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Highlights

Fiscal years ended March 31, 2007 and March 25, 2006 (in millions of dollars and in millions of litres for volume sales)

			Percentage
	2007 ⁽¹⁾	2006	increase (decrease)
On anothing magnifes			
Operating results Gross sales	2,980.3	2,765.3	7.8
Net sales	2,364.1	2,173.1	8.8
Gross earnings	1,180.8	1,114.2	6.0
Operating expenses	470.7	457.3	2.9
Net earnings	710.1	656.9	8.1
Financial position			
Total assets	573.0	658.8	(13.0)
Fixed assets	240.2	272.4	(11.8)
Working capital	(162.4)	(203.6)	20.2
Long term liabilities	41.2	46.4	(11.2)
Shareholder's equity	36.7	35.6	3.1
Additional financial data			
Government revenue from operations	1,396.7	1,304.7	7.1
Total gross sales, excluding sales to brewers and beer distributors	2,767.9	2,584.6	7.1
Net sales by sales network			
Outlets and specialized centres	1,914.1	1,753.2	9.2
Wholesale grocers	260.5	260.4	
Brewers and beer distributors	189.5	159.5	18.8
Total net sales	2,364.1	2,173.1	8.8
Net sales by product category			
Spirits	492.1	460.0	7.0
	19.0 L	18.2 L	4.4
Wines	1,604.5	1,470.3	9.1
	126.0 L	116.7 L	8.0
Imported and microbrewery beers, ciders and coolers ²	78.0	83.3	(6.4)
	11.4 L	11.9 L	(4.2)
Total net sales, excluding sales to brewers and beer distributors	2,174.6	2,013.6	8.0
	156.4 L	146.8 L	6.5
Beers sold to brewers and beer distributors	189.5	159.5	18.8
	132.4 L	122.8 L	7.8
Total net sales	2,364.1	2,173.1	8.8
	288.8 L	269.6 L	7.1

^{(1) 53-}week fiscal year

 $Certain\ previously\ reported\ figures\ have\ been\ reclassified\ to\ conform\ to\ the\ current\ year's\ presentation.$

⁽²⁾ Also known as RTDs (ready-to-drinks), FABs (flavoured alcoholic beverages) and alcopops.

Message from the Chairman of the Board of Directors





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Norman Hébert jr.

The SAQ's mandate is to sell alcoholic beverages. Its mission is to provide good service to people in every region of Quebec by offering a wide variety of quality products.

On the right path

In many ways, fiscal 2006 2007 was a year of transition transition from a period of intense reform to one in which we will reap the benefits of these significant changes.

The SAQ is clearly on the right path. Customer satisfaction is on the rise, reaching a peak of 97% in August 2006. The in store shopping experience attracts and retains an ever larger number of consumers. Quebecers' interest in the world of wines and spirits continues to grow while their alcohol consumption patterns remain among the healthiest in the industrialized world, which nonetheless, require careful societal monitoring.

From a financial standpoint, the company's performance is truly enviable. Operating expenses are less onerous with respect to income. The changes made to the purchasing and merchandising policy have enabled the company to exert better control over the cost price of products and revitalize the product offer, all to the customer's advantage.

In short, the outlook for the coming years is bright and will remain so on the express condition that the SAQ succeeds in remaining a preferred shopping destination for consumers. The company must devote itself to meeting, with flare, the full range of expectations increasingly varied and ever higher that they express.

for you SAQ 2007 Annual Report 3

If the remarkable progress accomplished in the sales area in recent years is largely due to the SAQ's ability to attract and retain consumers' discretionary income—that is, the portion of consumers' budgets they are free to spend on items of their choosing—it will be even more true in the future. The SAQ's offer of a healthy enthusiasm for the world of wine and spirits will increasingly compete with entertainment, renovation and travel options offered by other retailers. In such a context, the overall experience provided by the SAQ has to be appealing. Innovation will remain the key word.

Stronger corporate governance

The Board held 22 meetings in fiscal 2006 2007. These work sessions allowed it to examine the issues facing the company in light of its strategic plan and ensure that the corporate policies are being properly implemented. Besides customer satisfaction and disciplined management, the Board's main concerns flowing from last year's work are to maintain and expand the SAQ's role in promoting responsible alcohol consumption and to implement the integrated sustainable development plan.

The Board of Directors holds fiduciary responsibility for the company. In this respect, fiscal 2006 2007 marked the begin ning of a new era, involving a corporate governance model in which the duties of the Board members have been significantly expanded by the combined impact of the new Act respecting the governance of state owned enterprises, of the internal work on this issue carried out by the Board itself with the assistance of an expert panel and of the recommenda tions made by the Quebec Auditor General in November 2006. The result will be a stronger organization better able to succeed in taking on the challenges that await it.

I want to congratulate Sylvain Toutant, the company's President and Chief Executive Officer, and all the members of the Management Committee for their excellent work and great sense of duty. Fiscal 2006 2007 was truly an eventful year filled with many outstanding accomplishments.

In closing, I would like to offer my warmest thanks to the members of the Board for their availability and professionalism throughout the year and to Michèle Thivierge who served as interim Chair of the Board of Directors for several months in 2006.

Norman Hébert jr. Chairman of the Board of Directors

Message from the President and Chief Executive Officer



Better for you

All of us at the Société des alcools du Québec are working toward a fundamental goal: to improve the buying experience year after year and thus increase our customers' satisfaction. It is our prime motivation.

Moreover, the company aims to carry out this mission at a competitive cost, guaranteeing to all Quebecers that the positive impact of its activities on the funding of public programs will likewise be at an optimal level.

On all these fronts, fiscal 2006 2007 was a year of significant developments that made the SAQ better.

First and foremost, in 2006 2007, the company reached cruising speed in implementing the purchasing and mer chandising policy it adopted in October 2005.

A thousand new products in dozens of categories were chosen all of them via calls for tenders and introduced, a product renewal rate without precedent in the company's history. This new approach aims to better reflect the dynamism in the wine and spirits industry, a dynamism that the SAQ wants to mirror as closely as possible by stimulating competition among its suppliers.

Fiscal 2006 2007 was also a year marked by an extraor dinary commercial intensity in the outlets, the result of the efforts of all involved to turn the SAQ's points of sale into pleasant (OR) attractive places for consumers to shop and even learn. This involved, among other things, increasing staff availability at peak periods, providing more extensive training to wine consultants and updating the SAQ Sélection

concept with the opening in Laval of the first "new wave" outlet. Outlet based sales grew 9.2% in 2006 2007, a rate higher than that for the company's overall sales.

To further boost consumer satisfaction, the SAQ is increas ingly gearing its service and merchandising approaches to the various customer segments—Social Drinkers, Regulars, Discoverers, Enthusiasts and Connoisseurs—each of which has its own set of requirements and expectations, even without taking individual preferences into account. Better control of the product offer resulting from our revised pur chasing and merchandising policy now allows us to stock products from every corner of the globe and that are also specifically suited to each segment. It was precisely with this in mind that *Cellier* magazine was launched in 2006. *Cellier* is aimed at customers who are interested in expanding their knowledge, and its publication several times a year is timed to coincide with the release of dozens of new products in our outlets.

Significant growth in income and profitability

These improvements and all the others described in this report are directly reflected in our financial results. In 2006 2007, the company had sales approaching \$3 billion and posted a record \$710.1 million in consolidated net earnings, compared with \$656.9 million in 2005 2006. Government revenue from operations totalled \$1.4 billion as opposed to \$1.3 billion for the previous fiscal year.

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The improvement in the ratio of operating expenses to gross sales to 17.0% (versus 17.7% in 2005 2006) as well as the substantial reduction in the average bank indebtedness to \$166.5 million (versus \$247.4 million for the previous year) are testimony to an ever more disciplined management, a key condition of the SAQ's maintaining its legitimacy as a government owned quasi monopoly in its line of business.

At the end of the 2006 2007 fiscal year, we had a better sales network, a better product offer and ever higher customer satisfaction levels. The ongoing improvement of customer service through innovation and investment, the revital ization of our product offer, the systematic negotiation of cost prices and the overall rise in our efficiency were the pillars of our strategy in 2006 2007, and they will continue to be so in the years to come.

In closing, I want to offer my sincere congratulations and thanks to the company's executives and employees, who so willingly share all their know how and energy and so determinedly pursue our goal of improving the customer's buying experience. The results obtained in 2006 2007 are proof of the importance of what is accomplished every day throughout the company and of the passion that drives us.



Sylvain Toutant

Special thanks also go to the members of the SAQ's Board of Directors, who devoted much effort to defining and implementing our new corporate governance rules. The goal of this work and reform is nothing less than to make the company one of the leaders in this area. I also want to thank the Board members for the assistance they provided to senior management by sharing their expertise and supporting the company's projects.

Sylvain Toutant

Sylvain Toutant
President and Chief Executive Officer

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Management Committee





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Left to right:

Alain Bolduc

Vice President Public Affairs and Communications, Executive Assistant to the President

Richard Genest

Vice President and Chief Financial Officer

Alain Brunet

Vice President Procurement and Merchandising

Philippe Duval

Vice President Sales Network Operations and Development and Human Resources

Madeleine Gagnon

Vice President Human Resources

Sylvain Toutant

President and Chief Executive Officer

Suzanne Paquin

Secretary General and Vice President Legal Services

Luc Vachon

Vice President Logistics and Distribution

Benoit Durand

Vice President Informational Resources

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Product Offer



The SAQ's network of stores is growing bigger and better. But what good is a beautiful store without the right products? The SAQ sells more than 7,500 wines, beers and spirits from some 55 countries. Even better, it is enhancing its product offer every day.

Thanks to a revamped purchasing policy, which made it possible to capitalize on the competition among alcoholic beverage producers, and a newly implemented Web tool to facilitate production selection, the SAQ was able to enhance its product offer in 2006 2007 with the addition of 100 regular wines and nearly 900 specialty products.

The company also launched *Cellier* magazine, which is aimed at the Enthusiast and Connoisseur customer segments. The issues are published to coincide with the release in outlets of new products described in the magazine's pages. All 84 SAQ Sélection outlets now have an island display dedicated to the magazine and the fine wines reviewed in each issue. Around 70% of these product introductions are the result of initiatives

by the SAQ's experts, whose knowledge of unfamiliar wineries has led to the discovery of these new and hidden gems.

Behind the SAQ's well stocked shelves lies a vast logistics and distribution system without which the company's product offer would be little more than a pipe dream. In 2006 2007, the distribution network improved its efficiency by 6%, the sixth consecutive year of significant growth.

More importantly, the efficiency of receiving operations led to an 18% increase in the number of containers handled daily in Montreal.







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Better Service



From Port-Cartier to Hull, from Jonquière to Shawinigan, the SAQ's outlets form a network of 414 stores across Quebec. To customers, they are the face of the SAQ. For the company, they are its vanguard, its justification, its raison d'être.

40,000 hours of training for outlet personnel

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The opening of an SAQ Sélection outlet located at the intersection of Highways 19 and 440 in Laval marks a turning point in customer service. This innovative concept uses educational signage and a colour coded system to make it easier for customers to find wines that match their preferences. The outlet also features a tasting station, where customers can try before they buy, and a food and wine pairing zone. But the company didn't stop there. No fewer than 45 other outlets were opened, moved, expanded or renovated during the year.

In several outlets, the company applied a strategy that increased the availability of employees on the sales floor during peak periods to better meet customers' needs. The customer satisfaction rate rose to 97% in those outlets, an extremely encouraging result.

The key to good customer service remains recognizing employees' work and mobilizing personnel to focus on customer satisfaction. Accordingly, no fewer than 640 outlet based staff members successfully completed a training program developed by the Institut de tourisme et d'hôtellerie du Québec (ITHQ) and covering how to welcome, approach, assist and take leave of customers.

What's more, 10,000 hours of product training were given to outlet employees, bringing to 40,000 the total number of training hours for this one segment of the company's work force. Our wine consultants also continued developing their role through a specific ITHQ program, with some 60 of these specialists obtaining a certificate attesting to their new status as accredited wine consultants.

Management and Governance

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Quebecers rightly expect their government corporations to be managed properly, and the SAQ is committed to meeting and even exceeding their expectations. Among its duties, transparency has become one of the key aspects of corporate governance, along with the allocation of decision-making authority.

At the SAQ, the existence of an independent board of directors chaired by a highly respected director, separate from the chief executive, is a tradition that guarantees these basic principles.

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The SAQ cooperated with the office of the Auditor General of Quebec as it carried out its work on the special audit of the company. Each year, the company receives hundreds of access to information requests and ensures that the personal information in its possession is protected.

The company organized and held press conferences to shed light on and clarify its marketing rules and responded publicly to the release of the auditor general's report. The SAQ also implemented a set of measures intended to develop a more constructive and open dynamic with the unions that represent the majority of its employees. Along similar lines, the company carried out a survey on the organizational climate and intends to systematically evaluate morale. Based on initial results, each division developed an action plan for increasing the motivation its staff members.

Transparency: one of the key aspects of corporate governance





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Better Performance



As a result of improvements to service, labour relations, the outlet network and product offer, financial performance was strong in every area. It is therefore not surprising that a survey of customers revealed an overall satisfaction rate of 97% with respect to the company and that the SAQ ranks 35th among the companies most admired by Quebecers.



97% of customers are satisfied with the SAQ

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Net sales growth of 8.8%, net earnings growth of 8.1% and containing the increase in operating expenses to 2.9% enabled the company to pay a record \$1.4 billion in revenues to the govern ment. This revenue is subsequently returned to Quebecers in the form of government services.

More good news: the ratio of operating expenses to gross sales was 17.0% while the ratio of net earnings to net sales was 32.6%, in each case the highest level in the last six years. This is an excellent illustration of how the organization's profitability has grown.

Meanwhile, the \$107 million reduction in bank indebtedness and improvements in inventory turnover had a positive impact on the company's working capital.

The sale to private parties of the SAQ's interest in Maison des Futailles, S.E.C. flowed directly from the current strate gicplan.

High performance management tools called dashboards were created for the supply chain and sales network. In addition, the crucial distribution centre management software was revised and updated.

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Social Responsibility



The SAQ is dedicated to satisfying its increasingly demanding and informed customers. Although this is a stimulating mission, maintaining the balance between the company's business goals and the moderate consumption of alcohol remains its main challenge, even if Quebecers' consumption profile is the envy of many countries.

According to the most recent Statistics Canada data, Quebecers rank ninth among Canadians in terms of absolute alcohol consumption. They drink more regularly but in smaller quantities. In short, they spread out their consumption sensibly.

All the same, the SAQ contributed \$2.5 million to Éduc'alcool, whose aware ness campaigns, while never adopting a moralizing or rigid tone, directly address the dangers of alcohol and the disastrous effects of overconsumption.

Because the SAQ believes in supporting its community, it sponsored more than 400 causes and public events for a total of \$5.3 million. It is a role and respon sibility that the SAQ takes very seriously.

Fully aware of sustainable development, the SAQ has adopted an environmental policy that comprises ten commitments and 28 specific actions, including support for selective collection and the total recycling of glass, energy efficiency and waste recovery. Half of these are new initiatives slated to be achieved by 2011, that is, in the next four years.





