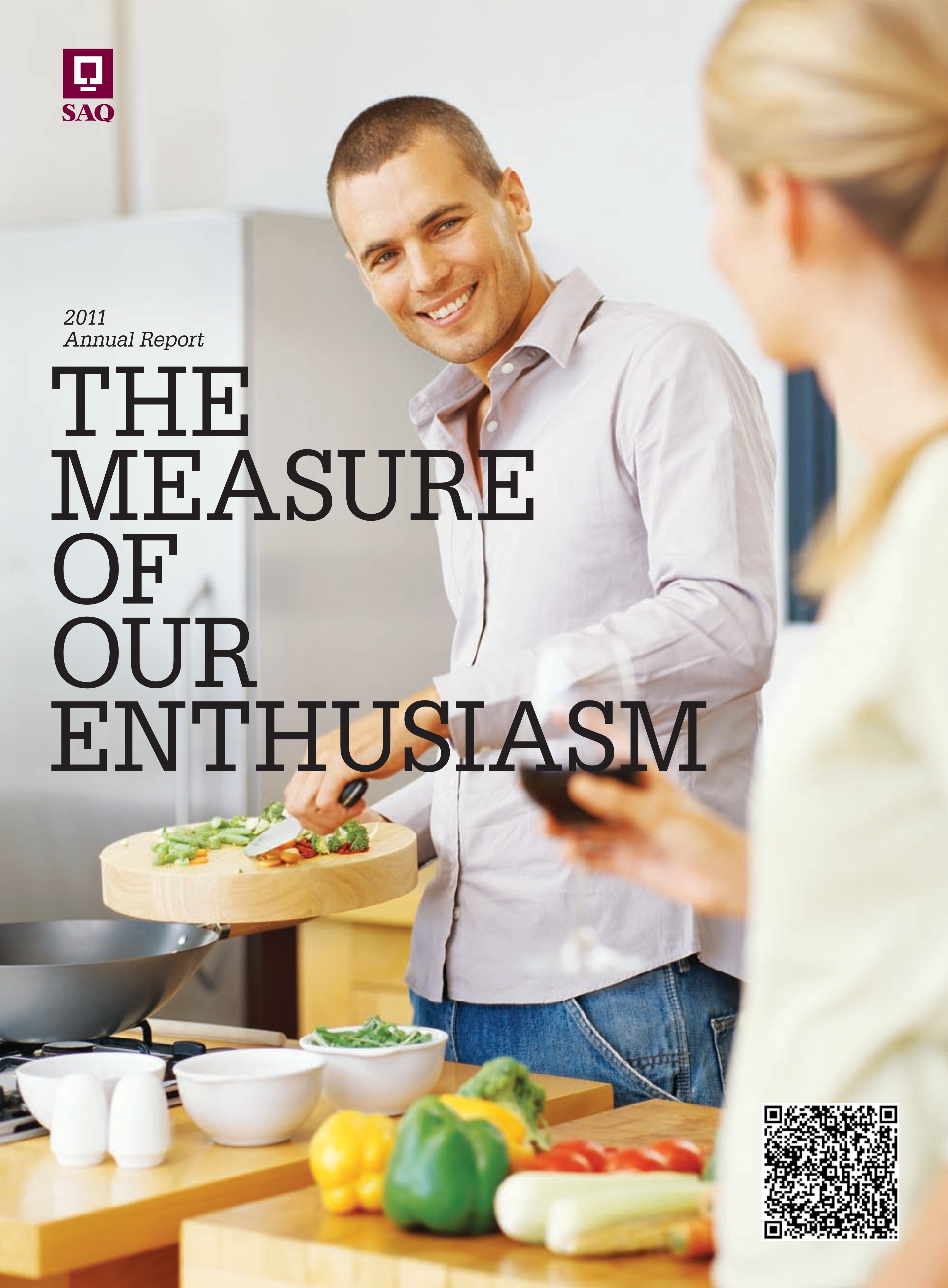
SAQ

2011
Annual Report

THE MEASURE OF OUR ENTHUSIASM



THE SAQ CONTRIBUTES TO QUEBEC'S COMMUNITY LIFE

$914.7 MILLION
IN DIVIDENDS TO THE QUEBEC GOVERNMENT

$424.7 MILLION
IN VARIOUS PROVINCIAL TAXES

$1.712 BILLION
IN GOVERNMENT REVENUE (FEDERAL AND PROVINCIAL)

HIGHLIGHTS

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

	2011	2010	Percentage increase (decrease)
Operating results			
Net sales[1]	**2,660.3**	2,549.1	4.4
Gross margin[1]	**1,417.3**	1,350.9	4.9
Operating expenses[1,2]	**502.6**	483.7	3.9
Net earnings	**914.7**	867.2	5.5
Financial position			
Total assets	**641.0**	627.8	2.1
Property, plant and equipment and intangible assets	**238.8**	225.8	5.8
Net working capital	**(172.0)**	(157.7)	(9.1)
Long-term liabilities	**21.9**	23.2	(5.6)
Shareholder's equity	**44.8**	44.8	–
Net sales by network[1]			
Outlets and specialized centres	**2,365.0**	2,260.1	4.6
Wholesale grocers	**295.3**	289.0	2.2
Total	**2,660.3**	2,549.1	4.4
Net sales by product category[1]			
Wines	**1,988.9**	1,905.5	4.4
	148.3 L	142.3 L	4.2
Spirits	**582.5**	552.9	5.4
	20.8 L	20.3 L	2.5
Imported and microbrewery beers, ciders and coolers[3]	**88.9**	90.7	(2.0)
	11.4 L	11.4 L	–
Total	**2,660.3**	2,549.1	4.4
	180.5 L	174.0 L	3.7
Additional financial data			
Government revenue from operations	**1,711.6**	1,624.6	5.4
Total net sales to brewers and beer distributors[4]	**270.2**	270.8	(0.2)

1. Due to the adoption of a new presentation, the appropriations for the Fonds Educ'alcool and the Fonds environnemental are now included in the operating expenses. In 2010–2011, these appropriations totalled $7.2 million, compared with $6.9 million for the preceding fiscal year.
2. After deduction of miscellaneous revenue and other income.
3. Also known as RTDs (ready-to-drinks), FABs (flavoured alcoholic beverages) and alcopops.
4. Sales made as an intermediary; not included in the sales figures.

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

NORMAN HÉBERT JR. CHAIRMAN OF THE BOARD OF DIRECTORS

In 2011, the Société des alcools du Québec (SAQ) will be 90 years old. The company's history is closely interwoven with that of Quebec. First as the Commission des liqueurs, then as the Régie des alcools, the SAQ has been part of Quebecers' everyday lives since its creation. Though it has experienced ups and downs and dramatic change, it has always been present for its customers and involved in the communities to which it belongs. Today, it contributes to the development of Quebec's gourmet culture and occupies an enviable position in the world wine industry.

Fiscal 2010–2011 will go down as a red letter year. Having achieved exceptional results last year, the SAQ maintained its momentum and is reporting net earnings on the order of $915 million, which corresponds to growth of 5.5%. These results are a source of great pride within the organization. Even more important, customer satisfaction, the measurement on which our attention is most closely focused, once again exceeded 90%.

Ever determined to raise the bar higher, the SAQ strives to hire and retain the most experienced resources. With that in mind, the Board of Directors approved and recommended the expertise and experience profile of its members and enthusiastically welcomed three new directors: Liliane Colpron, Lucie Martel and Douglas M. Deruchie. On behalf of all the members of the Board, I offer my thanks to Chantal Bélanger, Yves Archambault, Gary Mintz and Adam Turner for their remarkable contribution to the work of the Board committees.

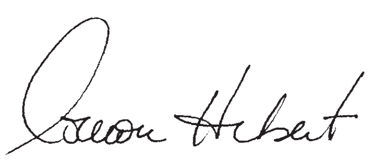
The Board also appointed Gilles Pharand to the position of Ombudsman – Business Relations and Employees. A lawyer by training, Mr. Pharand took office on October 1, 2010. I want to take advantage of this opportunity to acknowledge the admirable work of Jacques Desmeules, who held this position for nine years.

The Board's work on the implementation of the 2010–2011 Strategic Plan focused mainly on projects designed to move the SAQ toward making its vision a reality: to become a world leader in the selection and sale of wines and spirits.

Accordingly, the Board recommended that the government give the go-ahead to the creation of TWIST, a limited partnership. This initiative demonstrates the SAQ's determination to maintain its strategic position in the world wine industry and thereby to continue offering Quebecers a broad range of quality products.

The coming year promises to be equally rich in developments and challenges for the SAQ's directors, beginning with the work related to preparing the new 2012–2015 Strategic Plan. From a performance standpoint, the SAQ's prospects are excellent and will remain so as long as the company's main focus is to provide Quebecers with a shopping experience of the highest possible quality.

In closing, I want to emphasize the excellence of the work accomplished by the SAQ's directors and the members of its Management Committee. The company's outstanding achievements are due largely to them. In addition, my special thanks go to all the company's employees, who have made and who continue to make the SAQ an organization whose results are equalled only by the enthusiasm of the women and men who form it.



NORMAN HÉBERT JR.
Chairman of the Board of Directors

PHILIPPE DUVAL CHIEF EXECUTIVE OFFICER

The SAQ had net sales of $2.7 billion in fiscal 2010–2011, a 32% increase from fiscal 2005–2006. Net earnings totalled nearly $915 million this year versus $867 million last year. The SAQ's bank indebtedness fell from $367 million in March 2004 to $3 million at the end of March 2011. Financial expenses, which were $8.6 million in 2004, are now less than $300,000.

Today, nearly 11,000 products are offered daily through the company's Quebec-wide network of 414 outlets and 396 agencies. The quality, variety and accessibility of these products are the SAQ's hallmark. And in delivering the merchandise, more than 7,500 employees make their talent and enthusiasm available every day.

This talent and enthusiasm impact every area of the company. By putting their shoulder to the wheel and working together, employees make all the difference in the SAQ's attainment of its performance objectives. This year, for example, the company sought input from its outlet managers in order to optimize its merchandising. This led to the development of new strategies, which were implemented during the holiday season. The result was a 6.3% increase in sales to consumers, the biggest such increase during this period in three years.

What's more, the taste tag concept, which consumers have welcomed with open arms, has been adopted by several grocery stores and a Quebec restaurant chain. More popular than ever, this concept, which was developed to guide consumers in their purchases, was extended to the rosé wines in the regular catalogue.

PHILIPPE DUVAL
Chief Executive Officer

ALAIN BRUNET
Vice-President and Chief Operating Officer

CATHERINE DAGENAIS
Vice-President – Sales Network Operations

MADELEINE GAGNON
Vice-President – Human Resources

RICHARD GENEST
Vice-President and Chief Financial Officer

BERNARD GOYETTE
Acting Vice-President – Informational Resources

NATHALIE HAMEL
Vice-President – Public Affairs and Communications

SUZANNE PAQUIN
General Secretary and Vice-President – Legal Department

DANIEL SIMARD
Vice-President – Procurement and Merchandising

LUC VACHON
Vice-President – Logistics and Distribution

With the aim of being constantly more flexible and efficient, the SAQ expanded its Quebec City distribution centre. The 87,000 square feet of additional surface area provide storage for 300,000 cases while the addition of 11 loading dock doors means the facility can now handle more even containers without having to go through Montreal.

THE OPERATING RATIO HAS IMPROVED 25% IN SIX YEARS. EACH DOLLAR OF SALES USED TO COST 25 CENTS IN OPERATING EXPENSES. TODAY, IT COSTS LESS THAN 19 CENTS.

The SAQ is also present for Quebecers who work in the alcoholic beverage industry and is continuing its involvement with Quebec producers. While Quebec-made products were available in only 60 points of sale in 2000, they are now sold in 360 outlets.

In eight years, annual sales of these products have gone from $2 million to nearly $14.6 million. Although cider continues to hold an important place, Quebec wine has begun sharing the spotlight. Indeed, during the same eight-year period, annual sales of Quebec wines rose from $130,000 to $2 million.

Beyond its commercial mission, the SAQ fully assumes its role as a responsible corporate citizen. For instance, it contributes funding and products to some 500 organizations each year. In fiscal 2010–2011, it invested more than $8.5 million in every region of Quebec through its donation and sponsorship program.

Another aspect that continues to present a daily challenge to all our employees is that of selling alcohol to minors. On this front, I am very pleased to report that the SAQ's sales ethic program is currently achieving a success rate on the order of 94%.

Having adopted a leadership position in sustainable development, the SAQ is moving forward with its initiatives related to environmental protection, community development and responsible sales. This year once again, it will invest some $1 million in the glass environmental chain.

The coming months will give the SAQ the opportunity to conclude the actions outlined in its 2010–2012 Strategic Plan. This will also provide an occasion for assessing its accomplishments to date with an eye to the eventual realization of its vision: to become a world leader in the selection and sale of wines and spirits.

The year just begun will see the SAQ continuing to distinguish itself by focusing on the quality of its product portfolio, on the shopping experience that it offers to consumers and on its outlet network—all important factors to its customers. To accomplish this, the company will invest around $13 million in improving its network.

