SAQ

Merchants of Taste

2008 Annual Report

Highlights

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

	2008	2007[1]	Percentage increase (decrease)
Operating results			
Net sales	**2,293.9**	2,173.8	5.5
Gross margin	**1,239.1**	1,180.8	4.9
Operating expenses[2]	**478.2**	472.8	1.1
Net earnings	**760.9**	708.0	7.5
Financial position			
Total assets	**592.5**	573.0	3.4
Property, plant and equipment	**214.4**	240.2	(10.7)
Net working capital	**(146.2)**	(171.6)	14.8
Long-term liabilities	**25.1**	24.4	2.9
Shareholder's equity	**43.1**	44.2	(2.5)
Net sales by network			
Outlets and specialized centres	**2,029.5**	1,913.3	6.1
Wholesale grocers	**264.4**	260.5	1.5
Total net sales	**2,293.9**	2,173.8	5.5
Net sales by product category			
Spirits	**512.7**	492.4	4.1
	19.4 L	19.0 L	2.1
Wines	**1,701.5**	1,601.8	6.2
	131.9 L	126.0 L	4.7
Imported and microbrewery beers, ciders and coolers[3]	**79.7**	79.6	0.1
	11.2 L	11.4 L	(1.8)
Total net sales	**2,293.9**	2,173.8	5.5
	162.5 L	156.4 L	3.9
Additional financial data			
Government revenue from operations	**1,475.8**	1,396.7	5.7
Total net sales to brewers and beer distributors[4]	**209.3**	190.3	10.0

1. 53-week fiscal year.
2. After deduction of other revenue and other income.
3. Also known as RTDs (ready-to-drinks), FABs (flavoured alcoholic beverages) and alcopops.
4. Sales made as an agent; not included in the sales figures.

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

Message from the Chairman of the Board of Directors

Norman Hébert Jr.

An Eventful Year

In 2007–2008, the Société des alcools du Québec once again demonstrated its ability to fulfill its mission in Quebecers' service. The company made progress in customer satisfaction, overall management and financial results. This is surely the fruit of the efforts made under the 2004–2009 strategic plan to improve various aspects of the company's product offering and efficiency, combined with Quebec consumers' growing interest in wine and the other alcoholic beverages sold by the SAQ.

For the Board of Directors, 2007–2008 was the first fiscal year to take place under the new governance rules established by the *Act respecting the governance of state-owned enterprises*. Although the company had begun reviewing its governance rules during the preceding fiscal year, the progress toward better governance practices continued last year.

The goal of this new corporate governance framework is to ensure that the right decisions are made, that they are appropriately implemented, that resources are used as optimally as possible, that the directors, executives and employees comply with strict rules of ethics and that the organization's performance is regularly reviewed.

To better perform its duties, the Board was expanded in 2007–2008 by four new members, bringing to 12 the number of directors and enabling the four Board committees—the Governance and Ethics Committee, Audit Committee, Human Resources Committee and Business Practices Committee—to function optimally. Three of the four new directors are women. The SAQ is thus approaching the objective formulated by the Quebec government to achieve parity between men and women on the boards of directors of government corporations by 2011.

In carrying out its mandate, the Board of Directors met 14 times in 2007–2008. Its four committees met a total of 36 times.

Following the departure of Sylvain Toutant in November 2007, the SAQ's Board of Directors was the first of Quebec's government corporations to take on the duty, prescribed by law, of recommending to the government the appointment of a new President and Chief Executive Officer. The Board of Directors accordingly planned and initiated the process required to fulfill this duty and expects to submit a recommendation to the government in June 2008.

Prospects

For the Board, fiscal 2008–2009 will be partly devoted to the process of adopting a new three-year strategic plan for the SAQ. During this process of reflection, the company's main challenge will remain that of meeting and exceeding consumers' expectations, which will continue to grow and take new forms. Worldwide, it is clear that the product offering will not stop expanding and diversifying even as the dynamics of demand continue to change, creating new challenges.

Acknowledgements

In concluding, I want to thank my colleagues on the Board of Directors for their diligent and professional contribution to our work. I also want to thank Sylvain Toutant, who headed the company during three years marked by major reform. My thanks also go out to Philippe Duval for having agreed, following Mr. Toutant's departure, to take on overall management of the company on an acting basis, which he did with great skill. Lastly, I want to offer my sincere congratulations to all of the company's employees for the excellence of their work. The satisfaction of our customers is proof positive of a group success.

Norman Hébert Jr.
Chairman of the Board of Directors

Message from the Acting President and Chief Executive Officer

Another Strong Performance at Every Level

The SAQ ended its 2007–2008 fiscal year with net sales of nearly $2.3 billion, up 5.5% from the preceding year. The company's net earnings totalled $760.9 million, a 7.5% increase.

On the financial front, fiscal 2007–2008 was marked by yet another significant rise in sales and by an improvement in the company's operating ratio for the third year in a row. This means the SAQ was more efficient and has further optimized its contribution to the funding of Quebec government services, thereby meeting a legitimate expectation of our shareholder and of Quebec's citizens.

Customer satisfaction and price changes

The customer satisfaction rate remained high at 98%. This is the most significant indicator for the SAQ, which, in most of the areas in which it can increase its sales, faces competition from other quarters vying for consumers' discretionary income. Quebecers' healthy passion for wine and alcoholic beverages in general continues to grow. The quality of our customer service is one of the major contributors to this development, which is why it figures so prominently in our strategies and efforts. One of the most appreciated changes has undoubtedly been the delivery of advisory service in outlets. The company has focused much attention on this service and will continue doing so in order to meet consumers' rising expectations in this area.

Another important indicator: the SAQ's product prices continue to show great stability. The inflation in the retail prices for all alcoholic beverages sold in stores in the last five years was 5.2% in Quebec, compared with 8.9% in Canada as a whole. Two of the factors that explain this moderate inflation rate are certainly the SAQ's 2005 decision to adopt a more proactive stance when negotiating wholesale prices with its suppliers as well as the greater competition among products that the company has worked to create through various measures, including calls for tenders for the introduction of new products.

Environment and sustainable development

In January 2008, the company pleasantly surprised observers with its decision to eliminate single-use plastic and paper bags in its outlets beginning in December 2008. This decision is one of many that the company intends to implement in the coming years under its sustainable development plan. The plan will gradually be expanded into every facet of the organization. The main thing to note about this first major initiative is that the company wants to proceed in an orderly manner to ensure success and make choices that have an optimal impact. Similarly, the SAQ has increased its efforts to introduce an extensive glass recovery program among permit holders. While the selective collection recovery rate for bottles is greater than 74% in the residential sector, equivalent to that obtained for return-deposit containers, the rate for permit holders is markedly lower, although this segment accounts for only 15% of the SAQ's total sales in terms of number of containers. Significant progress remains to be made in this segment, and in 2007–2008 the company began to devote more resources and effort to it, a trend that will gain momentum this year with the rollout of a non-residential recovery program in which the main players in the various beverage industries and at the municipal level will take part.

Healthy consumption

After several consecutive years of growth in overall consumption (mainly of wine), overall per capita consumption of pure alcohol has fallen back in line with the Canadian average, a figure below that found in the United States, France, Italy or the United Kingdom. That said, the data indicate that Quebecers' consumption pattern remains among the healthiest in the world. Quebecers drink responsibly: more frequently but in smaller amounts. The SAQ is nonetheless aware that special problems exist and new ones may arise. As a result, it is important for the company to remain involved in prevention. Besides helping to fund the activities of the Éduc'alcool organization for several years now, the company tracks changes in Quebecers' consumption pattern by carrying out a survey every other year. This issue is now an integral part of the company's strategic reflections. Also, after noting certain shortcomings in the application of the law prohibiting the sale of alcohol to minors, the company tightened the related procedures in its outlets.

Philippe Duval

Conclusion

Fiscal 2007–2008 was a very good year for the SAQ, as well as one in which we integrated sustainable development into our activities. The strong results and changes can be ascribed mainly to the directions established and projects carried out during the last four years and now achieving their full effect. That is why I should mention the favourable conditions that existed when, last November following the departure of Sylvain Toutant, I was invited to assume the position of Acting President and Chief Executive Officer at a point when the company's fiscal year and strategic projects were well under way.

In closing, I want to offer my sincere thanks to the members of the SAQ's Board of Directors, who placed their trust in me, and to my colleagues on the Management Committee for their unwavering support in overseeing the company's business activities.

I also extend my thanks and congratulations to the SAQ's employees in every division, who approach their work in the service of Quebecers with great passion, a fact of which I am reminded every day. Together, through our efforts, we add to Quebecers' enjoyment of life.

Philippe Duval
Acting President
and Chief Executive Officer

Management Committee

Left to right:

Benoit Durand
Vice-President –
Informational Resources

Suzanne Paquin
Secretary General
and Vice-President –
Legal Department

Alain Brunet
Vice-President –
Procurement and
Merchandising

Madeleine Gagnon
Vice-President –
Human Resources

Luc Vachon
Vice-President –
Logistics and Distribution

Philippe Duval
Acting President
and Chief Executive Officer

Richard Genest
Vice-President
and Chief Financial Officer

Catherine Dagenais
Vice-President –
Sales Network Operations
and Development

Alain Bolduc
Vice-President –
Public Affairs and
Communications,
Executive Assistant
to the President

Merchants of Pleasure

More than 10,000 products from **60** countries

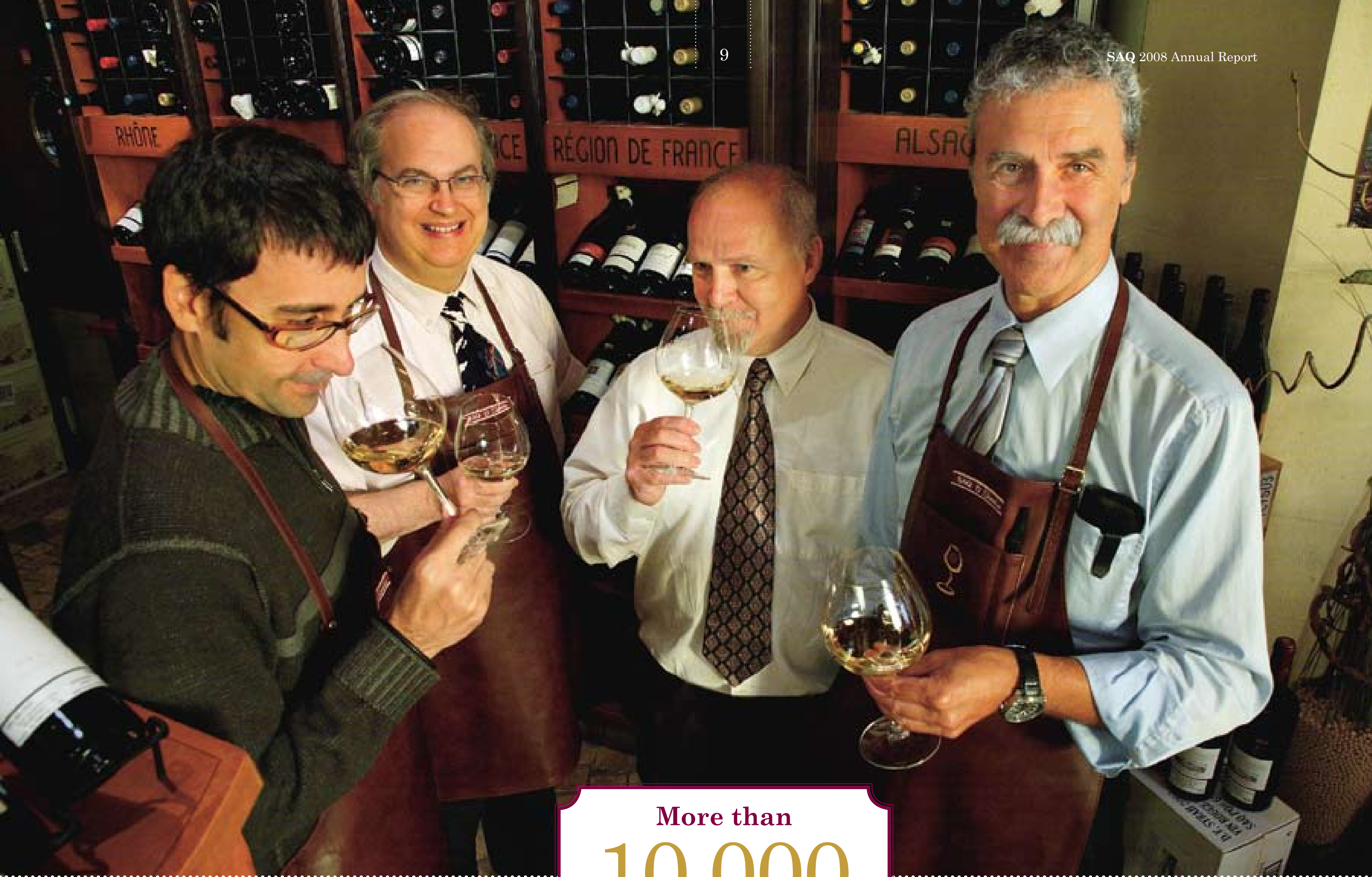
The right product, at the right time, in the right place: that is how the SAQ practises the art of pleasing its customers. Coming from more than 60 countries, the some 10,250 wines, beers and spirits sold by the SAQ are all chosen with care. They are subjected to strict analysis of their quality and ability to meet Quebec consumers' requirements. In addition, in recent months the SAQ has continued to take full advantage of the tools offered by the Web to increase the efficiency of its dealings with its business partners and Web-savvy customers, to the great satisfaction of all.

For the second consecutive year, the SAQ has enriched its outlet network with 1,000 new products. Of these, 900 were specialty products that experienced growth of nearly 10%. This renewed commitment to diversity is based on a fruitful partnership with industry players—suppliers and agents—that became even stronger in 2007–2008. Consultation, involvement and cooperation result in an offering that is better thought-out and ever richer in quality products for Quebecers.

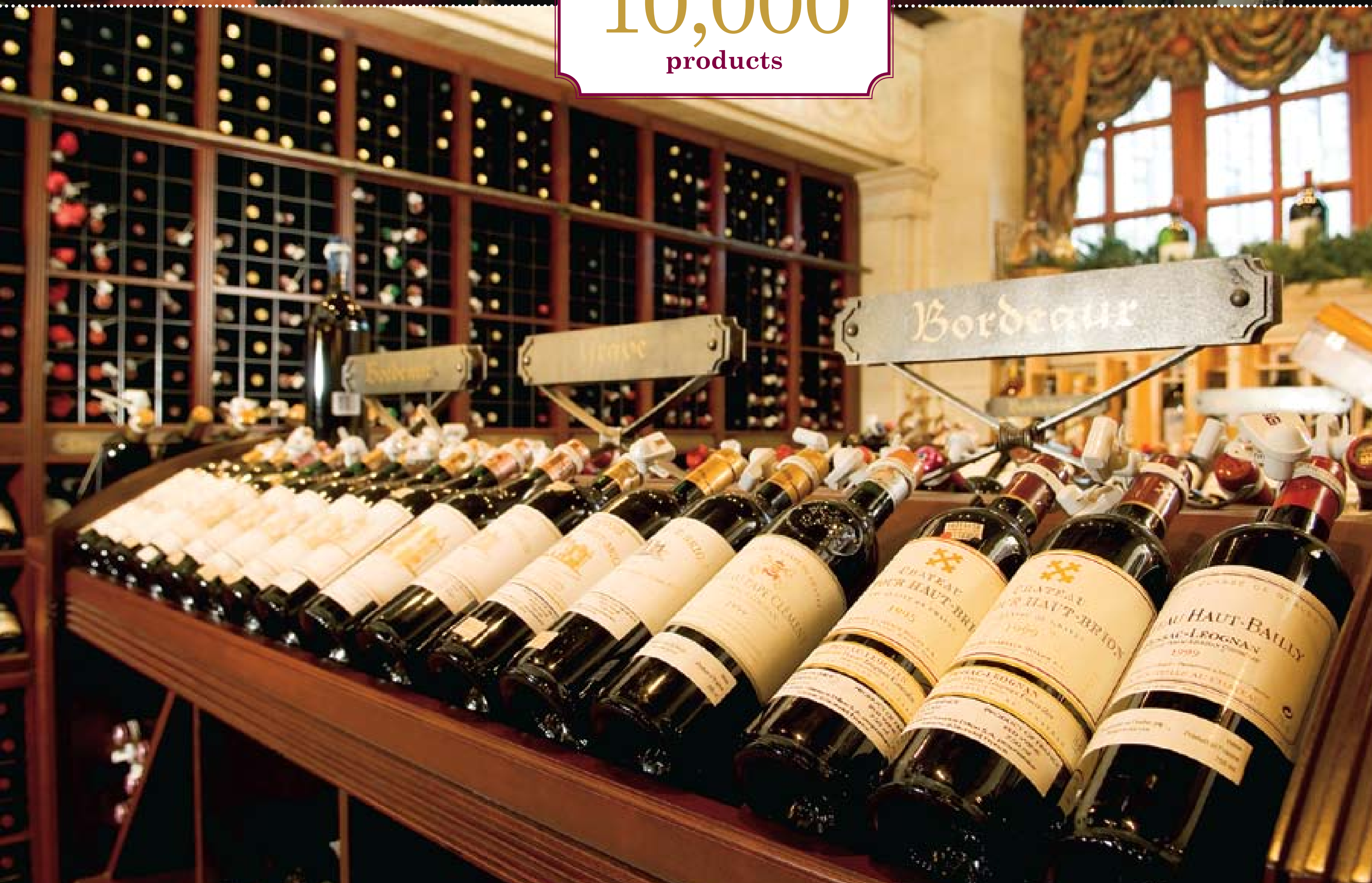
Last fiscal year also confirmed that the SAQ had established a retailing presence in the Web era. The company undertook a major shift in its processes with its business partners. Central to this reform was the desire to simplify, modernize and improve its business relationships and to offer its customers a larger and more varied selection of products.

With that in mind, the company overhauled its SAQ.com website to maximize the shopping experience for Web users. The result? A streamlined buying process, real-time inventory, simplified outlet searches, a descriptive record for every product and useful and gratifying food-pairing suggestions.

The company also turned to the Web for two major advertising campaigns. The existing French Wine Fair theme was joined this year by the Festivino campaign, which featured a microsite on SAQ.com. The microsite-only Festivino contest received more than 130,000 entries.



More than
10,000
products



Open and Transparent Merchants

The SAQ's mission is to provide good service to people in every region of Quebec by offering a wide variety of quality products, and the company takes pains to do so as openly and transparently as possible. To that end, it rigorously applies the strictest governance rules and best practices for managing its resources.

