements for permanent employees at the warehouses.

TRENDS

ARE QUEBECERS HEAVY, MODERATE OR LIGHT DRINKERS? WHAT DO THEY DRINK, AND HOW MUCH DO THEY PAY? ARE THEY TREND-SETTERS OR TREND-FOLLOWERS? HERE ARE A FEW INTERESTING TIDBITS DERIVED FROM SAQ AND STATISTICS CANADA DATA.

SALES VOLUME, BY PRODUCT CATEGORY
(as a percentage of bottles sold)



GENERAL TRENDS

QUÉBEC… VIVE LA DIFFÉRENCE !

Out of every 100 bottles purchased from the SAQ, 75 contain wine, 16 spirits, seven ciders or coolers, and one and a half, beer. The overwhelming popularity of wine is an interesting development that is unique to Quebec consumers. Not big on spirits, Quebecers regularly drink wine with their meals, a behaviour that is a great deal more European than North American. But we're certainly not the first to have noticed…

TRENDS

THE SAQ SELLS THOUSANDS OF PRODUCTS FROM AROUND THE WORLD: 6,051 WINES, 766 SPIRITS, 266 CIDERS AND COOLERS, 66 BEERS AND 94 RELATED PRODUCTS. SNAPSHOTS OF RATHER UNIQUE CONSUMPTION HABITS.

SPIRITS

25%

LIQUEURS SCORE HIGH IN QUEBEC

Are Quebecers Cossacks at heart? The broad category of liqueurs like cognac and triple sec is a rather popular one, accounting for 25% of spirits sold at the SAQ, but Quebecers are also rather fond of vodka, which constitutes 20.5% of sales for the category. Be it Russian or Polish, soft and full or ultra-fine, Quebecers adore vodka. *HA 3ДOPObe*! (That's "To your health!" in Russian.)

TABLE WINES

20%

MERLOT REMAINS THE MOST POPULAR

Like last year, Merlot is by far the most popular red wine, scoring 20% of sales. Why Merlot? Because it's renowned for being smooth and full-bodied and because the Merlot grape creates colourful, aromatic, flavourful and intense wines. Next in popularity is Cabernet-Sauvignon, which comes in at 13.5%.

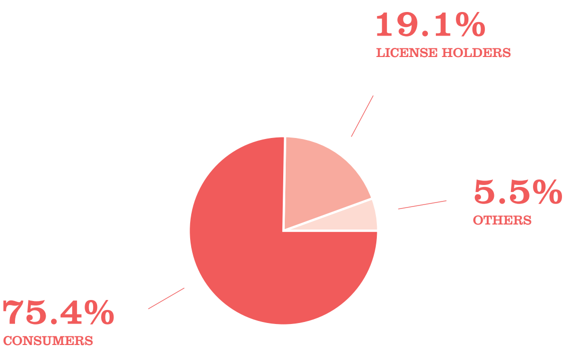
Not surprisingly, Quebecers love the bold, rich and deeply coloured wines this blend produces along with its complex aromas of ripe fruit, black currant, blackberry and raspberry. In fact, it's the most widely known of the dark varieties.

WHITE WINES

25%

WHITE'S YOUR COLOUR… CHARDONNAY ANY DAY!

Chardonnay is by far the leading white grape variety, earning a score of 25%, followed by Sauvignon, or *fumé blanc*, at 14%. The former variety is known for its rich, round texture and aromas of fresh butter and toasted bread. The latter produces fresh, crisp wines with a herby bouquet reminiscent of meadows, hay, straw and spices. One can also detect aromas of white flowers and geranium.



WINES… À LA CARTE

RESTAURATEURS ALSO STOCK UP AT THE SAQ

Three times out of four, customers who visit an SAQ outlet are there for their personal needs. In the fourth case, it's a license holder—a restaurateur, hotel operator or bar owner. License holders can rely on the help of employees at the two dedicated contact centres, or they can simply visit any of the nearly 250 outlets authorized to stamp bottles – this is a requirement and control measure implemented by the *Régie des alcools, des courses et des jeux du Québec* – where they can also receive special advice tailored to their needs.

RED, WHITE, ROSÉ

RED'S NICE, BUT WHITE SUITS YOU, TOO…

Clearly, Quebecers prefer red wines over white, nearly three times out of four (72.7% versus 23.9%), but they also fancy a nice glass of rosé from time to time (3.4%), like while enjoying a summer breeze on the patio or having a picnic by the lake. Delightful!

SALES

36%

FRANCE MAINTAINS THE LEAD

France and Italy have long been soccer rivals and often compete head-to-head in major tournaments, as was the case with the 2000 European Cup. Their rivalry also extends to the vineyards and, not unexpectedly, to the Quebec market. France remains ahead with over 36% of sales, but its lead is being whittled away by Italy, which is currently taking a 23% share of the market. Is this change linked to the appeal of the "amazing Tuscans", to the rave reviews in the general and specialized press, or to more aggressive marketing? All of the above, no doubt! *Cheers!*

WE'RE ALSO SEEING A SLIGHT SHIFT IN MARKET SHARE AWAY FROM THE MAJOR TRADITIONAL WINE-PRODUCING COUNTRIES TO OTHERS LIKE SPAIN (8.5%), AUSTRALIA (5.0%) AND THE UNITED STATES (5.0%).

TRENDS

7.8 LITRES

OF ABSOLUTE ALCOHOL

CANADIAN CONSUMPTION

QUEBECERS HAVE ACQUIRED QUITE A TASTE FOR WINE…

It's common knowledge that, insofar as alcohol consumption is concerned, Quebecers score well. They drink more wine and beer than they do spirits, ranking second and third in Canada, respectively. According to the most recent data from Statistics Canada, total individual consumption of absolute alcohol is 7.8 litres in Quebec, which puts the province in sixth place in Canada, tied with Ontario and Nova Scotia. Better still, this slowly increasing consumption occurs on a more regular basis than elsewhere, which accounts for the positive score.

SCOTLAND,
NEW ZEALAND,
CORSICA,
CYPRUS,
JAPAN,
MOROCCO,
PORTUGAL,
THE NETHERLANDS,
CALIFORNIA…

SPECIALTY PRODUCTS

ALTHOUGH THE SAQ COULD ACHIEVE JUST ABOUT THE SAME LEVEL OF SALES IF IT SOLD ONLY ITS REGULAR PRODUCTS, WHICH REPRESENT 21% OF THE AVAILABLE SELECTION, THE COMPANY ASPIRES TO KEEP DISCOVERING NEW WINES AND SPIRITS, WHICH BECOME THE SAQ'S SPECIALTY PRODUCTS.

Most people are surprised to learn that 88% of the SAQ's sales stem from its 1,500 "regular" products, the remainder coming from specialty products acquired through a continuous supply or in batches. For the most part, these wines carry a higher price tag, are produced in small quantities or are aimed at a very specific market, such as organic or kosher wines. Acquiring these 6,000 or so wines, unearthed as far away as Cyprus and New Zealand, is a white-glove affair involving custom-tailored logistics.

BETWEEN

$10

AND

$15

WINES AND SPIRITS

SALES OF WINES PRICED AT BETWEEN $10 AND $15 ARE ON THE RISE, A TREND THAT SHOWS NO SIGNS OF SLOWING AND REFLECTS A TASTE FOR DISCOVERY.

The joy of discovering, feeling and achieving pure happiness is priceless. Quebecers are willing to stretch their budgets a little to find a bottle of wine that will fulfill their higher expectations. Demand for wines costing between $10 and $15 increased in 2005-2006, inching its way up to 43.4% from the previous year's figure of 42.2%, while bottles priced at more than $15 are purchased by consumers 20.8% of the time. The moral of the story: life is too short to pass up good wine!

The same phenomenon applies to spirits, with Quebecers increasingly drawn to products over $25, which represent 21.9% of spirits purchased versus 20.6% in 2004-2005 and 20.3% the year before.

Top 10 WHITE WINE REGIONS

Without a doubt, French wines are by far still the most popular. Of the top 10 white wine appellations, five are from France (Alsace, Bordeaux, Muscadet de Sèvre-et-Maine, Bourgogne Aligoté and Chablis), four are Italian (Colli Albani, Orvieto Classico, Castelli Romani and Cerveteri) and one is Portuguese (Vinho Verde).

Top 10 RED WINE REGIONS

Once again, French wines take the lead, claiming six of the 10 most popular reds (Bordeaux, Coteaux du Languedoc, Brouilly, Côtes du Rhône, Corbières and Cahors). Spain comes next with its three star attractions (Cariñena, Valencia and Valdepeñas), followed by Italy with its Montepulciano d'Abruzzo.