The company will continue its efforts to increase its productivity, flexibility and adaptability in order to further improve its operating ratio, simplify its supply chain processes and implement an effective succession plan in a motivating work environment.

Lastly, the company will launch the process of reflection leading to the development of its next Strategic Plan, which will enable it to achieve its ambitions regarding its financial performance and reputation among Quebecers.

In closing, I want to offer my sincere thanks to the company's employees and to my Management Committee colleagues, who every day evince great enthusiasm, know-how and innovation. My gratitude goes, too, to the members of the Board of Directors for their trust, expertise and support of the SAQ's aspirations.

PHILIPPE DUVAL
Chief Executive Officer

The SAQ is a government corporation whose mandate is to sell alcoholic beverages and whose mission is to provide superior service to the public in every region of Quebec by offering a broad range of quality products.

THE MEASURE OF OUR ENTHUSIASM

Discovery has motivated many throughout history. The Christopher Columbuses and Jacques Cartiers of this world were guided by a thirst for discovery and the desire to expand their horizons. Quebecers, too, share a thirst for discovery, and the SAQ is doing its utmost to satisfy their curiosity. Like Columbus and Cartier, several of the company's employees travel the world. They have but a single goal in mind: to give Quebec consumers access to even better products and to the best products.

In the last fiscal year, the SAQ offered for sale more than 11,000 wines, beers and spirits from some 65 countries. As has been the case each year for more than five years, around 10% of the product line was renewed. In concrete terms, around 120 regular products, 730 specialty products and 360 Signature products were added in the network of 414 outlets and 396 agency stores and on SAQ.com. To offer such a broad range of products, the SAQ worked closely with 180 agents and 2,500 suppliers and analyzed more than 60,000 samples in its laboratory.

The SAQ also carried nearly 300 Quebec products. Ever popular and increasingly well known and recognized, these products alone had sales of nearly $14.6 million.

To make it easier for customers to discover new products, the SAQ expanded its taste tag concept to include rosé wines in the regular catalogue. In addition, several grocery stores and a restaurant chain have adopted the concept to enhance interactions with customers. Indeed, the concept is designed to help customers better understand and express their taste preferences, a result confirmed by 76% of SAQ customers in a recent survey.

Because they enjoy discovering new products, SAQ customers eagerly take advantage of promotions. The SAQ enjoyed great success on this front in 2010–2011, in particular with its traditional holiday discounts, the *Dare to Try* and *Barbecue* circulars, the holiday insert, the 15% gift card with every purchase of $100 or more, the 2009 Bordeaux futures, the *Wine Spectator* Top 100 promotion and the recommendations of James Suckling.

11,000
WINES, BEERS AND SPIRITS
FROM SOME 65 COUNTRIES

60,000
SAMPLES
ANALYZED IN THE SAQ LABORATORY

300
QUEBEC PRODUCTS
OFFERED FOR SALE

THE MEASURE OF OUR WORK

The word "performance" is usually associated with concepts such as competence, knowledge and reaching goals. At the SAQ, these concepts receive a favourable reception not only from management but also from unions and employees.

To achieve its performance objectives and provide superior work tools to its employees, the SAQ has created a virtual training tool. Accessible throughout Quebec, the ESPACE-FORMATION portal provides a way of reaching employees wherever they are. One of the tool's strong points is that, in addition to distributing a schedule of upcoming training sessions, it groups together all the training courses offered by the SAQ. The first interactive course, titled *Découvrir le goût des spiriteux* (Discover the taste of spirits), went online in fiscal 2010–2011. Ten weeks after its launch, nearly 1,500 employees had taken the training.

As the SAQ's employees are the main factor in its success, the company is intent on providing them with a safe work environment. Accordingly, the SAQ developed and implemented an action plan to optimize management of occupational health and safety. It subsequently updated its occupational health and safety policy and drafted a directive describing the roles and responsibilities of all. Activities designed to foster ownership of the policy and directive will be completed this fall for all employees. The SAQ also held information and follow-up workshops on office ergonomics for administrative employees in the Logistics and Distribution Division and trained nearly 3,300 employee in the same division and in the sales network on how to handle heavy objects. The actions taken by the company produced results, most notably a 36% reduction in occupational health and safety payouts and a 22% decrease in the number of accidents. In addition to maintaining its employees' health, the SAQ achieved $3.2 million in savings.

Open to technological advances with the potential to improve how it does business, the SAQ gained flexibility by deploying a new software package for optimizing its human resources management. The new tool facilitated position assignment and staff movements by processing 124,000 applications in less than five minutes. The process of assigning positions to outlet employees now takes two weeks instead of three months and has saved outlet managers some 5,000 hours they would otherwise have devoted to data-entry.

SAQ outlets have also seen their share of technological change. New cash registers were installed through October 2010. Employees received training either on site or at one of ten training centres across Quebec. Additional in-store training was provided during implementation.

After signing a new collective agreement in February 2010, the company and the Syndicat des employé(e)s de magasins et de bureaux de la SAQ (SEMB-SAQ CSN) worked together to coordinate a gradual transition and education period for the new agreement. Various committees took part in implementing the new provisions on an equal representation basis, particularly with respect to training of outlet managers and outlet operations coordinators.

To spotlight certain outlet employees' outstanding contribution to the SAQ's success, the company held its now-traditional Millésimes recognition activity. The honour was bestowed on 60 individuals and two work teams in acknowledgement of their remarkable work toward attaining the company's objectives.

There can be no doubt that the world wine industry is in the midst of a major transformation. To maintain its enviable position on the global playing field and be able to continue offering Quebecers a diverse range of quality products, the SAQ created TWIST, LP with two partners: Solidarity Fund QFL and Fondaction CSN pour la coopération et l'emploi. This independently managed limited partnership aims to become a strategic meeting place for players in the alcoholic beverage industry. Focusing exclusively on the market outside Quebec, TWIST, LP offers a range of services including procurement, selection, quality control, logistics, marketing, merchandising and product distribution on a global scale, with the exception of in-store retailing.

7,519
JOBS
IN EVERY REGION OF QUEBEC

$137.5
MILLION
IN GOODS AND SERVICES FROM 2,374 QUEBEC SUPPLIERS

THE MEASURE OF OUR SUCCESS

The work accomplished by the SAQ's departments and services unquestionably has a significant impact on its bottom line. This year, once again, the company exceeded its financial objectives. Not only did it grow its sales in a responsible manner, it also lowered its operating ratio. Taken together, these successes allowed it to mark its 90th anniversary by posting record net sales of nearly $2.7 billion, an increase of $111 million or 4.4% from last year. The company generated net earnings of nearly $915 million, a 5.5% increase, all of which was paid to the Quebec government in the form of a dividend. In total, SAQ paid Quebec government revenue of over $1.3 billion. Adding in the amounts paid to the federal government gives a total of $1.7 billion in government revenue, up 5.4% from the preceding fiscal year.

Always seeking to improve its operating methods, the SAQ merged its Montreal Specialized Centre and its Private Order Centre. More than 75% of the surface area was altered during this project without stopping operations or adversely impacting the customers served by the two centres. State-of-the-art equipment for picking products in the warehouse was also introduced. One of the goals of this reorganization was to combine the orders made through the two centres in a single information system. Under the new approach, transactions are simplified, permit holders receive a single invoice and outlets can more easily manage receipt of private orders. In anticipation of expected growth in coming years, the restructuring will also make it possible to handle up to 4,000 new products offered to permit holders.

The SAQ also expanded its Quebec City Distribution Centre. The additional 87,000 square feet provide room for storing another 300,000 cases, while the 11 new loading dock doors allow many more shipping containers to be handled. The new expansion, which has obtained LEED (Leadership in Energy and Environmental Design) certification, also makes it possible to increase the number of products delivered directly to Quebec City, eliminating the need for double handling of shipments.

The continuous improvement of its activities, facilities and processes has made the company more flexible, even as it has increased its operational efficiency. This can be seen in the 4.1% improvement in its cases-per-hour performance and a 3.35% decrease in the cost per case, compared with last year.

In 2010–2011, the Logistics and Distribution Division continued to optimize inventory management with a 15.4% improvement in the turnover rate while maintaining the service level at 93.5%, well above the company's objectives. In addition, the peak period procurement strategy was modified, resulting in significant operational gains. These gains are necessary, as demand continues to grow. Indeed, the Delivery Service delivered more than 19 million cases to the company's various sales outlets, a 4.6% increase from last year.

$2.7
BILLION
IN NET SALES

87,000
SQUARE FEET
ADDED TO THE QUEBEC CITY DISTRIBUTION CENTRE

15.4
PERCENT
IMPROVEMENT IN THE INVENTORY TURNOVER RATE

THE MEASURE OF OUR EXPERTISE

It's a fact: the SAQ provides unparalleled customer service. According to a recent survey, 95% of its customers appreciate the service they receive in the outlets, the advice they are given and the professionalism of the employees with whom they interact. But far from resting on its laurels, the SAQ continues to train and evaluate its employees and to encourage them to provide the best possible service. Furthermore, 97% of the outlets in the network have qualified for one of the three service certification levels, with 311 reaching the gold level. As a result, the SAQ has decided to raise the bar even higher and to improve its customer service even further by developing a 4A+ sales advisory service. A pilot project is currently under way.

Providing exceptional service requires skilled and disciplined managers. With that in mind, the SAQ launched a new recruitment wave under its outlet management succession plan. In fiscal 2010–2011, a total of 31 candidates were recruited, 27 from inside the company and four from outside.

The SAQ believes that the quality of the service it provides also depends on the ease and speed with which customers can obtain answers to their questions. Fittingly, then, its Customer Service handled nearly 51,000 information requests and comments last year. The topics that generated the most calls and email messages were product queries, requests related to the mobile phone app, contests and how to apply for a job at the SAQ.

At Quebecers' service for 90 years now, the SAQ strives every day to know and understand its customers better, to adopt the best retail practices and to raise its performance objectives even higher. To make customers' shopping experience easier, the company has adopted category management. After studying how customers arrive at their buying decisions and carrying out pilot tests in its outlets, the SAQ concluded that it would be better to separate white wines and red wines on outlet shelves. Outlets that have adopted this new planogram have seen a sharp increase in sales. The remaining outlets will be switched over in the coming year.

With the stated aim of improving its practices, the SAQ revisited its merchandising process by seeking the involvement of various players in the company. Employees from Marketing, Sales and Logistics and Distribution worked hand in hand to develop a new marketing strategy for the company as a whole and for each of its banners. The results were more than positive: increased employee motivation, retail strategies adapted to consumers' needs, a seamless operating chain, satisfied business partners and record sales.

Also, in order to provide a shopping environment that lends itself to discovery, the SAQ refreshed 35 of its outlets to make them more user-friendly. The new espace-cocktail fixtures and interactive displays that let viewers print featured recipes were integrated into nine Sélection outlets. The company is also in the process of obtaining LEED certification for three of its outlets, two in Quebec City and one in Sutton.

95
PERCENT
OF CUSTOMERS APPRECIATE THE SERVICE THEY RECEIVE IN SAQ OUTLETS

51,000
INFORMATION REQUESTS
HANDLED BY CUSTOMER SERVICE

31
CANDIDATES
FOR THE OUTLET MANAGEMENT SUCCESSION PROGRAM

THE MEASURE OFOUR INVOLVEMENT

A monopoly, yes, but one first and foremost dedicated to serving the Quebec public, the SAQ has a genuine desire to be an actively involved member of the community. Throughout each year, it contributes to some 500 organizations and events through its donation and sponsorship program. In fiscal 2010–2011, it invested more than $8.5 million in this manner.

Since 2009, food assistance has been one of the causes that the SAQ supports. This year once again, the company donated more than $300,000 to Banques alimentaires Québec and La Tablée des Chefs to help ensure that all Quebecers have access to quality food in sufficient quantities every day.

In addition, in 2010–2011, SAQ employees showed great generosity as part of the Entraide fundraising drive. The SAQ presented the organization with a cheque for more than $325,000, half of which consisted of donations from employees.

The SAQ also does its utmost to sell responsibly. To make young people aware of its sales ethic, it runs two advertisements on websites very popular with teenagers. It has also launched an employee participation campaign using an interactive game available on its intranet. In addition, to ensure that its personnel remain constantly up-to-date about the sales ethic, it has set up a representative program in 96% of its outlets. These ambassadors make employees aware of the importance of responsible selling and act as resource persons for the subject.

It is no wonder then that the SAQ sales ethic is rigorously applied by employees, as is proved by the results of is underage mystery customer program. In 93.8% of the cases, the young mystery customers were unable to buy or taste alcoholic beverages in the outlets, our best result to date.

For more than 20 years now, the SAQ has worked closely with Éduc'alcool. In fiscal 2010–2011, the company raised and donated $2.8 million to this organization that promotes responsible consumption by developing and setting up prevention, education and information programs designed to help young people and adults make responsible and informed decisions about alcohol consumption.