Following the publication and passage of the *Regulation Respecting the Distribution of Information and the Protection of Personal Information*, an Access to Information Committee was formed and given the mandate of updating the company's practices in this area in accordance with the reform planned by the Quebec government. The new measures will give citizens easier access to public documents, most notably via the Web and without requiring them to submit a request under the *Access to Information Act*.

In the area of financial resources, management developed an internal control framework in compliance with the internationally recognized reference model of the Treadway Commission's Committee of Sponsoring Organizations (COSO). This framework will help provide the assurance that the SAQ's financial information is relevant and reliable and that its assets are properly accounted for and adequately protected.

The SAQ supports international financial reporting standards

The same concern for transparency and effectiveness also applies to the management of the company's human resources. Millésime, a recognition program, has been created to pay tribute to the work of employees who, over the year, have made an exceptional contribution to the SAQ's success through their accomplishments, sustained commitment and noteworthy actions. The first vintage comprised 58 employees, who received a trophy at an official ceremony.

Always seeking to maintain the continuity of its resources in order to meet its current and future business requirements, the Management Committee carries out an annual talent review that ensures sound succession management. This year, in addition to the continuous identification of successors for vice-president and outlet manager positions—a practice begun several years ago—the company expanded the process to include all senior management positions.

As for the dissemination of information, the company assiduously informed the public about its price reductions, which reflected the surge in the value of the Canadian dollar during the year. A supplementary price change window, which brought reductions in the prices of 655 products, was added to the regular schedule, allowing Quebec consumers to take advantage of their strong currency.

Well-Performing Merchants

Efficiently carrying out its commercial mission ensures that the SAQ's activities deliver the greatest possible benefit to Quebec society. The performance of all its processes, growth in its sales and improvement in its efficiency ratio mean that this year the SAQ will pay to the Quebec government a dividend that exceeds its targets. In every respect, fiscal 2007–2008 was a year not only of consolidation but also of exceptional results.

In every respect, fiscal 2007–2008 was a year not only of consolidation but also of exceptional results.

In 2007–2008, the company reported consolidated net earnings of $760.9 million, an increase of nearly $53 million or 7.5% over the preceding fiscal year. With consolidated net sales of nearly $2.3 billion, it generated nearly $1.5 billion in government revenue drawn from operations, a new record.

For Quebec alone, the revenue paid to the government increased 6.2% to $1.136 billion. A higher dividend of $762 million and increased collection of consumption taxes related to growth in sales explain these extremely encouraging results.

The year also saw a significant reduction in the company's short-term indebtedness. Whereas outstanding borrowings totalled $89.5 million at March 31, 2007, they were $43 million at the end of fiscal 2007–2008, a spectacular reduction of nearly 52%.

In 2007–2008, the logistics and distribution system, which supplies the 414 outlets, successfully handled the growth in sales that the SAQ's outlet network experienced across the province. Performance in this area also improved: for the seventh year in a row, the SAQ increased its productivity in logistics and product distribution.

The fiscal year was also characterized by a 3.55% increase from the preceding year in the volume of cases delivered without incident, while the on-time rate for order arrivals was up 13%. The cases/hour cost improved 2.5%; over the last six years, the total rate of improvement has been 33.1%.

Customer-Oriented Merchants

To be the best retailer in Quebec: that is the goal the SAQ has set for itself. And who better than the consumer to judge whether we have achieved it? At the SAQ, everything is finely orchestrated to provide customers with the best possible buying experience. And the SAQ's teams are acutely aware that high-quality products alone will not do the job; flawless service is also required. That is why the company relies on a network of dynamic outlets and skilled employees ever better equipped to provide sound advice and interact with customers in a courteous and helpful manner.

Outlet certification: a mark of excellence in advisory service

The SAQ continued rolling out its new store concept with the opening of four outlets, including three under the Sélection banner in Longueuil, Boisbriand and Brossard. The idea is to help customers determine their tastes in wine and learn more about grape varieties, winegrowing regions and food and wine pairings. That the new outlet concept has already been crowned with two international awards speaks volumes about its relevance and popularity.

The fourth outlet, SAQ 22H, opened its doors on Sainte Catherine Street in the heart of downtown Montreal. Flying the Express banner, the outlet's target market is customers who are pressed for time or looking to do their shopping outside regular business hours.

Generally speaking, customers gave the service and shopping environment in SAQ outlets an average rating of 88%. In the retail industry, that qualifies as a remarkable performance, and one that the company intends not only to maintain but to improve, most notably through intensive implementation of its Advisory Service Program. The continuity of Advisory Service is ensured by an innovative certification program implemented in several outlets.

In 2007, the three upmarket product services—SAQ Signature, *Courrier vinicole* and Cave de garde—were combined into the Signature Services Department. This consolidation will ensure more integrated management of these services offered to an important market segment.

The desire to provide outstanding service is deeply ingrained in the SAQ's culture. The 50,000-plus people who e-mailed information requests in the last 12 months—to ask about opening hours, inquire about product availability or learn more about private orders—can certainly testify to it.

A total of

414

outlets

Responsible Merchants

Promoting moderation, protecting the environment, encouraging community action, supporting events and festivals, developing partnerships around the main challenges facing Quebec society in the areas of health, education and culture—that is how the SAQ expresses its social values.

While strongly focused on fulfilling its business mission, **the SAQ strives to contribute even more to Quebec society.**

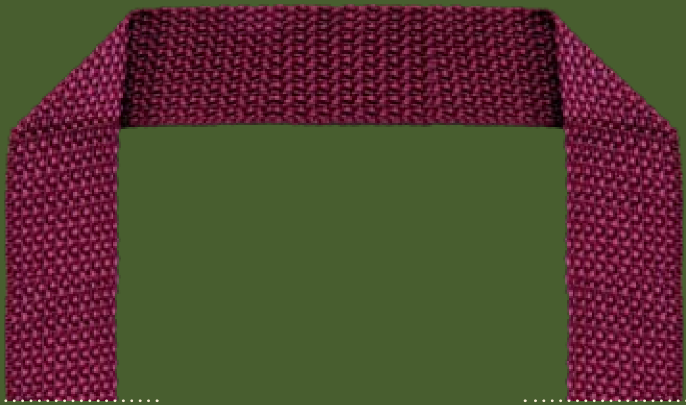
The SAQ was first retailer in Quebec to announce the elimination of single-use paper and plastic bags from its entire outlet network. It also introduced the concept of reusable bags with a lifetime guarantee. For each reusable bag it sells, the SAQ gives 50 cents to the biodiversity and habit fund of the Fondation de la faune du Québec. In 2007–2008, donations to the foundation totalled $250,000. In addition, the introduction of reusable bags has resulted in a savings of ten million paper bags and five million plastic bags.

For more than 15 years now, the SAQ has been committed to supporting the various stages of the glass cycle. Today, some 74% of the bottles sold by the company to the residential sector are recovered—and in 2007–2008, the rate reached 84% for single-family dwellings.

Every time it sells a bottle, the SAQ pays two cents to an environmental fund dedicated to supporting and developing glass recovery, recycling and transformation. In 2007–2008, the SAQ contributed $3.9 million to the fund.

The SAQ encourages responsible consumption in all aspects of its operations. Accordingly, in 2007–2008 it raised and donated a total of $2.6 million to Éduc'alcool, an organization that develops and runs prevention, education and information programs to help young people and adults make informed and responsible decisions regarding alcohol consumption.

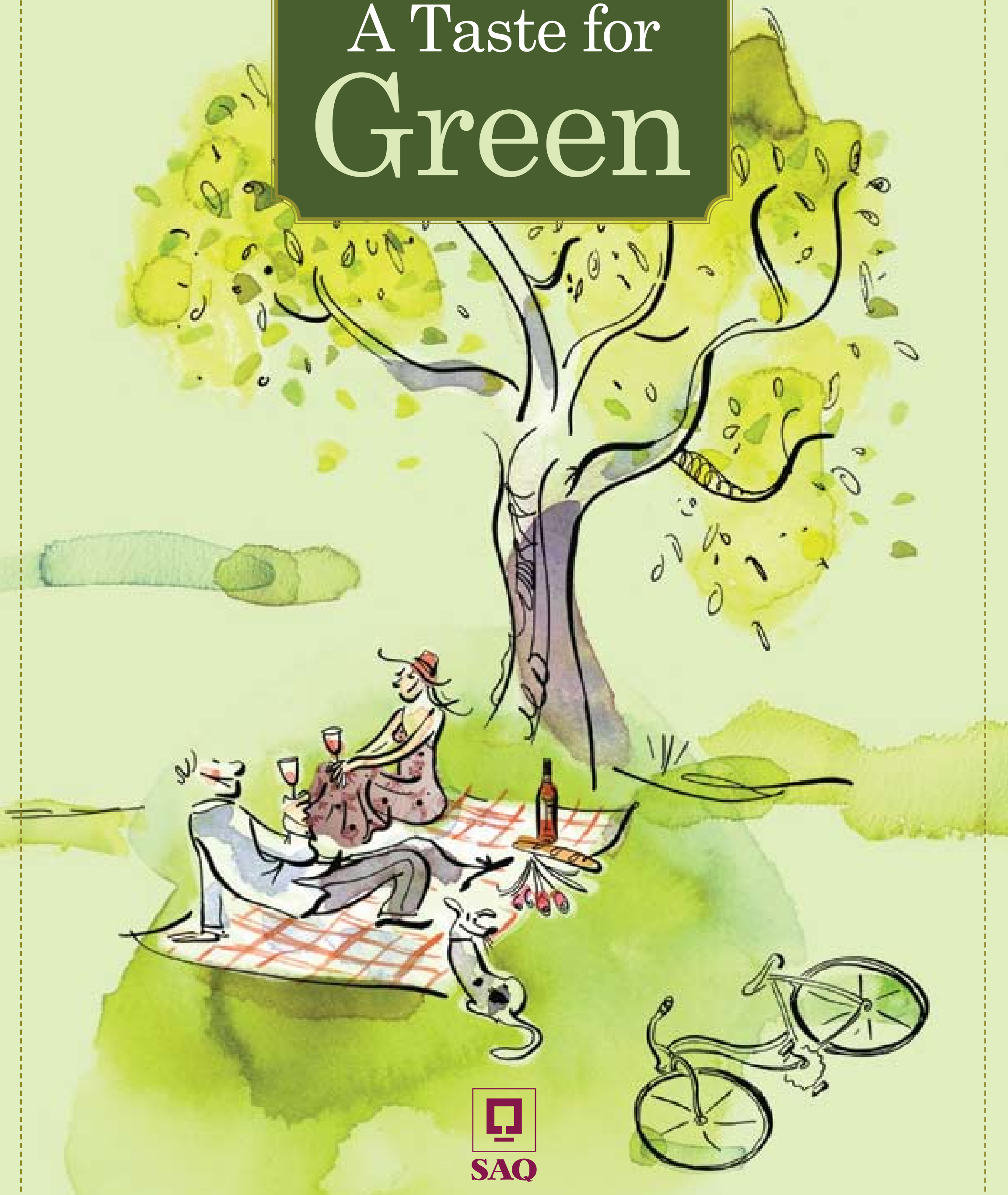
The SAQ is also deeply involved in the community through its donation and sponsorship program. During the last fiscal year, it provided $5.5 million in support to some 400 public events and fundraising campaigns for charities.



A Taste for Green

Environment Report
May 2008

A Taste for Green



SAQ

Environment Report
May 2008

The SAQ,
a Responsible Merchant

The SAQ's environmental awareness is not a new phenomenon. The company launched its first energy savings program in 1982, a quarter of a century ago!

A few years later, in 1988, the SAQ adopted its first Environmental Policy, which comprised three main goals:

- support the creation of selective collection and recycling programs;
- require suppliers to use recycled material in their packaging (paper, fibreboard, glass);
- use recyclable packaging whenever possible.

In 1991, the SAQ made a financial commitment to Collecte sélective Québec and began promoting domestic recovery of glass and other recyclables.

In 1997, the SAQ updated its Environmental Policy and developed a management guide. The new, broader policy comprises nine commitments. Specifically, the SAQ aims to:

- promote the recovery and recycling of the glass containers it sells;
- support the development of selective collection;
- help develop and consolidate markets for recycled glass;
- purchase glass containers and fibreboard, paper and plastic packaging made from recycled and recyclable materials;
- recover and recycle the fibreboard, paper and plastic it uses;
- responsibly manage the destruction of defective and seized products;
- increase public awareness of the recovery of alcoholic beverage containers via selective collection;
- inform its employees of their environmental responsibilities;
- conduct regular performance evaluations of its environmental activities.

Lastly, following passage of the *Sustainable Development Act*, the SAQ adopted its new Environmental Policy. Approved by its Board of Directors on November 2, 2006, the policy reflects the 16 principles established in the act and sets four priorities for the SAQ:

- assume its role as an environmental leader among Quebec companies;
- commit to the concept of sustainable development throughout the organization;
- ensure its activities are environmentally compliant;
- continuously improve its activities and programs.

The Environmental Policy is one response among many to individuals' legitimate need to live in a world where economic growth contributes to—rather than detracts from—our environmental heritage and the development of our communities and ourselves.

As the SAQ claims to be committed to the environment and sustainable development, it must first demonstrate its commitment within its organization. Accordingly, in November 2007, it created a Sustainable Development Department, a centre of expertise whose mission is to provide advice and structure the SAQ's approach and actions in the field.

The SAQ will have completed its sustainable development plan by the summer of 2008. The plan aims to make the SAQ one of Quebec's top retailers in terms of sustainable development. An inspiring challenge, a promising future and, even at this early stage, an encouraging record of environmental accomplishments.

In the residential sector,

74%

of all SAQ containers are recovered.

Residual Materials Management

Glass recovery and recycling

The SAQ is actively involved in setting up simple, useful and effective recovery and recycling systems. Because wine and spirits bottles are non-refillable and come from more than 50 countries, regardless of how they are collected, they all eventually end up at the conversion plant. That is why the SAQ favours selective collection (also known as separate collection), a system that is significantly more efficient and less costly than refundable deposit systems.

The SAQ has been one of the main drivers behind the implementation of selective collection in Quebec. For each bottle of alcoholic beverage it sells, the SAQ pays $0.02 into an environmental fund for supporting and developing glass recovery and recycling. Since 1990, the SAQ has injected some $30 million into the glass environmental chain, that is, selective collection, transportation, bottle sorting, conditioning and conversion. Of this amount, $12 million has gone to Collecte sélective Québec.

A characterization study of residual materials from the municipal sector was recently carried out by Recyc-Québec and Éco Entreprises Québec. It showed that, in the residential sector, more than 74% of the containers sold by the SAQ are recovered, whereas the overall objective for glass recovery programs is 60%. In percentage terms, SAQ containers are more frequently found in Quebecers' recycling bins than any other material.

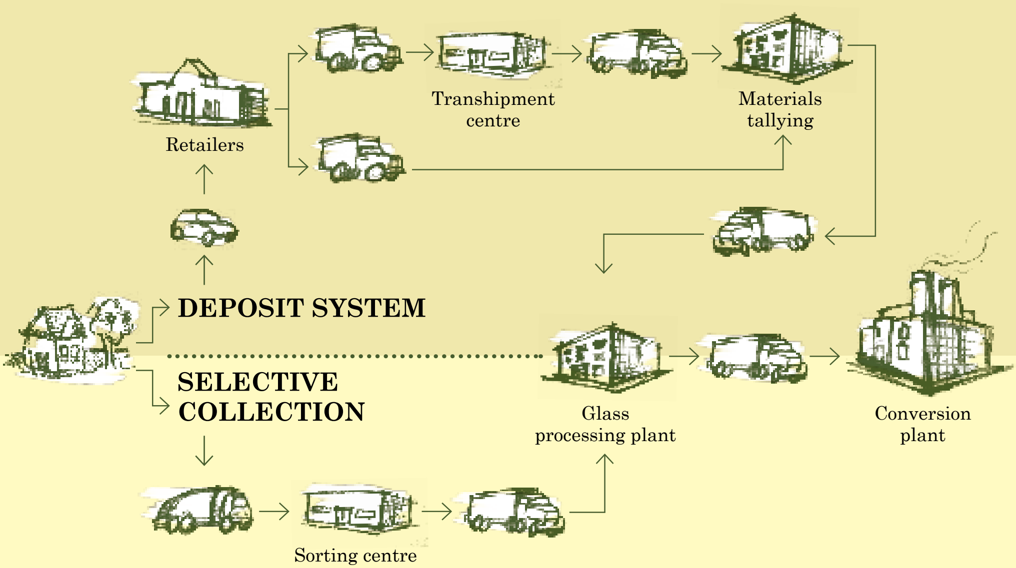
In short, in the last two decades, Quebec society has made significant progress when it comes to recovering household residual materials. However, there remains room for improvement in the hospitality (hotel, bar, restaurant) sector. That is why, together with the Table de concertation pour la récupération hors foyer, the SAQ has helped set up a $6 million fund made available to municipal organizations, to contractors specializing in the collection of recyclable materials and to bar, hotel and restaurant managers to support the creation of a collective selection system geared to the hospitality sector's needs.

Beyond selective collection, $18 million has been devoted to supporting the other stages of glass recovery and conversion. Here are a few examples:

- A $3 million investment over four years to implement a financial assistance program for sorting centres and glass processing and conversion industries, which crush and grind glass and clean it of impurities.
- A $150,000 investment in equipment upgrades in eastern Quebec sorting plants.
- Participation in the development of an automated sorting centre that can process recyclable non-glass materials generated by selective collection. The SAQ has injected $2.5 million in this program over five years, $500,000 of which is earmarked for the purchase of state-of-the-art equipment. The remainder of the funding will be devoted to processing operations for glass from selective collection programs.
- Participation in Consortium Écho-Logique's environmental management program for residual materials, which provides collection services at SAQ-sponsored festivals and major events across Quebec.

For non-refillable containers, selective collection requires fewer players and involves lower handling and transportation costs than do refundable deposit systems.

Path of Recovered Non-refillable Containers



Developing Markets for Glass



Processed glass—glass that is ground, crushed or pulverized—has various uses and takes various forms: containers (bottles, jar, glasses, etc.); ceramic tiles; microbeads for glass blasting; a component of concrete, bricks and paving stones; sand for swimming pool filters; and fibreglass insulation.

In 2004–2005 and 2005–2006, the SAQ provided $100,000 in financial assistance to develop a market for glass in swimming pool filtration systems, a very promising field.

In 2005, the SAQ joined with the Centre de recherche industrielle du Québec (CRIQ) to uncover new business opportunities* for mixed glass (mixed colours) recycled from selective collection programs. To date, the SAQ has invested more than $90,000 in this partnership.

In 2007, the SAQ took part in a research project to determine the thermal properties of glass in geothermal boreholes. This project was carried out jointly with the Tricentris sorting centre, Golder Associates and the École Polytechnique de Montréal.