The SAQ has committed itself to an environmental policy comprising 28 specific actions.



The SAQ is...

... one of Quebec's leading government corporations. An organization devoted to selling alcoholic beverages, it has been part of Quebecers' daily lives since 1921. Having undergone several transformations, the SAQ constantly strives to meet its customers' needs and exceed their expectations. It also encourages healthy attitudes toward drinking.

Here follows a profile of a profit-oriented yet responsible government corporation.





Society



Made in Quebec Supporting the local economy

A new filing cabinet here; shelving units there; workstations, turnstiles and printers to be replaced. The SAQ's sales and distribution networks and administrative offices have many needs. And as a good corporate citizen, the SAQ always favours Quebec suppliers, within the constraints of legislation and sound manage ment practices. In fiscal 2006 2007, it procured some \$60 million in goods and services from 886 Quebec based suppliers, and that's not counting local producers of wines and other alcoholic beverages.

Handing over every **penny.**

Buying, selling and doing business means earning profits. At the SAQ, this income is paid to the Quebec government in the form of a dividend. In other words, almost all profits go entirely to the shareholder, the Minister of Finance, who in turn deposits them in the province's consolidated revenue fund. At the end of the day, the money is returned to Quebecers in the form of public services. In fiscal 2006 2007, the SAQ paid a dividend of \$709 million, up 8% from the previous year.

The jackpot gets bigger and bigger...

Aside from the dividend, the SAQ pays to the federal and provincial governments the amounts it collects in the course of doing business: customs and excise duties, sales taxes and spe cific taxes. In all, the SAQ contributed \$1.4 bil lion to government coffers in fiscal 2006 2007, a new high.



The jackpot gets bigger and **bigger...**

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Business



\$3B

A hefty sales figures

Gross sales totalled nearly \$3 billion, making the SAQ one of Quebec's largest companies.

Outlet **network**: move forward or fall behind

Without fanfare or ceremony, the SAQ has gradually expanded its retail network. With 414 outlets under seven banners (Sélection. Classique, Express, Signature, Dépot, fill it yourself centres and SAQ.com) and 395 agencies, the SAQ sales network has all bases covered. The seven banners are designed to meet the full range of consumers' needs. A landmark event: the fall 2006 opening of an SAQ Sélection outlet with a revised and updated concept. The first in a new generation of stores, the outlet, located in Laval, features customer self training and interaction via educational signage. An automated tasting station crowns the layout, which has been completely rethought and redesigned for neophytes as well as connoisseurs.











The right bottle in the right place at the right time

The delivery team

Eighty in number, they are a fixture on Quebec's roads and highways. Their unflagging courtesy has earned them a reputation as class acts. Some set out before daybreak, their trucks fully loaded.

Their clients are the company's outlets, author ized distributors and hundreds of restaurateurs, hotel operators and bar owners. Thousands of deliveries involving some 16 million cases a year enough to wet any and every whistle!

Tennis (or football), anyone?

Impressive spaces

The SAQ's Quebec City and Montreal distribution centres have a total surface area of 1.4 million square feet. Ten football fields or 370 tennis courts could fit into the Montreal facility alone. It should come as no surprise then that they have a storage capacity of 4.3 million cases, a figure as impressive as the spaces in which they are stored.



Advisory Services



Art and style: explosive marketing

Drawing on a sound marketing approach, the SAQ has entered the modern era of merchandising. Its marketing is more explosive than ever and includes some 30 annual promotions and marketing events. The company skilfully juggles bold campaigns, current trends and a detailed understanding of the needs and desires of each customer segment. The result is a smoothly orchestrated release of circulars, magazines, point of sale ads and television campaigns, not to mention the relationships cultivated with specialized columnists in the print media.

"Woman is man's **future**," sang Jean Ferrat*

In 1999, only 35 of the SAQ's outlet managers were women. Today, there are 92. And in that same year, only 28 of the SAQ's wine advisors and head cashiers were women. Today, 270 women hold those positions. A shining example of employment and management opportunities for women.

* La femme est l'avenir de l'homme



Going back to school!

The SAQ's wine consultants willingly go back to school every chance they get. In partnership with the Institut de tourisme et d'hôtellerie du Québec (ITHQ), the SAQ offers them a certifica tion program featuring 160 hours of training focussed on customer service, products and the consultant's role. Once they complete the program, they share their knowledge and know how with their colleagues at team meetings and in store tastings.



Providing sound advice

With approximately 1,000 new products introduced in 2006 2007. the choice of wines, beers and spirits can be intimidating for the uninitiated. Fortunately, customers can count on the SAQ's 185 wine consultants to demystify the world of alcoholic beverages for them. These experts are legendary for their approachability and enthusiasm.

Public Service



Over the course of its history, Quebec has become the envy of many countries by implementing a number of universally accessible public services: health care, education, transportation, security and even the sale of alcoholic beverages. As a result, residents of remote Port-Cartier enjoy access to an SAQ outlet that compares favourably with those on Sainte-Catherine Street in Montreal: the same—or nearly the same—products at the same prices.

Because small things can make a **big** difference

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The SAQ goes to great lengths to ensure that the products it sells meet all the quality criteria and health standards in effect in Canada and Quebec. The chemists, oenologists and technicians of its Quality Management Department are constantly on the lookout for bacteria and other potentially undesirable micro organisms and substances. Armed with isotope ratio mass spec trometers, atomic absorption spectrophotometers, and gas chromatographs, they are renowned for their dedication and discipline. Their motto: Never take public health lightly!

Ten of thousands of analyses are carried out each year in accordance with tried and tested protocols. A routine analysis of a wine already sold by the SAQ can include up to 29 parameters.



Stones with stories to tell

In 1921, the building that had housed the former Montreal prison had long been abandoned. The fledgling Quebec Liquor Board took over and renovated the structure to serve as its main warehouse. Over the years, restoration work and site improvements led to the building becoming the company's head office. In 1977, the warehouse division moved to the city's east end. The follow ing year, the building was designated an historic monument. The SAQ has since created an exhibit space called La Prison des Patriotes in the building's basement, where the events of 1837 1838 and the prisoners' conditions are described. Admission to the permanent exhibit is free of charge.

Trust is the fruit

The SAQ's laboratory enjoys a spotless reputa tion in Quebec and abroad, a clear testimony to the company's social responsibility and unshak able determination to sell products that inspire the consumer's complete trust.

The Quebec model: always in good taste.

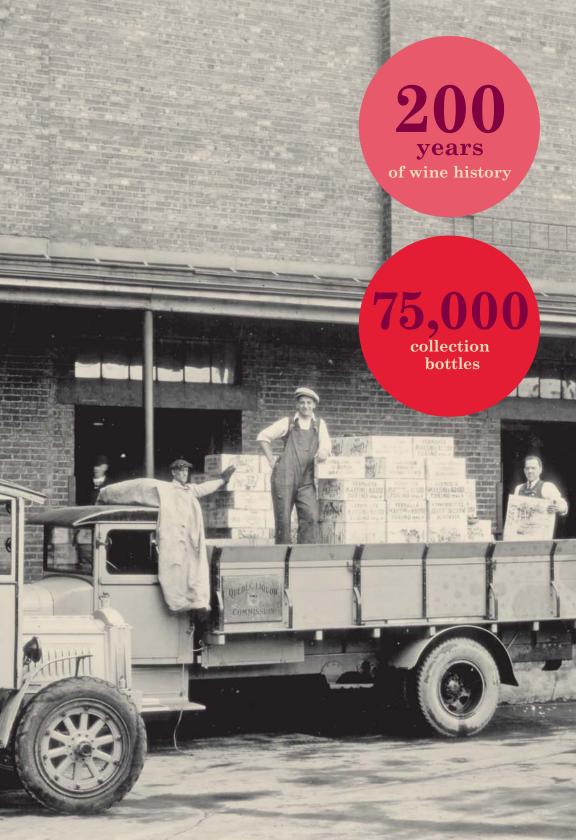
Founded in 1989, Éduc'alcool is a non profit organization dedicated to educating the public, particularly younger drinkers, about the responsible and moderate consumption of alcohol. Financed by the SAQ, Éduc'alcool is integral to the changes in Quebecers' drinking behaviour. Neither preachy nor puritan, Éduc'alcool's no nonsense public awareness campaigns tackle the dangers of alcohol and the potentially disastrous effects of overindul gence. Several of its initiatives have earned the organization high profile awards recognizing the quality, value and incisiveness of the messages conveyed. The campaign slogan, "Moderation is always in good taste," is well known to Quebecers and has reached well beyond the province's borders.

La **Maison** du Gouverneur

A natural spin off of the SAQ, the Fondation de la Maison du Gouverneur is in charge of this structure, located adjacent to the SAQ's head office. Its modest exterior notwithstanding, the building is considered a gem in the world of wine. Located at a major intersection in south central Montreal, the Maison du Gouverneur is an architectural masterpiece. Faithfully restored to its original 1895 appearance, the structure is a magnificent example of the neo Gothic inspired Victorian style. Originally built as the residence for the new prison governor, it is now dedicated to the promotion of wine.

La **Galerie** du Gouverneur

Built at the foot of the Maison du Gouverneur and the SAQ's head office, the Galerie du Gouverneur, a underground mirror image of the Maison, features a contrasting world of light and shadow, old stone and muted sounds. One enters through its corridor of vintage wines, which chronicles 200 years of wine history, to arrive at the SAQ's new storage cellar, home to an unmatched collection of 75,000 bottles. Together, the Maison du Gouverneur and the Galerie du Gouverneur feature six banquet halls divided into two different but equally charming settings. Their mutual goal: spreading the word about fine wine and dining.



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Community Service



No company operates in a vacuum. At a time of globalization and major challenges in the areas of the environment, sustainable development, health care, education and culture, government corporations must be responsible, informed and involved.



Using an organized and systematic approach, the SAQ has established a donation and sponsorship policy focused on the top issues facing society: health care, education, culture and the environment. In 2006 2007, it spon sored more than 400 public events and fundraising campaigns to the tune of \$5.3 million.

Show time

Most cities in Quebec hold annual wine, beer and spirits shows, whose profits are donated to non profit organizations. Through its involvement with 25 of these shows, the SAQ helps promote wine culture. Employees volunteer their time with the company's full support. It's yet another way the SAQ contributes to the vibrancy of local communities.

Colours, rhythms and pas de deux

It's no secret that Quebecers love to party and the bigger the celebration the better, especially when it comes to cultural festivities, where action abounds! As a major sponsor of the Quebec City Summer Festival, Mondial des cultures de Drummondville, Festival international de Lanaudière, Fête des vendanges Magog Orford and Festival des rythmes du monde de Chicoutimi, the SAQ encourages artists and artisans by taking part in events that bring the entire province to life.

Taking the LEED

In Montreal's Rivière des Prairies borough, a new SAQ Classique outlet has been designed in accordance with LEED (Leadership in Energy and Environmental Design) standards. The LEED classification application submitted by the building's owner prompted the SAQ to cast a 225 square foot concrete slab incorporating pul verized recycled glass as per the instructions of the members of the research team of the *Chaire SAQ en valorisation du verre dans les matériaux* at the Université de Sherbrooke. A fine example of on how to effectively use recycled glass.



The company has also implemented an environ mental policy that echoes the 16 principles set out in the Government of Quebec's Sustainable Development Act. The policy comprises four priorities, ten commitments, 15 objectives and 28 actions. Half of these actions are new initia tives to be completed over the next four years, that is, by 2011.



The glass cycle

The main component of the environmental policy is, naturally, supporting the various steps of the glass cycle: recovery, recycling, research, reuse and developing markets for recycled glass in all its forms (pulverized, crushed, ground, etc.). No less than 60% of all the bottles sold by the SAQ are recovered and their glass recycled. These results demonstrate the scope of curbside recycling, the value of this waste recovery method and the good sense of Quebecers.

Warehouse power consumption: the light at the end of the tunnel

In 2004, a group from the Planning, Design and Engineering department submitted a four year energy efficiency plan targeting nearly 50 build ings. Several changes have already generated significant savings, such as replacing the old lighting systems in the warehouses and insulat ing the indoor loading docks. All told, the SAQ saved more than 8 million kWh of electricity in two years after measures were implemented in 11 buildings. The goal: savings of 20 million kWh a year, the equivalent of the energy consumed by 660 single family homes.

Climate change and exhaust pipes

The training given to delivery persons to help them drive more efficiently reduced the green house gas emissions of the company's vehicle fleet by 400 tonnes between 2004 and 2006. Improvements made to buildings as part of the energy efficiency program cut another 350 tonnes of greenhouse gases over the same period. Overall, this performance has already enabled the company to meet the objectives of Quebec's 2006 2012 Climate Change Action Plan.

The SAQ's bags

A simple gesture can sometimes make a big difference. Each year, the SAQ carries out millions of transactions with its customers, which means that millions of bags can end up in the environment.



The company's first ecosafe bag was made of oxo biodegradable plastic, a tricky word for describing plastic to which a compound has been added that enables it to decompose faster (five years instead of an eternity).

The SAQ next began selling reusable cotton bags at \$2.25 a piece for customers to carry their bottles of wine and spirits in. Soon after, reusable polypropylene bags were introduced; sold at the token price of \$1, the bags come in two different designs. Fifty cents from the proceeds of every reusable bag sold will be donated to the Fondation de la faune du Québec. The bags are so tough that the SAQ will replace damaged bags free of charge. Four bags, one goal: environmental protection and sustainable development.

For additional copies of this brochure, please contact:

SAQ

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Fax: 514 873-3332

This SAQ brochure was produced by the office of the Vice-President, Public Affairs and Communication.

SAQ Customer Service

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The masculine gender has been used throughout this document for the sole purpose of brevity; it is not, in any way, intended to be discriminatory.



Thank you to the SAQ employees who agreed to appear in this brochure.









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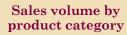
Roughly eight out of every ten Quebecers consume alcohol, usually in the form of wine. One constant is a source of reassurance: many Quebecers have adopted a moderate consumption pattern while remaining aware of all aspects of the habit. Accordingly, they drink more often but less at a time.

One thing is clear: Quebecers drink differently from their counterparts in the rest of Canada and, perhaps, the world.

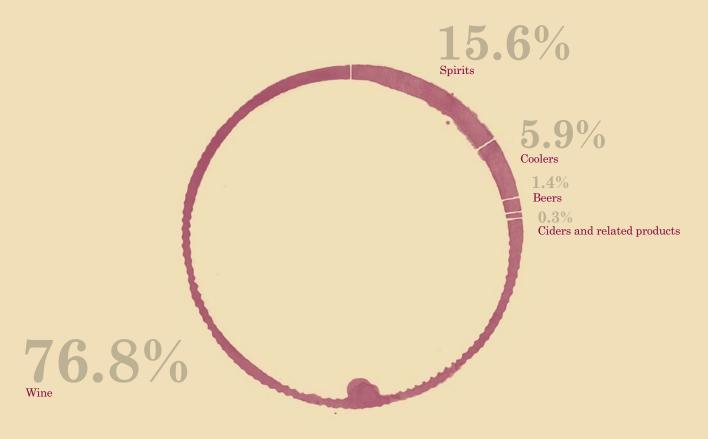
Fine nose, refined palate

As a result of the work of the SAQ's wine consultants, media columnists and an innate taste for discovery, Quebecers consume products of ever higher quality and are prepared to pay what it takes to obtain them. If drinking is good, let us drink well! Sales of wines priced over \$15 rose 2%, and this category now accounts for nearly a quarter of all wines sold. Conversely, sales of wines under \$15 dropped slightly, although the category remains dominant with 77% of all sales.