As part of its ongoing support of the glass environmental chain, the SAQ invested more than $1 million in fiscal 2010–2011. The investments of recent years have borne fruit, as the Tricentris sorting centre has signed an agreement with the Société de valorisation et de commercialisation de l'Université de Sherbrooke. The agreement allows Tricentris to use the cutting-edge technology for incorporating glass into concrete that was perfected by the Chaire SAQ en valorisation du verre dans les matériaux at the Université de Sherbrooke. Lastly, the SAQ now takes light glass bottles into consideration when evaluating tenders for table wines.

$2.8
MILLION
RAISED AND REDISTRIBUTED TO ÉDUC'ALCOOL

$1
MILLION
INVESTED IN THE GLASS ENVIRONMENTAL CHAIN

$8.5
MILLION
IN DONATIONS AND SPONSORSHIPS TO 500 ORGANIZATIONS

$300,000
DONATED
TO BANQUES ALIMENTAIRES QUÉBEC AND LA TABLÉE DES CHEFS

THE SAQ CONTRIBUTES TO QUEBEC'S COMMUNITY LIFE

WINE, STILL QUEBECERS' FAVOURITE

In the last fiscal year, 78.5% of the bottles sold at the SAQ contained wine and nearly 14.6% contained spirits. Taken together, coolers, beers and other products accounted for nearly 7% of the SAQ's market. Maintaining the trend, the wine category saw growth of nearly 5%.

TRENDS

78.5%
Wines

14.6%
Spirits

5.1%
Coolers

1.5%
Beers

0.3%
Ciders and other products

QUEBECERS: BOTH LOYAL AND CURIOUS

The statistics have told the same story for several years now: Quebecers are first and foremost lovers of red wine. In fact, the red wine category accounts for nearly 72% of the still wines sold in Quebec.

But however much they prefer red to other colours, Quebecers are far from indifferent to the charms of rosés and whites. Litre sales of these two colours rose 11% and 8% respectively from last year. In short, Quebecers are both loyal and curious!

THE RETAIL SALES PRICE: A STABLE AVERAGE

In the last fiscal year, the average retail sales price of a 750-ml bottle of still wine was $14.82*. For the first time in several years, this is about the same as the preceding year's figure. As volume sales increased during the same period, it wouldn't be unreasonable to conclude that consumers are accompanying their meals with a glass of wine a little more often.

**Regular price in SAQ outlets.*

Litre Sales of Still Wine by Colour
(outlets and specialized centres)

71.7%
Red

23.7%
White

4.6%
Rosé

A TASTE FOR QUEBEC

Each year, a growing number of consumers are developing a taste for Quebec. Over time, they get to know local producers and don't hesitate to put their favourite products on their table. This year, with some 300 products from Quebec terroirs on the SAQ shelves, the category had nearly $14.6 million in sales.

MY HEART BELONGS TO FRANCE AND ITALY

The wines of France and Italy have long held a special place in Quebecers' hearts. With a nearly 54% share of the market, the two countries' wines have maintained their privileged position on local consumers' tables.

For the second year in a row, the United States has come in third place, with a 10.4% market share. That Quebecers increasingly appreciate the fruit of their southern neighbours' vines can be seen in the sharp 31% rise in the number of litres sold. While less well known, New Zealand wines also recorded an increase of more than 28% in volume sales.

Still Wine Sales by Country of Origin
(in thousands of litres)
(outlets and specialized centres)

France	30.3%
Italy	23.3%
United States	10.4%
Spain	7.8%
Argentina	6.9%
Australia	6.2%
Chile	3.3%
Portugal	2.8%
South Africa	2.5%
New Zealand	1.0%
Others	5.5%

Change in Litre Sales by Country of Origin
(still wines)
(outlets and specialized centres)

France	2.6 %
Italy	5.7 %
United States	30.7 %
Spain	8.3 %
Argentina	(12.5)%
Australia	4.9 %
Chile	4.9 %
Portugal	9.3 %
South Africa	(8.8)%
New Zealand	28.2 %
Others	(7.0)%

QUEBECERS' CONSUMPTION PATTERNS AT A GLANCE

Statistics Canada's most recent data show that Quebecers consume some 22 litres of wine per capita annually. As such, they rank first in Canada. And while they are in third place in beer consumption, they are in the middle of the pack when it comes to total consumption of absolute alcohol, because they drink less spirits than other Canadians. Having changed little for many years now, Quebecers' consumption patterns remain quite different from those of other Canadian provinces and territories, showing a marked preference for wine over spirits.

Per Capita Canadian Consumption by Persons Age 15 and Over[1]
2009-2010 fiscal year

Provinces	Total (in litres of absolute alcohol)	Rank	Wine (in litres)	Rank	Beer (in litres)	Rank	Spirits (in litres)	Rank	Amount (in dollars)	Rank
Yukon Territory	13.6	1	21.0	2	143.0	1	15.1	1	1,271.5	1
Newfoundland and Labrador	9.6	2	7.5	12	102.9	2	12.4	2	952.8	2
Alberta	9.1	3	15.8	4	90.5	4	8.1	9	714.4	7
British Columbia	8.6	4	20.2	3	77.8	10	9.0	8	791.8	4
Quebec	**8.5**	**5**	**22.0**	**1**	**96.2**	**3**	**4.1**	**12**	**788.4**	**5**
Prince Edward Island	8.3	6	10.5	7	84.0	5	10.6	5	703.3	8
Northwest Territories and Nunavut	8.2	7	8.8	11	77.3	11	10.1	6	945.9	3
Saskatchewan	8.2	7	9.1	10	83.5	7	11.1	3	683.3	9
Nova Scotia	8.1	9	10.6	6	83.9	6	10.8	4	772.5	6
Manitoba	8.0	10	9.8	9	83.0	8	9.5	7	648.1	11
Ontario	7.5	11	13.8	5	75.3	12	7.8	10	622.7	12
New Brunswick	7.2	12	10.3	8	82.1	9	7.3	11	673.4	10
Canada	**8.2**		**16.2**		**83.6**		**7.5**		**708.8**	

1. Source: Statistics Canada.

Per Capita Consumption in Quebec by Persons Age 15 and Over[1]
Fiscal years 2000-2001 to 2009-2010

	2001	2002	2003	2004	2005[2]	2006	2007	2008	2009	2010
WINES										
In litres	16.3	16.9	17.4	18	17.7	18.8	20.2	20.9	21.4	22.0
In dollars	181.8	196.6	215.5	230.8	230.0	252.2	271.0	283.0	294.2	307.2
BEERS										
In litres	93.3	95.0	93.9	93.6	95.0	95.5	94.4	92.2	94.5	95.5
In dollars	318.2	339.6	368.7	369.4	354.9	366.6	360.3	361.6	372.9	386.3
SPIRITS										
In litres	2.9	3.6	4.1	4.0	3.6	4.0	4.1	4.0	4.1	4.1
In dollars	69.8	76.2	80.8	81.8	74.2	83.2	89.0	90.9	92.8	95.0
TOTAL										
In litres	112.5	115.5	115.4	115.6	116.3	118.3	118.7	117.1	120.0	121.6
In dollars	569.8	612.4	665.0	682.0	659.1	702.0	720.3	735.5	759.9	788.5

1. Source: Statistics Canada.
2. The fiscal year was disrupted by a labour dispute at the SAQ.

Due to rounding, totals may differ from the sums of the individual amounts.

SPIRITS SALES LIKE A LONG, SLOWLY FLOWING RIVER

At around four litres per person, Quebecers' consumption of spirits has hardly budged from last year. The figure is well below the Canadian average. The SAQ's total spirits sales have gone from 20.3 million to 20.8 million litres, an increase of slightly more than 2%. Nor have the various products' shares of the spirits market changed much. Brandy experienced the largest decrease, with a nearly 8% drop in sales. On the other hand, the rum category saw growth of nearly 12%, due to the new popularity of spiced rum.

Sales by Type of Spirits
(in thousands of litres)
(outlets and specialized centres)

	2011	2010	Market share	Growth
Liqueur	**4,871**	4,816	23.5%	1.1 %
Vodka	**4,757**	4,625	22.9%	2.9 %
Rum	**3,802**	3,401	18.3%	11.8 %
Whisky	**2,633**	2,529	12.7%	4.1 %
Gin	**2,051**	2,163	9.9%	(5.2)%
Brandy	**1,807**	1,962	8.7%	(7.9)%
Alcohol	**429**	451	2.1%	(4.9)%
Other spirits	**397**	365	1.9%	8.8 %
	20,747	20,312	100.0%	2.1 %

AT HOME, WITH FAMILY AND AMONG FRIENDS

Unsurprisingly, Quebecers continue to prefer enjoying wines and spirits in the comfort of their homes. In fact 80% of the SAQ's sales are to consumers through its outlets, while 15% are made to bars, restaurants and hotels. Under the "Agencies and other customers" heading, the remaining 5% are through SAQ agencies, duty-free shops, airlines, ship chandlers and diplomatic missions.

Sales by Type of Customer
(in litres)
(outlets and specialized centres)

Consumers	80%
Permit holders	15%
Agencies and other customers	5%

2011
Annual Report

THE MEASURE OF OUR ENTHUSIASM

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 types of products. Its goal is to be an integral part of the daily lives of Quebecers, and its mission is to serve people in every region of Quebec by offering a wide variety of quality alcoholic beverages. To satisfy the need for government agencies and public corporations to be transparent about business plans and earnings, the SAQ shares its forecasts for the next 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)

	2012[1]	2011		2010		2009		2008	
	Forecast[2]	Actual[2]	Forecast[2]	Actual[2]	Forecast[2]	Actual[2]	Forecast	Actual	Forecast
Net sales[3]	**2,784.6**	2,660.3	2,635.1	2,549.1	2,457.3	2,424.5	2,377.7	2,300.3	2,248.1
Gross margin[3]	**1,478.6**	1,417.3	1,397.4	1,350.9	1,298.8	1,282.6	1,281.5	1,245.5	1,223.0
Net operating expenses[3,4]	**532.7**	502.6	510.8	483.7	487.3	475.9	484.4	484.6	478.0
Net earnings	**945.9**	914.7	886.6	867.2	811.5	806.7	797.1	760.9	745.0

1. 53-week fiscal year.
2. Due to the adoption of a new accounting standard on inventories in 2008-2009, direct shipping costs are deducted from operating expenses and charged to the cost of sales. In 2010-2011, direct shipping costs totalled $15.8 million compared to $14.4 million the previous fiscal year.
3. Due to the adoption of a new presentation method, the Éduc'alcool fund and Environmental fund contributions are now included in operating expenses. In 2010-2011, these contributions totalled $7.2 million compared to $6.9 million the previous fiscal year.
4. After deducting other revenue and other income.

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

Investments in property, plant and equipment and intangible assets

Fiscal years ended the last Saturday in March

(in thousands of dollars)

	2012[1]	2011	2010	2009	2008
	Forecast	Actual	Actual	Actual	Actual
Capital projects – distribution and administrative centres	**10,929.4**	18,536.0	11,240.8	6,692.0	8,239.5
Outlet network development	**17,074.0**	11,552.3	10,420.8	8,880.7	5,058.1
Information systems development	**22,783.4**	11,528.1	19,324.4	9,380.5	5,863.5
Rolling stock and mobile equipment	**3,260.0**	1,380.4	2,273.2	3,127.1	1,204.0
Specific equipment	**1,106.6**	343.5	956.8	959.4	720.0
Total	**55,153.4**	43,340.3	44,216.0	29,039.7	21,085.1

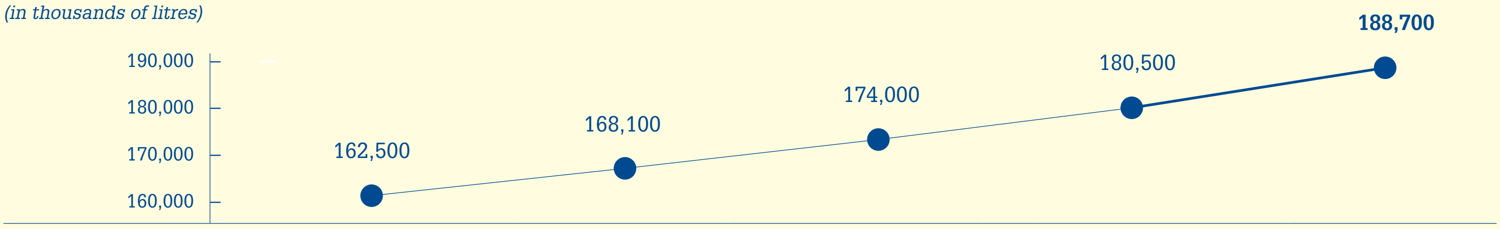
1. 53-week fiscal year.