WHITE WINE

1. **Alsace**
2. **Bordeaux**
3. **Colli Albani**
4. **Muscadet de Sèvre-et-Maine**
5. **Bourgogne Aligoté**
6. **Orvieto Classico**
7. **Castelli Romani**
8. **Cerveteri**
9. **Vinho Verde**
10. **Chablis**

RED WINE

1. **Bordeaux**
2. **Cariñena**
3. **Montepulciano d'Abruzzo**
4. **Coteaux du Languedoc**
5. **Valencia**
6. **Brouilly**
7. **Côtes du Rhône**
8. **Corbières**
9. **Cahors**
10. **Valdepeñas**

TRENDS

PER CAPITA CANADIAN CONSUMPTION (PERSONS AGED 15 AND OVER*)

2003-2004 fiscal year

	Wines (in litres)	Rank	Beers (in litres)	Rank	Spirits (in litres)	Rank	Total (in litres of absolute alcohol)	Rank	Amount (in dollars)	Rank
Yukon Territory	19.1	1	145.5	1	14.6	1	12.9	1	1,035.2	1
Alberta	14.3	4	91.3	4	7.9	10	8.9	2	615.8	6
Northwest Territories	8.0	9	80.9	8	9.8	4	8.6	3	858.9	2
Newfoundland & Labrador	5.0	12	99.7	2	10.5	2	8.6	3	733.8	3
British Columbia	15.0	3	78.0	12	9.2	8	8.0	5	631.9	5
Quebec	**18.0**	**2**	**93.6**	**3**	**4.0**	**12**	**7.8**	**6**	**682.1**	**4**
Nova Scotia	8.6	6	81.6	6	9.7	5	7.8	6	613.0	7
Ontario	11.7	5	84.6	5	8.7	9	7.8	6	601.7	8
Prince Edward Island	7.6	10	80.3	9	10.2	3	7.6	9	573.6	9
Manitoba	8.1	8	78.9	11	9.7	5	7.6	9	530.1	11
Saskatchewan	5.5	11	79.7	10	9.3	7	7.2	11	524.0	12
New Brunswick	8.4	7	81.4	7	7.1	11	6.9	12	551.7	10
Nunavut	Data unavailable									
Canada	13.3		86.3		7.6		7.9		623.6	

PER CAPITA CONSUMPTION IN QUEBEC (PERSONS AGED 15 AND OVER*)

1999-2000 to 2003-2004 fiscal years

	2000	2001	2002	2003	2004
WINE					
in litres	15.3	16.3	16.7	17.4	18.0
in dollars	164.2	181.8	194.5	215.5	230.8
BEER					
in litres	95.3	93.3	94.0	93.9	93.6
in dollars	327.6	318.2	336.0	368.7	369.4
SPIRITS					
in litres	2.7	2.9	3.6	4.1	4.0
in dollars	64.8	69.8	75.3	80.8	81.8
TOTAL[1]					
in litres	113.3	112.6	114.2	115.4	115.5
in dollars	556.6	569.7	605.8	665.0	682.1

* Source: Statistics Canada

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

FINANCIAL SECTION

ACCOUNTABILITY REPORT

The SAQ is a public corporation whose mission is to sell alcoholic beverages, a mandate that involves importing, warehousing, distributing, marketing and selling several thousand products. The company's goal is to be an integral part of Quebecers' daily lives, and its mission is to serve people throughout the province by offering a wide variety of quality alcoholic beverages. The need for transparency with respect to the business plans and earnings of government agencies and public corporations has led the SAQ to share its projections for the coming fiscal year. The section entitled "Accountability" describes the SAQ's forecasts and financial achievements over the past five years.

OPERATING RESULTS

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

	2007	2006		2005		2004		2003	
	Forecast	Actual	Forecast	Actual[1]	Forecast	Actual	Forecast	Actual	Forecast
Gross sales	**2,928.6**	2,765.3	2,820.3	2,544.7	2,697.0	2,653.0	2,568.0	2,413.5	2,340.0
Net sales	**2,305.0**	2,173.1	2,228.9	1,986.9	2,115.4	2,070.1	1,991.7	1,870.0	1,821.9
Gross earnings	**1,180.7**	1,114.2	1,133.8	995.5	1,077.8	1,016.9	1,003.2	934.3	940.3
Operating expenses	**478.5**	457.3	476.7	449.7	476.8	446.1	453.0	393.9	420.6
Net earnings	**702.2**	656.9	657.1	545.8	601.0	570.8	550.2	540.4	519.7

[1] The fiscal year was disrupted 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)

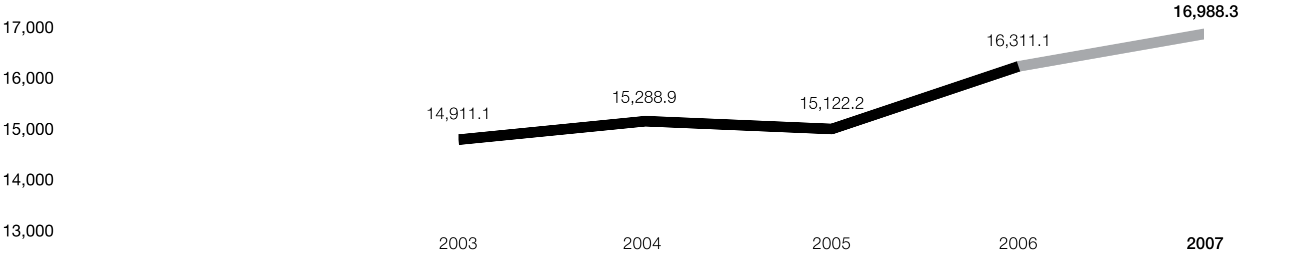
	2007	2006	2005	2004	2003
	Forecast	Actual	Actual[1]	Actual	Actual
Capital projects – Distribution and administrative centres	**8,228.2**	6,340.4	10,007.7	11,167.7	43,583.0
Reorganization of the outlet network	**7,664.3**	3,710.3	7,271.1	10,570.2	18,596.1
Development of information systems	**10,197.6**	11,972.5	10,581.4	30,588.6	44,127.5
Rolling stock and mobile equipment	**1,629.6**	1,025.1	2,776.6	3,005.5	2,468.7
Specific equipment	**882.1**	1,814.7	1,546.2	2,077.2	1,923.7
ALL CAPITAL EXPENDITURES	**28,601.8**	24,863.0	32,183.0	57,409.2	110,699.0

[1] The fiscal year was disrupted by a labour conflict.
To conform with the basis of presentation adopted in the current year, certain figures previously reported have been reclassified.

COMMERCIAL DATA

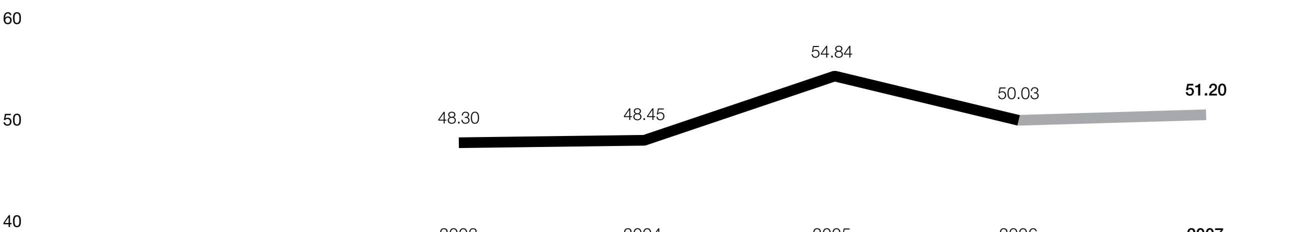
The following three tables present certain management indicators over a five-year period.

SALES GROWTH, BY VOLUME[1]
(in thousands of cases)



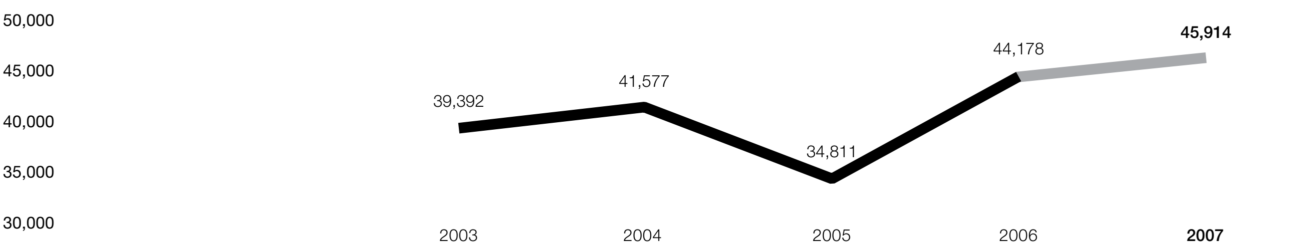
	2003 Actual	2004 Actual	2005 Actual[3]	2006 Actual	**2007 Forecast**
Variation (in thousands of cases)	811.1	377.8	(166.7)	1,188.9	**677.2**
Variation (%)	5.8	2.5	(1.1)	7.9	**4.2**

GROWTH OF AVERAGE PURCHASE[2]
(in dollars)



	2003 Actual	2004 Actual	2005 Actual[3]	2006 Actual	**2007 Forecast**
Variation (%)	4.2	0.3	13.2	(8.8)	**2.3**

GROWTH IN CUSTOMER TRAFFIC
(in thousands of transactions)



	2003 Actual	2004 Actual	2005 Actual[3]	2006 Actual	**2007 Forecast**
Variation (%)	6.2	5.5	(16.3)	26.9	**3.9**

[1] 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.

[2] The gross sales figures used to calculate the average purchase include the sales at outlets and specialized centres.

[3] The fiscal year was disrupted by a labour conflict.

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

FINANCIAL REVIEW

Financial Overview

For the 2005-2006 fiscal year, the SAQ's financial results were nothing less than outstanding: consolidated net earnings of $659.9 million, the highest ever for the company. Following a labour conflict that disrupted sales during the previous fiscal year, the value of retail sales at the SAQ and government revenues derived from its operations skyrocketed during 2005-2006 to reach new levels. At a time when the economy is experiencing substantial growth, these results demonstrate the effectiveness of the measures the SAQ implemented to carry out its strategic plan. These measures had a positive impact on customer numbers at the outlets and, consequently, on profits. New and exciting promotional campaigns supported by better customer service and overall business practices enabled the company to achieve consolidated gross sales of $2.765 billion during the last fiscal year and to contribute $1.305 billion in tax revenues to the federal and provincial governments.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the SAQ accounts and its proportionate ownership of the assets, liabilities, products and expenses of two joint ventures, *Maison des Futailles, S.E.C.* and *Société d'investissement M.-S., S.E.C.* These shares are recognized using the proportionate consolidation method. For the 2005-2006 fiscal year, the SAQ's proportionate ownership of these two joint ventures was valued at $3.9 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 correspond to the value of retail sales less commodity taxes, discounts, returns and specific levies. For the 2005-2006 fiscal year, consolidated net sales, excluding sales to brewers and beer distributors, climbed 11.5% to $2.0136 billion, an increase of $208.3 million over the previous year. Corresponding sales volumes reached 146.9 million litres, up 7.9% over the previous year's volume of 136.1 litres. However, due to the labour conflict that affected SAQ outlets in 2004-2005, it is difficult to compare sales results of the previous two fiscal years.