A similar trend was noted in the sales of the approximately 1,500 regular wines and 6,000 specialty wines acquired on a continuous supply or batch basis. The wines in the latter group are typically more expensive, produced in smaller quantities or aimed at specific markets, such as organic and kosher wines. While the proportion of regular wines remains high (87.7%), they have relinquished a thin slice of their market share to specialty wines (12.3%, up 0.6% from last year).



(as a percentage of bottles sold)



There is no salvation outside of wine!

While Canadians are fond of spirits, Quebecers largely prefer the fruit of the vine. They rank second among Canadians in terms of wine consumption, just behind the residents (and numerous tourists) of the Yukon, but twelfth that is to say last when it comes to the consumption of spirits.

Here in Quebec, wine's share of the SAQ's total sales rose once again to reach 76.8%, while spirits and coolers dropped slightly to 15.6% and 5.9% respectively. Beer brings up the rear with a 1.4% share.

Trends

Wild about reds.

A sturdy red to stand up to a braised leg of lamb or a lighter, fruitier version to accompany a cheese and spinach tart. Red wine suits the countless dishes and occasions that Quebecers enjoy. Whether a jug wine or a grand cru classé, red wine steals the spotlight and its way into nearly every heart. Three out of every four bottles of wine sold at the SAQ are filled with an elixir whose infinitely nuanced colours range from purple to garnet to brick.



Seeing the world through **rosé** coloured glasses

As fashionable as they are ideal for summer, rosés surprise and delight. Rosé consumption may be seasonal but it accounts for a growing proportion of the SAQ's total wine sales, at 3.9% up a half percentage point from last year. What will we be sipping beside the pool, at brunch and around the grill this summer?

The cider that came in from the **cold...**

Increasingly popular, Quebec's regional products are gaining ground. Surely and quietly, the SAQ has marketed 312 of these wines, ciders and other beverages, sales of which totalled about \$15 million in 2006 2007, a 12% increase. The ten biggest sellers in this category include six ice ciders, a sparkling cider and an icewine. No fewer than 67 Quebec producers are now represented on the SAQ's shelves, helping to drive local economies and advance Quebec's cider making know how.



Top scorers, best defence: you could be talking about the rankings of NHL and NFL teams. When it comes to the most popular white wine appellations, France continues to dominate with five of the top ten players (Alsace, Bordeaux, Muscadet de Sèvre et Maine, Bourgogne Aligoté and Chablis). Her main rival remains Italy, with four formidable scorers (Colli Albani, Orvieto Classico, Castelli Romani and Cerveteri). Not to be overlooked is Portugal, still a contender with its star performer, Vinho Verde.

Closely fought battle for centre field!

Top 10

red wine appellations

The world cup of red wine is being played on European soil. Of the ten most popular red wine appellations in Quebec, six teams are French (Bordeaux, Coteaux du Languedoc, Brouilly, Côtes du Rhône, Corbières and Cahors) and three Spanish (Cariñena, Valencia and Valdepeñas). Italy earns a place on the list with its ever reliable Montepulciano d'Abruzzo.

for you SAQ 2007 Annual Report

Trends

Grape varieties The search for authenticity

A trend in the world of winemaking is the growing number of wines labelled with the name of a single grape variety, often referred to as varietal wines or simply varietals. It's a great way to discover distinctive wines that exhibit the characteristics of the grape variety used.

Among whites, more and more 100% Viognier wines are made. Viognier has been called an anecdotal grape variety because, although not a lot of it is grown around the globe, it makes generous, fat white wines with complex noses that have tasters reaching for descriptors like pear, peach, apricot, violet, iris and almond. Other varietals are being made from grape varieties rarely allowed to stand on their own Roussanne, for example with U.S. vintners enjoying considerable success in their attempts to resuscitate them.

Even more obscure varieties have recently appeared on the world stage, to the joy of interested wine lovers. Among the more notable is Viura, a grape grown mainly in the Rioja region that produces aromatic white wines well suited to aging in oak. Picpoul Blanc, a traditional Languedoc variety also returning to fashion, makes wines with subdued noses but appealing hints of acacia and hawthorn blossom.

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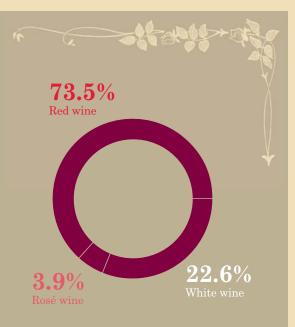
Among reds, countless 100% Zinfandel wines are being made in the United States. The same is true for Italian wines made exclusively from Primitivo, Nero d'Avola and Negroamaro. Flavourful libations guaranteed both to surprise and deliver absolute authenticity.

White

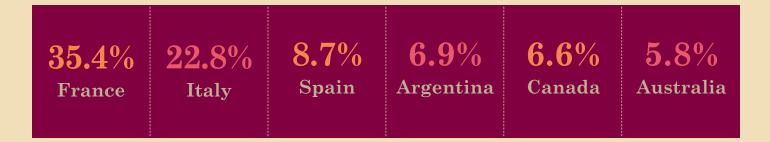
Alsace - 1 Bordeaux - 2 Muscadet de Sèvre et Maine - 3 Colli Albani - 4 Bourgogne Aligoté - 5 Orvieto Classico - 6 Castelli Romani - 7 Cerveteri - 8 Chablis - 9 Vinho Verde - 10-

Red

Bordeaux
Montepulciano d'Abruzzo
Cariñena
Coteaux du Languedoc
Valencia
Brouilly
Côtes du Rhône
Cahors
Corbières
Valdepeñas



There's more than one way to win a match...



As everyone remembers, sometimes with a grimace, France lost to Italy in the 2006 World Cup final. On the other hand, France can take consolation in the fact that it remains the winner among the countries whose wines are promoted by the SAQ. Even better, it enjoys a comfortable lead over Italy.

More than 35% of still wines (as opposed to sparkling wines) sold by the SAQ are French in origin (down one percentage point), while Italy grabs 22.8% of the market (a quarter point rise). The other contenders are Spain (8.75), Argentina (6.9%), Canada (6.6%) and Australia (5.8%). Gooooooooooal!

Wine and cocooning Drinking is more enjoyable at home.

SiA sign of the times or a passing trend? While no one can say for sure, it's clear Quebecers are inclined to drink more at home than in restaurants or other licence holders' establishments (hotels, bars, etc.). Though reliable data may be lacking, the ban on smoking in public spaces is thought to contribute to this phenomenon. In fact, in one year, the

proportion of sales made through retail outlets increased nearly 2% to 77.2% while the proportion of sales made at licence holders' establishments, unsurprisingly, dropped 2% to 17.6%. For the naturally curious, the remaining 5% is comprised of sales made to embassies and consulates, religious communities and so on.

Trends



Better known for their consumption of beer and spirits, more and more Canadians are discovering the world of wine. Undoubtedly riding a global trend and spurred by rising domestic production (mainly from Ontario and British Columbia), Canadians are literally wild about wine . According to Vinexpo, an organization that publishes many studies on winemaking and wine markets and organizes three of the world's leading annual wine

shows, including the one in Bordeaux, this phenomenon is due to baby boomers' booming interest in wine, more dynamic advertising by government monopolies and the frequent publication of studies on the health benefits of wine.

Nonetheless, wine consumption in Canada remains well below that of countries where drinking wine is part of a long cultural tradition. While Canadians have a per capita consumption of nearly 14 litres a year, the French remain the leaders with 64 litres a year, followed by the Italians with 56 litres and the Swiss with 48 litres. Quebecers remain the biggest wine drinkers in Canada, with an average annual consumption of 18 litres, just behind the Yukon, a statistic skewed by the high number of tourists who visit the territory.

Will wine replace vodka?

While countries like France and Switzerland, where wine has always been a feature of the dinner table, have seen a gradual drop in per capita wine consumption, the residents of other countries appear to be integrating wine into their lifestyles. According to Vinexpo data, Americans should exceed all other wine consuming populations in 2010 in terms of volume. Wine

consumption in the United States grew nearly 20% between 2001 and 2005 and should rise 22% by 2011. According to Vinexpo forecasts, worldwide wine sales are expected to reach \$106 billion in 2011.

New wealth, the latest trends, and the growing GDP in populous countries like China and Russia also favour the sale

of wines, in particular Champagne, according to Vinexpo data. The organization forecasts that, between 2005 and 2011, annual wine sales by volume should rise 4.3% in Russia and 4.7% in China.

Trends

Per capita Canadian consumption by persons age 15 and $over^{\scriptscriptstyle{(1)}}$

2004-2005 fiscal year ⁽²⁾	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	19.5	1	145.7	1	14.1	1	13.0	1	1,063.5	1
Alberta	14.3	4	91.7	5	8.1	10	9.0	2	629.2	7
Nova Scotia	13.0	5	95.8	2	9.7	5	9.0	2	625.9	8
Northwest Territories*	8.4	8	76.9	10	9.9	4	8.5	4	857.0	2
Newfoundland & Labrador	5.1	12	91.9	4	10.3	2	8.2	5	689.8	3
British Columbia	15.7	3	77.2	9	9.4	6	8.1	6	673.0	4
Ontario	12.5	6	82.4	6	8.5	9	7.8	7	631.7	6
Prince Edward Island	7.9	10	79.7	8	10.3	2	7.7	8	580.1	9
Quebec	17.5	2	92.2	3	3.7	12	7.6	9	666.0	5
Manitoba	8.4	8	75.3	11	9.1	7	7.4	10	539.3	11
Saskatchewan	5.9	11	74.5	12	9.1	7	7.0	11	530.1	12
New Brunswick	8.7	7	80.6	7	7.0	11	6.9	12	564.1	10
Canada	13.7		85.0		7.5		7.9		638,6	

^{*} These data include Nunavut.

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Per capita	consumption	in Quebec	by persons	age 15 and	over ⁽¹⁾

2001 to 2005 fiscal years	2001	2002	2003	2004	2005(2)
Wines					
in litres	16.3	16.7	17.4	18.0	17.5
in dollars	181.8	194.5	215.5	230.8	228.9
Beers					
in litres	93.3	94.0	93.9	93.6	92.2
in dollars	318.2	336.0	368.7	369.4	362.8
Spirits					
in litres	2.9	3.6	4.1	4.0	3.7
in dollars	69.8	75.3	80.8	81.8	74.3
Total ⁽³⁾					
in litres	112.6	114.2	115.4	115.5	113.4
in dollars	569.7	605.8	665.0	682.1	666.0

⁽¹⁾ Source: Statistics Canada

 $^{^{\}scriptscriptstyle{(2)}}$ This fiscal year was disrupted by a labour dispute at the SAQ.

 $^{^{\}tiny{(3)}}$ Due to rounding, the data presented under "total" may not equal the sum of the individual amounts.

Profitability Better Profitability



Accountability Report

The SAQ is a government corporation mandated 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 Accountability Report section outlines the SAQ's forecasts and financial achievements over the last five years.



Operating Results

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

	2008	2007		20	06	2005		2004	
	Forecast	Actual ⁽¹⁾	Forecast ⁽¹⁾	Actual	Forecast	Actual ⁽²⁾	Forecast	Actual	Forecast
Gross sales	3,037.9	2,980.3	2,928.6	2,765.3	2,820.3	2,544.7	2,697.0	2,653.0	2,568.0
Net sales	2,412.0	2,364.1	2,305.0	2,173.1	2,228.9	1,986.9	2,115.4	2,070.1	1,991.7
Gross earnings	1,216.7	1,180.8	1,180.7	1,114.2	1,133.8	995.5	1,077.8	1,016.9	1,003.2
Operating expenses	471.7	470.7	478.5	457.3	476.7	449.7	476.8	446.1	453.0
Net earnings	745.0	710.1	702.2	656.9	657.1	545.8	601.0	570.8	550.2

^{(1) 53-}week fiscal year.

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Note: Certain previously reported figures have been reclassified to conform to the current year's presentation.

Capital Expenditures

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

	2008	2007	2006	2005	2004
	Forecast	Actual ⁽¹⁾	Actual	Actual ⁽²⁾	Actual
Capital projects Distribution and administrative centres	9,706.5	8,662.7	6,340.4	10,007.7	11,167.7
Reorganization of the outlet network	10,939.1	4,051.5	3,710.3	7,271.1	10,570.2
Information systems development	11,537.2	3,946.4	11,972.5	10,581.4	30,588.6
Rolling stock and mobile equipment	1,353.3	1,300.1	1,025.1	2,776.6	3,005.5
Specific equipment	1,408.0	1,012.9	1,814.7	1,546.2	2,077.2
Total capital expenditures	34,944.1	18,973.6	24,863.0	32,183.0	57,409.2

^{(1) 53-}week fiscal year.

Note: Certain previously reported figures have been reclassified to conform to the current year's presentation.

⁽²⁾ The fiscal year was disrupted by a labour dispute.

 $^{^{\}scriptscriptstyle (2)}$ The fiscal year was disrupted by a labour dispute.

Commercial Data

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

Sales growth by volume (1)							
Sales by volume (in millions of cases)	20,000 18,000 16,000 14,000 12,000	15,288.9	15,122.2	16,311.1	17,377.8	17,840.4	
		2004 Actual	2005 Actual®	2006 Actual	2007 Actual (4)	2008 Forecast	
Percentage increase (de	ecrease)	2.5	(1.1)	7.9	6.5	2.7	





- (i) Growth in sales is also demonstrated by the number of cases sold. These cases are standard units of measure consisting of twelve 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 dispute.
- (4) 53-week fiscal year.

 $Note: Certain\ previously\ reported\ figures\ have\ been\ reclassified\ to\ conform\ to\ the\ current\ year's\ presentation.$

Financial Review

In its last fiscal year, the Société des alcools du Québec skilfully responded to the changing environment of the alcoholic beverage business. While the company remained focused on its strategic plan, its retail sales and net earnings were the best in its history. Specifically, the company closed its 2006–2007 financial year with consolidated gross sales in excess of \$2,980 million. Net earnings jumped to \$710.1 million, compared with \$656.9 million in fiscal 2005–2006, an increase of \$53.2 million or 8.1%. Government revenue in the form of duties, taxes and dividends rose by \$92 million to total \$1,397 million.

In the second quarter, the SAQ disposed of its interest in the Maison des Futailles, S.E.C. joint venture. Flowing from the implementation of the SAQ's strategic plan, the sale of this corporate investment generated a gain of \$3 million.