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

COMMERCIAL DATA

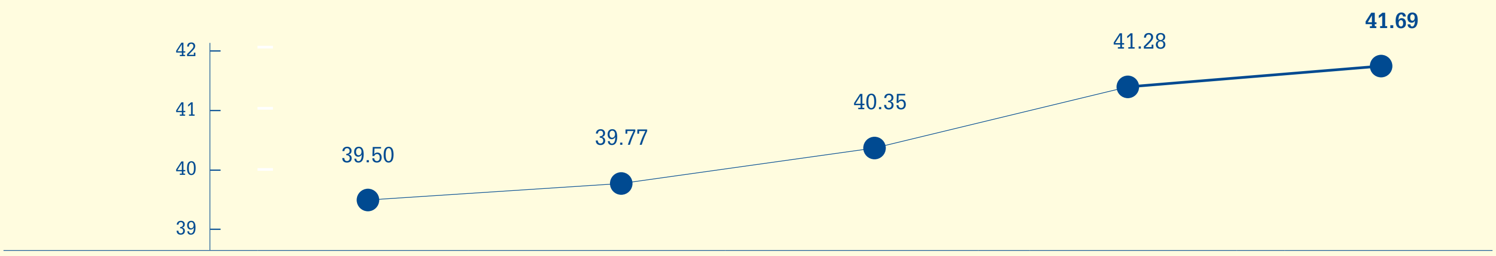
The following four tables show certain performance indicators over a five-year period.

Sales growth by volume
(in thousands of litres)



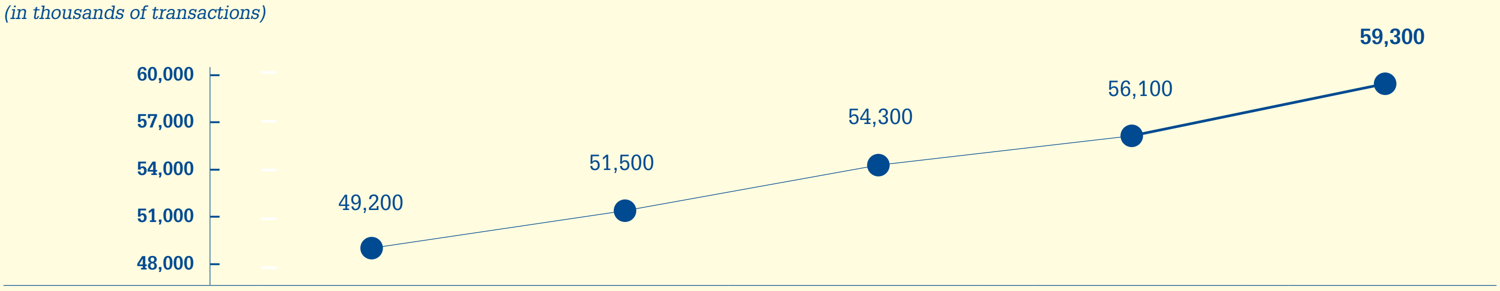
	2008 Actual	2009 Actual	2010 Actual	2011 Actual	**2012[1] Forecast**
Percentage increase (decrease)	3.9	3.4	3.5	3.7	**4.5**

Growth in average purchase per outlet[2]
(in dollars)



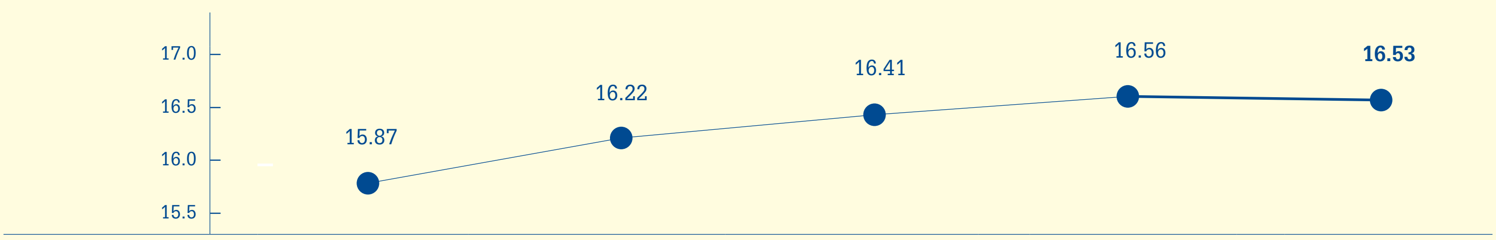
	2008 Actual	2009 Actual	2010 Actual	2011 Actual	**2012[1] Forecast**
Percentage increase (decrease)	3.0	0.7	1.5	2.3	**1.0**

Growth in customer traffic in SAQ outlets[3]
(in thousands of transactions)



	2008 Actual	**2009 Actual**	**2010 Actual**	**2011 Actual**	2012[1] Forecast
Percentage increase (decrease)	3.1	4.7	5.4	3.3	5.7

Growth in average sales price per litre[4]
(in dollars)



	2008 Actual	2009 Actual	2010 Actual	2011 Actual	**2012[1] Forecast**
Percentage increase (decrease)	2.5	2.2	1.2	0.9	**(0.2)**

1. 53-week fiscal year.
2. Average expenditure by consumers only (including consumer taxes).
3. Consumer traffic only.
4. Net sales price in the outlet and specialized centre network.

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

FINANCIAL REVIEW

Management's Discussion and Analysis (MD&A) should be read in conjunction with the consolidated financial statements and accompanying notes presented hereafter. This analysis contains statements that are based on estimates and assumptions about future results. Given the uncertainty and risk inherent to such forward-looking statements, actual results could differ significantly from expected results. In addition, certain financial and operating figures from previous fiscal years have been reclassified to conform to the presentation adopted for the current fiscal year. The information contained in this MD&A presents the significant events that have occurred up to June 2, 2011.

Overview of results

Operating in the context of a moderate economic recovery, the SAQ generated consolidated net earnings of $914.7 million for its fiscal year ended March 26, 2011, a significant increase of close to $47.5 million or 5.5% from the previous fiscal year. It's the 16th consecutive fiscal year during which the SAQ increased its net earnings, excluding fiscal 2004-2005, which was disrupted by a labour dispute. SAQ closed fiscal 2010-2011 with consolidated net sales of approximately $2.7 billion. Government revenue from operations (in the form of dividends, consumer taxes, and duties) totalled $1.7 billion. At the end of the fiscal year, the SAQ's sole shareholder, the Quebec Minister of Finance, declared a dividend of $914.7 million.

During the fiscal year, the SAQ reached an agreement with the Solidarity Fund QFL and the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi (Fondaction) to form a joint venture, TWIST, LP. This joint venture provides business development solutions to the alcoholic beverage industry outside Quebec and does so on a global scale. The SAQ acquired a 50% interest in this partnership for a cash consideration of $7 million.

Consolidated financial statements

The consolidated financial statements as at March 26, 2011 and as at March 27, 2010 include the accounts of the SAQ and its share in the assets and liabilities and revenues and expenses of Société d'investissement M.-S., S.E.C., a joint venture in which the SAQ owns a 50% interest. The SAQ's consolidated financial statements as at March 26, 2011 also include its share in the assets and liabilities and revenues and expenses of its joint venture, TWIST, LP. These shares are accounted for using the proportionate consolidation method. For fiscal 2010-2011, the SAQ's share in the net loss from the joint ventures' operating results was $0.04 million.

Net sales

For fiscal 2010-2011, consolidated net sales from the SAQ's entire sales and distribution network totalled $2.660 billion, an increase of $111.2 million or 4.4%. The corresponding volume sales were 180.5 million litres, up 3.7% from 174 million litres the previous fiscal year.

<u>By sales network</u>

The outlet and specialized centre network had net sales of $2.365 billion in fiscal 2010-2011, up $104.9 million or 4.6% from the previous fiscal year. The corresponding volume sales grew from 137.4 million litres to 142.8 million litres, an increase of 3.9%. The contributing factors to this success were personalized consulting services, a diverse product offering, and well-targeted promotional campaigns.

The average purchase per outlet by consumers was $41.28 in fiscal 2010-2011 versus $40.35 the previous fiscal year. Overall, the average net sales price per litre in the SAQ network rose 0.9% to total $16.56 compared to $16.41 last year.

In the wholesale grocer network, net sales increased 2.2% from the previous fiscal year to reach $295.3 million, and volume sales increased by 3% to total 37.7 million litres.

Over the last five fiscal years, the outlet and specialized centre network has seen its net sales grow by 34.5%, while sales in the wholesale grocer network increased 13%.

<u>By product category</u>

Most product categories experienced net sales growth during fiscal 2010-2011. The wine category, with net sales of approximately $1.989 billion, posted notable growth of $83.4 million or 4.4% compared to the previous fiscal year. This highly diverse product category accounted for 75% of the overall growth in consolidated net sales for the fiscal year. The corresponding volume sales for the wine category rose 4.2% to total 148.3 million litres during 2010-2011.

At $582.5 million, net sales of spirits, which are sold solely in the outlet and specialized centre network, continued to grow, rising $29.6 million or 5.4% from 2009-2010. Volume sales for the spirits category rose 2.5% to total 20.8 million litres.

At $88.9 million, net sales in the imported and microbrewery beers, ciders and coolers category decreased by 2% in 2010-2011. The corresponding volume sales remained stable at 11.4 million litres. It should be noted that sales in this product category have barely increased in recent years. A shift in demand towards the wine category, which continues to grab greater market share, and sales of imported beers in the grocery and convenience store network, explains this stagnation.

Cost of sales and gross margin

The main components of cost of sales are product acquisition costs, land and sea freight expenses incurred to ship goods to the SAQ's warehouses, and the related federal taxes and duties. In 2010-2011, cost of sales stood at $1.243 billion compared to $1.198 billion in 2009-2010, and gross margin was $1.417 billion compared to $1.351 billion in fiscal 2009-2010, an increase of $66 million. Gross margin stood at 53.3% in 2010-2011 compared to 53% the previous fiscal year.

Operating expenses
Consolidated net operating expenses consist of selling, marketing, distribution, and administrative expenses as well as financial and amortization expenses, from which other revenue is deducted. Thus defined, consolidated net operating expenses totalled $502.6 million compared to $483.7 million the previous fiscal year, an increase of $18.9 million or 3.9%.

At $350.3 million, compensation and the employee social benefits expense grew $17.8 million or 5.4%. This variance was due partly to salary increases that employees received under current collective agreements and partly to the additional human resources that were brought into outlets to maintain quality as consumer traffic increased. Compensation and employee social benefits accounted for 69.7% of consolidated net operating expenses for the fiscal year.

Building occupancy expenses (including the related amortization), which is the second largest category of operating expense, increased by $3.4 million or 4.3% to total $83 million. Higher rental market prices for commercial space drove this increase in rental cost. In recent years, the SAQ has set forth many initiatives to make optimal use of its commercial and administrative spaces in order to limit the annual increase in this expense category.

Consolidated net operating expenses represented 18.9% of consolidated net sales in fiscal 2010-2011 compared to 19% the previous fiscal year. This is the best ratio of the decade, a testament to our sustained cost optimization efforts.

Compensation and employee social benefits
(in millions of dollars)

	2011	2010
Compensation		
Salaries and wages	**277.0**	262.4
Overtime	**4.9**	4.3
Other human resource expenses	**12.0**	11.7
	293.9	278.4
Employee social benefits	**56.4**	54.1
Total	**350.3**	332.5

Net earnings and comprehensive income
The SAQ closed the fiscal year with net earnings of $914.7 million, up $47.5 million or 5.5%. Consolidated net earnings accounted for 34.4% of consolidated net sales compared to 34% for fiscal 2009-2010, the best operating performance in the past decade.

Over the past two fiscal years, the SAQ has not carried out any transactions that impact comprehensive income.

Government revenue
Government revenue consists of the SAQ's net earnings plus payments of various consumer taxes as well as excise taxes and customs duties. For fiscal 2010-2011, this revenue from SAQ operations reached a record $1.712 billion compared to $1.625 billion in 2009-2010, a significant $87 million or 5.4% increase.

The Government of Quebec's revenues increased by $66.5 million or 5.2% to total $1.339 billion. This favorable change was due to the increase in the dividend paid and to a higher amount of consumer taxes collected as both sales and the Quebec sales tax rate increased. In addition, amounts paid to the federal government totalled $372.2 million, a $20.5 million increase owing essentially to higher excise taxes and customs duties payments, which reflect supply and distribution volumes.

Over the past decade, the SAQ's business activities generated more than $13.5 billion in tax revenue for both levels of government.

Government revenue from operations
(in millions of dollars)

	2011	2010
Government of Quebec		
Declared dividend	**914.7**	867.2
Provincial sales tax	**244.3**	230.5
Specific tax	**140.0**	134.3
Specific permit holder tax	**40.4**	40.9
	1,339.4	1,272.9
Government of Canada		
Excise taxes and customs duties	**220.7**	205.2
Goods and services tax	**151.5**	146.5
	372.2	351.7
Total	**1,711.6**	1,624.6

Investments in property, plant and equipment and intangible assets
During fiscal 2010-2011, the SAQ invested $43.3 million in capital assets. More than $30 million went toward improving commercial and administrative spaces by making them more modern and functional, a notable example being the expansion of the Quebec City distribution centre, the storage area of which was increased by 87,000 ft^2 to meet the business needs of sectors located in eastern Quebec. Furthermore, $11.5 million went towards designing and developing new management information systems. Other investments included replacements and improvements to rolling stock and specific equipment.