By Sales Network

Netsales through the network of outlets and specialized centres grew by 16.4% or $247.2 million over last year, to reach $1.7532 billion. Sales volumes rose 13.5% from 101.2 million to 114.9 million litres. This resurgence stems from a particularly strong third quarter, thanks to brisk holiday sales at the SAQ's full network of outlets. Well-focused promotional campaigns, modest price increases and improved customer service also contributed to these noteworthy results from the past fiscal year.

However, net sales through the network of wholesale grocers decreased by 13% over the previous year, finishing at $260.4 million. Sales volumes dropped by 8.5% to 31.9 million litres, due in part to the labour conflict that affected SAQ outlets, when a high number of customers shopped at Quebec grocery stores.

Furthermore, net sales to brewers and beer distributors totalled $159.5 million in 2005-2006, down $22.1 million or 12.2% over the previous year. These sales do not generate any gross earnings.

BY PRODUCT CATEGORY

Accounting for nearly 75% of the overall increase in net sales, wines certainly made their mark in 2005-2006, reaching $1.4672 billion, an increase of $155.2 million or 11.8% over the previous year. The corresponding sales volume also increased by 8.4%, to 116.6 million litres in the same period.

Net sales of spirits, sold exclusively through the SAQ's outlets and specialized centres, regained some momentum and climbed to $460.4 million, an increase of $55.4 million or 13.7% over the previous year. The sales volume in this category grew 13% to 18.2 million litres.

The only category to experience a slight decline is that of imported and microbrewery beers, ciders and coolers, which was down 2.6% from $88.3 to $86.0 million. Sales volumes settled at 12.0 million litres, down from the previous year's amount of 12.4 million.

GOVERNMENT REVENUES

Government revenues from SAQ operations reached a record $1.3047 billion, a significant increase of $161.5 million or 14.1% compared with $1.1432 billion for the previous year.

The Government of Quebec's revenues rose by $136.3 million, or nearly 16%, to $994.2 million, thanks to a higher dividend payment and consumption taxes, the latter the direct consequence of the sales increase. A further $310.5 million, an increase of $25.2 million, was paid to the federal government, also primarily due to the increase in sales.

The relative weighting of the fiscal elements in the price of items sold by the SAQ, including the dividend, remained stable in 2005-2006 at 50.5%. Over the past decade, the SAQ's commercial activities have generated tax revenues of over $10 billion for both levels of government, representing growth of nearly 80% over that period.

GOVERNMENT REVENUES FROM OPERATIONS

(in millions of dollars)

	2006	2005
GOVERNMENT OF QUEBEC		
Dividend	**657.0**	545.0
Provincial sales tax	**184.6**	169.1
Specific tax	**108.5**	98.7
Specific license-holder tax	**44.1**	45.1
	994.2	857.9
GOVERNMENT OF CANADA		
Excise tax and customs duties	**149.4**	137.7
Goods and services tax	**161.1**	147.6
	310.5	285.3
AMOUNTS PAID DIRECTLY TO BOTH LEVELS OF GOVERNMENT BY THE SOCIÉTÉ DES ALCOOLS DU QUÉBEC	**1,304.7**	1,143.2

COST OF SALES AND GROSS MARGIN

The main components of the cost of sales include the supplier price, the land and sea freight costs to transport the product to the SAQ's distribution centres, and related federal taxes and duties. In 2005-2006, the cost of sales, excluding the portion relating to transactions with the brewers and beer distributors, was $899.5 million, compared with $809.7 million in 2004-2005. Consequently, gross earnings of $1.1142 billion were achieved in 2005-2006, up $118.7 million over the prior year amount of $995.5 billion. In terms of net sales, the gross margin was 55.3%, which is comparable to the previous year.

OPERATING EXPENSES

Operating expenses for the 2005-2006 fiscal year, including finance charges and fixed asset depreciation costs, were $457.3 million, an increase of $7.6 million, or 1.7 %, over the previous year's amount of $449.7 million.

Compensation and associated fringe benefits amounted to $270.8 million, an increase from $245.2 million in 2004-2005 attributable in large part to the labour conflict that affected the SAQ's outlets and offices for several weeks that year. Moreover, during that period, a number of administrative and operating costs were incurred in order to maintain operations at certain stores. These costs did not recur in 2005-2006.

FINANCIAL REVIEW

Constituting the second largest category of operating expenses, building occupancy expenses rose from $66.6 million to $71.2 million in 2005-2006 due to certain rent increases and additional rental space. This slight variation in total operating expenses demonstrates the effectiveness of the recently implemented streamlining measures, which helped limit annual operating expense growth to an average of 1.3% over the past two fiscal years. As a percentage of retail sales, total operating expenses accounted for 17.7% in 2005-2006; the rate in 2004-2005 was 19.2%, and 18.8% in 2003-2004.

COMPENSATION AND BENEFITS

(in millions of dollars)

	2006	2005
COMPENSATION		
Salaries	**222.0**	192.4
Overtime	**6.0**	14.4
	228.0	206.8
BENEFITS	**42.8**	38.4
	270.8	245.2

INVESTMENTS IN FIXED ASSETS

During the 2005-2006 fiscal year, the SAQ limited its investments in fixed assets to just under $25 million. Nearly $12 million was invested in IT resources, including $5.1 million to upgrade the warehouse management system and $2.1 million to acquire a new integrated telephone system. A further $10 million was used to redesign the company's facilities and update its network of outlets. The other investments included replacing and improving the rolling stock and specific equipment. All investments in fixed assets were financed by means of self-generated funds.

FINANCIAL SITUATION

As at March 25, 2006, the SAQ's total assets were established at $658.8 million, compared with $682.8 million in 2004-2005. This decline is attributed primarily to the drop in the net book value of the fixed assets whose annual depreciation expense exceeded the book value of acquisitions. A greater investment in inventory was necessary in order to meet the needs of the following weeks of operations. At the end of the fiscal year, the asset mix had changed minimally from the year before, whereas the book value of the inventory and fixed assets had respective weightings of 40.3% and 41.3% of total assets (36.6% and 43.0% as at March 26, 2005). The working capital ratio at that date was comparable to that of the previous fiscal year (0.65 at March 25, 2006, versus 0.62 at March 26, 2005).

Also, short-term liabilities decreased by $22.8 million over the previous year. Reductions of $10.3 million in accounts payable and $71.5 million in bank indebtedness are reflected in the closing balance sheet. Additionally, growth in earnings with respect to the previous fiscal year led to an increase of $59 million in the dividend payable.

The company showed satisfactory management ratios with respect to the recovery of accounts receivable, inventory turnover and settlement of accounts payable. Thanks to significant self-generated funds, the stability of its working capital and a low level of long-term indebtedness, the SAQ demonstrated a solid financial position throughout the last fiscal year.

CASH FLOW

The SAQ's activities absorbed net liquid assets of $13.7 million in 2005-2006, in contrast to the previous fiscal year, during which net liquid assets of $92.7 million had been generated.

Cash flows derived from operating activities dropped to $679.5 million, a significant decrease of $48.0 million over the previous year. This variation is the result of cash flows being utilized for major working capital investments, despite the growth in net earnings for the year.

Investment activities required cash outflows of $22.3 million in 2005-2006, compared with $30.9 million the previous fiscal year. The lower figure is largely due to a less ambitious fixed-asset acquisition program.

Moreover, financing activities required cash outflows of $670.9 million during the last fiscal year, compared with $603.9 million the previous year. Increased drawdown of bank loans, combined with the higher dividend payment in 2005-2006, led to the decrease in cash assets.

As at March 25, 2006, the SAQ's balance sheet showed cash assets of $32.6 million, compared with $46.3 million at the end of the previous fiscal year.

FINANCING OF ACTIVITIES

Due to advances on the dividend paid out periodically to the Minister of Finance of Quebec, the SAQ's sole shareholder, the company must turn to external sources to finance its activities and is consequently authorized by the Government of Quebec to contract term loans with terms of less than one year from any source as long as the sum total of its loans does not exceed $400 million.

During the last fiscal year, the average term loan balance was $247.4 million, compared with $336.4 million the previous year. The maximum loan balance reached $312.9 million, versus $351.5 million for the previous year. At the end of the fiscal year, the balance sheet carried a term loan balance of $196.4 million, compared with $267.9 million as at March 26, 2005.

Money-market financing of the company's activities incurred net carrying charges of $6.4 million, down $1.4 million over the previous year's amount. The approximately $89 million drop in the average term loan balance partly explains this reduction in financing charges.

RISK AND UNCERTAINTY

The SAQ faced a variety of claims and lawsuits, primarily for damages, totalling $9.3 million as at the end of the 2005-2006 fiscal year. No provisions are recognized in the SAQ's accounting records with respect to these contingencies. Based on its current knowledge and consultations with legal counsel, management does not expect these litigations, either individually or as a whole, to have a significant effect on the SAQ's consolidated financial statements. Should there be a need to make any payment whatsoever with respect to these claims and legal actions, the expense will be applied against the results of the fiscal year in which it is incurred.