Advanced University Research

In April 2005, the SAQ created a chair, the Chaire SAQ de valorisation du verre dans les matériaux, at the Université de Sherbrooke. Comprising half a dozen members, the research team works to develop new uses for ground or pulverized glass in promising fields, including concrete, cement and interlocking paving stones. The SAQ will invest $1 million in this major applied research project over five years.

*Current areas of research include the use of mixed glass in paints, inks, cosmetics and animal feed, as filler material to strengthen silicone and rubber and even as a toothpaste abrasive that is safe for tooth enamel. However, the glass must first be transformed into precipitated silica. This silica is obtained by exposing glass to extremely high temperatures. The glass then combines with other gaseous molecules and precipitates in the form of fine particles.

The Elimination of Single-Use Bags at the SAQ

2005–2006	2007	September 2008	December 31, 2008
Introduction of an oxo-biodegradable plastic bag and a reusable canvas bag	Introduction of a reusable polypropylene bag	Oxo-biodegradable plastic and paper bags will no longer be offered free of charge	Elimination of oxo-biodegradable and paper bags

The Société des alcools du Québec was one of the first Quebec retailers to introduce oxo-biodegradable bags. In February 2008, it announced it would completely eliminate single-use bags from its outlet network by year-end.

Launched in June 2005, this shift has generated a series of alternate solutions that encourage customers to switch to reusable bags. So far, nearly one million SAQ-branded reusable bags have been sold or offered as part of promotions. This has helped reduce the SAQ's distribution of single-use plastic bags by 15% (five million) and paper bags by 18% (10 million). These reductions are even more significant than they first appear, as the company's sales grew steadily during the same period.

In February 2006, the SAQ also became one of the first retail businesses to offer reusable canvas bags, which it priced at $2.25. Several months later, the SAQ introduced a new generation of reusable polypropylene bags with a sales price of $1. At the same time, the company announced that all its reusable bags were "lifetime bags" that it would replace free of charge when they became deformed or worn. Always seeking concrete ways to support sustainable development, the SAQ has also committed to donating $0.50 to the Fonds pour la biodiversité et les habitats du Québec for each reusable bag it sells. To date, it has paid more than $250,000 into this biodiversity and habitat fund.

Actions in the Company

The SAQ has implemented many other measures aimed at providing stricter management of its residual materials. While they may seem minor when viewed separately, taken together they constitute a significant contribution toward preserving and protecting the environment.

- A 13% reduction in print materials used in its various promotional publications.
- Introduction of “green cafeterias” (more than a million polystyrene foam containers replaced by porcelain or compostable bagasse containers).
- Installation of high-speed hand dryers, significantly reducing paper towel consumption.
- Introduction of a recovery program for four basic materials (fibre, glass, plastic, metal) for personnel at head office and the Montreal and Quebec City distribution centres. In 2007, 46 metric tonnes of paper, 288 metric tonnes of fibreboard and 24 metric tonnes of plastic, glass and metal were recovered.
- Recovery of more than 10,000 square metres of acoustic tiles, 640 square metres of carpeting and 13 metric tonnes of metal during the renovation of the Montreal and Quebec City distribution centres.
- Installation of multifunction printers, saving 1.5 million sheets of paper through default duplex printing.
- Printing of internal newsletters on FSC (Forest Stewardship Council) certified paper and with vegetable ink.
- Outdated computer hardware is now sent to various organizations such as Recypro, Insertech and Renaissance. To date, more than 250 pallets of printers, keyboards, portable computers, workstations, modems, etc. have been recycled in this manner.

Procurement Management

Between its sales and distribution networks and its administrative offices, the SAQ has many needs. Each year it purchases approximately $60 million in goods and services from some 900 Quebec suppliers—and that's not counting the wine producers in 60 countries. The SAQ has integrated environmental criteria into its selection process for products, supplies, equipment, vehicles and suppliers. Doing so has already produced results…

- The training of some 30 employees involved in purchasing (goods, service and products for sale) on responsible procurement policies.
- Replacement of 15 housecleaning products with Environmental Choice-certified products for use in cleaning its administrative centres, distribution centres and outlets.

Air Management

In 2006, the SAQ prepared a study on the actions taken to lower energy consumption in its buildings and fuel consumption by its fleet of delivery vehicles. Two of the more interesting findings were:

- A training program developed for the SAQ's drivers and designed to improve their driving habits has resulted in a reduction of approximately 31,000 litres of fuel by the company's fleet of 62 tractor-trucks and straight trucks since 2004. The fuel savings have cut some 85 metric tonnes of CO^2 equivalent from the fleet's greenhouse gas emissions, equal to the annual emissions of five delivery trucks.
- Various changes made to the SAQ's buildings as part of its energy saving program resulted in a reduction in annual energy consumption of more than 89,000 gigajoules. What's more, these measures have cut greenhouse gas emissions by approximately 215 metric tonnes CO^2 equivalent since 2003, the reference year for Quebec's 2006–2012 climate change action plan. This reduction is equivalent to the annual emissions of more than 600[1] single-family dwellings.

A green roof for blue skies

The construction of new administrative spaces at the SAQ's Montreal Distribution Centre the opportunity for a worthwhile initiative by the Layout, Design and Engineering Department. The new building's roof (about 2,000 square feet) has been covered with soil and planted with clover and chives.

According to National Research Centre (NRC) data, the new roof will reduce greenhouse gas emissions by approximately 0.5 metric tonnes a year and cut by 25% the power required to air-condition this new section of the huge Montreal Distribution Centre.

While the green roof added only around $25,000 to the construction cost, the annual overall energy savings for the building as a whole is conservatively projected to be around 1.2%.

1. According to the Canadian Office of Energy Efficiency (average consumption for 2001–2003 of 148 gigajoules).

A roof that's

670

square metres
of green

Water Management

The SAQ is resolutely committed to reducing its consumption of drinking water and to minimizing and controlling the contamination risks from its waste water. In the last year, it has installed electromechanical flow-control faucets, waterless urinals and toilets with four- and six-litre tanks in its administrative centres.

An Earth-Friendly Outlet

In Montreal's Rivière-des-Prairies borough, a new SAQ Classique outlet has been designed to integrate several features that meet LEED (Leadership in Energy and Environmental Design) standards. For example, the outlet's interior uses LEED-compliant wood, varnishes and paints.

In keeping with its glass recovery and reuse policies and programs, the SAQ took advantage of the construction of the new outlet to cast a concrete slab with special characteristics.

The concrete for this 68-square-metre slab, which forms the floor of the outlet's specialty product and checkout counter areas, incorporates a significant proportion of recycled glass pulverized and mixed according to the specifications of the researchers of the Chaire SAQ de valorisation du verre dans les matériaux at the Université de Sherbrooke.

Awards Received by the SAQ

Blue Butterfly Award of Excellence from the Fondation québécoise en environnement (2005)

Énergia Award in the "GESte durable – volet institutionnel" (sustainable GHG action – institutional) category (2006)

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SAQ

Trends

Quebecers increasingly appreciate alcoholic beverages for their sensuous qualities, their aromas and flavours.

True epicureans, Quebecers also realize the pleasure of doing more with less, of finding more occasions for enjoying a glass but in smaller quantities and in a reasonable manner. It's a healthy consumption pattern synonymous with genuine pleasure.

Quebecers clearly have a taste for discovery

Quebecers' tastes are evolving, becoming more discriminating and refined.

Their growing interest in quality wines is confirmed by the fact that, in the last decade, the average price of a 750-ml bottle sold in the outlet network has gone from $10.04 to $13.32, a 32.7% increase.

And the trend is continuing. In the last 12 months, this indicator rose 1.4% to its current level of $13.51.

In 2007–2008, sales of regular wines, which account for 83.4% of all purchases, lost a little ground to so-called specialty products. Enriched by the addition of several hundred select wines, the latter segment grew 0.5%. A catalogue of some 9,400 specialty items, increased knowledge and a taste for discovery and new experiences—all intersecting with the world of wine—have significantly influenced consumers' trend toward higher-end products.

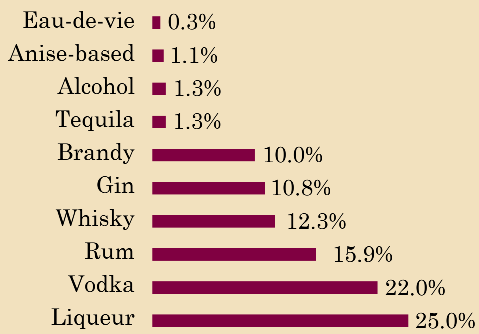
And the trend continues

Year after year, wine remains the most popular category of alcoholic beverage in Quebec. Total volume sales in the SAQ network break down as follows: wine products account for 77%, spirits 15.3% and coolers 5.6%. Beer sales remain stable at 1.4%. The biggest growth is in ciders and related products, whose market share has more than doubled to 0.7%. Another indication that Quebec-made products are gaining in popularity.

A refreshing cocktail or sparkling libation for every occasion

Quebecers duly mark great occasions with a veritable festival of cocktails. They create fabulous drinks by combining shots of spirits, ice and mixers. Even so, volume sales of spirits, which account for 15.3% of the SAQ sales, fell three-tenths of a percentage point last fiscal year. Topping the list of categories for more than a decade now, liqueurs again took the lead with 25% of sales. Considered the perfect starting point for many mixed drinks, the grain- or potato-based spirits commonly known as vodka ran a close second at 22%. Rum, whisky, gin or brandy showed up in customers' shopping carts at least one time in ten. A fun cocktail to kick off the evening or a sumptuous cognac to bring the meal to a close? Here's looking at you!

Spirits



Quebec makes my heart go pit-a-pat

Local products have continued to gain in finesse and maturity in recent years. They've also gained in popularity with consumers. The trend couldn't be clearer: sales of Quebec products have increased sixfold in the last five years, rising from $2 million in 2002 to $12 million in 2007. Growth has been particularly sustained for ice ciders, some of which are considered the best in the world. Through hard work and dedication, their makers are carving out a success unimagined 20 years ago. For its part, the SAQ plays an active role in raising the profile of these products in Quebec's viticultural landscape. As a result, the excellence of products from Quebec's terroirs is now ripe for recognition.

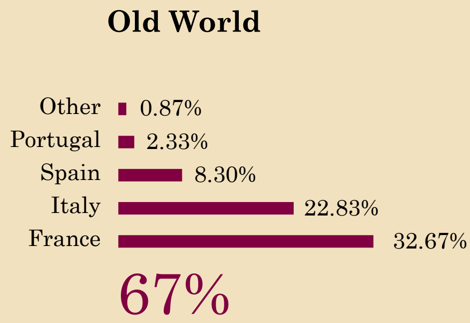
New World wines hold surprises in store

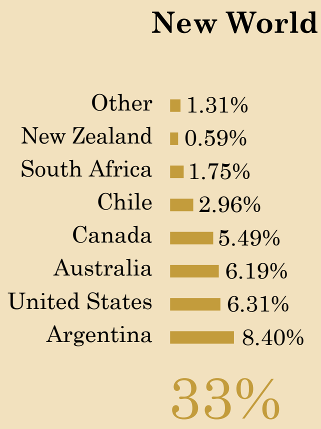
The world is changing at breakneck speed. People travel more and wine lovers with a thirst for discovery now enjoy access to the globe's full gamut of wine. Meanwhile, chefs and cooks without borders have prompted an awakening of our senses.

Long dominated by Europe, the wine world is in the midst of a growing revolution, with New World wines on the rise. Still, France, Italy, Spain and Portugal remain in top spot, with nearly two-thirds of the wines carried by the SAQ coming from these four countries.

But tastes change, and so do buying patterns. Thanks to their incredible diversity and enormous potential, New World wines are enjoying a strong surge in popularity. Combined sales of these wines now make up 33% of all sales of still wines, a 2.35% increase. This change is largely attributable to the growth in sales of Argentinean products in the last four quarters.

The United States, Australia and Canada are the three other New World stars with, respectively, 6.31%, 6.19% and 5.49% of sales in this category.



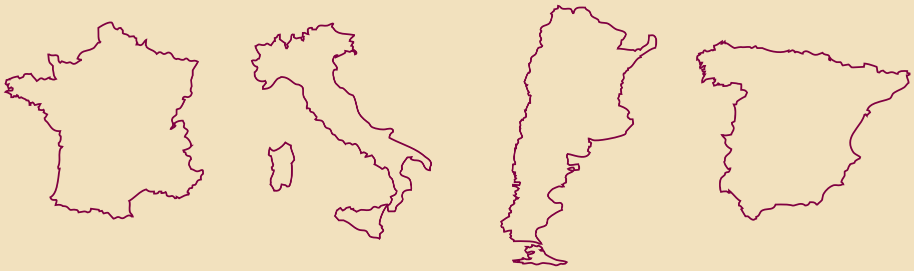


Love! Loyalty! Passion!

Quebecers' appreciation of wine can be summarized by three words describing three distinct feelings: love, loyalty and passion. Accounting for more than seven out of every ten bottles sold at the SAQ, red wine remains consumers' first love. Yet Quebecers' loyalty to white wines, which they appreciate for their delicacy and fresh taste, remains undiminished. And recent years have seen a rising passion for rosés, a summer drink that is constantly increasing in popularity and today constitutes 4.2% of still wine sales.

Argentina's sweet revenge

In the overall ranking of producing countries whose wines are the most in demand at SAQ outlets, France continued to hold the lead with 32.67%. While Italy was comfortably ensconced in second place, some ten percentage points behind its French neighbour, the most remarkable development in the last 52 weeks was, without doubt, Argentina's rise to third place among the producing countries popular with Quebec consumers.



32.67% France

22.83% Italy

8.40% Argentina

8.30% Spain

6.31% United States

6.19% Australia

5.49% Canada

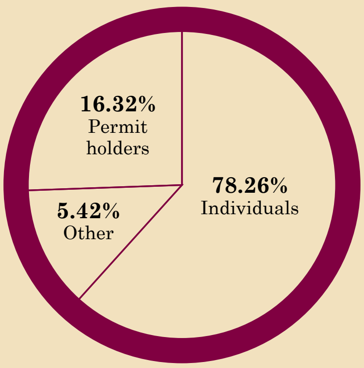
2.96% Chile

Squeaking past Spanish wines by a tenth of a percentage point, the market share of the wines from this South American country, bounded by the Andes and once conquered by Spain, was 8.40%. Most certainly due to consumers' attraction to the authenticity and character of California wines, the United States, with 6.31% of sales, claims the final spot among the top five, edging out Australia (6.19%).

Enjoying fine food and wine with friends: at restaurants or at home?

Beyond Quebecers' infatuation with the drink of Dionysus, their passion for the art of aging wines at home and interest in wine cellars and refrigerators continues to grow. Whether a coincidence or the sign of a genuine trend, it remains true that the percentage of sales to individuals increased 1.1% to 78.3% in 2007–2008. Does this mean Quebecers now prefer to savour their latest discovery in the comfort of their homes with family and friends? Is it confirmation that responsible consumption is becoming an integral part of our lifestyles?

Customers



Not so long ago, the thousands of permit holders (establishments holding a permit to sell alcoholic beverages issued by the Régie des alcools, des courses et des jeux du Québec) purchased nearly a quarter of the bottles sold at the SAQ. In the last five years, that percentage has steadily declined and is now at 16.32%.

Besides sales to individuals and permit holders, the SAQ's third customer segment, comprised mainly of diplomatic missions, ship chandlers, airlines and duty-free shops, makes up some 5% of sales.

Are Canadians turning into wine lovers? Well, why not?

From sea to sea to sea, Canadians remain devoted beer lovers. But while beer is far and away the country's most popular drink, the increase in the volume of wine sales continued to surpass that of beer and spirits. Indeed, for the second year in a row, wine sales nationwide exceeded those of spirits.

According to the most recent data published by Statistics Canada, Quebec comes second in wine consumption at 18.7 litres per person age 15 and over. Quebecers are take a back seat only to the residents of Yukon, who maintain an average of 20.1 litres. British Columbians hold third place with an average annual wine consumption of 16.4 litres.

Another noteworthy fact: consumers across Quebec, undoubtedly influenced by the SAQ's advisory service, are by far the biggest buyers of wine in Canada, purchasing 35% of the wine sold in the country.

Lastly, the average consumption of 14 litres of wine per Canadian remains well below that of France, whose 64 litres per capita is the highest in the world.

Healthy drinking habits equal real pleasure

Is it contradictory to promote responsible consumption while aiming to be the best retailer? Not at all! Especially since Quebecers' drinking behaviour is exemplary, even unique.

The most recent studies by Statistics Canada and the Comité permanent de lutte contre la toxicomanie show that Quebec is the Canadian province with the highest percentage of alcohol consumers age 15 and over (83% penetration rate), yet Quebecers' consumption, 8 litres of pure alcohol per year, is about average for Canada. At the same time, in their purchases of alcoholic beverages, Quebecers are trending toward the consumption of higher-end products, a result of the SAQ's stated goal to increase the value—not just the quantity—of the products it sells.

Quebecers' consumption pattern—drinking more frequently but in smaller quantities on each occasion—remains the most responsible in Canada. This healthy attitude toward alcohol consumption, which must be maintained, continues to open the door to delightful discoveries and moments of great pleasure.

Per capita Canadian consumption by persons age 15 and over[1]

2005–2006 fiscal year	Wines (in litres)	Rank	Beers (in litres)	Rank	Spirits (in litres)	Rank	Total (in litres of absolute alcohol)	Rank	Amount (in dollars)	Rank
Yukon Territory	20.1	1	138.9	1	13.9	1	12.7	1	1,092.0	1
Alberta	14.9	4	92.6	4	8.4	9	9.2	2	655.9	7
Newfoundland & Labrador	5.7	12	94.1	2	10.4	3	8.4	3	734.5	3
British Columbia	16.4	3	76.4	11	9.3	6	8.2	4	694.0	5
Quebec	**18.7**	**2**	**93.8**	**3**	**4.0**	**12**	**8.0**	**5**	**699.1**	**4**
Nova Scotia	9.5	6	82.9	5	10.0	5	7.9	6	675.2	6
Northwest Territories*	6.7	10	78.0	10	11.7	2	7.9	6	882.8	2
Prince Edward Island	8.4	9	80.3	7	10.2	4	7.8	8	600.5	9
Ontario	12.8	5	79.0	8	8.4	9	7.7	9	621.4	8
Manitoba	8.7	8	78.7	9	9.1	8	7.6	10	552.0	11
Saskatchewan	6.5	11	75.5	12	9.3	6	7.1	11	538.9	12
New Brunswick	9.1	7	81.2	6	7.0	11	7.0	12	584.2	10
Canada	14.2		83.9		7.6		8.0		651.5	

*These data include Nunavut.