Financial position
As at March 26, 2011, the SAQ's total assets stood at $641 million compared to $627.8 million in 2009-2010. This increase came mainly from an increase in the value of long-term assets ($13 million). At fiscal year-end, the composition of assets had barely changed whereas the carrying values of inventories and long-term assets had balance sheet weightings comparable to those prevailing at the end of the previous fiscal year. As at March 26, 2011, the working capital ratio was stable compared to that of the previous fiscal year (0.70 versus 0.72 as at March 27, 2010).

At fiscal year-end, current liabilities showed a net increase of $14.5 million. This change came mainly from a $23.1 million increase in accounts payable and accrued liabilities and an $11.5 million decrease in the dividend payable.

Lastly, the SAQ had satisfactory management ratios with respect to collecting trade accounts receivable, managing inventory turnover, and settling accounts payable. On the strength of substantial internally generated funds, stable working capital, and low long-term debt levels, the SAQ's financial position remained strong throughout the past fiscal year.

Cash flows
The SAQ's activities used $5.2 million in net cash in 2010-2011, whereas net cash of approximately $16.4 million had been generated the previous fiscal year.

At $960.6 million, cash flows from operating activities experienced a significant $45.6 million increase from the previous fiscal year. The increase owes mainly to the growth in net earnings.

Investing activities resulted in net outflows of $41 million in fiscal 2010-2011 compared to $43.2 million the previous fiscal year. This difference was mainly due to property, plant and equipment.

Financing activities required net cash of $924.7 million in fiscal 2010-2011 versus $855.4 million the previous fiscal year. The change was due to a $109.2 million increase in the dividend paid during the fiscal year and the net $40 million increase in bank loans.

As at March 26, 2011, the SAQ's balance sheet showed $38.9 million in cash compared to $44.1 million during the previous fiscal year-end.

Financing activities
Given the dividend advances that are periodically paid to its shareholder, namely, the Quebec Minister of Finance, the SAQ relies on external sources to finance its operations. To this end, the SAQ has been authorized by its Board of Directors and the Government of Quebec to contract short-term loans to a maximum amount outstanding of $400 million.

During the fiscal year, the average term loan balance was $36 million versus $51.6 million in fiscal 2009-2010. The loan balance reached a maximum of $163 million compared to $170 million the previous fiscal year. At fiscal year-end, the balance sheet had a term loan balance of $3 million compared to a term investment of $16 million that had been included in the cash and cash equivalents item of the balance sheet as at March 27, 2010.

Financing of the SAQ's activities on the money market resulted in financial charges of $0.3 million, a $0.1 million increase from the previous fiscal year. This change was primarily due to a 42-basis-point increase in the average interest rate paid on loans in fiscal 2010-2011 offset by a $15.6 million decrease in the net average loan balance.

International Financial Reporting Standards
In January 2006, the Canadian Accounting Standards Board (AcSB) announced its decision to replace Canadian generally accepted accounting principles (GAAP) with International Financial Reporting Standards (IFRS) for all Canadian publicly accountable enterprises. The SAQ will therefore be required to report under IFRS. IFRS will introduce significant changes with respect to the recognition, measurement, presentation and disclosure of several accounting items. In February 2008, the AcSB confirmed that affected enterprises will need to complete the changeover to IFRS for their interim and annual financial statements for fiscal periods commencing on or after January 1, 2011 (March 27, 2011 for the SAQ).

Like Canadian GAAP, IFRS is a single set of standards based on professional judgment. Since 2005, they have been applied in about 100 countries worldwide, mainly European Union countries and Australia. IFRS convergence plans are also being implemented in Japan, China and India.

The SAQ has developed an IFRS conversion plan and created a work team to implement it. A project governance committee has also been formed. To facilitate the transition, the following timetable was adopted and followed over the past few years:

- 2008-2009: diagnostic analysis
- 2009-2010: changes to financial processes and systems, staff training, selection of new IFRS standards
- 2010-2011: preparation of financial statements and notes under IFRS

Over the past fiscal year, the SAQ has continued to assess the impact of the new accounting standards on its business activities, financial and management processes and systems, internal control framework, and financial statements. It has applied the mandatory exemptions and has made choices regarding the optional exemptions of IFRS 1 at the transition date and the accounting policies that will be applied thereafter. IFRS 1 does not allow for a change in accounting estimates and the SAQ has applied estimates under IFRS that are consistent with those under Canadian GAAP.

This work subsequently led to the preparation of an opening statement of financial position as at March 28, 2010, and comparative IFRS figures for 2010-2011. To date, the main impacts identified concern property, plant and equipment, intangible assets, and employee future benefits. Based on the analysis conducted in accordance with current standards and interpretations issued, the conversion to IFRS should result in an increase in the SAQ's shareholder's equity of approximately $4.2 million at the transition date, mainly caused by the following:

Impacts
(in thousands of dollars)

	IFRS Standards	
Fair value as deemed cost*	IFRS 1	13,021
Amortization of property, plant and equipment	IAS 16	(36)
Amortization of intangible assets	IAS 38	(339)
Employee social benefit plans	IFRS 1	(8,417)
		4,229

*Cost method maintained for future years

Disclosure controls and procedures
Under the supervision of the President and CEO and of the Vice-President and Chief Financial Officer, the disclosure controls and procedures (DC&P) of the SAQ are designed to provide reasonable assurance that material information about the SAQ is communicated to management in a timely manner.

An evaluation of the design and effectiveness of the DC&P was performed as of March 26, 2011, under the supervision and with the participation of management. Based on this evaluation, the Chief Executive Officer and the Vice-President and Chief Financial Officer concluded that the DC&P were adequately designed and operating effectively.

Internal control over financial reporting
The SAQ's internal control over financial reporting is designed to provide reasonable assurance that the financial information is reliable and that the financial statements were prepared, for financial reporting purposes, in accordance with Canadian generally accepted accounting principles (GAAP).

The SAQ's management, including the Chief Executive Officer and the Vice-President and Chief Financial Officer, have evaluated the effectiveness of the internal controls over financial reporting (ICFR) using the framework and criteria set out in the Internal Control – Integrated Framework document issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded, on March 26, 2011, that the ICFR are adequately designed and effective with respect to providing reasonable assurance as to the reliability of the financial information and the presentation of the SAQ's financial statements in accordance with Canadian GAAP.

Risks and uncertainties
In the normal course of business, the SAQ is exposed to a variety of risks that can affect its profitability. Other than the financial risks described in Note 23 to its consolidated financial statements, the SAQ also faces the market risk associated with economic conditions in its territory. A slowdown in the Quebec economy could have an unfavourable impact on the consumption growth of products sold by the SAQ and, consequently, on its operating results. Therefore, demand for alcoholic beverages and the resulting profitability depend, among other things, on growth in the disposable income of consumers.

The changing needs of customers also remain a constant focus for the SAQ. As such, it has developed a strategy to improve the customer experience by segmenting its client base to better meet their various needs. Furthermore, the different banners offer a wide variety of quality products and deliver personalized consulting services. An ever-evolving product offering, marketing strategies tailored to customer expectations, and an improved environment to facilitate the buying experience all work to mitigate the market risk to which the SAQ is exposed.

Finally, the SAQ faces various claims and lawsuits. In management's opinion, any settlement that might arise from these claims would not have a significant impact on the SAQ's consolidated financial statements. Should the SAQ be required to pay any amount under these claims, the amount would be reflected in the expenses of the period in which it became payable.

Outlook
The SAQ's strong performance in 2010-2011 is testament to its rigorous, agile management approach and its ability to mobilize staff to carry out the Strategic Plan. During the coming fiscal year, the SAQ will continue to focus on customer satisfaction efforts. The SAQ plans to enhance communication with customers through greater use of technology, including the Internet, social media and mobile telephony, while continuing to favour a personalized consulting approach in its outlets.

Other key initiatives of the Strategic Plan will continue, in particular managing by category, optimizing commercial and administrative business processes, and improving financial performance. In addition, to ensure that it once again ranks among the most appreciated retailers by Quebec consumers, the SAQ will continue to invest in developing its staff for the benefit of customers who are increasingly passionate about its products.

As part of its commercial development in the United States, on April 8, 2011, the limited partnership TWIST, LP, which is 50%-owned by the SAQ, acquired the net assets of U.S. retailer J.J. Buckley, which specializes in the e-commerce of mid- to high-end alcoholic products.

For fiscal 2011-2012, the SAQ expects to generate net earnings of approximately $946 million, growth of more than $31 million or 3.4%.

Net sales by network[1]
(in millions of dollars)

	2007[2]	2008	2009	2010	**2011**
Outlets and specialized centres	1,918.5	2,034.8	2,146.5	2,260.1	**2,365.0**
Wholesale grocers	261.5	265.5	278.0	289.0	**295.3**
Total	2,180.0	2,300.3	2,424.5	2,549.1	**2,660.3**

Net sales by product category[1]
(in millions of dollars)

	2007[2]	2008	2009	2010	**2011**
Wines	1,606.4	1,705.2	1,804.9	1,905.5	**1,988.9**
Spirits	493.8	515.0	530.9	552.9	**582.5**
Imported and microbrewery beers, ciders and coolers	79.8	80.1	88.7	90.7	**88.9**
Total	**2,180.0**	**2,300.3**	**2,424.5**	**2,549.1**	**2,660.3**

1. Due to the adoption of a new presentation method, the Éduc'alcool fund and Environmental fund contributions are now included in operating expenses. In 2010-2011, these contributions totalled $7.2 million compared to $6.9 million the previous fiscal year.
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)

	2007[1]	2008	2009[2]	2010[2]	**2011**[2]
Net sales[3]	2,180.0	2,300.3	2,424.5	2,549.1	**2,660.3**
Cost of sales	993.0	1,054.8	1,141.9	1,198.2	**1,243.0**
Net operating expenses[3,4]	479.0	484.6	475.9	483.7	**502.6**
Net earnings	708.0	760.9	806.7	867.2	**914.7**

Government revenue from operations
(in millions of dollars)

	2007[1]	2008	2009	2010	**2011**
Declared dividend	709.0	762.0	806.0	867.2	**914.7**
Taxes and duties paid to governments	687.7	713.8	728.4	757.4	**796.9**
Total	1,396.7	1,475.8	1,534.4	1,624.6	**1,711.6**

Asset mix
(in millions of dollars)

	2007[1]	2008	2009	2010	**2011**
Inventories	238.0	277.2	294.9	302.1	**295.0**
Property, plant and equipment and intangible assets	240.2	214.4	209.6	225.8	**238.8**
Other assets	94.8	100.9	85.8	99.9	**107.2**
Total	573.0	592.5	590.3	627.8	**641.0**

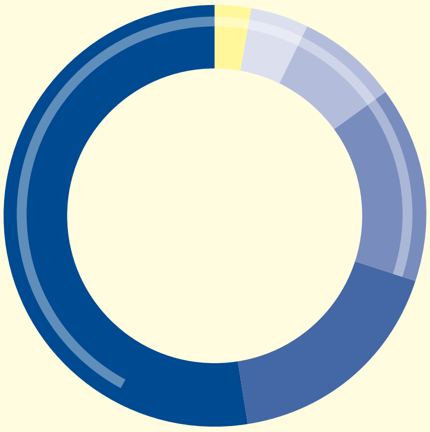
1. 53-week fiscal year.
2. Due to the adoption of a new accounting standard on inventories in fiscal 2008-2009, direct shipping costs are deducted from operating expenses and charged to the cost of sales. In 2010-2011, direct shipping costs totalled $15.8 million compared to $14.4 million the previous fiscal year.
3. Due to the adoption of a new presentation method, the Éduc'alcool fund and Environmental fund contributions are now included in operating expenses. In 2010-2011, these contributions totalled $7.2 million compared to $6.9 million the previous fiscal year.
4. After deducting other revenue and other income.

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

BREAKDOWN OF THE SALES PRICE

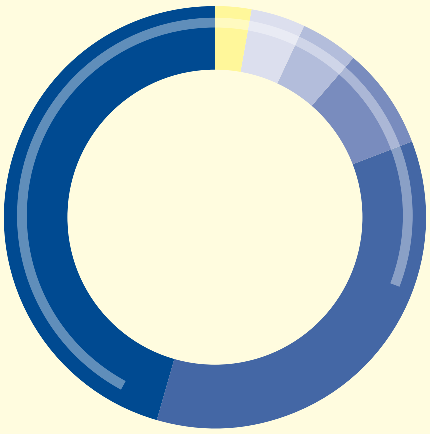
Local spirits, 750 ml format
(in dollars and percentages)
March 26, 2011

Markup[1]	$11.50	52.4%
Supplier price, in Canadian dollars, including shipping	$ 3.59	16.4%
Excise taxes paid to the Government of Canada	$ 3.51	16.0%
Provincial sales tax	$ 1.72	7.8%
Federal goods and services tax	$ 0.96	4.4%
Specific taxes paid to the Government of Quebec	$ 0.67	3.0%
Retail price (per bottle)	$21.95	100%



Imported wine, 750 ml format
(in dollars and percentages)
March 26, 2011

Markup[1]	$ 7.33	45.5%
Supplier price, in Canadian dollars, including shipping	$ 5.65	35.1%
Provincial sales tax	$ 1.26	7.8%
Federal goods and services tax	$ 0.71	4.4%
Specific taxes paid to the Government of Quebec	$ 0.67	4.2%
Customs duties and excise taxes paid to the Government of Canada	$ 0.48	3.0%
Retail price (per bottle)	$16.10	100%



1. The markup covers selling and marketing, distribution, and administrative expenses and generates net earnings.

FINANCIAL CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER AND OF THE VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER

We, Philippe Duval, Chief Executive Officer, and Richard Genest, Vice-President and Chief Financial Officer of the *Société des alcools du Québec*, attest to the following:

1. Review: We have reviewed the consolidated financial statements, the press release on the annual results and the annual financial review (hereinafter the "Annual Filings") of the Société des alcools du Québec ("the SAQ") for the fiscal year ended March 26, 2011.