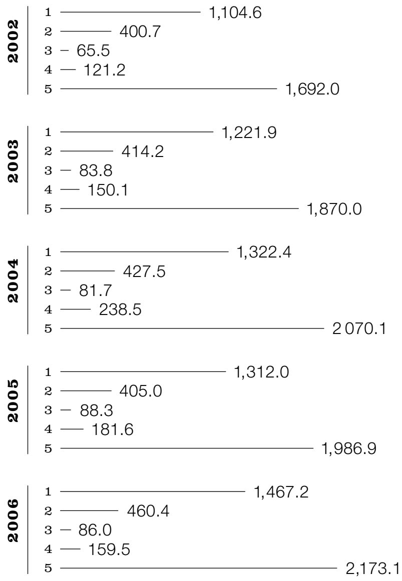
OUTLOOK

As part of its strategic planning process, the SAQ views its interest in *Maison des Futailles*, *S.E.C.*, as an asset that is extraneous to its core activities, and consequently, subject to be sold. Last October, an external firm was given the mandate to oversee the eventual sale of *Maison des Futailles*, *S.E.C.*, to represent the SAQ in discussions with any potential acquirer and to maximize the value of the SAQ's interest in the joint venture, while ensuring a transparent process. In March 2006, a private Canadian company submitted a letter of intent to the shareholders of the joint venture; they accepted the letter of intent, thereby granting the firm exclusivity with respect to negotiations, which are expected to extend over a period of several weeks and will include a due diligence review by the potential acquirer. Certain aspects of this transaction remain to be finalized.

Moreover, over the next few years, the SAQ will deploy its strategic plan with the following objectives in mind: enhancing the customer experience, improving the company's financial performance, earning a reputation for excellence in human resource management and boosting the company's overall value. As it enjoys favourable market conditions, the SAQ must, more than ever, seize the business opportunities that come its way. Accomplishing this, however, will mean that it must possess the most forward-thinking and best-suited retail sales management practices and work methods to become the best retailer in Quebec.

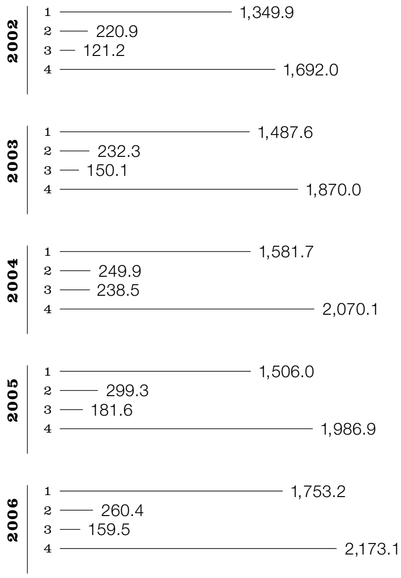
FINANCIAL REVIEW

NET SALES BY PRODUCT CATEGORY
(in millions of dollars)



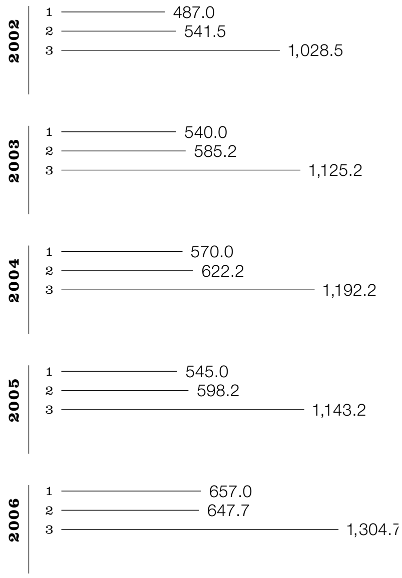
1 Wines
2 Spirits
3 Imported and microbrewery beers, ciders and coolers
4 Beers sold to brewers and beer distributors
5 Total

NET SALES BY SALES NETWORK
(in millions of dollars)



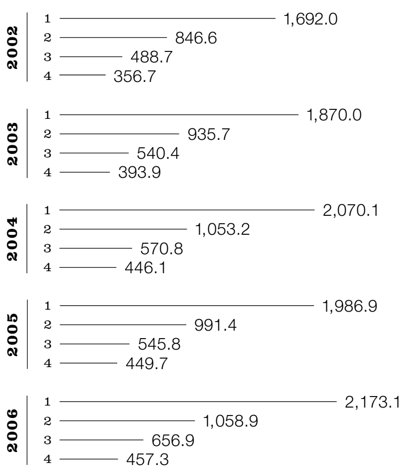
1 Outlets and specialized centres
2 Wholesale grocers
3 Brewers and beer distributors
4 Total

GOVERNMENT REVENUES FROM OPERATIONS
(in millions of dollars)



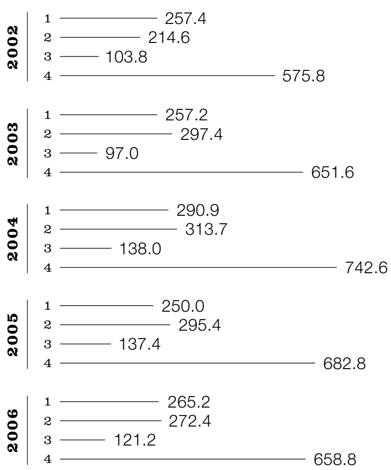
1 Dividend
2 Taxes and duties paid to the governments
3 Total

OPERATING RESULTS
(in millions of dollars)



1 Net sales
2 Cost of sales
3 Net earnings
4 Operating expenses

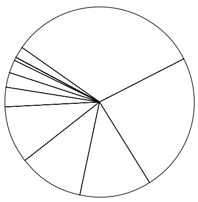
ASSET MIX
(in millions of dollars)



1 Inventory
2 Fixed assets
3 Other assets
4 Total

The 2005 fiscal year was disrupted by a labour conflict.

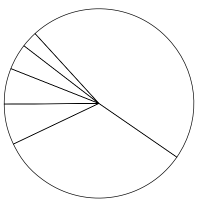
To conform with the basis of presentation adopted in the current year, certain figures previously reported have been reclassified.



ITEMS CONSTITUTING GROSS SALES IN THE 2005-2006 FISCAL YEAR

(in percentages and in millions of dollars)
Total gross sales **$2,765.3 million**

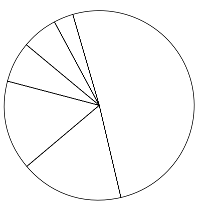
32.9%	Supplies **$909.5M**
23.8%	Dividend paid **$657.0M**
12.2%	Taxes paid to the Government of Quebec **$337.2M**
11.2%	Taxes and duties paid to the Government of Canada **$310.5M**
9.8%	Compensation and benefits **$270.8M**
3.2%	Compensation paid to wholesale grocers, compensation to agencies, returns and discounts **$88.0M**
2.6%	Building occupancy expenses **$71.2M**
2.1%	Equipment use and supply expenses **$57.9M**
0.5%	Freight out and communications **$13.3M**
0.1%	Contributions to the Environmental Fund **$3.5M**
0.1%	Contributions to the *Fonds Éduc'alcool inc.* **$2.3M**
1.5%	Other items **$44.1M**



BREAKDOWN OF THE SELLING PRICE

IMPORTED WINE, 750 ML FORMAT
(in percentages and dollars)
Retail price: $15.35 per bottle
March 25, 2006

46.4%	Markup **$7.12** [1]
33.5%	Supplier price, in Canadian dollars, including transport **$5.15**
7.0%	Provincial sales tax **$1.07**
6.1%	Federal goods and services tax **$0.93**
4.3%	Specific taxes paid to the Government of Quebec **$0.67**
2.7%	Customs duties paid to the Government of Canada **$0.41**



BREAKDOWN OF THE SELLING PRICE

LOCAL SPIRITS, 750 ML FORMAT
(in percentages and dollars)
Retail price: $21.75 per bottle
March 25, 2006

51.0%	Markup **$11.10** [1]
17.5%	Supplier price, in Canadian dollars, including transport **$3.82**
15.3%	Excise tax paid to the Government of Canada **$3.32**
7.0%	Provincial sales tax **$1.52**
6.1%	Federal goods and services tax **$1.32**
3.1%	Specific taxes paid to the Government of Quebec **$0.67**

[1] Markup covers the cost of selling, marketing, distribution and administration, as well as contributing to the annual payment of a substantial dividend to the Minister of Finance.

MANAGEMENT'S 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. They reflect management's best judgment and estimates based on currently available information.

Within the framework of its responsibilities, the management of the Société des alcools du Québec maintains an internal audit system designed to provide reasonable assurance that the company's assets are adequately protected, that all transactions 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 Audit Department regularly reviews the accounting procedures and management systems. Its findings and recommendations are then provided to the management, which acts accordingly.

The SAQ Board of 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 performs this function through the Audit Committee, which consists solely of independent directors. The Board also periodically reviews the consolidated financial statements and 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 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 consideration, within reasonable limits, all important elements and data available as of May 16, 2006.

SYLVAIN TOUTANT
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

RICHARD GENEST
VICE-PRESIDENT AND
CHIEF FINANCIAL OFFICER

AUDITORS' 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 25, 2006, 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 that 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 statements.