Consolidated Financial Statements

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The consolidated financial statements of the SAQ were prepared in accordance with Canadian generally accepted accounting principles. They include the SAQ's accounts and its share of the assets, liabilities, products and expenses of Maison des Futailles, S.E.C., a joint venture in which the SAQ held a 50% interest until August 26, 2006, the date the SAQ disposed of its interest. This interest was recognized using the proportionate consolidation method. The consolidated financial statements also include the SAQ's share of the assets, liabilities, products and expenses of Société d'investissement M. S., S.E.C. This interest is recognized using the proportionate consolidation method. For the 2006–2007 fiscal year, the SAQ's share of the operating losses of these two joint ventures was valued at \$0.7 million.

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

It should be noted that the last fiscal year consisted of 53 weeks of operations.

Gross Sales

The amounts paid by the various customer segments to purchase directly from the SAQ the products it sells provide a relevant measure for assessing the company's business performance. This measurement is expressed as the retail value of its consolidated sales. It does not include sales to beer brewers and distributors, which generate no gross earnings.

For the 2006 2007 fiscal year, consolidated net sales, as defined above, totalled \$2,767.9 million, compared with \$2,584.6 million for the previous year, an increase of \$183.3 million or 7.1% arising mainly from the SAQ's establishments. Disregarding the 53rd week, the actual annual growth in sales was 5.2%.

The retail value of sales of beverages and related products acquired from outlets and specialized centres by consumers, licence holders and institutions rose to \$2,391.8 million, compared with \$2,210.1 million in fiscal 2005 2006. The average in outlet purchase was \$49.35 in 2006 2007 as opposed to \$50.03 for the previous financial year. As for the overall amount paid by the authorized distributors to acquire the company's products, it increased only slightly, going from \$374.5 million to \$376.1 million in 2006 2007.

The retail value of sales made to beer brewers and distributors totalled \$212.4 million, compared with \$180.7 million for the previous fiscal year, an increase of \$31.7 million or 17.5%.

Net Sales

The SAQ's net sales correspond to gross sales less discounts, returns, consumption taxes, compensation paid to authorized distributors and agencies, and specific levies. For details, readers are encouraged to refer to note 7 of the Consolidated Financial Statements.

In fiscal 2006–2007, consolidated net sales, excluding sales to beer brewers and distributors, totalled \$2,174.6 million, compared with \$2,013.6 million for the previous year, an increase of \$161.0 million or 8.0% (6.2% for 52 weeks). Volume sales for all product categories rose from 146.8 million litres to 156.4 million litres in 2007–2007, a difference of 9.6 million litres or 6.5%. Overall, the average net sales price increased slightly to \$13.90 a litre, versus \$13.71 in 2005–2006.

By Sales Network

Net sales for the outlet network and the specialized centres totalled \$1,914.1 million and accounted for nearly the entire sales increase in the sales network, namely \$160.9 million or 9.2% over the previous year. These results speak loudly of the employees' efforts in the SAQ's network to provide quality service and of the success of the new customer focussed approach implemented at the start of the year. For their part, volume sales for this network totalled 123.6 million litres compared with 114.9 million litres in 2005 2006, a 7.6% difference.

Net sales for the network of wholesale grocers remained stable at \$260.5 million, while the corresponding volume sales grew a slight 2.8% to 32.8 million litres. Net sales to beer brewers and distributors rose to \$189.5 million in 2006 2007, an increase of \$30 million or 18.8% over the previous year. The volume sales for this network totalled 132.4 million litres, up 7.8% from fiscal 2005 2006.

By Product Category

The wine category made a particularly good showing in fiscal 2006 2007, accounting for more than 83% of the increase in overall net sales. Net sales for this category totalled \$1,604.5 million, an increase of \$134.2 million or 9.1% from the previous year. The volume sales growth for wines was in the order of 8%, reaching 126.0 million litres in 2006 2007. During the last three fiscal years, the net sales of wine have risen more than 21% or an average of approximately 7% a year.

Net sales of spirits, which are sold only through the outlet network and specialized centres, increased \$32.1 million or 7.0% to \$492.1 million. Volume sales in this category followed the same trend, ending the year at 19.0 million litres, a 4.4% rise. This product category, whose sales results were relatively stable for several years, has gained strength in the last three fiscal years. Specifically, net sales of spirits have grown more than 15% and the corresponding volume sales 10%.

For the second year in a row and the third time in four years, the imported beer, cider and cooler category saw its sales decline, going from \$83.3 million to \$78.0 million, a 6.4% decrease. Volume sales totalled 11.4 million litres, compared with 11.9 million litres for the previous year. This drop can be explained by a shift in demand to the wine category, whose market share has been growing steadily for several years now, as well as to the imported beers sold to brewers and distributors for sale in the grocery and convenience store network.

Financial Review

Government Revenue

As a government corporation, the SAQ pays substantial sums of money to the two levels of government in the form of consumption taxes, federal taxes and duties and a dividend to its shareholder, the Quebec Minister of Finance. For fiscal 2006–2007, government revenue from operations reached a record \$1,396.7 million, compared with \$1,304.7 million in 2005–2006, an appreciable increase of \$92.0 million or 7.1%.

A total of \$1,069.8 million was paid to the Quebec treasury, a \$75.6 million or 7.6% increase. This difference is obviously explained by the \$52.0 million increase in the dividend resulting from higher net earnings, but also by the larger amount of consumption taxes (provincial sales tax and specific tax on alcoholic beverages) collected because of higher sales. For its part, the revenue paid to the government of Canada grew \$16.4 million to \$326.9 million. This increase is mainly due to the higher excise duties, which the federal government raised last fall.

In the last decade, the SAQ's business activities have generated government revenue of nearly \$10.7 billion, of which more than \$8 billion went to the Quebec government.

Government Revenue from Operations

(in millions of dollars)

	2007	2006
Quebec Government		
Dividend	709.0	657.0
Provincial sales tax	199.2	184.6
Specific tax	117.2	108.5
Specific licence holder tax	44.4	44.1
	1,069.8	994.2
Government of Canada		
Excise taxes and customs duties	170.6	149.4
Goods and services tax	156.3	161.1
	326.9	310.5
Amounts Paid Directly to Both		
Levels of Government by the		
Société des alcools du Québec	1,396.7	1,304.7

Cost of Goods Sold and Gross Margin

The cost of goods sold by the SAQ includes the acquisition cost, the land and sea transportation expenses incurred to ship goods to the SAQ's distribution centres and the related federal taxes and duties. In 2006–2007, the cost of goods sold, excluding the portion related to transactions concluded with beer brewers and distributors, totalled \$993.8 million, compared with \$899.5 million in 2005–2006. Consequently, gross earnings of \$1,180.8 million were achieved in the year just ended, compared with \$1,114.2 million in fiscal 2005–2006, a \$66.6 million increase. Expressed as a percentage of net sales, the gross margin was 54.3% in 2006–2007, as opposed to 55.3% for the previous fiscal year.

Operating expenses

Total operating expenses for the 2006–2007 fiscal year, including finance charges and fixed asset depreciation expenses, were \$470.7 million in 2006–2007, compared with \$457.3 million for the previous fiscal year, a slight increase of \$13.4 million or 2.9%. This rise is attributable to an additional week of operations and certain marginal distribution and marketing costs related to the greater sales volume and in store traffic that were necessary to maintain service quality in the outlet network. Had it not been for the 53rd week, the annual growth in all operating expenses would have been held under 1%.

These factors naturally had an impact on compensation (salaries, wages and employee benefits), which rose \$25.7 million or 9.5% to \$296.5 million. In fiscal 2006–2007, this single cost item accounted for nearly 63% of the organization's overall operating expenses.

Constituting the second largest category of operating expenses, building occupancy expenses rose from \$71.2 million to \$72.5 million in 2006 2007, a slight 1.8% difference that testifies to the company's efforts to optimize use of its sales areas while limiting the growth of the occupancy expenses of its business premises.

Financial Review

These excellent results continue a new trend noted in the previous two fiscal years with respect to the organization's operating ratios. Expressed as a function of the value of retail sales, the total operating expenses were 17.0% for fiscal 2006 2007, compared with 17.7% for the previous fiscal year and 19.2% for fiscal 2004 2005.

Compensation and Employee Benefits

(in millions of dollars)

(
	2007	2006
Compensation		
Salaries and wages	242.4	222.0
Overtime	5.5	6.0
	247.9	228.0
Employee benefits	48.6	42.8
	296.5	270.8

Investments in Fixed Assets

Investments in fixed assets totalled \$19.0 million in the latest fiscal year. The SAQ allocated \$8.7 million to all of its real estate projects, including nearly \$6 million in its project to optimize its administrative spaces, for which annual savings of more than \$1 million are forecast. In addition, nearly \$4.1 million was invested in the outlet network modernization program, which has been ongoing for several years and whose goal is to provide the outlets with interiors and exteriors that are more functional, accessible and modern. The amount of \$3.9 million was set aside for information systems development. Approximately \$2.3 million was also invested in replacing and acquiring new rolling stock and specific equipment. All investments in fixed assets were funded using internally generated funds.

Financial Position

At the end of fiscal 2006 2007, the company's balance sheet no longer included the SAQ's share of the assets and liabilities of Maison des Futailles, S.E.C., the joint venture that was sold on August 26, 2006. The financial information pertaining to the sold assets and liabilities is presented in note 5 of the Consolidated Financial Statements.

As at March 31, 2007, the SAQ's total assets were \$573.0 million, compared with \$658.8 million at March 25, 2006. The net value of the fixed assets decreased by \$32.2 million. This difference is mainly due to annual depreciation expenses that were higher than the book value of the acquisitions. In addition, improvements in supply chain processes helped lower inventory levels during the fiscal year. At the end of fiscal 2006 2007, the inventory investment shown on the balance sheet was \$238.0 million, compared with \$265.2 million at the end of the preceding fiscal year, a \$27.2 million decrease.

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The sale of the interest held in Maison des Futailles, S.E.C. on August 26, 2006, resulted in the disposal of consolidated goodwill and organization expenses appearing on the balance sheet, showing a difference of \$13.1 million in this regard compared with the previous fiscal year. At year end, the book value of the inventory and fixed assets had respective weightings of 41.5% and 41.9% of total assets (40.3% and 41.3% as at March 25, 2006). The working capital ratio at March 31, 2007, was comparable to that at the end of the previous fiscal year (0.67 at March 31, 2007, versus 0.65 at March 25, 2006).

Short term liabilities decreased by \$81.7 million, going from \$576.9 million to \$495.2 million. This change is attributable mainly to short term bank loans, whose balance at year end was \$106.9 less than at the end of the previous fiscal year. The growth in net earnings in 2006 2007 entailed a \$35.0 million increase in the dividend payable at year end.

Due to significant internally generated funds and a low level of long term indebtedness, the SAQ's financial position remained sound throughout the fiscal year. The company also had improved management ratios with respect to the recovery of accounts receivable and inventory turnover.

Cash flow

The SAQ's activities required \$10.3 million in net liquid assets in 2006 2007, compared with \$13.7 million in fiscal 2005 2006. As at March 31, 2007, the SAQ's balance sheet showed net liquid assets of \$22.2 million, compared with \$32.5 million at the end of the preceding fiscal year.

Financial Review

Totalling \$769.0 million, the cash flows related to operating activities rose \$89.5 million from the previous year. This difference is mainly due to the growth in net earnings during the year, in the order of \$51.3 million, and the \$39.6 million increase in non cash working capital.

The liquid assets generated by investment activities totalled \$4.6 million, in contrast to 2005 2006, when \$22.3 million in liquid assets were absorbed by these activities. This difference can be explained mainly, on the one hand, by the \$23.5 million in liquid assets from the disposal of the company's interest in the Maison des Futailles, S.E.C. joint venture and, on the other hand, by the change in the disbursements of fixed assets, which totalled \$19.0 million in 2006 2007, compared with \$24.9 million in the previous fiscal year.

Lastly, financing activities required liquid assets totalling \$783.0 million in 2006 2007, versus \$670.9 million in the previous fiscal year. This difference is mainly due to dividend payments that were \$76.0 million higher and an increased drawdown of bank loans that was \$35.4 million higher than in the previous fiscal year.

Financing of Activities

The SAQ assumes full responsibility for financing its activities. For several years now, the company has paid the dividend to its sole shareholder in the form of periodic advances. Due to this earnings distribution method, the SAQ must turn to external sources to finance its activities. The company is consequently authorized by the Quebec government 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.

In the 2006–2007 fiscal year, the SAQ negotiated the issue on the money market of debt instruments whose face values totalled \$9,508.2 million, compared with \$12,654.3 million in 2005–2006.

The average balance of term loans was \$166.5 million in 2006 2007, compared with \$247.4 million in the previous fiscal year. The maximum loan balance was \$286.1 million, versus \$312.9 million for fiscal 2005 2006. At fiscal year end, the balance sheet showed a term loan balance of \$89.5 million (\$196.4 million at March 25, 2006).

Money market financing of the company's activities incurred carrying charges of \$7.2 million, down \$0.1 million from the previous fiscal year. This difference is mainly due to a decrease of more than \$80 million in the average term loan balance combined with an increase of nearly 130 basis points in the average financing rate in 2006 2007.

Risk and Uncertainty

The SAQ faced a variety of claims and lawsuits, primarily for damages, totalling \$15.5 million at the end of the 2006 2007 fiscal year. SAQ management is fighting these lawsuits and is opposed to acting on any resulting claims. No provisions are recognized in the company's accounting records with respect to these contingencies because, in management's opinion, no settlement resulting from these actions would have a significant effect on the SAQ's consolidated financial statements. Should the company be required to make a payment with respect to these claims and lawsuits, the expense will be applied against the results of the fiscal year in which it is incurred.

Outlook

In the coming years, the SAQ will continue deploying its strategic plan, one of whose main thrusts is to improve the company's financial performance. This objective will be attained by moving ahead with the company's efforts to reduce its buying and administrative expenses, consolidating its financial position, improving how it does business every day, enhancing its product offer and developing its customer services.

For fiscal 2007 2008, the SAQ expects to have net earnings of \$745 million, an increase of \$34.9 million or 4.9% over fiscal 2006 2007.

Financial Review

Net Sales by Sales Network							
(in millions of dollars)	2003	2004	2005 (1)	2006	2007(2)		
Outlets and specialized centres	1,487.6	1,581.7	1,506.0	1,753.2	1,914.1		
Wholesale grocers	■ 232.3	2 49.9	2 99.3	2 60.4	2 60.5		
Brewers and beer distributors	■ 150.1	■ 238.5	■ 181.6	■ 159.5	■ 189.5		
Total	1,870.0	2,070.1	1,986.9	2,173.1	2,364.		



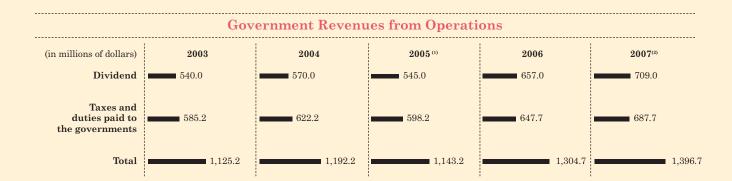
 $Note: Certain\ previously\ reported\ figures\ have\ been\ reclassified\ to\ conform\ to\ the\ current\ year's\ presentation.$

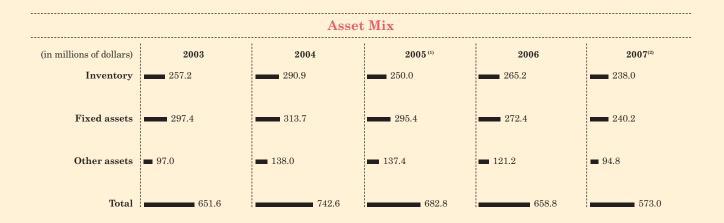
 $^{^{\}scriptscriptstyle (1)}$ The fiscal year was disrupted by a labour dispute.