2. No misrepresentation: To our knowledge, the Annual Filings do not contain any misrepresentations of a material fact nor do they omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made for the period covered by the Annual Filings.

3. Fair presentation: To our knowledge, the consolidated financial statements and other financial information in the Annual Filings present fairly, in all material respects, the financial position of the SAQ as at the closing dates of the Annual Filings and the results of its operations for the fiscal years then ended.

4. Responsibility: We are responsible for establishing and maintaining the disclosure controls and procedures (DC&P) and the internal controls over financial reporting (ICFR) applicable to the SAQ within the meaning of the *Act respecting the governance of state-owned enterprise*.

5. Design: Subject to any limitations set out in paragraphs 5.2 and 5.3, we have completed the following at fiscal year-end:

a) designed or oversaw the design of DC&P that provides reasonable assurance that:

i) material information about the SAQ is reported to us by others, particularly during the period when the Annual Filings are being prepared; and

ii) the information that the SAQ must disclose in its Annual Filings or that is filed or submitted under legislation is recorded, processed, summarized and reported within the time periods specified in the legislation;

b) designed or oversaw the design of ICFR that provides reasonable assurance that the financial information is reliable and that the financial statements have been prepared for reporting purposes in accordance with generally accepted accounting principles.

5.1. Control framework: The control framework that we used to design the ICFR is the one proposed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

5.2. Material weakness in the design of ICFR: Not applicable.

5.3. Limitation on scope of the design: Not applicable.

6. Evaluation: We, the undersigned, certify that we have:

a) evaluated or oversaw the evaluation of the effectiveness of the SAQ's DC&P at fiscal year-end and that the SAQ has presented our conclusions, based on this evaluation, in its annual financial review; and

b) evaluated or oversaw the evaluation of the effectiveness of the SAQ's ICFR at fiscal year-end and that the SAQ has presented the following information in its annual financial review:

i) our conclusions about the effectiveness of ICFR at fiscal year-end based on the evaluation; and

ii) the items applicable to each operations-related material weakness at fiscal year-end: Not applicable.

7. Reporting changes made to ICFR: In its annual financial review, the SAQ has presented any change made to its ICFR during the accounting period beginning March 27, 2010, and ending March 26, 2011, that has materially affected, or is reasonably likely to materially affect, its ICFR.

8. Reporting to the SAQ's auditors and Board of Directors or Audit Committee: Based on our most recent evaluation of ICFR, we have informed the SAQ's auditors and Board of Directors or Audit Committee of any fraud involving management or other employees who play a key role in ICFR.

PHILIPPE DUVAL
Chief Executive Officer

RICHARD GENEST
Vice-President and Chief Financial Officer

June 2, 2011

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The following consolidated financial statements have been prepared by the management of the Société des alcools du Québec (SAQ) and approved by its Board of Directors. Management is responsible for the information and representations contained in these consolidated financial statements and in the other sections of the Annual Report. The consolidated financial statements have been prepared in accordance with the policies and procedures established by management and with Canadian generally accepted accounting principles. They reflect management's best judgment and estimates based on available information.

As part of its duties, the management of the SAQ maintains an internal control system 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 reviews accounting procedures and management systems on a selective basis. Its findings and recommendations are then submitted to management, which acts accordingly. Management acknowledges that it is responsible for managing the SAQ's business in compliance with the governing laws and regulations.

The Board of Directors of the SAQ is responsible for ensuring that management fulfills its obligations for financial reporting and internal controls. The Board performs this function through its Audit Committee, which consists solely of independent directors. The Committee periodically reviews the consolidated financial statements and examines the reports on the accounting methods and on the internal control systems. The external independant auditors have unrestricted access to meet with the Audit Committee to discuss any audit-related matters.

The consolidated financial statements have been audited by the Auditor General of Quebec and by the firm Raymond Chabot Grant Thornton LLP in accordance with Canadian generally accepted auditing standards. Their responsibility is to express a professional opinion on whether the consolidated financial statements are fairly presented. The Independent Auditors' Report, shown opposite, specifies the nature and scope of their audit and presents their opinion on these consolidated financial statements.

PHILIPPE DUVAL
Chief Executive Officer

RICHARD GENEST
Vice-President and Chief Financial Officer

Montreal, June 2, 2011

INDEPENDENT AUDITORS' REPORT

To the Minister of Finance,

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of the Société des alcools du Québec, which comprise the consolidated balance sheet as at March 26, 2011 and the consolidated statements of earnings and comprehensive income, retained earnings, and cash flows for the years then ended and the notes thereto.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for the internal control that management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the SAQ as at March 26, 2011, and its operating results and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on other legal and regulatory requirements
As required by the *Auditor General Act* (R.S.Q., c. V-5.01), we report that, in our opinion, the accounting principles have been applied on a basis consistent with that of the preceding year.

The Auditor General of Québec

Renaud Lachance FCA auditor

RENAUD LACHANCE, FCA auditor

Raymond Chabot Grant Thornton LLP

RAYMOND CHABOT GRANT THORNTON LLP[1]

[1]Chartered accountant auditor permit no. 7023

Montreal, June 2, 2011

CONSOLIDATED EARNINGS AND COMPREHENSIVE INCOME

Fiscal year ended March 26, 2011
(in thousands of dollars)

	2011	2010
NET SALES (Note 6)	**$2,660,250**	$2,549,117
COST OF SALES (Note 6)	**1,242,926**	1,198,203
GROSS MARGIN (Note 6)	**1,417,324**	1,350,914
OPERATING EXPENSES		
Selling and marketing, distribution and administrative expenses (Note 7)	**530,694**	505,479
Financial expenses (Note 8)	**268**	563
Amortization of property, plant and equipment	**22,611**	22,072
Amortization of intangible assets	**5,136**	5,102
	558,709	533,216
OTHER REVENUE		
Advertising, promotional and miscellaneous	**56,056**	49,515
NET EARNINGS AND COMPREHENSIVE INCOME	**$ 914,671**	$ 867,213

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

CONSOLIDATED RETAINED EARNINGS

Fiscal year ended March 26, 2011
(in thousands of dollars)

	2011	2010
BALANCE, BEGINNING OF FISCAL YEAR	**$ 14,808**	$ 14,808
NET EARNINGS AND COMPREHENSIVE INCOME	**914,671**	867,213
	929,479	882,021
DIVIDEND	**(914,671)**	(867,213)
BALANCE, END OF FISCAL YEAR	**$ 14,808**	$ 14,808

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

CONSOLIDATED BALANCE SHEET

March 26, 2011
(in thousands of dollars)

	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents (Note 21)	**$ 38,905**	$ 44,101
Trade and other accounts receivable (Note 9)	**48,859**	45,624
Inventories (Note 10)	**295,023**	302,124
Deposits and prepaid expenses	**19,429**	10,170
	402,216	402,019
Property, plant and equipment (Note 11)	**214,138**	202,475
Intangible assets (Note 12)	**24,612**	23,276
	$640,966	$627,770
LIABILITIES		
Current liabilities		
Loans (Note 13)	**$ 3,000**	$ –
Accounts payable and accrued liabilities (Note 14)	**349,589**	326,523
Dividend payable	**221,671**	233,213
	574,260	559,736
Capital lease obligation (Note 15)	**54**	1,765
Liability – cumulative sick leave credits (Note 17)	**17,247**	17,733
Accrued benefit liability – pension plan (Note 17)	**4,597**	3,728
	596,158	582,962
SHAREHOLDER'S EQUITY (Note 18)		
Share capital	**30,000**	30,000
Retained earnings	**14,808**	14,808
	44,808	44,808
	$640,966	$627,770

Contingencies and commitments (Note 20)
The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board of Directors

NORMAN HÉBERT JR.
Chair of the Board of Directors

DOUGLAS M. DERUCHIE
Chair of the Audit Committee

CONSOLIDATED CASH FLOWS

Fiscal year ended March 26, 2011
(in thousands of dollars)

	2011	2010
OPERATING ACTIVITIES		
Net earnings and comprehensive income	**$ 914,671**	$ 867,213
Items not affecting cash:		
Amortization of property, plant and equipment	**22,611**	22,072
Amortization of intangible assets	**5,136**	5,102
Loss on disposals of property, plant and equipment	**438**	822
Sick leave credits expense	**3,364**	2,967
Pension plan expense	**929**	520
	947,149	898,696
Net change in non-cash working capital items (Note 21)	**17,354**	19,317
Benefits paid by cumulative sick leave credits plan and the pension plan	**(3,910)**	(3,041)
Cash flows from operating activities	**960,593**	914,972
INVESTING ACTIVITIES		
Acquisitions of property, plant and equipment	**(32,513)**	(34,206)
Acquisitions of intangible assets	**(10,686)**	(9,072)
Proceeds from disposals of property, plant and equipment	**2,156**	57
Cash flows from investing activities	**(41,043)**	(43,221)
FINANCING ACTIVITIES		
Net change in loans	**3,000**	(36,998)
Reimbursement of the capital lease obligation	**(1,533)**	(1,374)
Dividend paid	**(926,213)**	(817,000)
Cash flows from financing activities	**(924,746)**	(855,372)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(5,196)**	16,379
CASH AND CASH EQUIVALENTS, BEGINNING OF FISCAL YEAR	**44,101**	27,722
CASH AND CASH EQUIVALENTS, END OF FISCAL YEAR	**$ 38,905**	$ 44,101

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 26, 2011
(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 Société des alcools du Québec* (R.S.Q., c. S-13). Its mandate is to sell alcoholic beverages in the province of Quebec. As a government corporation, it is exempt from income tax.

2.
FISCAL YEAR

The SAQ's fiscal year ends on the last Saturday in March. The fiscal years ended March 26, 2011, and March 27, 2010, each comprise 52 weeks of operation.

3.
SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used to prepare the consolidated financial statements are summarized below:

Principles of consolidation
The consolidated financial statements include the accounts of the SAQ and its share in the assets and liabilities and revenues and expenses of Société d'investissement M.-S., S.E.C., a joint venture in which the SAQ owns a 50% interest. The financial statements also include the share in the assets and liabilities and revenues and expenses of TWIST, LP, a joint venture in which the SAQ acquired a 50% interest during the fiscal year. The interests in these joint ventures are accounted for using the proportionate consolidation method.

Use of estimates
Preparing financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses recognized during the fiscal year. The main items for which management made use of estimates and assumptions are inventory valuation; the useful lives of property, plant and equipment and intangible assets; accrued charges; allowances; the actuarial liabilities related to cumulative sick leave credits; and accrued pension plan benefits. Actual results could differ from those estimates.

Revenue recognition
Sales of alcoholic beverages to consumers, agencies, permit holders (including licensed establishments and institutions), authorized distributors (wholesale grocers) as well as other revenue are recognized when earned, i.e. when the goods are delivered and services rendered, less discounts and returns, and when there is persuasive evidence that an arrangement exists, that the amounts are fixed or determinable, 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, such sales are recognized on a net basis.

Recognition of considerations received from suppliers
Cash considerations received or receivable from suppliers are considered adjustments to the prices of the supplier products and, therefore, are recognized as a reduction to cost of sales and inventories. Certain exceptions apply when the cash considerations received are either reimbursements of the incremental costs incurred by the SAQ to sell the suppliers' products or payments for goods or services rendered to the suppliers. These latter considerations received from suppliers are recorded, depending on their nature, as a reduction to the related expenses or as other revenue.

Operating leases
The SAQ accounts for the rent expense resulting from its operating leases on a straight-line basis over the term of the lease.

Foreign currency translation
Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect on the balance sheet date, whereas other assets are translated at the exchange rate in effect on the transaction date. Revenues and expenses denominated in foreign currencies are translated at the exchange rate in effect on the transaction date. Exchange gains and losses are recognized in earnings for the fiscal year. Exchange losses of $0.3 million have been included in earnings for fiscal 2011 (gains of $1.8 million in 2010).

(tabular amounts in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

Financial instruments measured at fair value must be classified according to a three-level hierarchy based on the type of inputs used to make the measurements. This hierarchy is as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3: inputs that are not based on observable market inputs (unobservable inputs).