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 25, 2006, 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
CHARTERED ACCOUNTANTS
MONTRÉAL, MAY 16, 2006

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Fiscal year ended March 25, 2006
(in thousands of dollars)

	2006	2005
GROSS SALES (note 6)	$ 2,765,309	$ 2,544,715
Taxes, duties, discounts and other (note 6)	592,191	557,811
NET SALES (note 6)	2,173,118	1,986,904
OPERATING EXPENSES		
Cost of products sold (note 6)	1,058,939	991,397
Selling and marketing, distribution and administrative expenses	403,408	392,630
	1,462,347	1,384,027
EARNINGS BEFORE FINANCING EXPENSES, DEPRECIATION, OTHER INCOME (EXPENSES) AND INCOME TAX EXPENSES	710,771	602,877
FINANCING EXPENSES AND DEPRECIATION		
Financing expenses (note 7)	6,436	7,798
Depreciation of fixed assets	47,006	48,444
Depreciation of the building rented under a capital lease	407	407
Depreciation of other assets	239	245
	54,088	56,894
EARNINGS BEFORE OTHER INCOME (EXPENSES) AND INCOME TAX EXPENSES	656,683	545,983
OTHER INCOME (EXPENSES)		
Share in the earnings of a company subject to significant influence	–	(462)
Amortization of the deferred gain on the disposal of assets to a joint venture	270	270
Minority interest in the earnings of a joint venture subsidiary	–	(8)
	270	(200)
EARNINGS BEFORE INCOME TAXES	656,953	545,783
INCOME TAXES		
Current	15	18
Future	(11)	14
	4	32
NET EARNINGS	656,949	545,751
RETAINED EARNINGS AT BEGINNING OF YEAR	5,611	4,860
DIVIDEND	(657,000)	(545,000)
RETAINED EARNINGS AT END OF YEAR	$ 5,560	$ 5,611

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

CONSOLIDATED BALANCE SHEET

March 25, 2006
(in thousands of dollars)

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (note 20)	$ 32,540	$ 46,282
Accounts receivable (note 8)	58,216	59,219
Inventory (note 9)	265,235	249,967
Prepaid expenses	17,308	16,772
	373,299	372,240
Debentures, 8.66%	–	2,000
Fixed assets (note 10)	267,933	290,472
Building rented under a capital lease (note 11)	4,477	4,884
Consolidated goodwill	12,302	12,388
Other assets (note 12)	806	847
	$ 658 817	$ 682 831
LIABILITIES		
CURRENT LIABILITIES		
Bank loans (note 13)	$ 196,396	$ 267,930
Suppliers and other creditors (note 14)	256,497	266,817
Dividend	124,000	65,000
	576,893	599,747
Debentures, 8.66%, maturing July 1, 2009 (note 15)	1,500	2,000
Capital lease obligation (note 16)	7,007	7,996
Deferred gain on the disposal of the assets to a joint venture (note 17)	3,487	3,757
Accrued benefit liability – cumulative sick leave credits (note 18)	33,104	32,752
Accrued benefit liability – retirement plan (note 18)	1,237	900
Future income taxes payable by the joint venture subsidiary	29	40
Minority interest in the equity capital of a joint venture subsidiary	–	28
	623,257	647,220
SHAREHOLDER'S EQUITY		
EQUITY / SHARE CAPITAL		
Authorized, issued and paid		
300,000 shares valued at $100 each	30,000	30,000
RETAINED EARNINGS	5,560	5,611
	35,560	35,611
	$ 658,817	$ 682,831

Contingencies and commitments (note 19)

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

ON BEHALF OF THE BOARD OF DIRECTORS

MICHÈLE THIVIERGE
ACTING PRESIDENT OF
THE BOARD OF DIRECTORS

CHANTAL BÉLANGER
AUDIT COMMITTEE
CHAIRPERSON

CONSOLIDATED CASH FLOWS

Fiscal year ended March 25, 2006
(in thousands of dollars)

	2006	2005
OPERATING ACTIVITIES		
Net earnings	**$ 656,949**	$ 545,751
Non-cash items:		
Depreciation	**47,652**	49,096
Loss on sale of fixed assets	**182**	196
Share in the earnings of a company subject to significant influence	**–**	462
Amortization of the deferred gain on the disposal of assets to a joint venture	**(270)**	(270)
Minority interest in the earnings of a joint venture subsidiary	**–**	8
Future income taxes	**(11)**	14
Expenses relating to sick leave credits	**2,405**	(369)
Expenses relating to the retirement plan	**337**	170
	707,244	595,058
Net change in non-cash items of working capital (note 20)	**(25,723)**	135,439
Use of cumulative sick leave credits	**(2,053)**	(2,964)
Cash flows provided from operating activities	**679,468**	727,533
INVESTMENT ACTIVITIES		
Business acquisition (note 5)	**58**	(1,458)
Acquisition of additional interest in a company subject to significant interest (note 17)	**–**	(400)
Debentures receivable	**2,500**	500
Acquisition of fixed assets	**(24,863)**	(32,183)
Sale of fixed assets	**214**	2,712
Other assets	**(198)**	(90)
Cash flows used for investment activities	**(22,289)**	(30,919)
FINANCING ACTIVITIES		
Variation in bank loans	**(71,534)**	(44,570)
Debentures payable	**(500)**	(500)
Reimbursement of the capital lease obligation	**(887)**	(795)
Dividend	**(598,000)**	(558,000)
Cash flows used for financing activities	**(670,921)**	(603,865)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(13,742)**	92,749
CASH AND CASH EQUIVALENTS AT THE START OF THE FISCAL YEAR	**46,282**	(46,467)
CASH AND CASH EQUIVALENTS AT THE END OF THE FISCAL YEAR	**$ 32,540**	$ 46,282

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 25, 2006
(in thousands of dollars for the tables)

1. STATUTES AND NATURE OF ACTIVITIES

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*). The SAQ's mandate is to sell alcoholic beverages in the Province of Quebec.

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, 2006, and March 26, 2005, each cover 52 weeks of operations.

3. CHANGES TO ACCOUNTING POLICIES

Fiscal year ended March 25, 2006

Consolidation of Variable Interest Entities

In June 2003, the Canadian Institute of Chartered Accountants (CICA) issued an amended guideline regarding Accounting Guideline AcG-15, "Consolidation of Variable Interest Entities (VIE)". The amended guideline provides instructions on and explains the application of basic consolidation principles to entities known to be VIEs, where control is exerted by a means other than voting. These entities should be consolidated by the main beneficiary, namely the entity that will assume the bulk of the forecast losses resulting from the VIE's activities or that will obtain the bulk of the VIE's residual returns, or both. The amended guideline must be applied to annual or interim financial statements issued on or after November 1, 2004. The amended guideline has no impact on the consolidated financial statements of the fiscal year ended March 26, 2005.

Fiscal year ended March 26, 2006

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, which 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 fiscal year 2005 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 25, 2006
(in thousands of dollars for the tables)

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 ended March 26, 2005, 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 2005 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 the acquisition, 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.

Depreciation of long-lived assets

In December 2002, the CICA published Section 3063 of the CICA Handbook, entitled "Impairment of Long-Lived Assets". This Section establishes the guidelines regarding the standards for the recognition, measurement and provision of information with respect to the impairment of long-lived assets, such as land, buildings and equipment, as well as fixed assets with a limited useful life. 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 fiscal year 2005 had no major impact on the consolidated financial statements for the fiscal year ended March 26, 2005.

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, S.E.C.*, a joint venture in which the SAQ has a 50% interest. This interest is recognized using the proportionate consolidation method. During the fiscal year ended March 26, 2005, the SAQ acquired an additional interest of 5% in *Société d'investissement M.-S., S.E.C.*, bringing its total interest in this joint venture to 50%. The SAQ's interest in *Société d'investissement M.-S., S.E.C.* was recognized on an equity basis up to the acquisition date, after which interest in this entity 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, on the disclosure of contingent asset and liability at the date of the financial statements, as well as on the revenues and expenses recognized during the fiscal year. Actual results could differ from those 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, on the disclosure of contingent asset and liability at the date of the financial statements, as well as on 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.

Operating leases

The SAQ recognizes the building occupancy expenses resulting from its operating leases using the straight-line method over the duration of the lease.

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 $2.4 million and $300,000 are included in the 2006 and 2005 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 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.

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, S.E.C.*, 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 which 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 and short-term investments with maturities of three months or less from the date of acquisition.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 25, 2006
(in thousands of dollars for the tables)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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%.

Consolidated goodwill

Consolidated goodwill includes the SAQ's interest in *Maison des Futailles, S.E.C*. and the consolidated goodwill resulting from the acquisition of an additional interest in *Société d'investissement M.-S., S.E.C*. 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.

Organization charges

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

Depreciation of long-lived assets

Long-lived 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 benefit 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 by actuarial calculations by projecting the costs on a pro rata 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 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 16 years at March 25, 2006, and 17 years at March 26, 2005.

Retirement plans

SAQ employees participate in retirement plans for government employees and public organizations.

These plans, 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, because the SAQ does not have enough information to apply defined benefit accounting.

The SAQ also administers a supplemental retirement pension plan for senior management. This plan takes into account the years of service with the SAQ and the average of the three highest annual salaries earned by the employee over the course of his or her career. 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 pro rata basis according to the years of service. The evaluation was carried out using the 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 and losses of greater than 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 for executives was 6.6 years at March 25, 2006, and at March 26, 2005.

5. BUSINESS ACQUISITION

On June 30, 2004, the joint venture *Maison des Futailles, S.E.C.* 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 operating results of *Clos Saint-Denis Inc.* are included in the joint venture's consolidated income statement as of July 1, 2004.