⁽²⁾ 53-week fiscal year.

Financial Review







 $^{^{\}scriptscriptstyle (1)}$ The fiscal year was disrupted by a labour dispute.

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Note: Certain previously reported figures have been reclassified to conform to the current year's presentation.

⁽²⁾ 53-week fiscal year.

Financial Review

Items Constituting Gross Sales in Fiscal 2006–2007⁽¹⁾

VTotal gross sales

2,980.3 million

(in percentages and in dollars) March 31, 2007

34.0% Supplies \$1,012.6 M

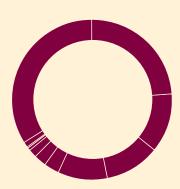
23.8% Dividend paid \$709.0 M

12.1% Taxes paid to the Government of Quebec \$360.8 M

11.0% Taxes paid to the Government

of Canada \$326.9 M

10.0% Compensation and benefits \$296.5 M



 $\begin{array}{ll} {\bf 3.1\%} & {\bf Compensation~paid~to~wholesale~grocers;} \\ & {\bf compensation~to~agencies;~returns} \\ & {\bf and~discounts~\$93.0~M} \end{array}$

2.4% Building occupancy expenses \$72.5 M

1.9% Equipment use and supply expenses \$57.8 M

0.4% Freight out and communications \$12.2 M

0.1% Contributions to the

Environmental Fund \$3.7 M

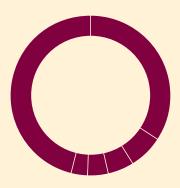
0.1% Contributions to the Fonds Éduc'alcool inc. \$2.5 M

1.1% Other items $\$32.8\ M$

Breakdown of the Selling Price

Imported wine 750 ml format

Retail price: \$15.45 per bottle (in percentages and in dollars) March 31, 2007



46.2% Markup⁽²⁾ \$7.14

34.1% Supplier price, in Canadian dollars, including transport \$5.26

7.0% Provincial sales tax \$1.08

5.2% Federal goods and services tax \$0.81

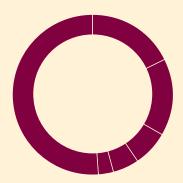
4.3% Specific taxes paid to the Government of Quebec \$0.67

3.2% Customs duties paid to the Government of Canada \$0.49

Breakdown of the Selling Price

Local spirits 750 ml format

Retail price: \$22.25 per bottles (in percentages and in dollars) March 31, 2007



51.3% Markup⁽²⁾ \$11.43

17.6% Supplier price, in Canadian dollars, including transport \$3.92

15.8% Excise tax paid to the Government of Canada \$3.51

7.0% Provincial sales tax \$1.55

5.3% Federal goods and services tax \$1.17

3.0% Specific taxes paid to the Government of Canada \$0.67

- (1) 53-week fiscal year.
- (2) 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.

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Management's Report



The consolidated financial statements provided below have been 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 policies and procedures established by management and with Canadian generally accepted accounting principles. They reflect management's best judgement and estimates based on currently available information.

As part of its duties, 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 safeguarded, that all transactions 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 submitted to management, which acts accordingly.

The Board of Directors of the Société des alcools du Québec is responsible for ensuring that management fulfils its obligations for financial reporting and internal controls. The Board performs this function through its Audit Committee, which consists solely of independent directors. The Board also periodically reviews the consolidated financial statements and studies the reports on the accounting policies and procedures and the internal control systems.

The consolidated financial statements have been audited by the firm Raymond Chabot Grant Thornton L.L.P., chartered accountants, in accordance with Canadian generally accepted auditing standards. Their responsibility is to express a professional opinion on whether the financial statements are fairly presented. The Auditor's Report, shown opposite, specifies the scope 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 significant items and data available as at May 16, 2007.

Sylvain Toutant
President and Chief Executive Officer

Richard Genest Vice-President and Chief Financial Officer for you ${
m SAQ}$ 2007 Annual Report ${
m 33}$

Auditors' Report



The Honourable Monique Jérôme-Forget
Minister of Finance
Shareholder of the Société des alcools du Québec

We have audited the consolidated balance sheet of the SOCIÉTÉ DES ALCOOLS DU QUÉBEC as at March 31, 2007, and the consolidated statements of income, retained earnings and cash flows for the fiscal year then ended. 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 standards, 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 31, 2007, and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. In accordance with the requirements of 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 blabat Grant Thornton S.E.N.C.R.L.

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Consolidated Statement of Income and Retained Earnings

Fiscal year ended March 31, 2007 (in thousands of dollars)

	2007	2006
Gross sales (note 7)	\$2,980,326	\$2,765,309
Taxes, discounts and other (note 7)	616,243	592,191
Net sales (note 7)	2,364,083	2,173,118
On anothing announces		
Operating expenses Cost of products sold (note 7)	1,183,322	1,058,939
Selling and marketing, distribution and administrative expenses	420,844	403,408
	_1,604,166	1,462,347
Earnings before financing expenses, depreciation, other income		
(expenses) and income tax expenses	759,917	710,771
Financing expenses and depreciation		
Financing expenses (note 8)	6,435	6,436
Depreciation of fixed assets	46,086	47,006
Depreciation of the building rented under a capital lease	407	407
Depreciation of other assets	33	239
	52,961	54,088
Earnings before other income and income tax expenses	706,956	656,683
Other income		
Gain on disposal of an interest in a joint venture	2,998	
Amortization of the deferred gain on the disposal of assets to a joint venture	114	270
	3,112	270
Earnings before income taxes	710,068	656,953
Income taxes		
Current	(15)	15
Future	(14)	(11)
	(29)	4
Net earnings	710,097	656,949
Retained earnings at beginning of year	5,560	5,611
Dividend	(709,000)	(657,000)
Retained earnings at end of year	\$ 6,657 \$	\$ 5,560

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

Consolidated Balance Sheet

March 31, 2007 (in thousands of dollars)

	2007	2006
Assets		
Current assets		
Cash and cash equivalents (note 21)	\$ 22,192	\$ 32,540
Accounts receivable (note 9)	44,988	58,216
Inventory (note 10)	238,014	265,235
Prepaid expenses and deposits	27,632	17,308
	332,826	373,299
Fixed assets (note 11)	236,115	267,933
Building rented under a capital lease (note 12)	4,070	4,477
Consolidated goodwill		12,302
Other assets (note 13)		806
	\$573,011	\$658,817
Liabilities Current liabilities Bank loans (note 14) Accounts payable and accrued liabilities (note 15) Dividend to be paid	$\begin{array}{c} \$\ 89,500 \\ 246,703 \\ \underline{159,000} \\ 495,203 \end{array}$	\$196,396 256,497 124,000 576,893
D.1. (1.000) (1.10)		1 500
Debentures, 8.66% (note 16) Capital lease obligation (note 17)	5,903	1,500 7,007
Deferred gain on the disposal of the assets to a joint venture (note 18)	5,505	3,487
Accrued benefit liability cumulative sick leave credits (note 19)	33,604	33,104
Accrued benefit liability retirement plan (note 19)	1,644	1,237
Future income taxes payable by the joint venture subsidiary	1,044	29
ruture income taxes payable by the joint venture substituty	536,354	623,257
		020,201
Shareholder's equity Equity/share capital Authorized, issued and paid		
300,000 shares valued at \$100 each	30,000	30,000
Retained earnings	6,657	5,560
	36,657	35,560
	\$573,011	\$658,817

Contingencies and commitments (note 20)

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

On behalf of the Board of Directors

Norman Hébert jr. Chairman of the Board of Directors **Chantal Bélanger** Audit Committee Chairperson

Chart Silary

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Consolidated Cash Flows

Fiscal year ended March 31, 2007 (in thousands of dollars)

	2007	2006
Operating activities		
Net earnings	\$710,097	\$656,949
Non cash items:		
Depreciation	46,526	47,652
Loss on sale of fixed assets	426	182
Impairment in value of consolidated goodwill	274	
Gain on disposal of an interest in a joint venture	(2,998)	
Amortization of the deferred gain on the disposal of assets to a joint venture	(114)	(270)
Future income taxes	(14)	(11)
Expenses relating to sick leave credits	2,627	2,405
Expenses relating to the retirement plan	407	337
	757,231	707,244
Net change in non cash items of working capital (note 21)	13,857	(25,723)
Use of cumulative sick leave credits	(2,127)	(2,053)
		() = = -/
Cash flows provided from operating activities	768,961	679,468
Investment activities		
Gain on disposal of an interest in a joint venture, net of cash disposed (note 5)	23,473	
Business acquisition (note 6)		58
Debentures receivable		2,500
Acquisition of fixed assets	(18,974)	(24,863)
Sale of fixed assets	104	214
Other assets	(27)	(198)
Cash flows used for investment activities	4,576	(22,289)
Financing activities		
Variation in bank loans	(106,896)	(71,534)
Debentures payable	(2,000)	(500)
Reimbursement of the capital lease obligation	(989)	(887)
Dividend	(674,000)	(598,000)
Cash flows used for financing activities	(783,885)	(670,921)
Net increase (decrease) in cash and cash equivalents	(10,348)	(13,742)
Cash and cash equivalents at the start of the fiscal year	32,540	46,282
Cash and cash equivalents at the end of the fiscal year	\$ 22,192	\$ 32,540
- ·		

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

Notes to the Consolidated Financial Statements

March 31, 2007
(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 31, 2007, and March 26, 2006, covered 53 and 52 weeks of operation respectively.

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 has no impact on the consolidated financial statements of the fiscal year ended March 25, 2006.

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 had a 50% interest until August 26, 2006, the date on which the SAQ disposed its interest. This interest was recognized using the proportionate consolidation method. The consolidated financial statements also include its share of the assets, liabilities, products and expenses of Société d'investissement M. S., S.E.C., a joint venture in which the SAQ held a 50% interest. Interest in this entity is 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.

Revenue recognition

Sales to consumers, agencies, license holders (including licensed establishments and institutions), authorized distributors (wholesale grocers) and brewers and beer distributors are recognized when transacted, i.e. at the time the products are delivered to these 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.

Notes to the Consolidated Financial Statements

March 31, 2007

(in thousands of dollars for the tables)

4. Significant Accounting Policies (continued)

Operating leases

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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. Foreign exchange gains and losses are included in the fiscal year's income statements. Exchange losses amounting to \$3.7 million and \$2.4 million are included in the 2007 and 2006 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, at the date of the financial statements, 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.

Fixed assets

Fixed assets are stated at cost and depreciated over their estimated useful life. Depreciation is calculated using the straight line method. 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

4. Significant Accounting Policies (continued)

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

As of March 25, 2006, consolidated goodwill included 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 it 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. On March 31, 2007, the SAQ's portion of the consolidated goodwill of Maison des Futailles, S.E.C., in the amount of \$12 million, was disposed of and the consolidated goodwill resulting from the acquisition of an interest in Société d'investissement M. S., S.E.C., in the amount of \$0.3 million, was written off.

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 31, 2007 and March 25, 2006.

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.

Notes to the Consolidated Financial Statements

March 31, 2007

(in thousands of dollars for the tables)

4. Significant Accounting Policies (continued)

Retirement plans (continued)

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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 5.6 years at March 31, 2007, and 6.6 years at March 25, 2006.

5. Disposal of an interest in a joint venture

On August 26, 2006, the SAQ sold its interest in Maison des Futailles, S.E.C. to a Canadian private corporation for the sum of \$25.2 million, from which were deducted the \$1.1 million in costs to sell the interest and a \$3.1 million obligation resulting from the establishment of an early retirement program for the personnel affected by this transaction.

Following the transaction, the balance of the deferred gain on the transfer of assets to a joint venture, totalling \$3.4 million appearing on the balance sheet, was applied against the operating results. The sale of the interest in Maison des Futailles, S.E.C. generated at total gain on disposal of \$3.0 million.

As at August 26, 2006, the financial information regarding the sold assets and liabilities were itemized as follows:

Assets

Cash Accounts receivable Inventory Prepaid expenses Fixed assets Consolidated goodwill Other assets	\$ 673 3,986 5,131 370 4,176 12,028
Liabilities Accounts payable and accrued liability Future income taxes payable Net assets disposed	$ \begin{array}{r} 27,164 \\ 5,708 \\ \underline{15} \\ 5,723 \\ \$21,441 \end{array} $

6. 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. 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. 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 transaction date. 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
Consolidated goodwill	\$(171)
Future income tax liabilities	56
Net assets acquired	\$(115)
Consideration paid (received) in cash	\$(115)
SAQ's proportionate ownership	\$ (58)

2000

7. Net Sales and Cost Of Sales

	Outlets and specialized	Wholesale		Brewers and beer	То	tal
	centres	grocers	Subtotal	$\underline{distributors^{\scriptscriptstyle{(1)}}}$	2007	2006
Gross sales	\$2,391,780	\$376,161	\$2,767,941	\$212,385	\$2,980,326	\$2,765,309
Less:						
Provincial sales tax	163,338	23,133	186,471	12,707	199,178	184,593
Specific tax	88,058	29,176	117,234		117,234	108,524
Specific license holders' tax	44,354		44,354		44,354	44,149
Federal goods and services tax	127,981	18,146	146,127	10,157	156,284	161,107
Discounts and returns	43,050		43,050		43,050	41,324
Compensation to agents	5,733		5,733		5,733	5,292
Compensation to wholesale grocers		44,223	44,223		44,223	41,426
Contributions to the Environmental Fund	3,093	630	3,723		3,723	3,464
Contributions to the Fonds Éduc'alcool inc.	2,101	363	2,464		2,464	2,312
	477,708	115,671_	593,379	22,864_	616,243	592,191
Net sales	\$1,914,072	\$260,490	\$2,174,562	\$189,521	\$2,364,083	\$2,173,118
Cost of sales	\$ 864,537	\$129,264	\$ 993,801	\$189,521	\$1,183,322	\$1,058,939

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.