The SAQ has classified its financial instruments as follows:

Cash and cash equivalents are classified as “Assets held for trading” and are measured at fair value.

Trade and other accounts receivable are classified as “Loans and receivables.” They are initially measured at fair value. Subsequently, they are measured at amortized cost using the effective interest rate method. For the SAQ, this measurement usually equals cost.

Loans, accounts payable and accrued liabilities (except for government taxes and duties payable and the current portion of a capital lease obligation) as well as the dividend payable are classified as “Other financial liabilities.” They are initially measured at fair value. Subsequently, they are measured at amortized cost using the effective interest rate method. For the SAQ, this measurement usually equals cost. The interest expense and transaction costs related to “Other financial liabilities” are presented in the consolidated statement of earnings under “Financial expenses.”

The SAQ partially manages the exchange risk on the expected foreign currency outflows by using 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. As such, the SAQ recognizes its derivative financial instruments at 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 do not meet hedge accounting criteria, the SAQ believes that, from an operating and cash flow management standpoint, they help the SAQ 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 contract and accounted for as derivatives when their economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract.

At March 26, 2011, and March 27, 2010, the SAQ was not holding any financial instrument or contract with embedded derivatives that needed to be separated from the host contract.

Cash and cash equivalents
Cash and cash equivalents include cash and short-term investments with an acquisition date to maturity of three months or less.

Inventories
Inventories are valued at the lower of cost and net realizable value, with cost being established according to the first in, first out method. The cost of inventories of alcoholic beverages includes acquisition costs, freight in, related customs duties and excise taxes, as well as the direct shipping costs incurred to make products available at different points of sale.

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

Buildings	2.5% and 10%
Furniture and equipment	Rate varying between 2.8% and 33%
Rolling stock	Rate varying between 10% and 30%
Leasehold improvements	According to the terms of the leases, which vary from 5 to 15 years
Paving and parking	8%.

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

(tabular amounts in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

Intangible assets
Intangible assets, consisting of software and user licences, are recorded at cost. Cost includes expenses related directly to the acquisition and development of software for internal use. These assets are amortized, starting on the date they are put into service, on a straight-line basis over their estimated useful lives. The amortization periods are as follows:

Acquired software and licences	3 to 5 years
Internally developed software	3 to 10 years.

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. The carrying value of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposal. The amount by which the carrying value exceeds the fair value is recognized in the earnings of the period during which the impairment has been determined.

Employee benefit plans
Cumulative sick leave credits
The SAQ administers a defined benefit plan that pays sick leave credits to most of its employees. The future benefit cost associated with payment of sick leave credits accumulated by SAQ employees participating in the plan is actuarially determined in accordance with the projected benefit method prorated on years of service and charged to earnings as services are rendered by employees. The actuarial calculations use the most likely assumptions established by management with respect to compensation increase, the age of retirement, and the discount rate of the sick leave credits.

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 over the average remaining service period of active employees participating in the plan. For the fiscal years ended March 26, 2011, and March 27, 2010, this period was 14 years.

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 that guarantee the payment of pension and death benefits that are indexed annually. Defined contribution plan accounting is applied to these plans as the SAQ does not have sufficient information to apply defined benefit plan accounting.

The SAQ also administers a supplemental pension plan for senior management. This plan is based on the years of service and the average of the three highest annual salaries earned by the employee over the course of their career. It is a defined benefit plan that also guarantees the payment of pension and death benefits that are indexed annually. The actuarial valuation of the accrued benefit obligation related to the pension benefits is established using the projected benefit method prorated on the number of years of service. The valuation was carried out using management's best estimate of the future change in salaries, retirement age and other actuarial factors.

The excess of the net cumulative actuarial gains (net cumulative actuarial losses) over 10% of the accrued benefit obligation is amortized over the average remaining service period of the active employee group covered by the plan. For the fiscal year ended March 26, 2011, this period was 6.3 years (4.5 years for fiscal 2010).

4. CHANGE IN ACCOUNTING FRAMEWORK

The Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises would be required to apply International Financial Reporting Standards (IFRS) to financial statements covering fiscal years beginning on or after January 1, 2011. The SAQ will apply IFRS to its annual financial statements for periods beginning on March 27, 2011 and must provide comparative figures for the same period the previous year, and therefore, March 28, 2010, is its transition date.

5. ACQUISITION OF AN INTEREST IN A JOINT VENTURE

On October 28, 2010, the SAQ, the Solidarity Fund QFL, and the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi (Fondaction), formed a joint venture, TWIST, LP. The general partner of this joint venture is TWIST Expert in Wine and Spirits Inc. The joint venture provides business development solutions in the alcoholic beverage industry globally and offers a wide range of customized services, particularly in terms of selecting, purchasing, logistics, distribution, commercialization, and quality assurance and marketing.

(tabular amounts in thousands of dollars)

5. ACQUISITION OF AN INTEREST IN A JOINT VENTURE (cont.)

The SAQ's contribution in TWIST, LP was an amount of $7.0 million for 50% of the Class A units issued. The two other limited partners own 25% of the Class A units, respectively, each having invested $3.5 million. Under an assignment agreement dated October 28, 2010, the SAQ assigned, to TWIST, LP, all of its intangible assets related exclusively to start-up activities and to the transactions performed or in the process thereof, including its rights under an asset acquisition agreement dated November 7, 2010, for the acquisition of the activities of J.J. Buckley. These rights were assigned in consideration of a Class B unit with a value of $1. The Class B unit is non-voting, and only the SAQ may subscribe. The allocation of earnings to the unitholder is determined using a formula based on achieving minimum earnings, provided for until December 31, 2013.

6.
NET SALES, COST OF SALES AND GROSS MARGIN

	2011			2010		
	Outlets and specialized centres	**Wholesale grocers**	**Total**	Outlets and specialized centres	Wholesale grocers	Total
Net sales	**$2,364,948**	**$295,302**	**$2,660,250**	$2,260,130	$288,987	$2,549,117
Cost of sales	**1,092,734**	**150,192**	**1,242,926**	1,051,076	147,127	1,198,203
Gross margin	**$1,272,214**	**$145,110**	**$1,417,324**	$1,209,054	$141,860	$1,350,914

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. 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 related companies. These products must be purchased 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 totalled $270.2 million in fiscal 2011 ($270.8 million in fiscal 2010).

7.
SELLING AND MARKETING, DISTRIBUTION AND ADMINISTRATIVE EXPENSES

	2011	2010
Compensation and employee social benefits	**$350,301**	$332,480
Building occupancy expenses	**72,376**	69,427
Equipment use and supply expenses	**22,359**	19,658
Freight out and communication	**8,781**	8,318
Other operating expenses	**76,877**	75,596
	$530,694	$505,479

8.
FINANCIAL EXPENSES

	2011	2010
Financial expenses related to "Other financial liabilities"		
Interest on loans taken out with the Caisse de dépôt et placement du Québec, a government organization that carries out trust activities	**$ 31**	$ 56
Other interest on short-term loans	**295**	123
	326	179
Interest relating to a capital lease obligation	**287**	446
	613	625
Less: Interest income on investments with the Caisse de dépôt et placement du Québec, a government organization that carries out trust activities	**(74)**	–
Interest income on investments, bank balances and other	**(271)**	(62)
	(345)	(62)
	$ 268	$ 563

(tabular amounts in thousands of dollars)

9.
TRADE AND OTHER ACCOUNTS RECEIVABLE

	2011	2010
Wholesale grocers	**$13,924**	$11,955
Licensed establishments, institutions and other commercial accounts	**34,935**	33,669
	$48,859	$45,624

10.
INVENTORIES

	2011	2010
Alcoholic beverages[1]	**$291,970**	$299,236
Miscellaneous supplies	**3,053**	2,888
	$295,023	$302,124

1. The amount of alcoholic beverage inventory recorded as an expense equals the cost of sales.

11.
PROPERTY, PLANT AND EQUIPMENT

	2011			2010
	Cost	**Accumulated amortization**	**Unamortized cost**	Unamortized cost
Land	**$ 10,759**	**$ –**	**$ 10,759**	$ 11,357
Buildings	**186,557**	**64,238**	**122,319**	111,661
Furniture and equipment[1]	**142,458**	**89,469**	**52,989**	53,716
Rolling stock	**16,914**	**12,251**	**4,663**	5,139
Leasehold improvements[1]	**54,776**	**35,071**	**19,705**	16,500
Paving and parking	**4,552**	**3,291**	**1,261**	1,253
	416,016	**204,320**	**211,696**	199,626
Building rented under a capital lease	**16,280**	**13,838**	**2,442**	2,849
	$432,296	**$218,158**	**$214,138**	$202,475

1. Outlet development work with a capitalized value of $11.5 million was in progress as at March 26, 2011, ($17.6 million as at March 27, 2010) and is not amortized.

The total cost and total accumulated amortization of property, plant and equipment as at March 27, 2010, were $448.5 million and $246.0 million, respectively.

12.
INTANGIBLE ASSETS

	2011			2010
	Cost	**Accumulated amortization**	**Unamortized cost**	Unamortized cost
Acquired software and licences	**$ 11,752**	**$ 7,610**	**$ 4,142**	$ 2,233
Internally developed software[1]	**129,847**	**109,377**	**20,470**	21,043
	$141,599	**$116,987**	**$24,612**	$23,276

1. Internally developed software with a capitalized value of $7.3 million was in progress as at March 26, 2011, ($12.8 million as at March 27, 2010) and is not amortized.

The total cost and total accumulated amortization of intangible assets as at March 27, 2010, were $149.2 million and $125.9 million, respectively.

(tabular amounts in thousands of dollars)

13.
LOANS

	2011	2010
Loan	**$3,000**	$–

As at March 26, 2011, there was only one short-term loan totalling $3.0 million. This loan bears interest at a fixed rate of 1.04% and matures on March 28, 2011 (no loan as at March 27, 2010).

The SAQ has two bank credit facilities, including a $10.0 million line of credit maturing on March 31, 2011. Amounts drawn on this line of credit bear interest at the prime rate, which was 3.0% as at March 26, 2011 (2.25% as at March 27, 2010). A second credit facility of $300.0 million has been authorized, of which $296.7 million was available as at March 26, 2011 (fully available as at March 27, 2010). This credit is available in the form of bank overdraft bearing interest at prime rate or in the form of advances bearing interest at a fixed rate equal to the financial institution's cost of funds plus a margin to be determined. This credit is repayable on demand.

14.
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2011	2010
Accounts payable and accrued liabilities[1]	**$168,585**	$150,773
Government taxes and duties payable	**92,235**	88,306
Compensation and employee social benefits payable	**87,058**	85,911
Current portion of a capital lease obligation	**1,711**	1,533
	$349,589	$326,523

1. The SAQ helps to fund various programs aimed at protecting and improving the environment and devotes a portion of its sales to this purpose. The amount by which the cumulative deductions from sales exceeded the charges incurred, presented in accounts payable and accrued liabilities, totalled $7.4 million as at March 26, 2011 ($7.5 million as at March 27, 2010).

15.
CAPITAL LEASE OBLIGATION

	2011	2010
The obligation related to the rental of a building, repayable through April 11, 2012, in monthly instalments of $0.15 million, including interest calculated at an annual rate of 11%, capitalized semi-annually.	**$ 1,765**	$ 3,298
Less: Current portion	**(1,711)**	(1,533)
	$ 54	$ 1,765

	Principal	Interest	Total
Payments in future fiscal years:			
2012	$1,711	$109	$1,820
2013	54	1	55
	$1,765	$110	$1,875

(tabular amounts in thousands of dollars)

16.
INTERESTS IN JOINT VENTURES

The SAQ owns a 50% interest in Société d'investissement M.-S., S.E.C. as well as a 50% interest in TWIST, LP.

The main items of these joint ventures that are included in the consolidated financial statements are presented below.

	2011	2010
Earnings		
Net sales	**$2,431**	$ –
Cost of sales	**2,207**	–
Gross margin	**224**	–
Operating expenses	**698**	308
Amortization	**–**	19
	698	327
Other revenue	**433**	549
Net earnings (loss)	**$ (41)**	$222

	2011	2010
Balance sheet		
Current assets	**$ 633**	$383
Long-lived assets	**53**	–
	$ 686	$383
Current liabilities	**$ 404**	$ 60
Shareholder's equity	**282**	323
	$ 686	$383

	2011	2010
Cash flows		
Cash flows from operating activities	**$1,002**	$140
Cash flows from investing activities	**$ (53)**	$ –

The SAQ does not have any contingent liability and has not made any commitments with respect to its joint ventures.

17.
EMPLOYEE FUTURE BENEFITS

Defined benefit plans
The employees of the SAQ participate in the Government and Public Employees Retirement Plan (RREGOP) or the Pension Plan of Management Personnel (PPMP). These multiemployer pension plans have defined benefits and guarantee payment of pension and death benefits. The SAQ's obligations under these government plans is limited to its employer contributions. The rates of contribution to these pension plans remained unchanged, i.e. 8.19% to 8.69% of the applicable payroll for the RREGOP and 10.54% to 11.54% for the PPMP.