Per capita consumption in Quebec by persons age 15 and over[1]

2005–2006 fiscal year	2002	2003	2004	2005[2]	2006
Wines					
in litres	16.9	17.4	18.0	17.6	18.7
in dollars	196.6	215.5	230.8	229.3	251.1
Beers					
in litres	95.0	93.9	93.6	92.2	93.8
in dollars	339.6	368.7	369.4	362.8	365.1
Spirits					
in litres	3.6	4.1	4.0	3.6	4.0
in dollars	76.2	80.8	81.8	73.9	82.8
Total[3]					
in litres	115.5	115.4	115.6	113.4	116.5
in dollars	612.4	665.0	682.0	666.0	699.0

1. Source: Statistics Canada
2. This fiscal year was disrupted by a labour dispute at the SAQ.
3. Due to rounding, totals may differ from the sums of the individual amounts.

Prosperous
Merchants

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 in every region of Quebec 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 performance over a five-year period.

Operating Results

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

	2009	2008		2007[1]		2006		2005[2]	
	Forecast	Actual	Forecast	Actual	Forecast	Actual	Forecast	Actual	Forecast
Net sales	**2,370.8**	2,293.9	2,241.8	2,173.8	2,142.0	2,013.6	2,047.3	1,805.3	1,950.4
Gross margin	**1,274.6**	1,239.1	1,216.7	1,180.8	1,180.7	1,114.2	1,133.8	995.5	1,077.8
Net operating expenses[3]	**477.5**	478.2	471.7	472.8	478.5	457.3	476.7	449.7	476.8
Net earnings	**797.1**	760.9	745.0	708.0	702.2	656.9	657.1	545.8	601.0

1. 53-week fiscal year.
2. The fiscal year was disrupted by a labour dispute.
3. After deduction of other revenue and other income.

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

Capital Expenditures

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

	2009	2008	2007[1]	2006	2005[2]
	Forecast	Actual	Actual	Actual	Actual
Capital projects – Distribution and administrative centres	**6,955.0**	8,239.5	8,662.7	6,340.4	10,007.7
Outlet network development	**12,552.4**	5,058.1	4,051.5	3,710.3	7,271.1
Information systems development	**18,987.9**	5,863.5	3,946.4	11,972.5	10,581.4
Rolling stock and mobile equipment	**4,240.0**	1,204.0	1,300.1	1,025.1	2,776.6
Specific equipment	**1,938.6**	720.0	1,012.9	1,814.7	1,546.2
Total	**44,673.9**	21,085.1	18,973.6	24,863.0	32,183.0

1. 53-week fiscal year.
2. The fiscal year was disrupted by a labour dispute.

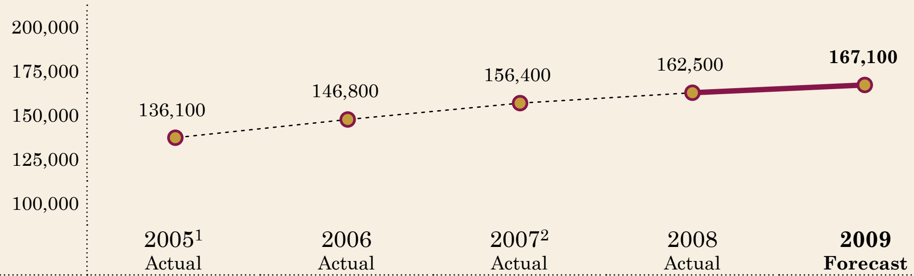
Certain comparative figures have been reclassified to conform to the current year's presentation.

Commercial Data

The following four tables present
various management indicators over a five-year period

Sales growth by volume

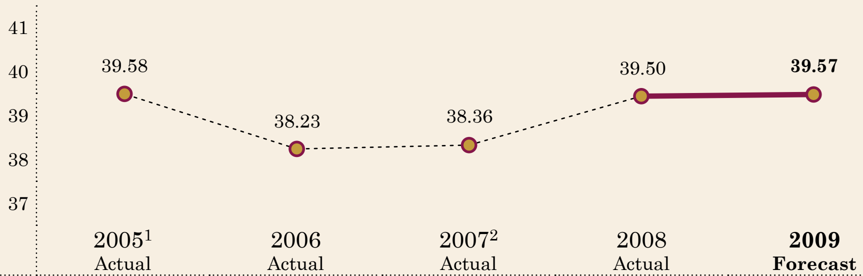
Sales by volume
(in millions of litres)



	2005[1] Actual	2006 Actual	2007[2] Actual	2008 Actual	**2009 Forecast**
Percentage increase (decrease)	(1.1)	7.9	6.5	3.9	**2.8**

Growth of average purchase in SAQ outlets[3]

Average purchase in SAQ outlets
(in dollars)



	2005[1] Actual	2006 Actual	2007[2] Actual	2008 Actual	**2009 Forecast**
Percentage increase (decrease)	12.9	(3.4)	0.3	3.0	**0.2**

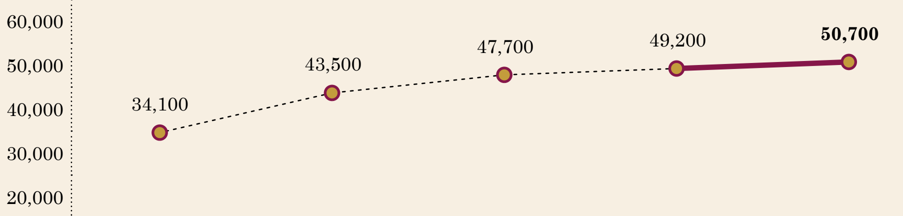
1. The fiscal year was disrupted by a labour dispute.
2. 53-week fiscal year.
3. Average expenditure by consumers only (including consumption taxes).

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

Commercial Data

Growth in customer traffic in SAQ outlets[1]

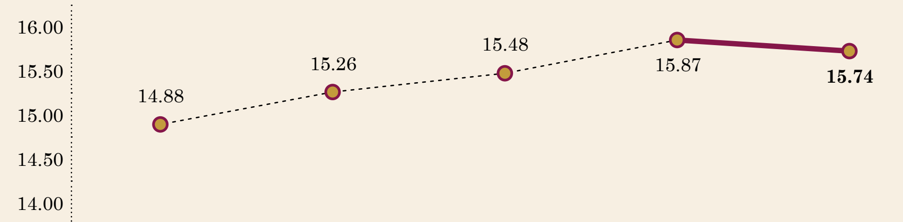
Customer traffic in SAQ outlets
(in thousands of transactions)



	2005[2] Actual	2006 Actual	2007[3] Actual	2008 Actual	**2009 Forecast**
Percentage increase (decrease)	(16.3)	27.6	9.7	3.1	**3.0**

Average sales price per litre[4]

Average sales price per litre
(in dollars)



	2005[2] Actual	2006 Actual	2007[3] Actual	2008 Actual	**2009 Forecast**
Percentage increase (decrease)	1.8	2.6	1.4	2.5	**(0.8)**

1. Consumer traffic only.
2. The fiscal year was disrupted by a labour dispute.
3. 53-week fiscal year.
4. Net sales price in the outlet network and specialized centres.

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

Financial Review

This management analysis reviews the operations of the Société des alcools du Québec (SAQ) for the year ended March 29, 2008, and its financial position at that date. It should be read together with the consolidated financial statements and the accompanying notes presented below. Certain financial and operating data have been reclassified according to the current year presentation. The information contained in this analysis covers all significant events that occurred through May 16, 2008.

Overview of Results

Operating in an economically stable environment, the SAQ had consolidated net earnings of $760.9 million for its year ended March 29, 2008, a notable increase of nearly $53 million or 7.5% from the preceding fiscal year. It was the twelfth consecutive fiscal year during which the SAQ has succeeded in increasing its net earnings, with the exception of fiscal 2004–2005, which was disrupted by a labour dispute. The company closed its latest fiscal year with consolidated net sales of nearly $2.3 billion. Government revenue from operations, in the form of duties, consumer taxes and dividends, totalled nearly $1.5 billion. At fiscal year-end, the SAQ's shareholder, the Quebec Minister of Finance, declared a dividend of $762 million.

Consolidated Financial Statements

The consolidated financial statements at March 29, 2008, and at March 31, 2007, include the accounts of the SAQ and its prorata share in the assets and liabilities, revenues and expenses of Société d'investissement M.-S., S.E.C., a joint venture in which the SAQ holds a 50% interest. The SAQ's interest was accounted for using the proportionate consolidation method. The consolidated financial statements at March 31, 2007, also include the SAQ's prorata share in the revenues and expenses of Maison des Futailles, S.E.C., a joint venture in which it held a 50% interest until August 26, 2006, the date on which it disposed of its interest. The SAQ's interest in this entity was also accounted using the proportionate consolidation method. For fiscal 2007–2008, the SAQ's portion of the joint venture's operating losses is $0.1 million ($0.7 million in 2006–2007 for both joint ventures).

To facilitate analysis, it should be noted that the fiscal years ended March 29, 2008, and March 31, 2007, consisted of 52 and 53 weeks of operation respectively.

Net Sales

For fiscal 2007–2008, consolidated net sales from the SAQ's entire sales and distribution network totalled $2.294 billion, an increase of $120 million or 5.5%. The corresponding volume sales were 162.5 million litres, compared with 156.4 million litres for the preceding fiscal year, a 3.9% increase.

By Sales Network

Net sales for the outlet and specialized centre network totalled $2.03 billion, an increase of $116 million or 6.1% over the preceding fiscal year. We note that the growth rate for retail sales in Quebec was 4.5%[1] during the same period. Volume sales went from 123.6 million litres to 127.9 million litres, a 3.5% increase. A better quality–price ratio for several imported products, largely due to the favourable fluctuation in foreign exchange rates, well-targeted promotional campaigns supported by attractive discount offers, and quality service delivery were all factors contributing to this success.

The average in-store purchase by consumers was $39.50 in fiscal 2007–2008, as opposed to $38.36 in the preceding fiscal year. Overall, the average net sales price per litre in the SAQ network rose 2.5% to $15.87, compared with $15.48 last year. These data clearly illustrate the consumer trend toward buying higher value products.

In the wholesale grocer network, net sales grew a slight 1.5% from the preceding fiscal year to $264.4 million. For their part, volume sales were up 5.5% to 34.6 million litres.

1. Source: Statistics Canada

Over the last five fiscal years, the net sales of the outlet and specialized centre network experienced growth of 36.4%, compared with 13.8% for those of the wholesale grocer network.

By Product Category

Net sales in most product categories rose in fiscal 2007–2008. With net sales of just under $1.702 billion, the wine category experienced exceptional growth of nearly $100 million or 6.2% over the preceding fiscal year. This highly diversified category accounted for 83% of the overall growth in consolidated net sales last year. The corresponding volume sales increased 4.7% to 131.9 million litres in 2007–2008.

Net sales of spirits, which are sold only in the outlet and specialized centre network, continued trending upward and ended the year at $512.7 million, an increase of $20.3 million or 4.1% from fiscal 2006–2007. Volume sales for this product category rose 2.1% to 19.4 million litres.

Lastly, net sales for the imported and microbrewery beer, ciders and coolers category remained stable at $79.7 million in 2007–2008. The corresponding volume sales fell slightly, from 11.4 million litres to 11.2 million litres. It should be noted that sales for this product category have not risen in the last five years. Actually, net sales and the corresponding volume sales in the latest fiscal year were down slightly from the 2002–2003 figures. These results are indicative of the gradual shift in demand toward the wine category, whose market share is growing steadily, as well as to imported beers, which the SAQ sells as an agent to brewers and beer distributors for sale in the grocery and convenience store network.

Cost of Sales and Gross Margin

The main components of the cost of sales are acquisition cost, the land and sea freight expenses incurred to ship goods to the SAQ's warehouses and the related federal taxes and duties. In 2007–2008, the cost of sales rose to $1.055 billion, compared with $993 million in 2006–2007. In its most recent fiscal year, the SAQ had a gross margin of $1.239 billion, versus $1.181 billion for fiscal 2006–2007, a $58 million increase. The gross margin ratio was 54.0% in 2007–2008 as opposed to 54.3% in the preceding fiscal year.

Operating Expenses

The consolidated net operating expenses consist of the selling, marketing, distribution and administrative expenses as well as the financial and amortization expenses, from which are deducted other revenue and other income. Thus defined, the net consolidated operating expenses totalled $478.2 million, compared with $472.8 million in the preceding fiscal year, a slight increase of $5.4 million or 1.1%. We note that the overall consumer price index rose 1.2%[1] during the same period.

Expressed as a function of consolidated net sales, the consolidated net operating expenses were 20.8% in fiscal 2007–2008, compared with 21.7% for the preceding fiscal year. That is the lowest rate in the last nine fiscal years.

Compensation and related employee social benefits rose $8.5 million or 2.8% to $316.9 million. This change is due partly to the use of additional resources in the outlets to maintain quality service in light of the growth in customer traffic and partly to the raises granted to employees. Compensation and employee social benefits accounted for more than 66% of the consolidated net operating expenses for the year.

Constituting the second largest category of operating expenses, building occupancy expenses, including the amortization expense, grew by $1.1 million or 1.5% to $73.6 million. This stability results from the many initiatives taken in recent years to optimize the use of space in the company's outlets, distribution centres and administrative offices.

The small increase in overall operating expenditures speaks loudly of the effectiveness of the new optimization measures that have made it possible to keep the average annual increase in operating expenses at under 4% during the last five fiscal years, even as net sales and net earnings grew at an annual rate of 5.9% and 7.1% respectively during the same period.

1. Source: Statistics Canada

Compensation and Employee Social Benefits

(in millions of dollars)

	2008	2007
Compensation		
Salaries and wages	**250.1**	243.2
Overtime	**6.1**	5.5
Other human resources expenses	**11.4**	9.8
	267.6	258.5
Employee social benefits	**49.3**	49.9
	316.9	308.4

Net Earnings

As a result of the operating items described above, the SAQ's net earnings went from $708 million to $760.9 million, an increase of $52.9 million or 7.5%. Expressed as a percentage of consolidated net sales, consolidated net earnings was 33.2%, as opposed to 32.6% for fiscal 2006–2007, making it the best operating performance of the last eight fiscal years.

Government Revenue

Government revenue consists of the SAQ's net earnings to which is added the disbursements of various consumer taxes, customs duties and excise taxes. In fiscal 2007–2008, government revenue from operations reached a record high of $1.476 billion, compared with $1.397 billion in 2006–2007, an appreciable increase of $79 million or 5.7%.

Quebec government revenue rose $66 million or 6.2% to $1.136 billion. An increase in the declared dividend and, owing to the substantial growth in sales, in the consumer taxes collected explain this positive change. The sums paid to the federal government totalled $339.5 million, a $12.6 million increase due mainly to higher customs and excise duties resulting from higher supply and distribution volumes.

In the last decade, the SAQ's business activities have generated tax revenues of nearly $11.4 billion for the two levels of government. The tax revenues of the latest fiscal year show a growth rate of 96% over those of fiscal 1997–1998.

Government Revenue from Operations

(in millions of dollars)

	2008	2007
Government of Quebec		
Declared dividend	**762.0**	709.0
Provincial sales tax	**208.1**	199.2
Specific tax	**123.2**	117.2
Specific permit holder tax	**43.0**	44.4
	1,136.3	1,069.8
Government of Canada		
Excise taxes and customs duties	**187.2**	170.6
Goods and services tax	**152.3**	156.3
	339.5	326.9
Total amount paid by the SAQ	**1,475.8**	1,396.7

Investments in Property, Plant and Equipment

In fiscal 2007–2008, the SAQ invested $21.1 million in property, plant and equipment. More than $13 million was devoted to improving its business and administrative facilities by making them more modern and functional. Nearly $6 million was invested in the design and development of new management information systems. Other investments included the replacement and upgrading of rolling stock and specific equipment. All investments in property, plant and equipment were funded using internally generated funds.

Financial Position

At March 29, 2008, the SAQ's total assets were $592.5 million, compared with $573 million in 2006–2007. The difference is attributable mainly to an investment in inventories, which was partially compensated for by a decrease in the book value of property, plant and equipment due to an amortization expense that was greater than the acquisitions made during the year. At fiscal year-end, the asset mix had barely changed, while the book value of inventories and property, plant and equipment had weightings comparable to those at the end of the preceding fiscal year. The working capital ratio at March 29, 2008, showed an improvement over that at March 31, 2007 (0.72 versus 0.66 respectively).

Some short-term liability items experienced significant fluctuations. The $46.4 million increase in accounts payable and accrued liabilities is due partly to the increase in inventories, while higher net earnings explain the $20 million increase in the dividend payable. The cash flows generated in the last two quarters of the fiscal year helped to s ignificantly reduce the short-term indebtedness. The outstanding borrowings reported at March 29, 2008, were $46.5 million less than at the end of the preceding fiscal year.

The accounting changes regarding, on the one hand, the valuation of liabilities resulting from cumulative sick leave credits and, on the other hand, the recognition of liabilities resulting from employee social benefit plans had the effect of increasing retained earnings by $6.1 million at the end of fiscal 2007–2008 ($7.6 million at end of fiscal 2006–2007).

Lastly, the company had satisfactory management ratios with respect to the recovery of accounts receivable, to its inventory turnover and to its handling of accounts payable. Due to the size of its internally generated funds, the stability of its working capital and the low level of its long-term indebtedness, the SAQ's financial position remained sound throughout its most recent fiscal year.

Cash Flow

The SAQ's activities generated net liquid assets of nearly $6 million in 2007–2008, whereas $10.3 million in net liquid assets were absorbed in the preceding fiscal year.

Cash flows from operating activities experienced a sizeable $47.5 million increase from the preceding fiscal year to $816.5 million. This change is attributable mainly to the growth in net earnings and changes in non-cash working capital.

Investing activities entailed outflows of $20.9 million in 2007–2008 versus inflows of $4.6 million in the preceding fiscal year. The difference is due mainly to the SAQ's disposal of its interest in Maison des Futailles, S.E.C., in 2006–2007, for net proceeds of $23.5 million.

Financing activities required liquid assets totalling $789.6 million in the last fiscal year, compared with $783.9 in the preceding fiscal year. The repayment of bank loans, down by $60.4 million, combined with an increase of $68 million in the dividend paid during the fiscal year accounted for this change.

At March 29, 2008, the SAQ's balance sheet showed liquid assets of $28.2 million, compared with $22.2 million at the end of the preceding fiscal year.

Financing of Activities

Due to the periodic advances on the dividend that it pays to the Quebec Minister of Finance, its sole shareholder, the SAQ has had to turn to external sources to finance its activities. The company is therefore authorized by the Quebec government and its Board of Directors to contract term loans provided the total amount outstanding does not exceed $400 million.

In the last fiscal year, the average balance of term loans was $87.1 million, compared with $168.3 million in fiscal 2006–2007. At fiscal year-end, the balance sheet showed a term loan balance of $43 million, versus $89.5 million at March 31, 2007.