Notes to the Consolidated Financial Statements

March 31, 2007

(in thousands of dollars for the tables)

8. Financing Expenses

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	2007	2006
Interest on bank loans	\$5,499	\$4,679
Interest on term loans made to a business under shared control	1,716	2,630
Interest on debentures payable	67	177
Interest relating to the capital lease obligation	831	933
	8,113	8,419
Less: Interest on investments, term deposits and others	(1,678)	(1,806)
Interest on debentures receivable		(177)
	(1,678)	(1,983)
	\$6,435	\$6,436

9. Accounts Receivable

	2007	2006
Wholesale grocers	\$14,955	\$21,364
Licensed establishments, institutions and other commercial accounts	30,033	36,818
Income taxes receivable from a joint venture subsidiary		34
	\$44,988	\$58,216

10. Inventory

	2007	2006
Bottled beverages Beverages in bulk and production materials	\$235,776	\$254,819 8,152
Miscellaneous supplies	2,238	2,264
	\$238,014	\$265,235

11. Fixed Assets

	2007				2006	
	A	Accumulated	Net		Accumulated	Net
	Cost a	mortization	value	Cost	amortization	value
Land	\$ 10,775	\$	\$ 10,775	\$ 10,974	\$	\$ 10,974
Buildings	120,410	28,763	91,647	115,225	24,982	90,243
Furniture and equipment	320,341	212,274	108,067	319,464	182,816	136,648
Rolling stock	14,828	9,100	5,728	14,371	7,596	6,775
Leasehold improvements	45,102	26,308	18,794	45,552	23,277	22,275
Paving and parking	3,746	2,642	1,104	3,533	2,515	1,018
	\$515,202	\$279,087	\$236,115	\$509,119	\$241,186	\$267,933

12. Building Rented Under A Capital Lease

	2007				2006	
		Accumulated	Net		Accumulated	Net
	Cost	amortization	value	Cost	amortization	value
Building	\$16,280	\$12,210	\$4,070	\$16,280	\$11,803	\$4,477

13. Other Assets

	2007				2006	
		Accumulated	Net		Accumulated	Net
	Cost	amortization	value	Cost	amortization	value
Organization charges	\$	\$	\$	\$1,664	\$1,631	\$33
Other				773		773
	\$	\$	\$	\$2,437	\$1,631	\$806

14. Bank Loans

_	2007	2006
Term loans	\$89,500	\$196,396

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 at March 31, 2007, bank loans consisted $of four term \ loans \ totalling \$89.5 \ million, two \ of \ which \ amounted \ to \$65.0 \ million \ from \ a \ business \ under \ shared \ control \ (six \ at \ business)$ March 25, 2006, totalling \$196.4 million, of which two were from a business under shared control totalling \$80.0 million). These loans bear interest at a rate of 4.29% (3.78% to 3.80% in 2006) and mature in five days or less (six days or less in 2006).

15. Accounts Payable and Accrued Liabilities

	2007	2006
Accounts payable and accrued expenses	\$137,375	\$148,503
Government taxes and fees	52,181	67,821
Compensation and benefits	56,043	38,684
Short term portion of debentures payable and of the capital lease obligation	1,104	1,489
	\$246,703	\$256,497

Notes to the Consolidated Financial Statements

March 31, 2007

(in thousands of dollars for the tables)

16. Debentures

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On August 26, 2006, the Maison des Futailles, S.E.C. joint venture reimbursed the total amount of the debentures outstanding prior to the transaction to dispose of the joint venture by the SAQ. In 2006, this sum represented the SAQ's portion of the unsecured debentures of the joint venture in the amount of \$4 million less the short term portion disclosed. These debentures were reimbursable in two annual payments of \$1 million and one final payment of \$2 million on July 1, 2009. The SAQ's portion of these annual payment amounts was \$500,000 and \$1 million, respectively.

17. Capital Lease Obligation

		2007	2006
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.		\$7,007	\$7,996
Less: Portion of the liability due within one year		(1,104)	(989)
		\$5,903	\$7,007
	Principal	Interest	Total
Payments in each of the following fiscal years:			
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
	\$7,007	\$2,148	\$9,155

18. 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, and was 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%. On August 26, 2006, the SAQ disposed of its interest in this joint venture.

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18. Interests in Joint Ventures (continued)

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.

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.

	2	2007	2006
Results Net sales	@1	4.020	¢41.650
Cost of products sold		4,939 9,923	\$41,650 26,500
Cost of products soft		$\frac{9,923}{5,016}$	15,150
		5,010	15,150
Operating expenses		5,111	9,275
Financing costs		52	581
Depreciation		623	1,395
		5,786	11,251
Earnings (loss) before income taxes		(770)	3,899
Income taxes		(29)	4
Net earnings (loss)	\$	(741)	\$ 3,895
Balance sheet			
Current assets	\$	210	\$21,427
Long term assets		256	21,338
	\$	466	\$42,765
Current liabilities	\$	269	e c 705
Long term liabilities	Ф	209	\$ 6,705 1,529
Long term natifices		269	8,234
Shareholder's equity		197	34,531
Shareholder's equity		466	\$42,765
	Ψ	100	Ψ12,100
Cash flow			
Cash flows provided from operating activities	\$	724	\$ 3,073
Cash flows used for financing activities	\$	(500)	\$ (3,102)
Cash flows used for investment activities	\$	(521)	\$(1,028)

Notes to the Consolidated Financial Statements

March 31, 2007

(in thousands of dollars for the tables)

19. Employee Future Benefits

Total cash payments

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Total cash payments on account of employee future benefits for 2007, 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 \$12.0 million (\$11.5 million in 2006).

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 for capitalization purposes of the cumulative sick leave credit plan was carried out on December 31, 2004; the next valuation must be completed by December 31, 2007. The most recent actuarial valuation for capitalization purposes of the supplemental retirement plan for executives was carried out on March 31, 2007, and the next valuation must be completed by March 31, 2010.

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

	sick	Cumulative sick leave credit plan		Supplemental retirement plan for executives	
	2007	2006	2007	2006	
Pension benefit obligations and financial status Unamortized balance	\$25,509 8,095	\$24,634 8,470	\$2,540 (896)	\$2,194 (957)	
Accrued benefit liabilities appearing on the SAQ's balance sheet	\$33,604	\$33,104	\$1,644	\$1,237	

Cost of employee future benefits recognized during the fiscal year

	Cumulative sick leave credit plan			Supplemental retirement plan for executives	
			for exec		
	2007	2006	2007	2006	
Defined benefit pension plans Defined contribution pension plans	\$2,627 \$	\$2,405 \$	\$ 407 \$9,891	\$ 337 \$9,486	

Benefits paid

Benefits paid by the cumulative sick leave credits plan amounted to \$2.1 million in 2007 and 2006, whereas no benefits were paid by the supplemental retirement plan for executives in 2007 and 2006.

19. Employee Future Benefits (continued)

Principal assumptions

The principal assumptions used are as follows:

	Cumulative sick leave credit plan		Supplemental retirement plan for executives	
	2007	2006	2007	2006
Obligations for pension benefits accumulated				
at the end of the fiscal year				
Discount rate	5.00%	5.00%	5.00%	5.25%
Compensation growth rate	3.00%	3.00%	3.50%	3.50%
Rate of use of sick leave credits	*	*		
*From 40% to 65% depending on the employee group				
Cost of benefits for 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 ampleyee group				

^{*}From 40% to 65% depending on the employee group

20. 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 \$15.5 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 \$285.4 million for the leasing of stores and certain warehouses. The payments for the coming fiscal years will amount to:

2008	\$ 37,847
2009	\$ 37,121
2010	\$ 36,155
2011	\$ 33,473
2012	\$ 28,360
2013 2022	\$112,463

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.

Notes to the Consolidated Financial Statements

March 31, 2007

(in thousands of dollars for the tables)

21. Cash Flow Data

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	2007	2006
Cash flows related to operating activities include the following items:		
Interest paid Income taxes paid (collected) by a joint venture subsidiary	\$ 8,187 \$ (8)	\$ 8,489 \$ (36)
The net variation in the non cash items of working capital is detailed as follows:		
Accounts receivable Inventory Prepaid expenses and deposits	\$ 9,242 22,090 (10,694)	\$ 503 (15,268) (536)
Accounts payable and accrued liability	(6,781) \$13,857	(10,422) \$(25,723)
Cash and cash equivalents at the end of the fiscal year (1)	\$22,192	\$ 32,540

⁽¹⁾ Includes, as at March 25, 2006, a short-term investment in 600,000 shares of a mutual fund redeemable at book value at any time.

22. Financial Instruments

Fair value of financial instruments

	2007		2006	
	Fair	Book	Fair	Book
	value	value	value	value
Debentures payable, 8.66%	\$	\$	\$1,988	\$2,000
Capital lease obligation	\$7,890	\$7,007	\$9,151	\$7,996

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; accounts payable and accrued liabilities (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 6.19% in 2007 (6.33% in 2006).

Interest rate risk

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 to these liabilities.

22. Financial Instruments (continued)

Foreign exchange risk

The SAQ is exposed to foreign exchange risk due to certain accounts payable in foreign currencies. As at March 31, 2007, these accounts payable totalled 8.3 million euros and US\$0.8 million (4.3 million euros and US\$0.5 million at March 25, 2006).

Derivative instruments

To reduce the potential negative effects of a drop in the value of the Canadian dollar on exchange markets, the SAQ (and, in 2006, one of its joint ventures) employs a variety of derivative financial instruments.

At March 31, 2007, the SAQ held a zero cost tunnel contract negotiated in euros and ending in April 2007:

		Nominal		Contract
<u>Currency</u>		exchange rate		amount
	-	Floor	Ceiling	
Euro		\$1.5450	\$1.5625	3.000

Euro and U.S. dollar contracts with a minimum term of 12 months were held at end of the fiscal year ended on March 25, 2006:

	Weighted average	Contract
Currency	forward rate	amount
Euro	\$1.5078	7,000
U.S. Dollar	\$1.1800	500

At March 31, 2007, the recorded negative fair value of these derivative financial instruments is \$0.02 million (\$0.05 million at March 25, 2006).

23. Related Party Transactions

In the normal course of its activities, the SAQ concluded business transactions with certain companies related to the Government of Quebec. These transactions were carried out under terms and conditions similar to those that apply to unrelated parties and were measured at the exchange value.

24. Comparative Figures

 $Certain\ previously\ reported\ figures\ have\ been\ reclassified\ to\ conform\ to\ the\ current\ year's\ presentation.$

Quarterly Data

 $Fiscal\ years\ ended\ March\ 31,\ 2007,\ and\ March\ 25,\ 2006$ $(unaudited\ data)$

	2007 *				
	Fiscal year	Q4	Q3	Q2	Q1
Number of weeks	53	13	16	12	12
Financial results					
(in millions of dollars)					
Gross sales	2,980.3	615.0	1,074.9	663.8	626.6
Net sales	2,364.1	489.2	853.5	528.4	493.0
Gross earnings	1,180.8	244.6	434.3	261.7	240.2
Operating expenses	470.7	123.0	143.1	99.8	104.8
Net earnings	710.1	121.6	291.2	161.8	135.5
Dividend	674.0	215.0	182.0	119.0	158.0
Net sales by sales network					
(in millions of dollars)					
Outlets and specialized centres	1,914.1	403.8	702.2	419.8	388.3
Wholesale grocers	260.5	49.2	101.0	56.7	53.6
Brewers and beer distributors	189.5	36.2	50.3	51.9	51.1
Total	2,364.1	489.2	853.5	528.4	493.0
Sales volume by sales network					
(in millions of litres)					
Outlets and specialized centres	123.6	25.6	42.7	29.0	26.3
Wholesale grocers	32.8	6.3	12.6	7.0	6.9
Brewers and beer distributors	132.4	26.3	35.7	36.0	34.4
Total	288.8	58.2	91.0	72.0	67.6
Sales volume by product category					
(in millions of litres)					
Spirits	19.0	3.9	7.0	4.2	3.9
Wines	126.0	26.2	45.4	28.1	26.3
Imported and microbrewery beers, ciders and coolers	11.4	1.8	2.9	3.7	3.0
Total sales excluding beers sold to brewers					
and beer distributors	156.4	31.9	55.3	36.0	33.2
Beers sold to brewers and beer distributors	132.4	26.3	35.7	36.0	34.4
Total	288.8	58.2	91.0	72.0	67.6

 $[\]star$ 53-week fiscal year.

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Certain previously reported figures have been reclassified to conform to the current year's presentation.

			2006		
	Fiscal year	Q4	Q3	Q2	Q1
Number of weeks	52	12	16	12	12
Financial results					
(in millions of dollars)					
(in initions of donard)					
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
Dividend	598.0	205.0	176.0	118.0	99.0
Net sales by sales network					
(in millions of dollars)					
(III IIIIIIIOIIS OI GOIIAIS)					
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
Calan malaman har malaman daman la					
Sales volume by sales network (in millions of litres)					
(in millions of fitres)					
Outlets and specialized centres	114.9	22.4	40.4	27.5	24.6
Wholesale grocers	31.9	5.7	12.6	6.8	6.8
Brewers and beer distributors	122.8	18.2	33.3	40.3	31.0
Total	269.6	46.3	86.3	74.6	62.4
Sales volume by product category					
(in millions of litres)					
Spirits	18.2	3.5	6.9	4.1	3.7
Wines	116.7	22.9	42.9	26.2	24.7
Imported and microbrewery beers, ciders and coolers	11.9	1.7	3.2	4.0	3.0
Total sales excluding beers sold to brewers					
and beer distributors	146.8	28.1	53.0	34.3	31.4
Beers sold to brewers and beer distributors	122.8	18.2	33.3	40.3	31.0
Total	269.6	46.3	86.3	74.6	62.4

Ten-Year Historical Retrospective

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

	2007(1)	2006	$2005^{(2)}$
Operating results (in millions of dollars)			
Gross sales	2,980.3	2,765.3	2,544.7
Net sales	2,364.1	2,173.1	1,986.9
Gross earnings	1,180.8	1,114.2	995.5
Operating expenses	470.7	457.3	449.7
Net earnings	710.1	656.9	545.8
Financial position (in millions of dollars)			
Total assets	573.0	658.8	682.8
Fixed assets	240.2	272.4	295.4
Working capital	(162.4)	(203.6)	(227.5)
Long term liabilities	41.2	46.4	47.5
Shareholder's equity	36.7	35.6	35.6
Cash flow (in millions of dollars)			
Cash assets linked to operating activities	769.0	679.5	727.5
Acquisition of fixed assets	19.0	24.9	32.2
Dividend	674.0	598.0	558.0

^{(1) 53-}week fiscal year.

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Over the years, changes have affected various fiscal aspects included in selling prices, making comparison of data contained in this table difficult. Certain previously reported figures have been reclassified to conform to the current year's presentation.

 $^{^{\}scriptscriptstyle{(2)}}$ The fiscal year was disrupted by a labour dispute.