During the fiscal year ended March 25, 2006, the joint venture purchased the non-controlling shareholder's remaining interest of 10% in *Clos Saint-Denis Inc.* for a cash consideration of $300,000, thereby securing full ownership of the subsidiary. Moreover, the joint venture negotiated a $400,000 reduction in the initial purchase price when it acquired a 90% interest in *Clos Saint-Denis Inc.*

The values attributed to the net assets acquired in these transactions are as follows:

	2006	2005
Cash	**$ –**	$ 75
Working capital	**–**	103
Fixed assets	**–**	773
Consolidated goodwill	**(171)**	2,131
Future income tax liabilities	**56**	(51)
Share of the non-controlling shareholder	**–**	(40)
Net assets acquired	**$ (115)**	$ 2,991
Consideration paid (received) in cash	**$ (115)**	$ 2,991
Cash acquired	**–**	(75)
Net amount paid (redeemed)	**$ (115)**	$ 2,916
SAQ's proportionate ownership	**$ (58)**	$ 1,458

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6. NET SALES AND COST OF SALES

	Outlets and specialized centres	Wholesale grocers	Subtotal	Brewers and beer distributors[1]	Total 2006	Total 2005
GROSS SALES	$ 2,210,149	$ 374,461	$ 2,584,610	$ 180,699	**$ 2,765,309**	$ 2,544,715
Less:						
– Provincial sales tax	150,155	23,099	173,254	11,339	**184,593**	169,057
– Specific tax	80,107	28,417	108,524	–	**108,524**	98,703
– Specific license holders' tax[2]	44,149	–	44,149	–	**44,149**	45,123
– Federal goods and services tax	131,064	20,152	151,216	9,891	**161,107**	147,590
– Discounts and returns	41,324	–	41,324	–	**41,324**	37,435
– Compensation to agents	5,292	–	5,292	–	**5,292**	6,740
– Compensation to wholesale grocers	–	41,426	41,426	–	**41,426**	47,882
– Contributions to the Environmental Fund	2,837	627	3,464	–	**3,464**	3,175
– Contributions to the *Fonds Éduc'alcool inc.*	1,953	359	2,312	–	**2,312**	2,106
	456,881	114,080	570,961	21,230	**592,191**	557,811
NET SALES	$ 1,753,268	$ 260,381	$ 2,013,649	$ 159,469	**$ 2,173,118**	$ 1,986,904
COST OF SALES	$ 772,589	$ 126,881	$ 899,470	$ 159,469	**$ 1,058,939**	$ 991,397

[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. However, these sales do not generate any gross earnings.

[2] 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 Quebec sales tax.*

7. FINANCING EXPENSES

	2006	2005
Interest on bank loans	**$ 4,679**	$ 4,169
Interest on term loans made to a business under shared control	**2,630**	3,772
Interest on debentures payable	**177**	227
Interest relating to the capital lease obligation	**933**	1,025
	8,419	9,193
Less: Interest on investments, term deposits and others	**(1,806)**	(1,168)
Interest on debentures receivable	**(177)**	(227)
	(1,983)	(1,395)
	$ 6,436	$ 7,798

8. ACCOUNTS RECEIVABLE

	2006	2005
Wholesale grocers	**$ 21,364**	$ 20,183
Licensed establishments, institutions and other commercial accounts	**36,818**	38,451
Short-term portion of debentures receivable	**–**	500
Income taxes receivable from a joint venture subsidiary	**34**	85
	$ 58,216	$ 59,219

9. INVENTORY

	2006	2005
Bottled beverages	$ **254,819**	$ 240,515
Beverages in bulk and production materials	**8,152**	8,093
Miscellaneous supplies	**2,264**	1,359
	$ **265,235**	$ 249,967

10. FIXED ASSETS

	2006			2005		
	Cost	Accumulated amortization	Net value	Cost	Accumulated amortization	Net value
Land	$ **10,974**	$ **–**	$ **10,974**	$ 11,108	$ –	$ 11,108
Buildings	**115,225**	**24,982**	**90,243**	110,836	21,400	89,436
Furniture and equipment	**319,464**	**182,816**	**136,648**	307,644	150,367	157,277
Rolling stock	**14,371**	**7,596**	**6,775**	14,805	7,162	7,643
Leasehold improvements	**45,552**	**23,277**	**22,275**	44,515	20,319	24,196
Paving and parking	**3,533**	**2,515**	**1,018**	3,221	2,409	812
	$ **509,119**	$ **241,186**	$ **267,933**	$ 492,129	$ 201,657	$ 290,472

11. BUILDING RENTED UNDER A CAPITAL LEASE

	2006			2005		
	Cost	Accumulated amortization	Net value	Cost	Accumulated amortization	Net value
Building	$ **16,280**	$ **11,803**	$ **4,477**	$ 16,280	$ 11,396	$ 4,884

12. OTHER ASSETS

	2006			2005		
	Cost	Accumulated amortization	Net value	Cost	Accumulated amortization	Net value
Organization charges	$ **1,664**	$ **1,631**	$ **33**	$ 1,664	$ 1,392	$ 272
Other	**773**	**–**	**773**	575	–	575
	$ **2,437**	$ **1,631**	$ **806**	$ 2,239	$ 1,392	$ 847

13. BANK LOANS

	2006	2005
Term loans	$ **196,396**	$ 267,930

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 terms of one year, as long as the sum total of its loans do not exceed $400 million. As of March 25, 2006, bank loans consisted of six term loans totalling $196.4 million, two of which amounted to $80.0 million from a business under shared control (seven at March 26, 2005, totalling $267.9 million, of which three were from a business under shared control totalling $106.0 million). These loans bear interest at rates ranging from 3.78% to 3.80% (2.55% to 2.57% in 2005) and mature in six days or less (9 days or less in 2005).

Moreover, an SAQ joint venture has at its disposal an operating credit of up to $5 million (in 2006 and 2005), 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.

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14. SUPPLIERS AND OTHER CREDITORS

	2006	2005
Suppliers	**$ 148,503**	$ 146,840
Government taxes and fees	**67,821**	67,126
Compensation and benefits	**38,684**	51,464
Short-term portion of debentures payable and of the capital lease obligation	**1,489**	1,387
	$ 256,497	$ 266,817

15. DEBENTURES

This sum represents the SAQ's interest in the unsecured debentures of a joint venture in the amount of $4 million ($10 million in 2005), less the short-term portion disclosed. These debentures are reimbursable in two annual payments of $1 million and one final payment of $2 million on July 1, 2009. The SAQ's share of these annual payment amounts is $500,000 and $1 million, respectively.

16. CAPITAL LEASE OBLIGATION

	2006	2005
Liability resulting from the rental of a building, repayable until April 11, 2012, in monthly instalments of $150,000, including interest calculated at an annual rate of 11%, capitalized semi-annually.	**$ 7,996**	$ 8,883
Less: Portion of the liability due within one year	**(989)**	(887)
	$ 7,007	$ 7,996

Payments in each of the following fiscal years:	Principal	Interest	Total
2007	$ 989	$ 831	$ 1,820
2008	1,104	716	1,820
2009	1,231	589	1,820
2010	1,374	446	1,820
2011	1,533	287	1,820
2012	1,765	110	1,875
	$ 7,996	$ 2,979	$ 10,975

17. INTERESTS IN JOINT VENTURES

Maison des Futailles, S.E.C.

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, S.E.C.*, a joint venture in which the SAQ acquired a 35% interest. The reported gain from this transaction was $3.5 million at March 25, 2006 ($3.8 million at March 26, 2005), 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%.

Société d'investissement M.-S., S.E.C.

On October 31, 2004, the SAQ acquired from J.F. Hillebrand an additional interest of 5% in *Société d'investissement M.-S., S.E.C.* for a cash consideration of $400,000, thereby increasing the SAQ's interest in *Société d'investissement M.-S., S.E.C.* 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 of the additional interest, and an expense of $500,000 was recognized in the combined statement of income and retained earnings for the fiscal year ended March 26, 2005, 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., S.E.C.* Thus, the share in the revenue and expenses of *Société d'investissement M.-S., S.E.C.* 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.

	2006	2005
RESULTS		
Net sales	$ **41,650**	$ 42,334
Cost of products sold	**26,500**	27,257
	15,150	15,077
Operating expenses	**9,275**	9,697
Financing costs	**581**	453
Depreciation	**1,395**	1,337
Non-controlling shareholder's interest in the earnings of a subsidiary	**–**	8
	11,251	11,495
Earnings before income taxes	**3,899**	3,582
Income taxes	**4**	32
Net earnings	$ **3,895**	$ 3,550
BALANCE SHEET		
Current assets	$ **21,427**	$ 21,724
Long-term assets	**21,338**	22,543
	$ **42,765**	$ 44,267
Current liabilities	$ **6,705**	$ 9,465
Long-term liabilities	**1,529**	4,166
Shareholders' equity	**34,531**	30,636
	$ **42,765**	$ 44,267
CASH FLOW		
Cash flows provided from operating activities	$ **3,073**	$ 3,502
Cash flows used for financing activities	$ **(3,102)**	$ (1,004)
Cash flows used for investment activities	$ **(1,028)**	$ (2,227)

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18. EMPLOYEE FUTURE BENEFITS

Total cash payments

Total cash payments on account of employee future benefits for 2006, 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 $11.5 million ($10.3 million in 2005).

Defined benefit pension plans

For accounting purposes, the SAQ evaluates its obligations relating to contributions on December 31 of each year for the cumulative sick leave credit plan and at the end of each fiscal year for the supplemental retirement plan for executives. The most recent actuarial valuation of the supplemental retirement plan for executives was carried out, for the purposes of capitalization, on March 25, 2006, and the next valuation must be completed by March 31, 2009.

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

	Cumulative sick leave credit plan		Supplemental retirement plan for executives	
	2006	2005	**2006**	2005
Pension benefit obligations and financial status	**$ 24,634**	$ 22,608	**$ 2,194**	$ 1,203
Unamortized balance	**8,470**	10,144	**(957)**	(303)
Accrued benefit liabilities appearing on the SAQ's balance sheet	**$ 33,104**	$ 32,752	**$ 1,237**	$ 900

Cost of employee future benefits recognized during the fiscal year

	Cumulative sick leave credit plan		Retirement plans	
	2006	2005	**2006**	2005
Defined benefit pension plans	**$ 2,405**	$ 64	**$ 337**	$ 170
Defined contribution pension plans	**$ –**	$ –	**$ 9,486**	$ 6,967

Since January 1, 2005, a higher number of SAQ employees no longer accumulate sick leave credits. The result is a curtailment gain of $2.1 million, which was fully recognized during the fiscal year ended March 26, 2005, as a reduction of costs.

The increase in costs recognized for the retirement plans can be attributed primarily to the increase in the *Commission administrative des régimes de retraite et d'assurances*' contribution rate.