Money market financing of the company's activities resulted in carrying charges of $4 million, down $3.2 million from the preceding fiscal year. This positive difference is attributable mainly to the more than $80 million reduction in the average loan balance.

Accounting Changes

New accounting standards

As discussed in Note 4 of its consolidated financial statements, the SAQ adopted new accounting standards at the beginning of its 2007–2008 fiscal year. The adoption of standards regarding accounting changes, comprehensive income, equity and financial instruments, in accordance with the applicable transitional provisions, had no effect on the measurement of the various items of the company's consolidated financial statements. Their adoption did, however, entail the disclosure of additional information in the consolidated financial statements.

Net sales to brewers and beer distributors
During the last fiscal year, the SAQ recognized sales to brewers and beer distributors on a net basis, as it carried out these transactions as an agent. These sales were previously reported on a gross basis. Accordingly, the net sales shown on the consolidated statement of earnings and comprehensive income do not include the sales made to these business partners. This accounting change had no effect on the operating results, as these transactions generate no gross margins.

Accounting restatements
The SAQ retrospectively restated certain consolidated balance sheet items relating to the valuation of the liability resulting from cumulative sick leave credits and from the recognition of liabilities resulting from employee social benefit plans. The effect of these accounting changes was to reduce the net earnings for fiscal 2007–2008 by $1.5 million ($2.1 million in 2006–2007). The retrospective accounting restatements are explained in Note 4 of the consolidated financial statements.

Risk and Uncertainty

In the normal course of doing business, the SAQ is exposed to various risks that can have an impact on its profitability. Besides the financial risks described in Note 20 of its consolidated financial statements, the company faces a market risk related to the economic conditions prevalent in its territory. A drop in economic activity in Quebec could have a negative impact on consumption of the products offered for sale by the SAQ and, consequently, on its operating performance. The demand for alcoholic beverages and the resulting profitability are contingent on, among other things, growth in consumers' disposable income.

Changes in customers' needs are also a constant concern for the SAQ. Accordingly, the company has developed a customer-oriented strategy that groups customers into various segments in order to understand and better meet their needs. In addition, the various operating banners feature a wide range of quality products and place special emphasis on customer service. A constantly updated product offering, highly adapted marketing efforts and an environment that facilitates the buying experience are all factors that reduce the impact on the SAQ of the market risk to which it is exposed.

The SAQ currently faces various claims and lawsuits, primarily for damages, that totalled approximately $13.6 million at the end of the 2007–2008 fiscal year. SAQ management is fighting these lawsuits and is opposed to acting on any related claims that might result. No provision is recognized in the company's accounting records with respect to these contingencies because, in management's opinion, no settlement resulting from these claims would have a material impact on the SAQ's consolidated financial statements. Should the company be required to make a payment with respect to these claims, the expense will be applied against the results of the fiscal year in which it is incurred.

Outlook

The SAQ's solid performance in fiscal 2007–2008 attests to its disciplined management and to its personnel's support of its business plan. In the coming fiscal year, the company will continue to focus its efforts on optimizing its business and administrative processes, improving its financial performance and providing satisfaction to its various customer segments through the diverse buying experiences in its outlets. The SAQ will also implement various initiatives outlined in its strategic plan and designed to ensure its excellence in human resources management as well as to increase its social value. For fiscal 2008–2009, the company expects to have net earnings of $797 million.

Net Sales by Network

(in millions of dollars)	2004	2005[1]	2006	2007[2]	**2008**
Outlets and specialized centres	1,581.7	1,506.0	1,753.2	1,913.3	2,029.5
Wholesale grocers	249.9	299.3	260.4	260.5	264.4
Total net sales	1,831.6	1,805.3	2,013.6	2,173.8	2,293.9

Net Sales by Product Category

(in millions of dollars)	2004	2005[1]	2006	2007[2]	**2008**
Spirits	427.5	405.0	460.0	492.4	512.7
Wines	1,322.4	1,312.0	1,470.3	1,601.8	1,701.5
Imported and micro-brewery beers, ciders and coolers	81.7	88.3	83.3	79.6	79.7
Total net sales	1,831.6	1,805.3	2,013.6	2,173.8	2,293.9

1. The fiscal year was disrupted by a labour dispute.
2. 53-week fiscal year.

Certain comparative figures have been reclassified to conform to the current year’s presentation.

Operating Results

(in millions of dollars)	2004	2005[1]	2006	2007[2]	**2008**
Net sales	1,831.6	1,805.3	2,013.6	2,173.8	2,293.9
Cost of sales	814.7	809.8	899.4	993.0	1,054.8
Net earnings	570.8	545.8	656.9	708.0	760.9
Net operating expenses[3]	446.1	449.7	457.3	472.8	478.2

Government Revenue from Operations

(in millions of dollars)	2004	2005[1]	2006	2007[2]	**2008**
Declared dividend	570.0	545.0	657.0	709.0	762.0
Taxes and duties paid to governments	622.2	598.2	647.7	687.7	713.8
Total	1,192.2	1,143.2	1,304.7	1,396.7	1,475.8

Asset Mix

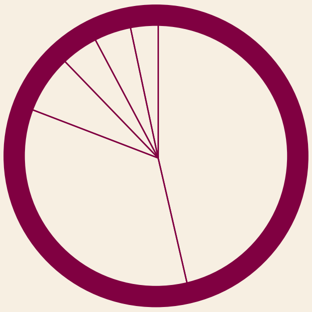
(in millions of dollars)	2004	2005[1]	2006	2007[2]	**2008**
Inventory	290.9	250.0	265.2	238.0	277.2
Fixed assets	313.7	295.4	272.4	240.2	214.4
Other assets	138.0	137.4	121.2	94.8	100.9
Total	742.6	682.8	658.8	573.0	592.5

1. The fiscal year was disrupted by a labour dispute.
2. 53-week fiscal year.
3. After deduction of other revenues and other income.

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

Breakdown of the Selling Price

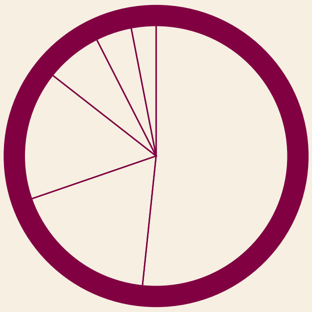
Imported wine 750 ml format



Retail price:
$15.30 per bottle
(in percentages and in dollars)
March 29, 2008

46.6%	Markup[1] **$7.13**
34.4%	Supplier price, in Canadian dollars, including freight **$5.26**
7.0%	Provincial sales tax **$1.07**
4.4%	Federal goods and services tax **$0.68**
4.4%	Specific taxes paid to the Government of Quebec **$0.67**
3.2%	Customs duties paid to the Government of Canada **$0.49**

Local spirits 750 ml format



Retail price:
$22.25 per bottle
(in percentages and in dollars)
March 29, 2008

51.7%	Markup[1] **$11.50**
18.1%	Supplier price, in Canadian dollars, including freight **$4.03**
15.8%	Excise tax paid to the Government of Canada **$3.51**
7.0%	Provincial sales tax **$1.55**
4.4%	Federal goods and services tax **$0.99**
3.0%	Specific taxes paid to the Government of Quebec **$0.67**

1. Markup covers the cost of selling, marketing, distribution and administration and ensures a substantial dividend payment to the Minister of Finance.

Management's Report

The following consolidated financial statements 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 representations 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 internal control designed to provide reasonable assurance that the company's assets are adequately safeguarded, that all transactions are duly authorized 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. Management acknowledges that it is responsible for managing its business in compliance with the laws and regulations that govern it.

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 periodically reviews the consolidated financial statements and studies the reports on the accounting policies and procedures and the internal control systems. The external auditors may, without restriction, meet the Audit Committee to discuss any audit-related issues.

The consolidated financial statements have been audited by the Auditor General of Quebec and by the firm Raymond Chabot Grant Thornton LLP, 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 Auditors' Report, shown opposite, specifies the nature and scope of their audit and presents their opinion on these financial statements.

In management's opinion, these financial statements take into account, within reasonable limits, all significant items and data available as at May 16, 2008.

Philippe Duval
Acting President and Chief Executive Officer

Richard Genest
Vice-President and Chief Financial Officer

Auditors' Report

To the Minister of Finance,

We have audited the consolidated balance sheet of the Société des alcools du Québec as at March 29, 2008, and the consolidated statements of earnings and comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Société des alcools du Québec's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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 29, 2008, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act (R.S.Q. chapter. V-5.01)*, we report that, in our opinion, except for the changes in accounting policies regarding financial instruments, which are described in Note 4, these principles have been applied on a basis consistent with that of the preceding year.

The Auditor General of Québec,

Renaud Lachance

Renaud Lachance, CA

Raymond Chabot Grant Thornton LLP

Raymond Chabot Grant Thornton LLP

Montreal, May 16, 2008

Consolidated Earnings and Comprehensive Income

Fiscal year ended March 29, 2008
(in thousands of dollars)

	2008	2007 (Restated – note 4)
Net sales (Notes 4 and 5)	**$2,293,908**	$2,173,764
Cost of sales (Notes 4 and 5)	**1,054,799**	993,003
Gross margin (Note 5)	**1,239,109**	1,180,761
Operating expenses		
Selling and marketing, distribution and administrative expenses (Note 6)	**475,456**	464,482
Financial expenses (Note 7)	**2,903**	6,428
Amortization of property, plant and equipment	**46,687**	46,493
Amortization of other assets	**–**	33
	525,046	517,436
Other revenue		
Advertising, promotional and other miscellaneous revenue	**46,844**	41,538
Operating income	**760,907**	704,863
Other income		
Gain on disposal of an interest in a joint venture	**–**	2,998
Amortization of the deferred gain on the disposal of assets to a joint venture	**–**	114
	–	3,112
Earnings before income taxes	**760,907**	707,975
Income taxes		
Current	**–**	(15)
Future	**–**	(14)
	–	(29)
Net earnings and comprehensive income	**$ 760,907**	$ 708,004

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

Consolidated Retained Earnings

Fiscal year ended March 29, 2008
(in thousands of dollars)

	2008	2007 (Restated – note 4)
Balance, beginning of year		
Balance as originally reported	**$ 6,657**	$ 5,560
Restatement related to the valuation of liability resulting from cumulative sick leave credits (Note 4)	**16,780**	17,570
Restatement related to the recognition of liabilities resulting from employee social benefit plans (Note 4)	**(9,230)**	(7,927)
Restated balance	**14,207**	15,203
Net earnings	**760,907**	708,004
	775,114	723,207
Dividend	**(762,000)**	(709,000)
Balance, end of year	**$ 13,114**	$ 14,207

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

Consolidated Balance Sheet

March 29, 2008

(in thousands of dollars)

	2008	2007 (Restated – note 4)
Assets		
Current assets		
Cash	**$ 28,176**	$ 22,192
Accounts receivable (Note 8)	**46,678**	44,988
Inventories (Note 9)	**277,206**	238,014
Deposits and prepaid expenses	**26,076**	27,632
	378,136	332,826
Property, plant and equipment (Note 10)	**214,367**	240,185
	$ 592,503	$ 573,011
Liabilities		
Current liabilities		
Loans (Note 11)	**$ 42,989**	$ 89,500
Accounts payable and accrued liabilities (Note 12)	**302,338**	255,933
Dividend payable	**179,000**	159,000
	524,327	504,433
Capital lease obligation (Note 13)	**4,672**	5,903
Accrued benefit liability – cumulative sick leave credits (Note 15)	**17,998**	16,824
Accrued benefit liability – pension plan (Note 15)	**2,392**	1,644
	549,389	528,804
Shareholder's equity (Note 16)		
Share capital	**30,000**	30,000
Retained earnings	**13,114**	14,207
	43,114	44,207
	$ 592,503	$ 573,011

Contingencies and commitments (Note 17)
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 Chair

Consolidated Cash Flows

Fiscal year ended March 29, 2008
(in thousands of dollars)

	2008	2007 (Restated – Note 4)
Operating activities		
Net earnings	**$ 760,907**	$ 708,004
Items not affecting cash:		
Amortization	**46,687**	46,526
Loss on disposal of property, plant and equipment	**9**	426
Impairment of 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)
Future income taxes	**-**	(14)
Expense relating to sick leave credits	**3,443**	3,417
Expense relating to the pension plan	**764**	407
	811,810	755,928
Net change in non-cash working capital items (Note 18)	**6,952**	15,160
Benefits paid by the cumulative sick leave credits plan and the pension plan	**(2,285)**	(2,127)
Cash flows from operating activities	**816,477**	768,961
Investing activities		
Gain on disposal of an interest in a joint venture, net of cash disposed	**-**	23,473
Acquisitions of property, plant and equipment	**(21,085)**	(18,974)
Proceeds from disposal of property, plant and equipment	**207**	104
Other assets	**-**	(27)
Cash flows from investing activities	**(20,878)**	4,576
Financing activities		
Net variation in loans	**(46,511)**	(106,896)
Repayment of debentures payable	**-**	(2,000)
Reimbursement of the capital lease obligation	**(1,104)**	(989)
Dividend paid	**(742,000)**	(674,000)
Cash flows from financing activities	**(789,615)**	(783,885)
Net increase (decrease) in cash	**5,984**	(10,348)
Cash, beginning of year	**22,192**	32,540
Cash, end of year	**$ 28,176**	$ 22,192

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

Notes To The Consolidated Financial Statements

March 29, 2008
(tabular amounts in thousands of dollars)

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., chapter. S-13).* It is a business whose shares are part of the public domain and are allotted to the Quebec Minister of Finance. 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. Accordingly, the fiscal years ended March 29, 2008, and March 31, 2007, covered 52 and 53 weeks of operation respectively.

3. 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.

Principles of consolidation
The consolidated financial statements at March 29, 2008, and at March 31, 2007, include the accounts of the SAQ and its prorata share in the assets and liabilities, revenues and expenses of Société d'investissement M.-S., S.E.C., a joint venture in which the SAQ holds a 50% interest. The SAQ's interest is accounted for using the proportionate consolidation method. The consolidated financial statements at March 31, 2007 also include the SAQ's prorata share in the revenues 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 on which the SAQ disposed of its interest. The SAQ's interest in this entity was accounted for using the proportionate consolidation method.

Use of estimates
The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the recorded amount of the assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements as well as the revenues and expenses recognized during the fiscal year then ended. The main items for which management made use of estimates and assumptions are inventories, amortization of property, plant and equipment, accrued liabilities and actuarial liabilities. Actual results could differ from those estimates.

Revenue recognition
Sales to consumers, agencies, permit holders (including licensed establishments and institutions), authorized distributors (wholesale grocers) as well as other revenues are recognized when realized that is at the time the goods are delivered and the services are provided, less discounts and returns, and when there is persuasive evidence that an agreement exists, that the amounts are or can be determined and that collection is reasonably assured. The SAQ acts as an agent for beer sales made to holders of a brewer's permit and to holders of a beer distributor's permit. Accordingly, these transactions are recognized on a net basis.

Recognition of considerations received from suppliers
Cash considerations received from suppliers are considered an adjustment to the price of the supplier's products and, therefore, are recognized as a reduction of the cost of sales and the related inventories. Certain exceptions apply if the cash considerations received are either a reimbursement of the incremental costs incurred by the SAQ in selling the supplier's products or payment for goods or services provided to the supplier. These latter considerations received from suppliers are recognized, according to their nature, as a reduction of the related operating expenses or as net sales.

3. Significant Accounting Policies (continued)

Operating leases
The SAQ recognizes the rent expense resulting from its operating leases using the straight-line method over the term of the lease.

Foreign currency translation
Monetary assets and liabilities in foreign currency are translated at the exchange rate in effect at the balance sheet date, whereas other assets and liabilities are translated at the rate in effect at the transaction date. Revenues and expenses denominated in foreign currency are translated at the exchange rate in effect at the transaction date. Exchange gains and losses are recognized in earnings for the year. Exchange losses amounting to $2.2 million and $3.7 million are included in the 2008 and 2007 earnings, respectively.

Financial instruments
Financial instruments are measured at fair value on initial recognition. Their measurement in subsequent periods and the recognition of changes in fair value depend on the category in which they are classified.

The SAQ has used the following classification for its financial instruments:

- Cash and cash equivalents are classified as "Assets held for trading." They are measured at fair value and the gains or losses arising from their revaluation at the end of each period are recognized in the consolidated statement of earnings.

- Accounts receivable are classified as "Loans and receivables." They are initially measured at fair value. Subsequently, they are recognized at amortized cost using the effective interest rate method. For the SAQ, the measured amount usually corresponds to cost.

- Loans, accounts payable, and accrued liabilities (except for government taxes and duties payable and the short-term portion of a capital lease obligation) as well as the dividend payable are classified as "Other financial liabilities." After their initial fair value measurement, they are recognized at amortized cost using the effective interest rate method. For the SAQ, the measured amount usually corresponds to cost. The interest expense relating to the loans is reported in financial expenses.

The SAQ partially manages its exchange risk on the expected foreign currency outflows through the use of forward exchange contracts and other derivative financial instruments. However, the SAQ does not document its hedging relationship in accordance with Canadian generally accepted accounting principles and therefore these derivative financial instruments do not meet the hedge accounting criteria. Consequently, the SAQ recognizes its derivative financial instruments at their fair value, and the resulting gains and losses are included in operating expenses. These financial instruments are classified as assets and liabilities held for trading. While these derivative financial instruments fail to meet hedge accounting criteria, the SAQ believes that, from the perspective of operations and cash flows, these instruments enable it to reduce the potential negative effects of a drop in the Canadian dollar on foreign exchange markets. The SAQ does not use derivative financial instruments for speculative purposes.

Embedded derivatives
Derivatives embedded in financial instruments or contracts, other than those held or designated for trading, are separated from their host contact and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract.

The SAQ selected March 30, 2003, as the transition date for embedded derivatives, as provided for in the transitional provisions of CICA Handbook Section 3855. Accordingly, only contracts or financial instruments entered into or modified after that date have been examined for embedded derivatives. At April 1, 2007, and at March 29, 2008, the SAQ did not have any outstanding contracts or financial instruments with embedded derivatives that should be separated from the host contract.

3. Significant Accounting Policies (continued)

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 at March 31, 2007, 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 that itself owned a share in an incorporated subsidiary subject to income taxes. These income taxes were recognized using the liability method. Under this method, future income tax assets and liabilities are determined according to differences between the carrying values and tax bases of the assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse.

Cash and cash equivalents
Cash and cash equivalents include cash and short-term investments with maturities of three months or less from the date of acquisition. At March 29, 2008, and at March 31, 2007, the SAQ had only cash on hand.