2004	2003	2002	2001(1)	2000	1999	1998
2 653 0	9.413.5	2 183 /	1 996 9	1 806 1	1 611 0	1,450.1
						1,135.5
· · · · · · · · · · · · · · · · · · ·	· · · · · · · · · · · · · · · · · · ·	· · · · · · · · · · · · · · · · · · ·				
						587.8
						209.7
570.8	540.4	488.7	471.3	441.5	408.0	378.1
742.6	651.6	575.8	492.9	372.5	310.6	256.3
						76.9
						(3.4)
						28.2
34.9	34.1	55. <i>l</i>	32.0	46.9	46.4	45.4
523.3	580.5	544.4	417.9	433.7	391.9	395.7
57.4	110.7	72.0	74.3	34.0	16.5	10.5
	509.0	441.0	529.0	421.0	385.0	378.0
	2,653.0 2,070.1 1,016.9 446.1 570.8 742.6 313.7 (242.8) 52.2 34.9	2,653.0 2,413.5 2,070.1 1,870.0 1,016.9 934.3 446.1 393.9 570.8 540.4 742.6 651.6 313.7 297.4 (242.8) (230.7) 52.2 53.4 34.9 34.1 523.3 580.5 57.4 110.7	2,653.0 2,413.5 2,183.4 2,070.1 1,870.0 1,692.0 1,016.9 934.3 845.4 446.1 393.9 356.7 570.8 540.4 488.7 742.6 651.6 575.8 313.7 297.4 214.6 (242.8) (230.7) (148.8) 52.2 53.4 54.5 34.9 34.1 33.7 523.3 580.5 544.4 57.4 110.7 72.0	2,653.0 2,413.5 2,183.4 1,996.9 2,070.1 1,870.0 1,692.0 1,546.2 1,016.9 934.3 845.4 786.0 446.1 393.9 356.7 314.7 570.8 540.4 488.7 471.3 742.6 651.6 575.8 492.9 313.7 297.4 214.6 163.5 (242.8) (230.7) (148.8) (99.2) 52.2 53.4 54.5 53.0 34.9 34.1 33.7 32.0 523.3 580.5 544.4 417.9 57.4 110.7 72.0 74.3	2,653.0 2,413.5 2,183.4 1,996.9 1,806.1 2,070.1 1,870.0 1,692.0 1,546.2 1,404.5 1,016.9 934.3 845.4 786.0 713.8 446.1 393.9 356.7 314.7 272.3 570.8 540.4 488.7 471.3 441.5 742.6 651.6 575.8 492.9 372.5 313.7 297.4 214.6 163.5 103.2 (242.8) (230.7) (148.8) (99.2) (33.9) 52.2 53.4 54.5 53.0 37.7 34.9 34.1 33.7 32.0 46.9	2,653.0 2,413.5 2,183.4 1,996.9 1,806.1 1,611.0 2,070.1 1,870.0 1,692.0 1,546.2 1,404.5 1,255.0 1,016.9 934.3 845.4 786.0 713.8 635.6 446.1 393.9 356.7 314.7 272.3 227.6 570.8 540.4 488.7 471.3 441.5 408.0 742.6 651.6 575.8 492.9 372.5 310.6 313.7 297.4 214.6 163.5 103.2 82.5 (242.8) (230.7) (148.8) (99.2) (33.9) (9.3) 52.2 53.4 54.5 53.0 37.7 26.7 34.9 34.1 33.7 32.0 46.9 46.4 523.3 580.5 544.4 417.9 433.7 391.9 57.4 110.7 72.0 74.3 34.0 16.5

Ten-Year Historical Retrospective

 $\label{eq:Fiscal years} Fiscal\ years\ ended\ the\ last\ Saturday\ in\ March \\ (unaudited\ data)$

	2007(1)	2006	2005(2)
Items constituting gross sales (in millions of dollars)			
Amounts paid directly to the Government of Quebec			
Dividend	709.0	657.0	545.0
Taxes and duties	360.8	337.2	312.9
	1,069.8	994.2	857.9
Amounts paid directly to the Government of Canada			
Taxes and duties	326.9	310.5	285.3
Amounts paid directly to the governments by the SAQ	1,396.7	1,304.7	1,143.2
Supplies and production	1,012.6	909.5	853.7
Operating expenses	470.7	457.3	449.7
Other Items			
Returns, discounts, compensation paid to wholesale grocers			
and compensation to agents	93.0	88.0	92.0
Contributions to the Fonds Éduc'alcool inc.	2.5	2.3	2.1
Contributions to the Environmental Fund	3.7	3.5	3.2
Increase (decrease) in retained earnings	1.1		0.8
	100.3	93.8	98.1
Total gross sales	2,980.3	2,765.3	2,544.7
Less: gross sales to brewers and beer distributors (3)	(212.4)	(180.7)	(207.0)
Gross sales excluding sales to brewers			
and beer distributors	2,767.9	2,584.6	2,337.7

^{(1) 53-}week fiscal year.

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Over the years, changes have affected various fiscal aspects included in selling prices, making comparison of data contained in this table difficult. Certain previously reported figures have been reclassified to conform to the current year's presentation.

 $^{^{\}scriptscriptstyle{(2)}}$ The fiscal year was disrupted by a labour dispute.

⁽⁹⁾ Gross sales to brewers and beer distributors are subtracted from total gross sales to facilitate interpretation of the data presented.

2004	2003	2002	2001(1)	2000	1999	1998
570.0	540.0	487.0	470.0	441.0	407.0	374.0
325.8	302.0	283.0	258.7	237.8	219.1	188.9
895.8	842.0	770.0	728.7	678.8	626.1	562.9
296.4	283.2	258.5	252.9	233.1	207.1	190.1
1,192.2	1,125.2	1,028.5	981.6	911.9	833.2	753.0
010.5	700.0	715 7	COD D	500.0	50C F	4.40.0
913.5	792.8	715.7	623.3	563.2	506.7	443.3
446.1	393.9	356.7	314.7	272.3	227.6	209.7
11011	303.0	333	011.			200
95.2	96.1	76.1	72.4	55.0	41.2	39.1
2.2	2.0	1.9	1.0	1.0	0.9	0.8
3.0	3.1	2.8	2.5	2.2	0.4	0.2
0.8	0.4	1.7	1.4	0.5	1.0	4.0
101.2	101.6	82.5	77.3	58.7	43.5	44.1
2,653.0	0.419.5	2,183.4	1,996.9	1,806.1	1,611.0	1 450 1
2,000.0	2,413.5	2,100.4	1,990.9	1,806.1	1,011.0	1,450.1
(280.2)	(172.5)	(139.3)	(117.9)	(111.6)	(79.2)	(66.5)
(200.2)	(1.2.0)	(100.0)	(221.0)	(11110)	()	(00.0)
2,372.8	2,241.0	2,044.1	1,879.0	1,694.5	1,531.8	1,383.6

Ten-Year Historical Retrospective

 $\label{eq:Fiscal years} Fiscal\ years\ ended\ the\ last\ Saturday\ in\ March \\ (unaudited\ data)$

	2007(1)	2006	2005(2)
Operating expenses			
(in millions of dollars)			
Compensation and benefits	296.5	270.8	245.2
Building occupancy expenses	72.5	71.2	66.6
Equipment use and supply expenses	57. 8	57.9	60.8
Freight out and communications	12.2	13.3	12.3
Other operating expenses	31.7	44.1	64.8
Extraordinary items			
Operating expenses	470.7	457.3	449.7
Operating ratios			
(as a percentage of net sales)			
Gross earnings ⁽³⁾	54.3	55.3	55.1
Net earnings (3)	32.6	32.6	30.2
(as a percentage of gross sales)			
Supplies and production (3)	29.7	29.0	28.8
Amounts paid to the governments(3)	50.5	50.5	48.9
Operating expenses (3)(4)	17.0	17.7	19.2
Other data			
(at the end of the fiscal year)			
Number of employees (5)	5,843	5,235	4,494
Number of outlets	414	408	403
Number of agencies	395	400	403
Number of products sold	7,532	7,243	7,633

 $^{^{\}scriptscriptstyle (1)}$ 53-week fiscal year.

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Over the years, changes have affected various fiscal aspects included in selling prices, making comparison of data contained in this table difficult. Certain previously reported figures have been reclassified to conform to the current year's presentation.

⁽²⁾ The fiscal year was disrupted by a labour dispute.

 $^{^{\}scriptscriptstyle{(3)}}$ Calculated by excluding transactions carried out with brewers and beer distributors.

 $^{^{\}scriptscriptstyle{(4)}}$ 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).

2004	2003	2002	2001(1)	2000	1999	1998
265.1	241.1	216.3	195.2	189.2	156.3	14.4
64.7	57.4	47.8	40.8	34.5	32.9	3.0
54.2	42.9	34.6	27.1	21.6	19.1	16.2
12.6	12.2	10.5	7.8	5.5	5.0	4.5
49.5	40.3	47.5	43.8	27.6	14.3	8.6
				(6.1)		
446.1	393.9	356.7	314.7	272.3	227.6	209.7
55.5	54.3	53.8	54.4	54.6	53.6	54.6
31.2	31.4	31.1	32.6	33.7	34.4	35.1
28.5	28.7	29.1	27.7	27.5	28.5	27.7
50.2	50.2	50.3	52.2	53.8	54.5	54.6
18.8	17.6	17.5	16.7	16.4	14.9	15.2
4,803	4,511	4,242	4,078	3,406	3,131	2,794
398	398	380	370	341	341	337
403	401	399	252	153	154	154
7,148	6,755	7,250	7,386	6,575	5,299	4,884

Ten-Year Historical Retrospective

 $\label{eq:Fiscal years} Fiscal\ years\ ended\ the\ last\ Saturday\ in\ March \\ (unaudited\ data)$

	2007(1)	2006	2005(2)
Net sales by sales network (in millions of dollars and in millions of litres)			
Outlets and specialized centres	1,914.1	1,753.2	1,506.0
	123.6 L	114.9	101.2
Wholesale grocers	260.5 32.8 L	260.4 31.9	299.3 34.9
			31.0
Net sales excluding beer sold to brewers and beer distributors	2,174.6	2,013.6	1,805.3
	156.4 L	146.8	136.1
Brewers and beer distributors	189.5	159.5	181.6
	132.4 L _	122.8	131.7
Total net sales	2,364.1	2,173.1	1,986.9
1000 1000 1000	288.8 L	269.6	267.8
Net sales by product category (in millions of dollars and in millions of litres)			
Spirits	492.1	460.0	405.0
	19.0 L	18.2	16.1
Wines	1,604.5	1,470.3	1,312.0
	126.0 L	116.7	107.6
Imported and microbrewery beers, ciders and coolers	78.0	83.3	88.3
imported and interest of the second state of the second se	11.4 L	11.9	12.4
Beers sold to brewers and beer distributors	189.5	159.5	181.6
beers sold to brewers and beer distributors	132.4 L	122.8	131.7
	2 224 1	0.150.1	1.000.0
Total net sales	2,364.1 288.8 L	2,173.1 269.6	1,986.9 267.8
			20110
Commercial space (in thousands of square feet)			
Outlets and specialized centres	1,687.1	1,660.9	1,633.1
Warehouses	983.0	983.0	983.0

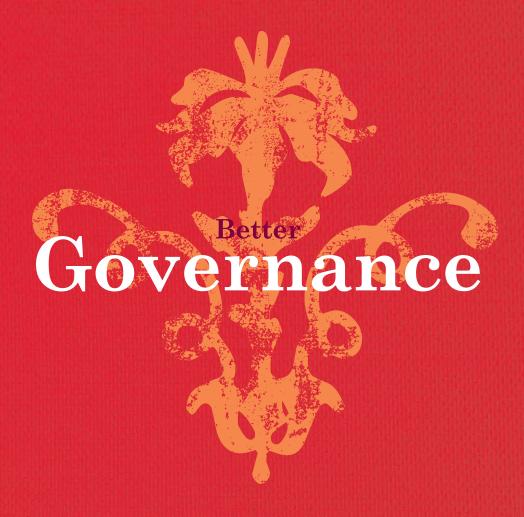
^{(1) 53-}week fiscal year.

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Over the years, changes have affected various fiscal aspects included in selling prices, making comparison of data contained in this table difficult. Certain previously reported figures have been reclassified to conform to the current year's presentation.

 $^{^{\}scriptscriptstyle{(2)}}$ The fiscal year was disrupted by a labour dispute.

2004	2003	2002	2001(1)	2000	1999	1998
1,581.7	1,487.6	1,349.9	1,222.5	1,095.8	991.8	892.9
108.2	105.3	97.7	89.0	79.0	76.4	70.8
249.9	232.3	220.9	221.2	211.7	194.4	184.3
29.4	28.9	29.2	30.4	32.0	30.8	29.6
1,831.6	1,719.9	1,570.8	1,443.7	1,307.5	1,186.2	1,077.2
137.6	1,719.9	1,570.8	1,445.7	111.0	1,186.2	1,077.2
107.0	104.2	120.0	110.4	111.0	107.2	100.4
238.5	150.1	121.2	102.5	97.0	68.8	58.3
203.6	110.1	84.4	83.8	76.6	62.9	53.1
0.050.1	1.070.0	1 000 0	1 7 40 0	1 404 5	1.055.0	1 105 5
2,070.1	1,870.0	1,692.0	1,546.2	1,404.5	1,255.0	1,135.5
341.2	244.3	211.3	203.2	187.6	170.1	153.5
427.5	414.2	400.7	385.3	357.1	342.8	334.2
17.3	16.9	16.7	16.5	15.2	14.5	14.2
1,322.4	1,221.9	1,104.6	1,015.9	909.6	785.9	687.1
109.0	105.3	100.9	97.1	89.9	82.7	76.3
81.7	83.8	65.5	42.5	40.8	57.5	55.9
11.3	12.0	9.3	5.8	5.9	10.0	9.9
990 5	150.1	101.0	100.5	07.0	60.0	50.9
238.5 203.6	150.1 110.1	121.2 84.4	102.5 83.8	97.0 76.6	68.8 62.9	58.3 53.1
				70.0	02.9	55.1
2,070.1	1,870.0	1,692.0	1,546.2	1,404.5	1,255.0	1,135.5
341.2	244.3	211.3	203.2	187.6	170.1	153.5
1,595.7	1,542.9	1,306.3	1,404.0	1,157.6	1,147.0	1,114.6
983.0	983.0	877.9	848.1	758.8	658.8	658.8
		09				



Governance Rules



The 2006 2007 fiscal year was marked by the Quebec National Assembly's enactment of the *Act respecting the governance of state owned enterprises*. The Act was enacted and assented to on December 14, 2006, eight months after publication of the Minister of Finance's policy statement in this regard.

The new legislative provisions specify the functions of the board of directors. They set out the criteria for selecting members of the board of directors and stipulate that two thirds of the members must qualify as independent directors. The provisions also stipulate that the positions of chair of the board of directors and of president and chief executive officer of the company be separate (already in effect at the SAQ). They further require that an audit committee, a human resources committee and a governance and ethics committee, whose functions are now determined by law, be established. They set new rules regarding the strategic plan and the disclosure and publication of information, in particular the remuneration of the company officers.

The SAQ took steps to ensure the company's compliance with the new guidelines immediately after the policy statement was released in April 2006. The Governance and Ethics Committee was created in June 2006, six months before the Act was enacted. The Audit and Human Resources committees already existed pursuant to the legislation then in force. In this annual report, the SAQ also complies with the disclosure requirements regarding the remuneration of its six most highly paid officers and directors.

In addition to complying with the new legislative provisions, the SAQ's Board of Directors took the review of its governance rules a step further by enlisting the services of a working group of external experts, namely, Denis Desautels, Richard Drouin and Louise Roy. The work carried out by the group and the board focused on more specific aspects of the SAQ's governance and its overall compliance with best practices in this area. The Board was inspired by the measures that must be applied by public corporations listed on stock exchanges and from recommendations made by the Quebec Auditor General.

The working group made recommendations that were then adopted by the Board of Directors, mainly concerning the initiation and ongoing training of board members, the travel and expense policy for board members, business relationship development, the creation of a business practices committee, the Employees' Code of Ethics, the role of the ombudsman and the disclosure of wrongful acts.