Benefits paid

Benefits paid by the cumulative sick leave credits plan amounted to $2.1 million ($3.4 million in 2005), whereas no benefits were paid by the supplemental retirement plan for executives in 2005 and 2006.

Principal assumptions

The principal assumptions used are as follows:

	Cumulative sick leave credit plan		Supplemental retirement plan for executives	
	2006	2005	**2006**	2005
Obligations for pension benefits accumulated at the end of the fiscal year				
Discount rate	**5.00%**	5.50%	**5.25%**	5.50%
Compensation growth rate	**3.00%**	3.00%	**3.50%**	3.00%
Rate of use of sick leave credits	*	*	–	–

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

	Cumulative sick leave credit plan		Supplemental retirement plan for executives	
	2006	2005	**2006**	2005
Cost of benefits for the fiscal year				
Discount rate	**5.50%**	6.00%	**5.50%**	6.00%
Compensation growth rate	**3.00%**	3.00%	**3.00%**	3.00%
Rate of use of sick leave credits	*	*	–	–

* 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 $9.3 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, as, in the opinion of management, settlements that might result from these claims would have no significant impact on the company's consolidated financial statements.

Commitments

For its operating leases, the SAQ is committed to paying a total amount of $280.4 million for the leasing of stores and certain warehouses. The payments for the coming fiscal years will amount to:

2007	$ 35,950
2008	$ 35,357
2009	$ 33,829
2010	$ 32,820
2011	$ 30,135
2012-2021	$ 112,300

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.

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20. CASH FLOW DATA

	2006	2005
Cash flows related to operating activities include the following elements:		
Interest paid	$ **8,489**	$ 9,087
Income taxes paid (collected) by a joint venture subsidiary	$ **(36)**	$ 79
The net variation in the non-cash items of working capital is detailed as follows:		
Accounts receivable	$ **503**	$ 40,553
Inventory	**(15,268)**	40,974
Prepaid expenses	**(536)**	(3,279)
Suppliers and other creditors	**(10,422)**	57,191
	$ **(25,723)**	$ 135,439
Cash and cash equivalents at the end of the fiscal year [1]	$ **32,540**	$ 46,282

[1] Includes a short-term investment in 600,000 shares of a mutual fund redeemable at book value at any time.

21. FINANCIAL INSTRUMENTS

Fair value of financial instruments

	2006		2005	
	Fair value	Book value	Fair value	Book value
Debentures receivable, 8.66%	$ **–**	$ **–**	$ 2,505	$ 2,500
Debentures payable, 8.66%, maturing July 1, 2009	$ **1,988**	$ **2,000**	$ 2,505	$ 2,500
Capital lease obligation	$ **9,151**	$ **7,996**	$ 10,238	$ 8,883

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 cash equivalents; receivables other than the short-term portion of debentures receivable and taxes on earnings receivable from a joint venture subsidiary; 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.

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 Quebec bonds, capitalized quarterly and maturing in 2012. That rate is 6.33% in 2006 (6.70% in 2005).

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.

Foreign exchange risk

The SAQ is exposed to foreign exchange risk due to certain accounts payable in foreign currencies. As at March 25, 2006, these accounts payable totalled 4.3 million euros and US$0.5 million (2.5 million euros and US$0.4 million at March 26, 2005).

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 and U.S. dollars were in effect at the end of the fiscal year ended March 25, 2006 (forward exchange contracts of less than 12 months denominated in euros, U.S. dollars and Australian dollars were in effect at the end of the fiscal year ended March 26, 2005).

	2006		2005	
Foreign currencies (contract amounts in thousands)	Forward exchange rate	Contract amount	Forward exchange rate	Contract amount
Euro	**$ 1.5078**	**7,000**	$ 1.6122	5,250
U.S. dollar	**$ 1.1800**	**500**	$ 1.2290	750
Australian dollar	**$ –**	**–**	$ 0.9288	150

At March 25, 2006, the fair value of accrued out-of-the-money forward exchange contracts was $50,000 ($100,000 at March 26, 2005).

22. POTENTIAL DISPOSAL OF AN OWNERSHIP INTEREST IN A JOINT VENTURE

On March 17, 2006, a privately owned Canadian company submitted to the shareholders of *Maison des Futailles, S.E.C.* a letter of intent regarding the potential acquisition of the latter. The letter of intent was accepted by the shareholders, thereby granting the firm exclusivity with respect to negotiations, which are expected to extend over a period of several weeks and will include a due diligence review by the potential acquirer. A number of aspects of this transaction, including the financial terms, remain to be finalized.

23. 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 25, 2006, and March 26, 2005
(unaudited data)

	2006				
NUMBER OF WEEKS	Fiscal Year 52	Q4 12	Q3 16	Q2 12	Q1 12
FINANCIAL PERFORMANCE (in millions of dollars)					
Gross sales	2,765.3	522.4	1,021.5	633.4	588.0
Net sales	2,173.1	409.3	803.7	498.3	461.8
Gross earnings	1,114.2	215.9	418.2	250.5	229.6
Operating expenses	457.3	114.5	138.2	101.5	103.1
Net earnings	656.9	101.4	280.0	149.0	126.5
Payments to shareholder	598.0	205.0	176.0	118.0	99.0
NET SALES BY SALES NETWORK (in millions of dollars)					
Outlets and specialized centres	1,753.2	340.4	653.4	395.1	364.3
Wholesale grocers	260.4	43.8	104.2	56.7	55.7
Brewers and beer distributors	159.5	25.1	46.1	46.5	41.8
Total	2,173.1	409.3	803.7	498.3	461.8
SALES VOLUME, BY SALES NETWORK (in millions of litres)					
Outlets and specialized centres	114.9	21.8	40.4	28.0	24.7
Wholesale grocers	31.9	5.9	12.5	6.7	6.8
Brewers and beer distributors	122.8	18.2	33.3	40.3	31.0
Total	269.6	45.9	86.2	75.0	62.5
SALES VOLUME, BY PRODUCT CATEGORY (in millions of litres)					
Spirits	18.2	3.4	6.9	4.2	3.7
Wines	116.6	21.7	43.0	26.8	25.1
Imported and microbrewery beers, ciders and coolers	12.0	2.6	3.0	3.7	2.7
Total sales excluding beers sold to brewers and beer distributors	146.8	27.7	52.9	34.7	31.5
Beers sold to brewers and beer distributors	122.8	18.2	33.3	40.3	31.0
Total	269.6	45.9	86.2	75.0	62.5

[1] The fiscal year was disrupted by a labour conflict.

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

NUMBER OF WEEKS	Fiscal Year 52	T4 12	T3 16	T2 12	T1 12
	2005[1]				
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 VOLUME, BY SALES NETWORK (in millions of litres)					
Outlets and specialized centres	101.2	18.8	31.6	26.6	24.2
Wholesale grocers	34.9	6.7	16.3	6.0	5.9
Brewers and beer distributors	131.7	24.0	36.1	35.0	36.6
Total	267.8	49.5	84.0	67.6	66.7
SALES VOLUME, BY PRODUCT CATEGORY (in millions of litres)					
Spirits	16.1	3.1	5.5	3.9	3.6
Wines	107.6	19.1	39.6	25.1	23.8
Imported and microbrewery beers, ciders and coolers	12.4	3.3	2.8	3.6	2.7
Total sales excluding beers sold to brewers and beer distributors	136.1	25.5	47.9	32.6	30.1
Beers sold to brewers and beer distributors	131.7	24.0	36.1	35.0	36.6
Total	267.8	49.5	84.0	67.6	66.7

TEN-YEAR HISTORICAL SUMMARY

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

	2006	2005[1]	2004
OPERATING RESULTS (in millions of dollars)			
Gross sales	**2,765.3**	2,544.7	2,653.0
Net sales	**2,173.1**	1,986.9	2,070.1
Gross earnings	**1,114.2**	995.5	1,016.9
Operating expenses	**457.3**	449.7	446.1
Net earnings	**656.9**	545.8	570.8
FINANCIAL SITUATION (in millions of dollars)			
Total assets	**658.8**	682.8	742.6
Fixed assets	**272.4**	295.4	313.7
Working capital	**(203.6)**	(227.5)	(242.8)
Long-term liabilities	**46.4**	47.5	52.2
Shareholders' equity	**35.6**	35.6	34.9
CASH FLOW (in millions of dollars)			
Cash assets linked to operating activities	**679.5**	727.5	523.3
Acquisition of fixed assets	**24.9**	32.2	57.4
Payments to shareholder	**598.0**	558.0	606.0

1 The fiscal year was disrupted by a labour conflict.

2 53-week fiscal year

Over the years, changes have affected various fiscal aspects included in product selling prices, making 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.