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

Property, plant and equipment
Property, plant and equipment are stated at cost and amortized over their estimated useful life. Amortization is calculated using the straight-line method. The following annual rates are used:

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

<u>Building under a capital lease</u>
The building under a capital lease is stated at cost, which is the present value of the minimum lease payments stated in the lease. Amortization on the building is calculated using the straight-line method at an annual rate of 2.5%.

Impairment of long-lived assets
Long-lived assets are tested for recoverability when events or changes in circumstance indicate that their carrying value may not be recoverable. An impairment loss is recognized when the carrying value exceeds the undiscounted cash flows resulting from their use and eventual disposal. The impairment loss is measured as the amount by which the asset's carrying value exceeds its fair value.

Employee benefit plans
<u>Cumulative sick leave credits</u>
The SAQ administers a defined benefit 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 using the projected benefit method prorated on the number of years of service, and charged to the statement of earnings as employees render the service. These actuarial calculations take into account the most likely assumptions established by management with respect to the compensation increase, the age of retirement and the rate at which sick leave credits are used.

3. Significant Accounting Policies (continued)

The SAQ amortizes the unrecognized cumulative net actuarial gains and losses that are greater than 10% of the benefit obligation of cumulative sick leave credits on the average remaining service period of active employees participating in the plan. The average remaining service period of employees covered by the cumulative sick leave credit plan was 16 years at March 29, 2008, and March 31, 2007.

Pension plans

The employees of the SAQ participate in pension plans for government employees and public organizations. These plans, administered by the Commission administrative des régimes de retraite et d'assurances, are defined benefit plans, include guarantees for the payment of retirement and death benefits and are indexed annually. Defined contribution plan accounting is applied to these plans because the SAQ does not have enough information to apply defined benefit plan 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 their career. This is a defined benefit pension plan that also includes guarantees for the payment of pension and death benefits that are indexed annually. The actuarial valuation of the accrued benefit obligation in relation to the retirement benefits is established using the projected benefit method prorated on the number of years of service. The evaluation was carried out using management's best estimate of the future changes in salary levels, retirement age and other actuarial factors.

The excess of net accumulated actuarial gains and losses of greater than 10% of the benefit obligation is amortized over the average remaining service period of the active employee group covered by the plan. The average remaining service period of active employees covered by the supplemental retirement plan for senior management was 4.7 years at March 29, 2008, and 5.6 years at March 31, 2007.

4. Accounting Changes

Fiscal year ended March 29, 2008

Accounting changes

In 2006, the Canadian Institute of Chartered Accountants (CICA) published Section 1506, "Accounting Changes," of the CICA Handbook. Applicable to fiscal years beginning on or after January 1, 2007, this new section prescribes the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

Comprehensive income

In 2005, the CICA published Section 1530, "Comprehensive Income," of the CICA Handbook. Applicable to fiscal years beginning on or after October 1, 2006, this new section establishes standards for the reporting and presentation of comprehensive income, which includes net earnings and all changes in equity during a period that arise from transactions and events from non-shareholder sources.

Equity

The SAQ has adopted the recommendations of CICA Handbook Section 3251, "Equity," published by the CICA in 2005. Applicable to fiscal years beginning on or after October 1, 2006, this new section establishes standards for the presentation of equity and changes in equity as a result of the new requirements in Section 1530.

4. Accounting Changes (continued)

Financial instruments
In 2005, the CICA published Section 3855, "Financial Instruments – Recognition and Measurement," and Section 3861, "Financial Instruments – Disclosure and Presentation." These new sections are applicable to fiscal years beginning on or after October 1, 2006.

Section 3855 establishes recognition and measurement standards for financial instruments, namely financial assets and financial liabilities as well as derivatives. The standards prescribe how financial instruments are to be recognized according to their classification. Depending on the instruments' classification, changes in subsequent measurements are recognized in net earnings or comprehensive income.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed with regards to them.

The adoption of the accounting standards set out in Sections 1506, 1530, 3251, 3855 and 3861 of the CICA Handbook at the beginning of the 2008 fiscal year, in conformity with the applicable transitional provisions, had no effect on the measurement of the various items in the SAQ's consolidated financial statements. However, adopting these standards did entail the disclosure of additional information. The SAQ had no comprehensive income transactions during the year ended March 29, 2008, and, consequently, had no opening or closing balances or disclosures for accumulated other comprehensive income.

Recognition of sales made as an agent
In fiscal 2008, SAQ recognized sales made to brewer and beer distributors on a net basis, as it carried out these transactions as an agent. These sales were previously reported on a gross basis. This accounting treatment has been applied retrospectively, with restatement of prior year financial statements, and had no effect on net earnings, as these transactions generate no gross margin.

The retrospective application of this change had the effect of reducing the consolidated net sales and consolidated cost of sales by $209.3 million in 2008 ($190.3 million in 2007).

Valuation of liability resulting from cumulative sick leave credits
The SAQ cancelled an actuarial gain recognized in the liability as cumulative sick leave credits at March 31, 2004, in order to conform with the application guidelines of CICA Handbook Section 3461, "Employee Future Benefits," then in effect.

The retrospective application of this cancellation had the effect of increasing (decreasing) the following financial statement items:

	2007
Earnings	
Compensation and employee social benefits (under the heading "Selling and marketing, distribution and administrative expenses")	$ 790
Net earnings	$ (790)
Balance sheet	
Accrued benefit liability – cumulative sick leave credits	$ (16,780)
Retained earnings, beginning of year	$ 17,570
Retained earnings, end of year	$ 16,780

(tabular amounts in thousands of dollars)

4. Accounting Changes (continued)

Recognition of liabilities resulting from employee social benefit plans
The SAQ has recognized liabilities resulting from the employer's contributions to the employee social benefit plans relating to vacations and certain other cumulative leave credits payable as well as other liabilities. It has also recognized obligations related to certain cumulative leave credits. These employee benefits are now recognized in the year in which the employees earn them. They were previously recognized in the earnings of the year in which the sums concerned were disbursed.

The accounting treatment applied retrospectively had the effect of increasing (decreasing) the following financial statement items:

	2007
Earnings	
Compensation and employee social benefits (under the heading "Selling and marketing, distribution and administrative expenses")	$ 1,303
Net earnings	$ (1,303)
Balance sheet	
Compensation and employee social benefits payable (under the heading "Accounts Payable and Accrued Liabilities")	$ 9,230
Retained earnings, beginning of year	$ (7,927)
Retained earnings, end of year	$ (9,230)

Future fiscal years
Capital disclosures
In 2006, the CICA issued Section 1535, "Capital Disclosures," of the CICA Handbook This new section establishes disclosure standards regarding a entity's capital and how it is managed. The new standard is applicable to fiscal years beginning on or after October 1, 2007.

Inventories
In 2007, the CICA issued Section 3031, "Inventories" of the CICA Handbook. This new section provides guidance on determining the cost of inventories, including the charging of overhead and other costs to inventories, and requires a reversal of previous write-downs when there is a subsequent increase in the value of inventories. More detailed information about inventories and the cost of goods sold must also be provided. This new standard is applicable to fiscal years beginning on or after January 1, 2008.

Financial instruments
In 2006, the CICA issued new recommendations regarding financial instruments in Section 3862, "Financial Instruments – Disclosures," and Section 3863, "Financial Instruments – Presentation," in the CICA Handbook. These new sections replace Section 3861 "Financial Instruments – Disclosure and Presentation," and are applicable to fiscal years beginning on or after October 1, 2007.

Section 3862 imposes on companies the requirement to provide more information about the risks arising from financial instruments and non-financial derivatives, such as credit risk, liquidity risk and market risk, as well as the methods used to detect, monitor and manage these risks. Section 3863 incorporates the Section 3861 standards regarding the presentation of financial instruments and non-financial derivatives and provides additional guidance about the classification of financial instruments.

4. Accounting Changes (continued)

Goodwill and intangible assets
In 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets," that replaces Section 3062, "Goodwill and Other Intangible Assets," and Section 3450, "Research and Development Costs." The new section establishes new recognition, measurement, presentation and disclosure standards applicable to goodwill and intangible assets, including intangible assets developed internally. This section is applicable to fiscal years beginning on or after October 1, 2008.

The accounting standards of Sections 1535, 3031, 3862 and 3863 will apply to the SAQ's interim and annual consolidated financial statements for fiscal years beginning on or after March 30, 2008, and, for fiscal years beginning on or after March 29, 2009, for Section 3064. The SAQ does not expect that adopting these new sections will have a material impact on its earnings, financial position or future cash flows.

5. Net Sales, Cost Of Sales and Gross Margin

	2008			2007		
	Outlets and specialized centres	**Wholesale grocers**	**Total**	Outlets and specialized centres	Wholesale grocers	Total
Net sales	**$ 2,029,458**	**$ 264,450**	**$ 2,293,908**	$1,913,274	$ 260,490	$ 2,173,764
Cost of sales	**921,776**	**133,023**	**1,054,799**	863,739	129,264	993,003
Gross margin	**$ 1,107,682**	**$ 131,427**	**$ 1,239,109**	$ 1,049,535	$ 131,226	$ 1,180,761

The SAQ's net sales do not include beer sales made to holders of a brewer's permit or to holders of a beer distributor's permit. The brewers and beer distributors sell and deliver, in 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, which acts as an agent between the suppliers and the brewers and beer distributors. These sales transactions do not generate any gross margins for the SAQ. The SAQ does, however, collect service fees for them. The net sales and cost of sales arising from these transactions increased to $209.3 million in fiscal 2008 ($190.3 million in fiscal 2007).

6. Selling and Marketing, Distribution and Administrative Expenses

	2008	2007
Compensation and employee social benefits	**$ 316,876**	$ 308,392
Building occupancy expenses	**63,744**	62,016
Equipment use and supply expenses	**22,341**	21,590
Freight out and communications	**11,379**	12,156
Other operating expenses	**61,116**	60,328
	$ 475,456	$ 464,482

Notes to the Consolidated Financial Statements
March 29, 2008
(tabular amounts in thousands of dollars)

7. Financial Expenses

	2008	2007
Interest on loans made to a company under common control	**$ 1,596**	$ 1,716
Other interest on short-term loans	**2,438**	5,499
Interest on debentures payable	**–**	67
Interest relating to a capital lease obligation	**716**	831
	4,750	8,113
Less: Interest on investments, term deposits and others	**(1,847)**	(1,685)
	$ 2,903	$ 6,428

8. Accounts Receivable

	2008	2007
Wholesale grocers	**$11,824**	$ 14,955
Licensed establishments, institutions and other commercial accounts	**34,854**	30,033
	$46,678	$ 44,988

9. Inventories

	2008	2007
Bottled beverages	**$274,712**	$ 235,776
Miscellaneous supplies	**2,494**	2,238
	$277,206	$ 238,014

10. Property, plant and equipment

	2008			2007		
	Cost	**Accumulated amortization**	**Net value**	Cost	Accumulated amortization	Net value
Land	**$ 10,775**	**$ –**	**$ 10,775**	$ 10,775	$ –	$ 10,775
Buildings	**126,306**	**32,217**	**94,089**	120,410	28,763	91,647
Furniture, equipment and computer hardware	**327,763**	**244,697**	**83,066**	320,341	212,274	108,067
Rolling stock	**14,894**	**10,031**	**4,863**	14,828	9,100	5,728
Leasehold improvements	**46,156**	**29,336**	**16,820**	45,102	26,308	18,794
Paving and parking	**3,881**	**2,790**	**1,091**	3,746	2,642	1,104
	529,775	**319,071**	**210,704**	515,202	279,087	236,115
Building under a capital lease	**16,280**	**12,617**	**3,663**	16,280	12,210	4,070
	$ 546,055	**$331,688**	**$214,367**	$531,482	$291,297	$ 240,185

11. Loans

	2008	2007
Loans	**$42,989**	$ 89,500

The SAQ is authorized by the Government of Quebec and by the SAQ's Board of Directors to contract short-term loans up to a maximum amount outstanding of $400 million. At March 29, 2008, the loans consisted of two short-term loans totalling $43.0 million, including one $19.5 million loan from a company under common control (four loans at March 31, 2007, totalling $89.5 million, of which two loans totalling $24.5 million were from a company under common control). These loans bear interest at a rate of 3.54% and 3.56% (4.29% in 2007) and mature in four days or less (five days or less in 2007).

At March 29, 2008, the SAQ had bank credit facilities totalling $10.0 million maturing on August 31, 2008. The amounts borrowed through these facilities bear interest at the prime rate, which was 5.25% at March 29, 2008 (6.00% at March 31, 2007). At that date, the bank credit facilities had not been drawn (draw of $0.5 million at March 31, 2007).

12. Accounts Payable and Accrued Liabilities

	2008	2007
Accounts payable and accrued liabilities	**$136,040**	$ 127,653
Government taxes and duties payable	**81,945**	52,181
Compensation and employee social benefits payable	**83,122**	74,995
Short-term portion of a capital lease obligation	**1,231**	1,104
	$302,338	$ 255,933

The SAQ has undertaken to contribute to the funding of various programs aimed at protecting and improving the environment. To accomplish this, it devotes a portion of its sales to this purpose. The resulting liability is equal to the excess of the accrued deductions from sales over the charges incurred. This liability is included in accounts payable and accrued liabilities, and totalled $9.0 million at March 29, 2008 ($9.8 million at March 31, 2007).

13. Capital Lease Obligation

	2008	2007
Obligation under a capital lease resulting from the rental of a building, repayable through April 11, 2012, in monthly instalments of $0.15 million including interest calculated at an annual rate of 11%, capitalized semi-annually.	**$ 5,903**	$ 7,007
Less: Portion of the liability due within one year	**(1,231)**	(1,104)
	$ 4,672	$ 5,903

	Principal	Interest	Total
Payments in future years:			
2009	$ 1,231	$ 589	$ 1,820
2010	1,374	446	1,820
2011	1,533	287	1,820
2012	1,711	109	1,820
2013	54	1	55
	$ 5,903	$ 1,432	$ 7,335

(tabular amounts in thousands of dollars)

14. Interests in Joint Ventures

The SAQ holds a 50% interest in Société d'investissement M.-S., S.E.C. It also held a 50% interest in Maison des Futailles, S.E.C. until August 26, 2006, the date on which it disposed of that interest. The main elements originating from joint ventures and included in the consolidated financial statements are presented below.

	2008	2007
Earnings		
Net sales	**$ –**	$14,939
Cost of sales	**–**	9,923
Gross margin	**–**	5,016
Operating expenses	**569**	5,667
Financial expenses	**(4)**	45
Amortization	**158**	623
	723	6,335
Other revenue	**586**	549
Loss before income taxes	**137**	770
Income taxes	**–**	(29)
Net loss	**$137**	$ 741
Balance sheet		
Current assets	**$256**	$ 210
Long-term assets	**99**	256
	$355	$ 466
Current liabilities	**$295**	$ 269
Shareholder's equity	**60**	197
	$355	$ 466
Cash flows		
Cash flows from operating activities	**$ 27**	$ 724
Cash flows from financing activities	**$ –**	$ (500)
Cash flows from investing activities	**$ –**	$ (521)

15. Employee Future Benefits

Defined benefit plans

The SAQ's employees participate in the Régime de retraite des employés du gouvernement et des organismes publics (RREGOP), the Régime de retraite des fonctionnaires (RRF) or the Régime de retraite du personnel d'encadrement (RRPE). These are defined benefit pension plans that include guarantees upon retirement and death. The SAQ's obligations toward these government plans are limited to its contributions as an employer. At January 1, 2008, the contribution rate to the RREGOP went from 7.06% to 8.19% of the contributory payroll and that of the RRPE went from 7.78% to 10.54%. The RRF contribution rate remained at 7.25%.

15. Employee Future Benefits (continued)

For accounting purposes, the SAQ measures its accrued benefit obligations 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 senior management. The most recent actuarial valuation for funding purposes of the cumulative sick leave credit plan was carried out on December 31, 2007 and the next valuation must be completed by December 31, 2010. The most recent actuarial valuation for funding purposes of the supplemental retirement plan for senior management was carried out on March 29, 2008, and the next valuation must be completed by March 26, 2011.

Total cash payment

The total cash payment for employee future benefits for 2008, consisting of the SAQ's contributions to the government employee pension plans and the amounts paid directly to the beneficiaries of the supplemental retirement plan for senior management and of the cumulative sick leave credit plan, amounted to $13.4 million ($12.0 million in 2007).

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

	Cumulative sick leave credit plan		Supplemental retirement plan for senior management	
	2008	2007	**2008**	2007
Accrued benefit obligations and funded status – deficit	**$26,520**	$25,509	**$ 3,858**	$2,540
Balance of unamortized amounts	**(8,522)**	(8,685)	**(1,466)**	(896)
Accrued benefit liabilities appearing on the SAQ's balance sheet	**$17,998**	$16,824	**$ 2,392**	$1,644

Cost of employee future benefits recognized during the fiscal year

	Cumulative sick leave credit plan		Retirement plans	
	2008	2007	**2008**	2007
Defined benefit plans	**$3,443**	$3,417	**$ 764**	$ 407
Government employees' pension plans	**$ –**	$ –	**$11,073**	$9,891

Benefits paid

Benefits paid by the cumulative sick leave credits plan totalled $2.3 million in 2008 ($2.1 million in 2007), while those paid by the supplemental retirement plan for senior managenemt amounted to $0.02 million (no benefits were paid in 2007).

(tabular amounts in thousands of dollars)

15. Employee Future Benefits (continued)

Significant assumptions
The significant assumptions used for accounting for employee future benefits are as follows:

	Cumulative sick leave credit plan		Supplemental retirement plan for senior management	
	2008	2007	**2008**	2007
Accrued benefit obligations at the end of the fiscal year				
Discount rate	**5.00%**	5.00%	**5.00%**	5.00%
Rate of compensation increase	**3.00%**	3.00%	**3.50%**	3.50%
Rate of use of sick leave credits	*	**	–	–
* From 45% to 65% depending on the employee group				
** From 40% to 65% depending on the employee group				
Benefit costs for the fiscal year				
Discount rate	**5.00%**	5.00%	**5.00%**	5.25%
Rate of compensation increase	**3.00%**	3.00%	**3.50%**	3.50%
Rate of use of sick leave credits	*	**	–	–
* From 45% to 65% depending on the employee group				
** From 40% to 65% depending on the employee group				

16. Shareholder's Equity

Share capital
The SAQ's authorized share capital consists of 300,000 shares having a par value of $100 each and that were issued and paid as at March 29, 2008, and March 31, 2007.

Retained earnings
Under the *Act respecting the Société des alcools du Québec*, the dividends paid by the SAQ are established by the Quebec Minister of Finance, who determines the terms of payment. The declared dividends are deducted from the retained earnings of the fiscal year in which they were declared.

For fiscal 2008, the Quebec Minister of Finance declared a dividend of $762.0 million ($709.0 million in 2007).