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The Board of Directors



On March 31, 2007, the Board of Directors had eight members. At least one position was vacant. Under the new applicable acts and regulations, the Board of Directors may have between 9 and 15 members.

The Board of Directors held 22 meetings during the 2006-2007 fiscal year. It was a busy year, largely due to all the preparatory and follow-up work necessitated by the coming into force of the *Act respecting the governance of state-owned corporations*, and more generally, to the review of the enterprise's governance rules undertaken at the SAQ's own initiative. The Board also carried out all its regular functions regarding the SAQ's business conduct.

The Board consists of the Chair, the President and Chief Executive Officer and government-appointed members. The Board defines the SAQ's strategic directions, ensures their implementation and inquires into any issue it deems important. The Board's duties also include approving the SAQ's financial statements, annual report and annual budget.

The Board is accountable to the Government for the SAQ's decisions, and the Chairman of the Board is answerable to the Minister for these decisions.



The Four Committees of the Board of Directors and Their Activities

Audit Committee

To enable the SAQ's Board of Directors to fulfill its oversight responsibilities, the Audit Committee is charged with reviewing the integrity of the financial information, as well as the quality of the internal control mechanisms and disclosures regarding the financial information disclosed by the SAQ. It supervises the internal audit activities.

In 2006 2007, the committee met on nine occasions. It examined the external auditor's reports (including the deficiencies identified) and the internal audit reports. In addition, it discussed the standards and policies pertaining to the assess ment and integrated management of the risks to which the SAQ is exposed.

Human Resources Committee

The Human Resources Committee examines human resources polices and practices and makes recommendations to the Board of Directors in this regard.

During fiscal 2006 2007, the committee met four times. It made recommendations to the Board regarding the eval uation of executive management and the SAQ's succession planning programs. It reviewed the bargaining mandate for renewal of the SPTP collective agreement with a view to obtaining Treasury Board approval. It also studied the annual objectives set by the President and Chief Executive Officer and recommended their approval, as well as the review of the salary conditions of the SAQ's non unionized employees. Lastly, it reviewed the performance appraisals of the executive management and recommended to the Board that they each receive a salary increase and bonus.

Governance and Ethics Committee

The Governance and Ethics Committee was created during the 2006 2007 fiscal year in order to review best governance and ethics practices with an eye to the guidelines set by the Government of Quebec and those applied in business firms. A working group was formed to assist the committee in implementing the new governance model and putting into place control mechanisms that satisfy the criteria of transparency, integrity and responsibility. A set of documents dealing with the mandates of the Board and its committees and with Board members' duties and obligations was approved by the Board of Directors. The Governance and Ethics Committee met on six occasions in fiscal 2006 2007.

Executive Committee

The Executive Committee is responsible for examining and making recommendations regarding the policies relating to product sales and marketing, financial commitments and the development of the outlet and agency network.

The Executive Committee met 11 times. It reviewed and approved the selection and withdrawal of alcoholic beverages listed in the SAQ catalogue. It also reviewed and approved the processes used to award contracts and determine outlet and agency locations.

Board of Directors





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Norman Hébert Jr.
Chairman of the Board of Directors
Appointed on November 15, 2006
Two-year term
President and Chief
Executive Officer
Groupe Park Avenue inc.

Norman Hébert Jr. holds a law degree from the University of Ottawa and a bachelor's degree in commerce from Concordia University. He has been President and Chief Executive Officer of Groupe Park Avenue Inc. since 1991. Mr. Hébert has sat on Hydro-Québec's Board of Directors, and is also a past president of the Montreal Automobile Dealers Corporation and of the Quebec division of the Young Presidents' Organization.



Yves Archambault
Director
Appointed on September 12, 2003
Renewed on November 16, 2005
Two-year term
Director
Desjardins, General Insurance
20-20 Technologies Inc.

A graduate of HEC Montréal (Université de Montréal), Yves Archambault served as Executive Vice-President of Groupe Val Royal from 1983 to 1988. He moved on to become President and Chief Operating Officer of Réno-Dépôt from 1988 to 1997, then Chief Executive Officer until 2002. He has also sat on the boards of directors of many corporations, including Arcon Canada, Culinar, Kingfisher Pic and Réno-Dépôt Inc.



Chantal Bélanger
Director
Appointed on December 18, 2002
Renewed on November 16, 2005
Two-year term
Director
Industries Lassonde Inc.

A member of the Ordre des CGA du Québec and holder of an undergraduate certificate in accounting from the Université du Québec à Rimouski (UQR), Chantal Bélanger has a diploma in banking management from the Institute of Canadian Bankers. In addition, she has a graduate certificate in corporate governance from the Collège des administrateurs de sociétés of Université Laval, qualifying her for the title of administratrice de sociétés certifiée (ASC). For 20 years, Chantal Bélanger has held a number of management positions at Laurentian Bank of Canada, where she was Senior Vice-President, Retail Financial Services for Quebec.



Gary Mintz
Director
Appointed on September 12, 2003
Renewed on November 16, 2005
Two-year term
Vice-President, Industrial Sales
American Iron and
Metal Company Inc. (AIM)

Gary Mintz has a commerce degree from McGill University and a master's degree in business administration (MBA) from Concordia University. He has been Vice-President, Industrial Sales, for American Iron and Metal Company Inc. for 25 years. He also serves as a volunteer with numerous charitable organizations, including the Sir Mortimer B. Davis Jewish General Hospital and the Montreal Children's Hospital.



Robert Morier Director Appointed on September 12, 2003 Renewed on November 16, 2005 Two-year term President Robert Morier Inc.

Robert Morier holds an authorized insurer diploma as well as a master's degree in commerce from the Université de Sherbrooke. President of his own financial services firm, Mr. Morier has headed two Opération Nez rouge fundraising campaigns. He is also a founding member and treasurer of Fondation Athlétas, which assists young student athletes at the Université de Sherbrooke.



Pietro Perrino Appointed on November 3, 2004 Two-year term President Pergui Groupe Conseil inc. Vice-President VM Cap Chairman of the Board ZoomMedDirector Ranaz Corporation

Pietro Perrino has a master's degree in business administration (MBA) from the Université du Québec à Montréal (UQAM). He also has a graduate certificate in corporate governance from the Collège des administrateurs de sociétés of Université Laval, qualifying him for the title of administrateur de sociétés certifié (ASC). In March 1999, he founded Pergui Groupe Conseil Inc., where he advises company managers on their strategic positioning and business development strategies.



Adam Turner Director Appointed on May 25, 2005 Two-year term President Divco ltée

With a bachelor's degree in political science and French from the University of Western Ontario, Adam Turner has also studied finance and accounting at the McGill International Executive Institute. He is currently President of Divco Ltd., a company that builds institutional, industrial and commercial buildings. Mr. Turner has also served as a director for numerous organizations, including Kids for Kids, Young Entrepreneurs Organization, Shanmark Medical, Prosys Tech, Adtek PhotoMask and Perry Baromedical.



Sylvain Toutant Director Appointed on September 13, 2004 Five-year term esident and Chief Executive Officer SAQ Director Global Wine & Spirits

With a degree in administration from the Université du Québec à Trois- Rivières, Sylvain Toutant has been active in the retail sector for over 15 years, most notably as President and Chief Executive Officer of Réno-Dépôt Inc. He began his career in 1985 at General $\,$ Motors of Canada in Montreal, later moving on to the position of advertising administrator at Publicité Martin. In 1987, he joined Groupe Val Royal, the predecessor of Réno-Dépôt Inc. Mr. Toutant has held seats on a number of boards of directors, including that of the Sainte-Justine Hospital Foundation.

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Directors' Attendance at Board of **Directors and Committee Meetings**

			Governance		Human
	Board of	Executive	and Ethics	Audit	Resources
	Directors	Committee	Committee	Committee	Committee
			- 1-		
Norman Hébert Jr.	7/7	4/4	2/2	2/2	1/1
(appointed on November 15, 2006)					
Michèle Thivierge	15/15	7/7	4/4	2/7	0/3
(Acting Chair of the Board from					
April 13 to November 14, 2006)					
Sylvain Toutant (P&CEO)	21/22	11/11			
Yves Archambault	20/22	10/11	6/6		4/4
Chantal Bélanger	21/22	10/11	6/6	9/9	
Gary Mintz	18/22	9/11	3/6		3/4
Robert Morier	22/22			9/9	4/4
Pietro Perrino	19/22		6/6	9/9	
Adam Turner	17/22		4/6		4/4

${\bf Remuneration~of~Company~Directors*}$

Norman Hébert Jr. (1 2 3 4 5)	17,917
Michèle Thivierge (1 2 3 4 5)	19,042
Yves Archambault (1 2 3 5)	22,750
Chantal Bélanger (1 2 3 4)	25,500
Gary Mintz (1235)	17,250
Robert Morier (1 4 5)	18,500
Pietro Perrino (1 3 4)	19,750
Adam Turner (1 3 5)	15,750
Total	158,459

^{*} Remuneration payable to the company directors in accordance with Order in Council No. 610-2006 enacted on June 28, 2006, concerning the remuneration of members of the boards of directors of six government corporations.

Remuneration of the six most highly paid officers and directors

(in dollars)

Name	Title	Annual Bonus Program	Base Salary	Other Forms of Remuneration ⁽⁶⁾
Sylvain Toutant	President and CEO	37,275	248,500	
Philippe Duval	Vice President Sales Network Operations and Development			
	and Human Resources	56,875	189,583	10,806
Richard Genest	Vice President and Chief Financial Officer	E0 01E	193,383	4.957
Luc Vachon	Vice President Logistics	58,015	190,000	4,257
	and Distribution	54,016	180,052	3,612
Benoit Durand	Vice President Informational	F0 11F	454.045	10.405
Alain Brunet	Resources Vice President Procurement	52,445	174,817	13,425
Main Di unet	and Merchandising	52,417	174,724	8,840

Note: The SAQ also paid \$240,000 to the firm Raymond Chabot Grant Thornton, chartered accountants, for the audit of its financial statements.

¹⁾ Board of Directors 2) Executive Committee 3) Governance and Ethics Committee 4) Audit Committee 5) Human Resources Committee

 $^{^{\}scriptscriptstyle{(6)}}$ Benefit related to the use of a car, membership in a professional association, etc.

Personnel

By sex and by employee category

(as at March 31, 2007)

	Men	Women	Total
Senior executives	83	42	125
Middle managers	61	31	92
Outlet managers	283	92	375
Non unionized personnel	9	51	60
SPTP 233	286	519	
SEMB CSN (offices)	27	56	83
SEMB CSN (outlets)1	1,184	828	2,012
SEMB CSN (outlets part time)	1,038	1,431	2,469
CUPE SL3535 (STSAQ)	586	36	622
Total ⁽²⁾	3,504	2,853	6,357

SPTP: Syndicat du personnel technique et professionnel

SEMB-CSN: Syndicat des employé(e)s de magasins et de bureaux

CUPE SL3535 (STSAQ): Canadian Union of Public Employees, local 3535

- (1) This category includes regular weekend jobs.
- ⁽²⁾ In addition to these employees, there are 75 part-time (office) or temporary employees working in administrative services.

Also, 270 temporary and regular unclassified employees work during peak periods or replace permanent employees in the warehouses.

The Ombudsman: In All Fairness



The position of Ombudsman Business Relations and Employees has been entrusted to a person with a wealth of experience: Jacques Desmeules, President and Chief Executive Officer of the SAQ from 1971 to 1978. The ombudsman's role is to field complaints from business partners and employees who believe they have not received 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 SAQ 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 2006 2007. During the past year, he dealt with many cases relating to employee management relations and the SAQ's business practices, and gave his recommendations. The ombudsman may receive complaints not only from suppliers of alcoholic drinks and holders of licences issued under the Act Respecting Liquor Permits, but also from all SAQ personnel and suppliers. In addition to being a member of the Forum of Canadian Ombudsman, the SAQ ombudsman subscribes to the code of ethics of the International Ombudsman Association (IOA), of which he is a certified member.

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

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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;
- "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.

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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 duties 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 duties 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 dis missal shall not occur if such interest devolves on him by succes sion 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 commit ments 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.

Code of Ethics and Professional Conduct for Directors of the Société des alcools du Québec

Section 5

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Disclosure and Abstention

- 18. 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.
- 19. 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.
- **20.** Articles 12, 13, 18 and 21 shall also apply when the interest in question is held by a member of the director's <u>immediate family</u>.
- 21. 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 duties 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 duties or to which he belongs, specifying his duties, 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 that 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 confiden tial and treated accordingly.

22. The chairman of the board of directors shall hand over the statements received in application of articles 13 and 18 to 21, to the Société's secretary, who shall keep them in the Société's corporate files.

Section 6

Directors Appointed to Other Boards of Directors

- 23. 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.
- 24. 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 compen sation awarded to the chief executive officer or a full time officer of the Société shall be paid directly to the Société.
- 25. Without prejudice to confidentiality agreements and the duty to act with honesty and loyalty and, more generally, commit ments 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

- **26.** 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 man agement 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

- **27.** 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. The chairman of the board of directors has a mandate to:
- a) give advice and support to the Société and any director faced with a situation that he deems to be a problem;
- b) deal with any inquiry about this code;
- c) investigate on his own initiative or upon report of any alleged irregularities with regard to this code.
- **28.** 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.
- **29.** The chairman of the board of directors may seek or receive advice from external advisors or experts on any matter he shall deem appropriate.
- **30.** 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.
- 31. 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.
- **32.** Any Société employee, officer or director may, on his own initiative, file a complaint with the relevant authority against a director.
- **33.** 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

34. 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.

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.

Code of Ethics and Professional Conduct for Directors of the Société des alcools du Québec

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, indicat ing 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 infor mation 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 admin istration 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 profes sional 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 situa tion 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. A full time public office holder may not, on penalty of dis missal, 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 perform ance 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 author ized 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 govern ment 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.

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Signature

Code of Ethics and Professional Conduct for Directors of the Société des alcools du Québec

Schedule 2 Attestation I, the undersigned, in the city of the Code of Ethics and	nd Professional Conduct	Province of Quebec	domiciled and residing at c, Director of the Société des alco e Société des alcools du Québe and scope.		
			by every provision of the aforemous if it were a contractual obliga		
Signed at		, on this	day of the mor	nth of	200 .
Witness					Director
	s du Québec and, in parti	-	d refer to the Code of Ethics an ns of corporation and interest a		
Declaration:	, (D:	irector) of the Soci	été des alcools du Québec, here	by declare the	following interests:
	knowledge, the list of posi is term is defined in the (that a member of my immediate l Professional Conduct:	e family holds	or I hold in the following
Nature of the relat Corporation	ionship or the interest Position	Creditor	Number of shares or ownership equity	Other	Percentage of ownership equity
my employer, a lega		y corporation of w	erm is defined in the Code of Eth		
Nature of the relat Corporation	ionship or the interest Duties	Creditor	Number of shares or ownership equity	Other	Percentage of ownership equity
of my immediate fa		r, shareholder, dir	ver, the legal entity, the compan ector or officer, performs in the		
Nature of the relat Association	ionship or interest Duties	Member		Purpose	

Position

Date

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