2003	2002	2001[2]	2000	1999	1998	1997
2,413.5	2,183.4	1,996.9	1,806.1	1,611.0	1,450.1	1,383.9
1,870.0	1,692.0	1,546.2	1,404.5	1,255.0	1,135.5	1,075.7
934.3	845.4	786.0	713.8	635.6	587.8	564.0
393.9	356.7	314.7	272.3	227.6	209.7	192.4
540.4	488.7	471.3	441.5	408.0	378.1	371.6
651.6	575.8	492.9	372.5	310.6	256.3	246.7
297.4	214.6	163.5	103.2	82.5	76.9	74.3
(230.7)	(148.8)	(99.2)	(33.9)	(9.3)	(3.4)	(4.9)
53.4	54.5	53.0	37.7	26.7	28.2	28.1
34.1	33.7	32.0	46.9	46.4	45.4	41.3
580.5	544.4	417.9	433.7	391.9	395.7	376.2
110.7	72.0	74.3	34.0	16.5	10.5	13.7
509.0	441.0	529.0	421.0	385.0	378.0	339.0

TEN-YEAR HISTORICAL SUMMARY

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

	2006	2005[1]	2004
ITEMS CONSTITUTING GROSS SALES (in millions of dollars)			
AMOUNTS PAID DIRECTLY TO THE GOVERNMENT OF QUEBEC			
Dividend	**657.0**	545.0	570.0
Taxes and duties	**337.2**	312.9	325.8
	994.2	857.9	895.8
AMOUNTS PAID DIRECTLY TO THE GOVERNMENT OF CANADA			
Taxes and duties	**310.5**	285.3	296.4
AMOUNTS PAID DIRECTLY TO THE GOVERNMENTS BY THE SAQ	**1,304.7**	1,143.2	1,192.2
SUPPLIES AND PRODUCTION	**909.5**	853.7	913.5
OPERATING EXPENSES	**457.3**	449.7	446.1
OTHER ITEMS			
Returns, discounts, compensation paid to wholesale grocers and compensation to agencies	**88.0**	92.0	95.2
Contributions to the *Fonds Éduc'alcool inc.*	**2.3**	2.1	2.2
Contributions to the Environmental Fund	**3.5**	3.2	3.0
Increase (decrease) in retained earnings	**–**	0.8	0.8
	93.8	98.1	101.2
TOTAL GROSS SALES	**2,765.3**	2,544.7	2,653.0
LESS: GROSS SALES TO BREWERS AND BEER DISTRIBUTORS[3]	**(180.7)**	(207.0)	(280.2)
GROSS SALES EXCLUDING SALES TO BREWERS AND BEER DISTRIBUTORS	**2,584.6**	2,337.7	2,372.8

1 The fiscal year was disrupted by a labour conflict.

2 53-week fiscal year

3 Gross sales to brewers and beer distributors are subtracted from total gross sales to facilitate interpretation of the data presented.

Over the years, changes have affected various fiscal aspects included in product selling prices, making 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.

2003	2002	2001[2]	2000	1999	1998	1997
540.0	487.0	470.0	441.0	407.0	374.0	364.0
302.0	283.0	258.7	237.8	219.1	188.9	179.9
842.0	770.0	728.7	678.8	626.1	562.9	543.9
283.2	258.5	252.9	233.1	207.1	190.1	182.8
1,125.2	1,028.5	981.6	911.9	833.2	753.0	726.7
792.8	715.7	623.3	563.2	506.7	443.3	410.4
393.9	356.7	314.7	272.3	227.6	209.7	192.4
96.1	76.1	72.4	55.0	41.2	39.1	45.0
2.0	1.9	1.0	1.0	0.9	0.8	0.8
3.1	2.8	2.5	2.2	0.4	0.2	1.0
0.4	1.7	1.4	0.5	1.0	4.0	7.6
101.6	82.5	77.3	58.7	43.5	44.1	54.4
2,413.5	2,183.4	1,996.9	1,806.1	1,611.0	1,450.1	1,383.9
(172.5)	(139.3)	(117.9)	(111.6)	(79.2)	(66.5)	(54.5)
2,241.0	2,044.1	1,879.0	1,694.5	1,531.8	1,383.6	1,329.4

TEN-YEAR HISTORICAL SUMMARY

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

	2006	2005[1]	2004
OPERATING EXPENSES (in millions of dollars)			
Compensation and benefits	**270.8**	245.2	265.1
Building occupancy expenses	**71.2**	66.6	64.7
Equipment use and supply expenses	**57.9**	60.8	54.2
Freight out and communications	**13.3**	12.3	12.6
Other operating expenses	**44.1**	64.8	49.5
Extraordinary items	**–**	–	–
Operating expenses	**457.3**	449.7	446.1
OPERATING RATIOS (as a percentage of net sales)			
Gross earnings [3]	**55.3**	55.1	55.5
Net earnings [3]	**32.6**	30.2	31.2
(as a percentage of gross sales)			
Supplies and production [3]	**29.0**	28.8	28.5
Amounts paid to the governments [3]	**50.5**	48.9	50.2
Operating expenses [3, 4]	**17.7**	19.2	18.8
OTHER DATA (at the end of the fiscal year)			
Number of employees [5]	**5,235**	4,494	4,803
Number of outlets	**408**	403	398
Number of agencies	**400**	403	403
Number of products sold	**7,243**	7,633	7,148

1 The fiscal year was disrupted by a labour conflict.

2 53-week fiscal year

3 Calculated by excluding transactions carried out with brewers and beer distributors.

4 Calculated by excluding the extraordinary items.

5 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).

Over the years, changes have affected various fiscal aspects included in product selling prices, making 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.

2003	2002	2001[2]	2000	1999	1998	1997
241.1	216.3	195.2	189.2	156.3	149.4	136.6
57.4	47.8	40.8	34.5	32.9	31.0	30.0
42.9	34.6	27.1	21.6	19.1	16.2	14.4
12.2	10.5	7.8	5.5	5.0	4.5	4.2
40.3	47.5	43.8	27.6	14.3	8.6	7.2
–	–	–	(6.1)	–	–	–
393.9	356.7	314.7	272.3	227.6	209.7	192.4
54.3	53.8	54.4	54.6	53.6	54.6	54.9
31.4	31.1	32.6	33.7	34.4	35.1	36.2
28.7	29.1	27.7	27.5	28.5	27.7	27.2
50.2	50.3	52.2	53.8	54.5	54.6	54.8
17.6	17.5	16.7	16.4	14.9	15.2	14.5
4,511	4,242	4,078	3,406	3,131	2,794	2,773
398	380	370	341	341	337	342
401	399	252	153	154	154	155
6,755	7,250	7,386	6,575	5,299	4,884	4,194

TEN-YEAR HISTORICAL SUMMARY

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

	2006	2005[1]	2004
NET SALES, BY SALES NETWORK (in millions of dollars and millions of litres)			
Outlets and specialized centres	**1,753.2**	1,506.0	1,581.7
	114.9 L	101.2	108.2
Wholesale grocers	**260.4**	299.3	249.9
	31.9 L	34.9	29.4
Net sales excluding beers sold to brewers and beer distributors	**2,013.6**	1,805.3	1,831.6
	146.8 L	136.1	137.6
Brewers and beer distributors	**159.5**	181.6	238.5
	122.8 L	131.7	203.6
TOTAL NET SALES	**2,173.1**	1,986.9	2,070.1
	269.6 L	267.8	341.2
NET SALES, BY PRODUCT CATEGORY (in millions of dollars and millions of litres)			
Spirits	**460.4**	405.0	427.5
	18.2 L	16.1	17.3
Wines	**1,467.2**	1,312.0	1,322.4
	116.6 L	107.6	109.0
Imported and microbrewery beers, ciders and coolers	**86.0**	88.3	81.7
	12.0 L	12.4	11.3
Beers sold to brewers and beer distributors	**159.5**	181.6	238.5
	122.8 L	131.7	203.6
TOTAL NET SALES	**2,173.1**	1,986.9	2,070.1
	269.6 L	267.8	341.2
COMMERCIAL SPACE (in thousands of square feet)			
Outlets and specialized centres	**1,660.9**	1,633.1	1,595.7
Warehouses	**983.0**	983.0	983.0

[1] The fiscal year was disrupted by a labour conflict.

[2] 53-week fiscal year

Over the years, changes have affected various fiscal aspects included in product selling prices, making 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.

2003	2002	2001[2]	2000	1999	1998	1997
1,487.6	1,349.9	1,222.5	1,095.8	991.8	892.9	838.6
105.3	97.7	89.0	79.0	76.4	70.8	67.2
232.3	220.9	221.2	211.7	194.4	184.3	189.3
28.9	29.2	30.4	32.0	30.8	29.6	31.7
1,719.9	1,570.8	1,443.7	1,307.5	1,186.2	1,077.2	1,027.9
134.2	126.9	119.4	111.0	107.2	100.4	98.9
150.1	121.2	102.5	97.0	68.8	58.3	47.8
110.1	84.4	83.8	76.6	62.9	53.1	43.6
1,870.0	1,692.0	1,546.2	1,404.5	1,255.0	1,135.5	1,075.7
244.3	211.3	203.2	187.6	170.1	153.5	142.5
414.2	400.7	385.3	357.1	342.8	334.2	328.7
16.9	16.7	16.5	15.2	14.5	14.2	14.2
1,221.9	1,104.6	1,015.9	909.6	785.9	687.1	645.2
105.3	100.9	97.1	89.9	82.7	76.3	75.2
83.8	65.5	42.5	40.8	57.5	55.9	54.0
12.0	9.3	5.8	5.9	10.0	9.9	9.5
150.1	121.2	102.5	97.0	68.8	58.3	47.8
110.1	84.4	83.8	76.6	62.9	53.1	43.6
1,870.0	1,692.0	1,546.2	1,404.5	1,255.0	1,135.5	1,075.7
244.3	211.3	203.2	187.6	170.1	153.5	142.5
1,542.9	1,306.3	1,404.0	1,157.6	1,147.0	1,114.6	1,118.5
983.0	877.9	848.1	758.8	658.8	658.8	672.3

CODE OF ETHICS AND PROFESSIONAL CONDUCT FOR DIRECTORS 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 with the 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.

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.

CODE OF ETHICS AND 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 for 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 for 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 for 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

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The SAQ Annual Report is published by the Public Affairs and Communication Division in collaboration with the Finance Division.

Publication manager: Alain Bolduc,
Vice-president, Public Affairs and
Communication, Assistant to the CEO

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Translation:
Translation Without Frontiers Inc.

Photo coordination:
Richard Bellefleur

Layout and graphic design:
Nolin Branding & Design

Photography: Martin Tremblay

Pre-press and printing: Integria

Printed in Quebec
ISSN 0845-44594-5
ISBN 2-550-47285-3

Legal deposit – 2nd Quarter 2006
Bibliothèque nationale du Québec
and National Archives of Quebec