17. Contingencies and Commitments

Contingencies
In the normal course of its operations, the SAQ is faced with various claims and lawsuits, primarily for damages, totalling approximately $13.6 million. The management of the SAQ is contesting these lawsuits and is opposed to acting on any related claims that might result. No provision is recognized in the SAQ's accounting records with respect to these contingencies, because in management's opinion, no settlement resulting from these claims would have a material impact on the SAQ consolidated financial statements.

17. Contingencies and Commitments (continued)

Commitments

For its operating leases, the SAQ is committed to paying a total amount of $297.1 million for the leasing of outlets and certain warehouses. Payments in future years amounts to:

2009	$ 39,773
2010	$ 40,331
2011	$ 37,556
2012	$ 32,193
2013	$ 27,797
2014–2023	$119,408

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.

18. Information included in Cash Flows

	2008	2007
Cash flows related to operating activities include the following items:		
Interest paid	**$ 4,772**	$ 8,317
Income taxes recovered by a subsidiary of a joint venture	**$ –**	$ (8)
The net change in the non-cash working capital items is detailed as follows:		
Accounts receivable	**$ (1,690)**	$ 9,242
Inventories	**(39,192)**	22,090
Deposits and prepaid expenses	**1,556**	(10,694)
Accounts payable and accrued liabilities	**46,278**	(5,478)
	$ 6,952	$ 15,160

(tabular amounts in thousands of dollars)

19. Financial Instruments

Fair value of financial instruments

	2008		2007	
	Fair value	**Book value**	Fair value	Book value
Capital lease obligation	**$ 6,622**	**$ 5,903**	$ 7,890	$ 7,007

The fair value of the capital lease obligation represents the present value of future monthly payments under current financing agreements, at interest rates offered on the market to the SAQ for loans with similar conditions and maturity dates, capitalized semi-annually and maturing in 2012. That rate is 5.29% in 2008 (6.19% in 2007).

The book value of the other financial instruments maturing in the short term is presumed to correspond to their fair value. These financial instruments include cash; accounts receivable; loans; accounts payable and accrued liabilities (excluding government taxes and duties payable and the short-term portion of a capital lease obligation) as well as the dividend payable.

20. Risk Management

Financial risk management objectives and policies
The SAQ is exposed to various financial risks arising from its operating, investing and financing activities. The SAQ's management manages these risks.

The SAQ does not enter into financial instrument contracts or agreements, including financial derivatives, for speculative purposes.

Financial risks
Interest rate risk
The SAQ finances its activities on a daily basis through short-term loans and is therefore exposed to the cash flow risks resulting from interest rate fluctuations. The SAQ establishes budget and cash estimates to ensure it has the necessary funds to meet its obligations.

The capital lease obligation bears a fixed interest rate and exposes the SAQ to the risk that market interest rates will be lower than the interest rates linked to these liability. The effective interest rate for this obligation is 11.3%.

As they do not bear interest, the SAQ's other financial assets and liabilities do not present any interest rate risk.

The SAQ does not use derivative financial instruments to reduce its exposure to interest rate risk.

20. Risk Management (continued)

Foreign exchange risk
The SAQ is exposed to foreign exchange risk due to certain accounts payable in foreign currencies. At March 29, 2008, these accounts payable totalled €8.1 million and US$1.0 million (€8.3 million and US$0.8 million at March 31, 2007).

The SAQ negotiates forward exchange contracts intended to partially cover the foreign exchange risk to which it is exposed. Under these contracts, it is required to buy specific amounts of currencies, mainly in euros and U.S. dollars, at exchange rates set in advance.

At March 29, 2008, the SAQ had no outstanding forward exchange contracts.

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

Currency	Nominal exchange rate		Contract amount
	Floor	Ceiling	
Euro	$1.5450	$1.5625	3,000

The recorded negative fair value of these derivative financial instruments was $0.02 million.

Credit risk
The book value of the accounts receivable presented on the SAQ's balance sheet is the maximum amount exposed to credit risk. The SAQ requires an accessory guarantee from some of its clients. The SAQ's policy is to have certain clients undergo a credit check. Moreover, the accounts receivable balance is managed and analyzed on a continuous basis and, consequently, the SAQ's exposure to bad debts is not significant.

21. Related Party Transactions

In addition to the related party transactions already disclosed in the financial statements and recorded at exchange value, the SAQ is related to all Government of Quebec ministries and special funds, as well as all agencies and enterprises directly or indirectly controlled by the Government of Quebec or subject to either joint control or significant joint influence on the part of the Government of Quebec. The exchange value corresponds to the amount established and agreed to by the parties. The SAQ has not concluded any business transactions with these related parties other than within the normal course of business and under usual commercial terms. These transactions have not been disclosed separately in the financial statements.

22. Comparative Figures

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

The fiscal 2007 figures are taken from financial statements audited by the firm Raymond Chabot Grant Thornton (LLP), chartered accountants. The Auditor General of Quebec and Raymond Chabot Grant Thornton (LLP) were appointed co-auditors of the SAQ's financial statements for fiscal 2008 by Order in Council No. 462-2007 of June 20, 2007.

Quarterly Results

Fiscal years ended March 29, 2008, and March 31, 2007
(unaudited data)

	2008				
	Fiscal year	Q4	Q3	Q2	Q1
Number of weeks	52	12	16	12	12
Financial results					
(in millions of dollars)					
Net sales	**2,293.9**	**451.4**	**834.8**	**512.7**	**495.0**
Gross margin	**1,239.1**	**248.9**	**447.5**	**276.7**	**266.0**
Net operating expenses[2]	**478.2**	**121.9**	**149.2**	**103.0**	**104.1**
Net earnings	**760.9**	**127.0**	**298.3**	**173.7**	**161.9**
Dividend paid	**742.0**	**232.0**	**190.0**	**125.0**	**195.0**
Net sales by network					
(in millions of dollars)					
Outlets and specialized centres	**2,029.5**	**401.3**	**739.4**	**452.7**	**436.1**
Wholesale grocers	**264.4**	**50.1**	**95.4**	**60.0**	**58.9**
Total	**2,293.9**	**451.4**	**834.8**	**512.7**	**495.0**
Sales volume by network					
(in millions of litres)					
Outlets and specialized centres	**127.9**	**25.2**	**44.1**	**29.9**	**28.7**
Wholesale grocers	**34.6**	**6.5**	**12.6**	**7.7**	**7.8**
Total	**162.5**	**31.7**	**56.7**	**37.6**	**36.5**
Sales volume by product category					
(in millions of litres)					
Spirits	**19.4**	**3.6**	**7.3**	**4.4**	**4.1**
Wines	**131.9**	**26.2**	**46.7**	**30.0**	**29.0**
Imported and microbrewery beers, ciders and coolers	**11.2**	**1.9**	**2.7**	**3.2**	**3.4**
Total	**162.5**	**31.7**	**56.7**	**37.6**	**36.5**
Other financial data					
Net sales to brewers and beer distributors[3] (in millions of dollars)	**209.3**	**36.8**	**54.0**	**63.2**	**55.3**
Beer sold to brewers and beer distributors[3] (in millions of litres)	**147.7**	**27.6**	**36.6**	**44.4**	**39.1**

1. 53-week fiscal year.
2. After deduction of other revenue and other income.
3. Sales made as an agent; not included in the sales figures.

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

	2007[1]				
	Fiscal year	Q4	Q3	Q2	Q1
Number of weeks	53	13	16	12	12
Financial results (in millions of dollars)					
Net sales	2,173.8	452.9	803.0	476.2	441.7
Gross margin	1,180.8	244.6	434.3	261.7	240.2
Net operating expenses[2]	472.8	126.2	143.1	98.7	104.8
Net earnings	708.0	118.4	291.2	163.0	135.4
Dividend paid	674.0	215.0	182.0	119.0	158.0
Net sales by network (in millions of dollars)					
Outlets and specialized centres	1,913.3	403.7	702.0	419.5	388.1
Wholesale grocers	260.5	49.2	101.0	56.7	53.6
Total	2,173.8	452.9	803.0	476.2	441.7
Sales volume by 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
Total	156.4	31.9	55.3	36.0	33.2
Sales volume by product category (in millions of litres)					
Spirits	19.0	3.9	7.0	4.2	3.9
Wines	126.0	26.3	45.4	28.0	26.3
Imported and microbrewery beers, ciders and coolers	11.4	1.7	2.9	3.8	3.0
Total	156.4	31.9	55.3	36.0	33.2
Other financial data					
Net sales to brewers and beer distributors[3] (in millions of dollars)	190.3	36.3	50.5	52.2	51.3
Beer sold to brewers and beer distributors[3] (in millions of litres)	132.4	26.3	35.7	36.0	34.4

Ten-Year Historical Review

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

	2008	2007[1]	2006
Operating results (in millions of dollars)			
Net sales	**2,293.9**	2,173.8	2,013.6
Gross margin	**1,239.1**	1,180.8	1,114.2
Net operating expenses[3]	**478.2**	472.8	457.3
Net earnings	**760.9**	708.0	656.9
Financial position (in millions of dollars)			
Total assets	**592.5**	573.0	658.8
Property, plant and equipment	**214.4**	240.2	272.4
Working capital	**(146.2)**	(171.6)	(203.6)
Long-term liabilities	**25.1**	24.4	46.4
Shareholder's equity	**43.1**	44.2	35.6
Cash flows (in millions of dollars)			
Cash flows from operating activities	**816.5**	769.0	679.5
Acquisition of property, plant and equipment	**21.1**	19.0	24.9
Dividend paid	**742.0**	674.0	598.0

1. 53-week fiscal year.
2. The fiscal year was disrupted by a labour dispute.
3. After deduction of other revenue and other income.

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

2005[2]	2004	2003	2002	2001[1]	2000	1999
1,805.3	1,831.6	1,719.9	1,570.8	1,443.7	1,307.5	1,186.2
995.5	1,016.9	934.3	845.4	786.0	713.8	635.6
449.7	446.1	393.9	356.7	314.7	272.3	227.6
545.8	570.8	540.4	488.7	471.3	441.5	408.0
682.8	742.6	651.6	575.8	492.9	372.5	310.6
295.4	313.7	297.4	214.6	163.5	103.2	82.5
(227.5)	(242.8)	(230.7)	(148.8)	(99.2)	(33.9)	(9.3)
47.5	52.2	53.4	54.5	53.0	37.7	26.7
35.6	34.9	34.1	33.7	32.0	46.9	46.4
727.5	523.3	580.5	544.4	417.9	433.7	391.9
32.2	57.4	110.7	72.0	74.3	34.0	16.5
558.0	606.0	509.0	441.0	529.0	421.0	385.0

Ten-Year Historical Review

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

	2008		2007[1]	2006
Net sales by network				
(in millions of dollars and in millions of litres)				
Outlets and specialized centres	**2,029.5**		1,913.3	1,753.2
	127.9	**L**	123.6	114.9
Wholesale grocers	**264.4**		260.5	260.4
	34.6	**L**	32.8	31.9
Total	**2,293.9**		2,173.8	2,013.6
	162.5	**L**	156.4	146.8
Net sales by product category				
(in millions of dollars and in millions of litres)				
Spirits	**512.7**		492.4	460.0
	19.4	**L**	19.0	18.2
Wines	**1,701.5**		1,601.8	1,470.3
	131.9	**L**	126.0	116.7
Imported and microbrewery beers, ciders and coolers	**79.7**		79.6	83.3
	11.2	**L**	11.4	11.9
Total	**2,293.9**		2,173.8	2,013.6
	162.5	**L**	156.4	146.8
Other financial data				
(in millions of dollars and in millions of litres)				
Net sales to brewers and beer distributors[3]	**209.3**		190.3	159.5
Beer sold to brewers and beer distributors[3]	**147.7**	**L**	132.4	122.8

1. 53-week fiscal year.
2. The fiscal year was disrupted by a labour dispute.
3. Sales made as an agent; not included in the sales figures.

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

2005[2]	2004	2003	2002	2001[1]	2000	1999
1,506.0	1,581.7	1,487.6	1,349.9	1,222.5	1,095.8	991.8
101.2	108.2	105.3	97.7	89.0	79.0	76.4
299.3	249.9	232.3	220.9	221.2	211.7	194.4
34.9	29.4	28.9	29.2	30.4	32.0	30.8
1,805.3	1,831.6	1,719.9	1,570.8	1,443.7	1,307.5	1,186.2
136.1	137.6	134.2	126.9	119.4	111.0	107.2
405.0	427.5	414.2	400.7	385.3	357.1	342.8
16.1	17.3	16.9	16.7	16.5	15.2	14.5
1,312.0	1,322.4	1,221.9	1,104.6	1,015.9	909.6	785.9
107.6	109.0	105.3	100.9	97.1	89.9	82.7
88.3	81.7	83.8	65.5	42.5	40.8	57.5
12.4	11.3	12.0	9.3	5.8	5.9	10.0
1,805.3	1,831.6	1,719.9	1,570.8	1,443.7	1,307.5	1,186.2
136.1	137.6	134.2	126.9	119.4	111.0	107.2
181.6	238.5	150.1	121.2	102.5	97.0	68.8
131.7	203.6	110.1	84.4	83.8	76.6	62.9

Ten-Year Historical Review

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

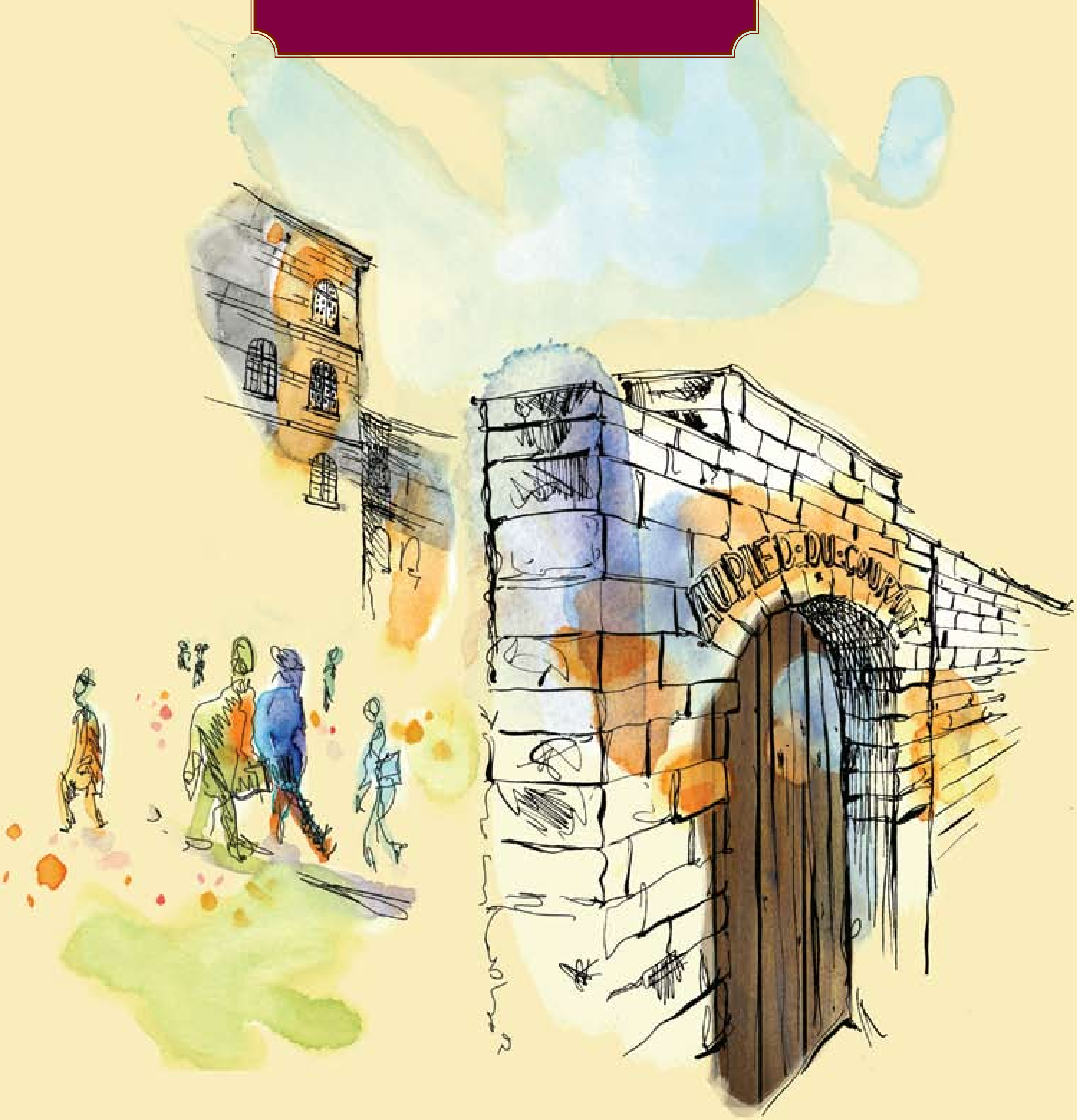
	2008	2007[1]	2006
Net operating expenses[3]			
(in millions of dollars)			
Compensation and employee social benefits	**316.9**	308.4	280.0
Building occupancy expenses[4]	**73.6**	72.5	71.2
Equipment use and supply expenses[4]	**59.8**	57.8	57.9
Freight out and communications	**11.4**	12.2	13.3
Other operating expenses[3]	**16.5**	21.9	34.9
Exceptional items	**–**	–	–
Total	**478.2**	472.8	457.3
Operating ratios			
(as a percentage of net sales)			
Gross margin	**54.0**	54.3	55.3
Net earnings	**33.2**	32.6	32.6
Net operating expenses[3]	**20.8**	21.7	22.7
Other data			
(at fiscal year-end)			
Number of employees[5]	**5,337**	5,264	5,235
Number of outlets	**414**	414	408
Number of agencies	**397**	395	400
Number of products offered for sale	**8,231**	7,532	7,243
Surface area of business premises			
(in millions of square feet)			
Outlets	**1,703.8**	1,687.1	1,660.9
Distribution centres	**1,215.4**	1,166.9	1,166.9

1. 53-week fiscal year.
2. The fiscal year was disrupted by a labour dispute.
3. After deduction of other revenue and other income.
4. Including amortization expense.
5. The number of employees is expressed on a full-time equivalence (persons/year) basis.

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

2005[2]	2004	2003	2002	2001[1]	2000	1999
254.3	275.8	252.3	224.6	202.2	196.1	161.3
66.6	64.7	57.4	47.8	40.8	34.5	32.9
60.8	54.2	42.9	34.6	27.1	21.6	19.1
12.3	12.6	12.2	10.5	7.8	5.5	5.0
55.7	38.8	29.1	39.2	36.8	20.7	9.3
–	–	–	–	–	(6.1)	–
449.7	446.1	393.9	356.7	314.7	272.3	227.6
55.1	55.5	54.3	53.8	54.4	54.6	53.6
30.2	31.2	31.4	31.1	32.6	33.8	34.4
24.9	24.3	22.9	22.7	21.8	20.8	19.2
4,494	4,803	4,511	4,242	4,078	3,406	3,131
403	398	398	380	370	341	341
403	403	401	399	252	153	154
7,633	7,148	6,755	7,250	7,386	6,575	5,299
1,633.1	1,595.7	1,542.9	1,306.3	1,404.0	1,157.6	1,147.0
1,152.6	1,127.6	983.0	877.9	848.1	758.8	658.8

Governance



The Board of Directors

On April 1, 2007, the Board of Directors of the Société des alcools du Québec consisted of a Chairman, the President and Chief Executive Officer and six members appointed by the Quebec government.

On August 7, 2007, the government issued Order in Council No. 623-2007 and appointed four new Board members, bringing the number of members to 12.

In conformance with section 18 of the *Act respecting the governance of state-owned corporations*, the new members were able to take advantage of an initiation and training program that allowed them to quickly familiarize themselves with the various divisions of the Société des alcools du Québec.

The Board of Directors held 14 meetings during the 2007–2008 fiscal year, at which it carried out all its regular functions relating to the company's business conduct. Most notably, it approved the company's capital plan, financial statements, annual budget and annual report. In addition, it approved the expertise and experience profile, the code of ethics and the evaluation criteria applicable to the members of the Board of Directors.

The fiscal year saw the departure of the President and Chief Executive Officer, Sylvain Toutant. This event provided the Board members with the opportunity to develop an expertise and experience profile for the position of President and Chief Executive Officer and to begin the recruitment process and recommend a candidate to the government in conformance with section 12 of the *Act respecting the Société des alcools du Québec*.

The Four Committees of the Board of Directors and Their Activities

Audit Committee

The Audit Committee is comprised of five members who met on seven occasions in fiscal 2007–2008. The committee performed all the functions specified in section 24 of the *Act respecting state-owned enterprises*. In particular:

- it approved the annual internal audit plan and followed up on the recommendations made by the internal and external auditors;
- it ensured that a plan for the optimal utilization of the company's resources was put in place and followed up on that process by awarding, in fiscal 2007–2008, a contract to evaluate the selection and dropping of regular and specialty products. The contract had two parts: first, to ensure that the Procurement and Merchandising Division's practices complied with the Purchasing and Merchandising Policy, and, second, to check whether the policy was comparable with what is done by organizations similar to the Société des alcools du Québec;
- it saw to it that appropriate, effective internal control mechanisms were put in place. More specifically, it required that an action plan to implement priority controls in outlets be developed;
- it examined and recommended to the Board of Directors the approval of the financial statements for fiscal 2006–2007.

Lastly, it approved the joint audit plan submitted by the Auditor General and the Raymond Chabot Grant Thornton auditing firm for the joint audit of the financial statements for fiscal 2007–2008 in conformance with section 60 of the *Act respecting the Société des alcools du Québec*.

Human Resources Committee

The Human Resources Committee is comprised of six members who met on 15 occasions in fiscal 2007–2008.

The committee performed all the regular functions specified in section 27 of the *Act respecting the governance of state-owned enterprises*. In particular:

- it ensured that human resources policies were put in place, recommending, among other things, to the Board of Directors the adoption of a workplace harassment and violence prevention policy and a severance pay policy;
- it examined the performance appraisals of the members of senior management and recommended to the Board of Directors the salary increases and bonuses for each of them;
- it approved and recommended to the Board of Directors the resolution regarding 2007–2008 variable pay for the vice-presidents, managerial staff, non-unionized personnel and Sales Department managerial staff;
- it developed and submitted to the Board of Directors an expertise and experience profile for the appointment of the President and Chief Executive Officer;
- it carried out a study of the total compensation for the position of President and Chief Executive Officer and forwarded its recommendations to the Board of Directors;
- it developed and recommended to the Board of Directors a new organization structure;
- it examined the succession plan for executives appointed by the Société des alcools du Québec and took note of the results of the 2007 talent review for vice-president and manager positions.

Business Practices Committee

On March 29, 2007, the Board of Directors of the Société des alcools du Québec, in conformance with the best governance practices for government corporations, approved the creation of a Business Practices Committee, thereby ending the activities of its Executive Committee.

The Business Practices Committee is comprised of seven members who met on nine occasions in fiscal 2007–2008.

The committee performed all the functions delegated to it by the Board of Directors. In particular:

- it examined and recommended to the Board of Directors the policies regarding procurement and merchandising, financial commitments and contracts, development of the outlet network and agencies, the marketing plan, the promotional programs, donations and sponsorships, and external communications;
- it made sure the Société des alcools du Québec had put in place adequate measures to maintain a constant balance between its commercial and social mandates.

Governance and Ethics Committee

The Governance and Ethics Committee is comprised of five members who met on five occasions in fiscal 2007–2008.

The committee performed all the regular functions specified in section 27 of the *Act respecting the governance of state-owned enterprises*. In particular:

- it recommended to the Board of Directors the approval of a director's guide;
- it also recommended to the Board of Directors to replace the Executive Committee with a Business Practices Committee, the goal being to implement better governance rules and split the functions between the Board of Directors and the other committees to which it delegates responsibilities.

In addition,

- it made various changes to the Code of Ethics and Professional Conduct of the Directors of the Société des alcools du Québec;
- it developed criteria for evaluating the Board of Directors and its Chairman, members and committees;
- it developed, approved and recommended to the Board of Directors the initiation program for the new directors of the Société des alcools du Québec;
- it studied the twice-yearly reports submitted by the Ombudsman – Business Relations and Employees of the Société des alcools du Québec.

Board of Directors

1, 2, 3, 4, 5
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.

1, 2
Philippe Duval
Director
Appointed on November 7, 2007
Acting President and Chief Executive Officer
SAQ

Holding a degree in industrial relations from the Université de Montréal, Philippe Duval has worked in his chosen field for nearly 30 years, most notably as Vice-President, Human Resources, for Aéroport international de Montréal, Uniboard Canada and Molson Canada. After beginning his career in 1977 at the Société de développement de la Baie-James, he worked at Delisle Canada as national sales director. He joined the SAQ in 2003 and was Vice-President, Human Resources, and Vice-President, Sales Network Operation and Development, before being appointed Acting President and Chief Executive Officer in November 2007.

1, 2, 3, 5
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.

1, 2, 3, 4
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 the 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, including Senior Vice-President, Retail Financial Services – Quebec, at Laurentian Bank of Canada.

1. Board of Directors. 2. Business Practices Committee. 3. Governance and Ethics Committee. 4. Audit Committee. 5. Human Resources Committee.

1, 2, 5

Johanne Brunet

Johanne Brunet

Director

Appointed on August 7, 2007
Four-year term

President

JB Brunet média international inc.

Associate Professor

Department of Marketing
HEC Montréal

A member of the Ordre des comptables généraux licenciés (CGA), Johanne Brunet has a doctorate in industrial and business studies from the University of Warwick (United Kingdom) and an MBA in marketing and general management from HEC Montréal. She worked as head of external production and acquisitions at Société Radio-Canada before becoming Senior Vice-President at TV5-Amériques. She holds a seat on the board of, among others, Vivavision Inc. and recently ended her term as a director of Société Radio-Canada/CBC.

1, 2, 4

Monique F. Leroux

Director

Appointed on August 7, 2007
Four-year term

President and Chief Executive Officer

Desjardins Group

Monique F. Leroux is a graduate of the Executive Program of the University of Western Ontario and holds a bachelor's degree in business administration from the Université du Québec à Chicoutimi. Appointed President and Chief Executive Officer of Desjardins Group in March 2008, she has also held the positions of Chief Financial Officer, President of Desjardins Financial Corporation and Chief Executive Officer of the Subsidiaries. Before joining Desjardins, she was Senior Executive Vice-President and Chief Operating Officer of Quebecor Inc., Senior Vice-President, Quebec Division, at RBC Royal Bank and Associate Director at Ernst & Young. Ms. Leroux also served as President of the Ordre des comptables agréés du Québec.

1, 3, 5

Louise Ménard

Chairwoman of the Governance and Ethics Committee

Director

Appointed on August 7, 2007
Four-year term

President

Groupe Méfor inc.

After obtaining a law degree from the Université de Montréal, Louise Ménard became a member of the Barreau du Québec in 1974. She is currently President of Groupe Méfor inc. – Société de services de consultation et de gestion. Ms. Ménard was previously Vice-President, Corporate and Legal Affairs and Secretary at Sodarcan Inc. after serving as a legal advisor to various public and private sector corporations, including Québécor inc. and the Société des loteries et courses du Québec (Loto-Québec). She is also a member of the board of directors of the On the Tip of the Toes Foundation.

1, 2, 3, 5

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. This company director also serves as a volunteer with numerous charitable organizations, including the Sir Mortimer B. Davis Jewish General Hospital and the Montreal Children's Hospital.

Board of Directors

1, 4, 5

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 the Fondation Athlétas, which assists young student athletes at the Université de Sherbrooke.

1, 2, 3, 4

Pietro Perrino

Director
Appointed on November 3, 2004
Renewed on August 7, 2007
Three-year term
President
Pergui Groupe Conseil inc.
Vice-President
VM Cap
Chairman of the Board
ZoomMed
Director
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.

1, 3, 5

Jean-Marie Toulouse

Director
Appointed on August 7, 2007
Four-year term
Professor
HEC Montréal

Jean-Marie Toulouse, PhD (social psychology, Université de Montréal), Postdoctoral Fellow (business administration, UCLA), is a full professor at HEC Montréal, where he teaches business strategy and entrepreneurship and has also held various administrative positions, including that of Director for nearly 12 years. He has published several books and many articles in the leading journals in his field and in top trade publications. During his career, he has held a seat on several boards of directors. He is an officer of the Ordre national du Québec and a member of the Royal Society of Canada.

1, 3, 4, 5

Adam Turner

Director
Appointed on May 25, 2005
Renewed on August 7, 2007
Three-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 ltée, 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.

1. Board of Directors. 2. Business Practices Committee. 3. Governance and Ethics Committee. 4. Audit Committee. 5. Human Resources Committee.

Directors' Attendance at Board of Directors and Committee Meetings

	Board of Directors	Business Practices Committee	Governance and Ethics Committee	Audit Committee	Human Resources Committee
Norman Hébert Jr.	14/14	9/9	5/5	4/7	13/15
Philippe Duval (appointed on November 8, 2007)	5/5	3/3	–	–	–
Sylvain Toutant (resigned on November 2, 2007)	9/9	4/6	–	–	–
Yves Archambault	10/14	7/9	2/2*	–	8/15
Chantal Bélanger	13/14	4/4*	4/5	7/7	–
Johanne Brunet (appointed on August 16, 2007)	11/11*	5/5*	–	–	11/12*
Monique Leroux (appointed on August 16, 2007)	4/11*	2/5*	–	1/4*	–
Louise Ménard (appointed on August 16, 2007)	10/11*	–	3/3*	–	11/12*
Gary Mintz	9/14	7/9	4/5*	–	2/3*
Robert Morier	13/14	–	–	7/7	15/15
Pietro Perrino	14/14	5/5*	2/2*	6/7	–
Jean-Marie Toulouse (appointed on August 16, 2007)	10/11*	–	3/3*	–	10/12*
Adam Turner	13/14	–	1/2*	2/4*	14/15

*The Board's and committees' composition was changed during the 2007–2008 fiscal year by resolution of the Board of Directors on August 16, 2007.

Directors' Remuneration*

2007–2008
(in dollars)

Yves Archambault[1, 2, 3, 5]	23,500
Chantal Bélanger[1, 2, 3, 4]	24,000
Johanne Brunet[1, 2, 5]	17,333
Norman Hébert Jr.[1, 2, 3, 4, 5]	46,000
Monique Leroux[1, 2, 4]	9,083
Louise Ménard[1, 3, 5]	16,083
Gary Mintz[1, 2, 3, 5]	18,250
Robert Morier[1, 4, 5]	23,750
Pietro Perrino[1, 2, 3, 4]	20,500
Jean, Marie Toulouse[1, 3, 5]	15,833
Adam Turner[1, 3, 4, 5]	23,750
Total	**238,082**

*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.
1. Board of Directors. 2. Business Practices Committee. 3. Governance and Ethics Committee. 4. Audit Committee. 5. Human Resources Committee.

Remuneration of the Five Highest-Salaried Officers

(in dollars)

Name	Title	Base Salary[1]	Annual Bonus Program[1]	Other Forms of Remuneration[1,2]
Philippe Duval	Acting President and Chief Executive Officer	223,139	60,857[(3)]	23,267[4]
Richard Genest	Vice-President and Chief Financial Officer	203,052	60,916	5,450
Luc Vachon	Vice-President – Logistics and Distribution	193,781	58,135	7,941
Alain Brunet	Vice-President – Procurement and Merchandising	183,460	55,038	13,903
Benoit Durand	Vice-President – Informational Resources	180,062	54,019	19,512

1. Salary and bonus for fiscal 2007–2008.
2. Use of car, membership in a professional order, group insurance.
3. For the variable pay calculation, the bonus was calculated on the base salary for the position of Vice-President, Sales Network Operation and Development and Human Resources, namely $202,854.
4. The Board of Directors granted an additional bonus of $10,142 related to the holding of the positions of Vice-President, Sales Network Operation and Development and Human Resources, and of Acting President and Chief Executive Officer between November 7, 2007, and March 29, 2008.

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 on his activities twice a year, as he did in 2007–2008. During the last 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 from SAQ employees and from business partners who have not received a reply or a satisfactory reply from the person(s) responsible at the SAQ. 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.

Personnel
By sex and by division
(March 29, 2008)

	Women	Men	Total
CEO – Audit and Strategic Development	7	13	20
Communications – Public Affairs and Sustainable Development	33	9	42
Finance	147	220	367
Human Resources	61	23	84
Informational Resources	54	133	187
Legal	14	8	22
Logistics and Distribution	100	702	802
Maison des Futailles	3	39	42
Procurement and Merchandising	106	57	163
Sales	2,568	2,623	5,191
Total	**3,093**	**3,827**	**6,920**

Access to Information Project

In June 2006, the Quebec government passed Bill 86 modifying the *Act respecting Access to documents held by public bodies and the Protection of personal information*, and, on November 14, 2007, it published in the *Gazette officelle* a proposed regulation regarding the distribution of information and the protection of personal information. This new measure provides, among other things, that ministries and government agencies adopt a policy regarding the distribution of information and a classification plan.

The new measure will give citizens easier access to government-held documents through ministry and agency websites, without requiring that a request be submitted.

An Access to Information Committee has been formed. Its terms of reference are to bring the company's practices into line with the reform and prepare for the automatic distribution of the documents affected by these changes.

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

Preamble

Whereas the 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.

Interprétation

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

a) **"director"** means a member of the Société's Board of Directors, whether full-time or not;

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

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

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

e) **"Board"** means the Société's Board of Directors;

f) **"contract"** includes a proposed contract;

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

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

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

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

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

Section 2.

General Provisions

3. The purpose 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 by 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 hereof. 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 that the Chairman may be called upon to give verbally or in writing.

Section 3.

Principles of Ethics

7. For the duration of his term in office, 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 performing 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 have or could have with the Société.

11. The decisions of the Board of Directors are public, unless otherwise decided by the Board for serious reasons; however, the directors' 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 or in any situation likely to cast reasonable doubt on his ability to discharge his duties with loyalty.

13. A full-time director, including the President and Chief Executive Officer, may not, on penalty of dismissal, have a direct or indirect interest in an organization, corporation or association entailing a conflict between his personal interest and that of the Société. Notwithstanding the foregoing, such dismissal shall not occur if such interest devolves on him by succession or gift, provided 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 taking part 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 shall not be transmitted or passed on or its content disclosed to anyone by a director without specific authorization from the Board.

15. A director may not accept any gift, hospitality or other advantage except what is customary and is of modest value. Any gift, hospitality or advantage that does not meet these criteria shall be returned to the giver or shall be remitted to the donor or the Société.

16. A director may not, directly or indirectly, grant, seek or accept a favour or undue advantage for himself or for a third party.

17. A director may not accept nor seek an advantage from a person or corporation doing business with the Société or acting on behalf or for the benefit of such a person or corporation, if such advantage is intended or likely to influence him in the performance of his duties or to generate such expectations. A director shall not make any commitments to third parties nor offer them any guarantee about a vote he may be called upon to take or influence that he may be able to exert on any decision whatsoever that 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.

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 the director acquires an interest in a contract or a matter under examination.

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, 15, 16, 17, 18, 19 and 21 shall also apply when the interest in question is held by a member of the director's immediate family.

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 confidential 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, the Appointed Person shall be entitled only to the corresponding compensation. This compensation shall not include, even in part, cash benefits such as those made possible by profit-sharing based on changes in stock value or on investment in capital stock of the company. However, any compensation awarded to the chief executive officer holding a full-time position in 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, commitments of the same nature under the law and the code of ethics of the organization or corporation in which the Appointed Person performs the duties of a director, the Appointed Person shall inform the Société of any issue raised on the agenda of a board of directors' meeting of the organization or corporation that may 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 management the director does not take part directly or indirectly;
b) the holding of interests through a blind trust 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 Board and the relevant authority and remit to it a complete copy of his file.

32. Any employee, officer or director of the Société 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 holder*

Act respecting the Société des alcools du Québec

{Conflict of interest}

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

{Disclosure of interest}

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

Quebec Civil Code

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

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

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

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

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

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

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

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

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

Regulation respecting the ethics and professional conduct of public office holders

Chapter II

Ethical principles and general rules of professional conduct

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Schedule 2

Attestation

I, the undersigned, ______________________________, domiciled and residing at _____________________________________ in the city of ____________________, Province of Quebec, Director of the Société des alcools du Québec, declare that I have read the Code of Ethics and Professional Conduct for Directors of the Société des alcools du Québec adopted by the Board of Directors on ________________________ ______ and understand its meaning and scope.

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

Signed at _______________________________________, on this _______________ day of the month of _____________ 200___.

_______________________________ _______________________________

Witness Director

Schedule 3

Warning

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

Declaration:

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

1. To the best of my knowledge, the list of positions or interests that a member of my immediate family holds or I hold in the following corporations, as this term is defined in the Code of Ethics and Professional Conduct:

Nature of the relationship or the interest

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

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

Nature of the relationship or the interest

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

3. To the best of my knowledge, the list of the duties I, my employer, the legal entity, the company, or the corporation of which a member of my immediate family is or I am an owner, shareholder, director or officer, ***performs*** in the following associations, as this term is defined in the Code of Ethics and Professional Conduct:

Nature of the relationship or the interest

Association	Duties	Member	Purpose

Signature Position Date

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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.

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