For accounting purposes, the SAQ measures its benefit obligations as at December 31 of each calendar year for the cumulative sick leave credit plan and at the end of each fiscal year for the supplemental pension plan for senior management. The most recent actuarial valuation for funding purposes of the cumulative sick leave credit plan was completed on December 31, 2010, and the next valuation will be completed March 30, 2013. The most recent actuarial valuation for funding purposes of the supplemental pension plan for senior management was completed on March 26, 2011, and the next valuation will be completed no later than March 29, 2014.

(tabular amounts in thousands of dollars)

17. EMPLOYEE FUTURE BENEFITS (cont.)

Total cash payment
The total cash payment for employee future benefits for fiscal 2011, consisting of the SAQ's contributions to the government employee pension plans and the amounts paid directly to the beneficiaries of the supplemental pension plan for senior management and of the cumulative sick leave credit plan, amounted to $18.7 million ($16.4 million in 2010).

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

	Cumulative sick leave credit plan		Supplemental pension plan for senior management	
	2011	2010	**2011**	2010
Accrued benefit obligation and funded status – deficit	**$26,643**	$24,989	**$ 6,866**	$ 4,962
Balance of unamortized amounts	**(9,396)**	(7,256)	**(2,269)**	(1,234)
Accrued benefit liabilities appearing on the SAQ's balance sheet	**$17,247**	$17,733	**$ 4,597**	$ 3,728

Cost of employee future benefits recognized during the fiscal year

	2011	2010
Cumulative sick leave credit plan	**$ 3,364**	$ 2,967
Supplemental pension plan for senior management	**$ 929**	$ 520
Government employee pension plans (multiemployer plans)[1]	**$14,769**	$13,320

1. Defined benefit pension plans, accounted for using defined contribution plan accounting.

Benefits paid
Benefits paid out under the cumulative sick leave credits plan totalled $3.9 million in 2011 ($3.0 million in 2010), while those paid under the supplemental pension plan for senior management amounted to $0.06 million ($0.04 million in 2010).

Significant assumptions
The significant assumptions used to recognize employee future benefits are as follows:

	Cumulative sick leave credit plan		Supplemental pension plan for senior management	
	2011	2010	**2011**	2010
Accrued benefit obligation at fiscal year-end				
Discount rate	**4.75%**	5.25%	**4.75%**	5.25%
Rate of compensation increase	**3.00%**	3.00%	**3.50%**	3.50%
Rate of use of sick leave credits	**1**	2	**–**	–
1 From 50% to 70% depending on the employee group				
2 From 45% to 65% depending on the employee group				
Benefit costs for the fiscal year				
Discount rate	**5.25%**	6.75%	**5.25%**	7.00%
Rate of compensation increase	**3.00%**	3.00%	**3.50%**	3.50%
Rate of use of sick leave credits	**1**	2	**–**	–
1 From 50% to 70% depending on the employee group				
2 From 45% to 65% depending on the employee group				

(tabular amounts in thousands of dollars)

18.
SHAREHOLDER'S EQUITY

Share capital
The SAQ is a joint stock company whose shares are part of the public domain and are allotted to the Quebec Minister of Finance. 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 26, 2011, and March 27, 2010.

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

For fiscal 2011, the Quebec Minister of Finance declared a dividend of $914.7 million ($867.2 million in 2010).

Accumulated other comprehensive income
For the fiscal years ended March 26, 2011, and March 27, 2010, the SAQ had no transactions affecting comprehensive income and, consequently, had no opening or closing balances for accumulated other comprehensive income.

19.
CAPITAL MANAGEMENT

The SAQ's capital includes shareholder's equity, the capital lease obligation, the dividend payable and loans. The SAQ manages its capital such that it meets the requirements of its shareholder, safeguards funds at all times, and sustains its growth. It maintains a strict management framework to ensure that it effectively meets the purposes set out in its incorporating act. For fiscal 2011, the SAQ did not make any change to the manner in which it manages its capital.

The SAQ is fully responsible for financing its activities. During the fiscal year, it pays the dividend to its shareholder in the form of periodic advances. Due to this earnings distribution approach, the SAQ must rely on outside sources of financing. To this end, the SAQ has been authorized by its Board of Directors and the Government of Quebec to contract short-term loans to a maximum amount outstanding of $400.0 million. This limit was respected during the fiscal year.

The SAQ is not subject to any other requirements concerning the use of outside sources of financing.

At fiscal year-end, the capital structure, as defined by the SAQ, was as follows:

	2011	2010
Shareholder's equity	**$ 44,808**	$ 44,808
Capital lease obligation[1]	**1,765**	3,298
Dividend payable	**221,671**	233,213
Loans	**3,000**	–
	$271,244	$281,319

1. Including current portion.

20.
CONTINGENCIES AND COMMITMENTS

Contingencies
In the normal course of business, the SAQ is party to claims and lawsuits, mostly involving damages, totalling close to $4.2 million. Management is contesting these lawsuits and is therefore opposed to meeting the resulting claims. The SAQ has made no provisions for these contingencies because, in management's opinion, no settlement that might arise from such claims would have a significant impact on the SAQ's consolidated financial statements.

(tabular amounts in thousands of dollars)

20. CONTINGENCIES AND COMMITMENTS (cont.)

Commitments

Under its operating leases, the SAQ has committed to paying a total amount of $395.3 million to lease outlets. Payments for future fiscal years amount to:

2012	$ 48,169
2013	$ 46,262
2014	$ 43,545
2015	$ 40,374
2016	$ 36,952
2017-2026	$ 180,017

Environment

The SAQ's activities must adhere to the environmental laws, regulations and guidelines enacted by the various governments. In management's opinion, environmental risks are appropriately managed and there are no current or potential liabilities related to environmental risks.

21.
CASH FLOW INFORMATION

	2011	2010
Interest paid included in cash flows from operating activities	**$ 596**	$ 626
The net change in non-cash working capital items breaks down as follows:		
Trade and other accounts receivable	**$ (3,235)**	$ (778)
Inventories	**7,101**	(7,224)
Deposits and prepaid expenses	**(9,259)**	3,083
Accounts payable and accrued liabilities	**22,747**	24,236
	$17,354	$19,317
Non-cash investing activities:		
Acquisitions of property, plant and equipment and intangible assets financed by accounts payable and accrued liabilities	**$ 3,509**	$ 3,367
Cash and cash equivalents, end of fiscal year[1]	**$38,905**	$44,101

1. As at March 27, 2010, includes a short-term investment of $16.0 million entered into with the Caisse de dépôt et placement du Québec, at a rate of 0.25% and maturing on March 29, 2010.

22.
FINANCIAL INSTRUMENTS

Fair value of financial instruments

	2011		2010	
	Fair value	**Book value**	Fair value	Book value
Capital lease obligation	**$1,773**	**$1,765**	$3,425	$3,298

The fair value of the capital lease obligation is estimated using the present value of future monthly payments under current financing agreements at market interest rates offered to the SAQ (Level 2 inputs) for loans with similar conditions and maturity dates, capitalized semi-annually and maturing in April 2012. That rate was 3.79% in 2011 (3.86% in 2010).

The fair value of other short-term financial instruments approximates the book value given that the instruments will be realized or settled in less than a year or are due on demand. These financial instruments include trade and other accounts receivable, loans, accounts payable and accrued liabilities (excluding government taxes and duties payable and the current portion of a capital lease obligation) and the dividend payable.

The fair value of cash and cash equivalents is determined using Level 1 inputs.

(tabular amounts in thousands of dollars)

23.
RISK MANAGEMENT

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

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

Financial risks
Interest rate risk
Bank deposits and certificates of deposit as well as loans and amounts drawn on credit facilities, performed on a daily basis, expose the SAQ to the cash flow risk resulting from interest rate fluctuations. For fiscal 2011, the average balance of these financial assets and liabilities corresponds to a net loan of $36.0 million ($51.6 million in 2010). The financial liabilities bore interest at rates ranging from 0.25% to 3.0% during the fiscal year (0.25% to 2.5% in 2010) and had maturities ranging from 1 to 7 days (1 to 8 days in 2010).

For fiscal 2011, if the interest rates on its financial assets and liabilities had varied by 50 basis points upwards or downwards, the SAQ's net earnings would have been higher or lower by $0.2 million, respectively ($0.3 million for fiscal 2010).

The capital lease obligation has a fixed interest rate and exposes the SAQ to a fair value risk related to interest rates, i.e. that market interest rates will be lower than the interest rates linked to this liability. The effective interest rate for this obligation was 11.3%.

The SAQ's other financial assets and liabilities do not present any interest rate risk, as they are non-interest-bearing.

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

Foreign exchange risk
The SAQ is exposed to foreign exchange risk due to certain accounts payable denominated in foreign currencies. As at March 26, 2011, these accounts payable totalled $16.9 million (€11.2 million and US$1.7 million). As at March 27, 2010, these accounts payable totalled $10.1 million (€6.3 million and US$1.3 million).

Currency purchases during the fiscal year were as follows, in Canadian dollars:

	2011	2010
Euro	**$212,581**	$202,615
U.S. dollar	**29,902**	28,389
Other currencies	**5,006**	5,169
	$247,489	$236,173

If the exchange rates on currencies purchased during the fiscal year had moved up or down by 5%, the SAQ's cost of sales would have been higher or lower by approximately $12.0 million, respectively ($12.0 million in 2010). Given the sales price adjustment guideline applicable to the SAQ's products, which allows for several adjustments over the year subject to certain conditions, the impact of such a change in the SAQ's gross margin and net earnings would not have been significant.

The SAQ negotiates forward exchange contracts in order to partially cover the exchange risk to which it is exposed. Under these contracts, it is required to buy specific amounts of currencies, mainly euros, at predetermined exchange rates.

As at March 26, 2011, the SAQ is committed under a forward contract of less than 12 months denominated in euros beginning on March 28, 2011. The amount of the contract was $5.2 million (€3.8 million) and the forward price was 1.3863. As at March 27, 2010, it also had a forward contract of less than 12 months denominated in euros. The amount totalled $3.6 million (€2.6 million) and the forward price was 1.3979 in 2010. The fair value of this contract was $0.01 million ($0.05 million in 2010) (Level 2 inputs) and was included in accounts payable and accrued liabilities.

Credit risk
Credit risk is the risk of incurring a loss due to a counterparty's failure to meet its obligations. In general, the value shown on the SAQ's consolidated balance sheet as financial assets exposed to credit risk less provisions for losses is the maximum amount exposed to credit risk.

Cash
The SAQ invests its cash with reputable financial institutions with quality external credit ratings. The SAQ monitors and assesses possible changes in the status of its contracting parties and their solvency. The credit risk associated with cash is considered negligible.

Trade and other accounts receivable
The SAQ believes that its exposure to the credit risk related to sales of alcoholic beverages and other goods and services is limited due to the diversity and size of its customer base. For certain customers, the SAQ requires collateral security. The SAQ's policy is to perform a credit check on some customers. Moreover, the balance of trade and other accounts receivable is managed and examined on a continuous basis and, consequently, the SAQ's exposure to credit losses is not significant.

(tabular amounts in thousands of dollars)

23. RISK MANAGEMENT (cont.)

The table below shows the age of trade and other accounts receivable and the related provision for bad debt. The provision was made based on the age of the accounts and the status of customer accounts.

	2011	2010
Not past due	**$41,678**	$38,312
Past due for 30 days or less	**6,573**	4,995
Past due for more than 30 days	**1,475**	3,353
	49,726	46,660
Provision for bad debt	**(867)**	(1,036)
	$48,859	$45,624

The change in the provision for bad debt is as follows:

	2011	2010
Balance, beginning of fiscal year	**$1,036**	$1,012
Reversal of provision	**13**	122
Write-off of receivables	**(97)**	(108)
Impairment loss	**(85)**	10
Balance, end of fiscal year	**$ 867**	$1,036

<u>Liquidity risk</u>
Liquidity risk is the risk of the SAQ having difficulty meeting its commitments related to financial liabilities. The SAQ is exposed to this risk mainly through its loans, accounts payable and accrued liabilities, dividend payable and the capital lease obligation.

The financial liabilities have a contractual maturity of less than one year, except for the capital lease obligation.

Managing liquidity risk consists of maintaining a sufficient amount of cash and ensuring that the SAQ has financing sources in the form of loans for sufficient authorized amounts. The SAQ prepares budget and cash estimates to ensure it has the funds needed to meet its obligations.

The SAQ's liquidity risk exposure is reduced by a significant volume of cash flow from operations, preauthorized sources of financing and management of short-term debt at floating rates. The SAQ believes that it is able to honour financial liabilities requiring disbursements in the short term.

24.
RELATED PARTY TRANSACTIONS

In addition to the related party transactions already disclosed in the financial statements and measured at the exchange amount, the SAQ is related to all Government of Quebec ministries and special funds as well as to 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 amount is the amount established and agreed to by the parties. The SAQ has not concluded any business transactions with these related parties other than in the normal course of business. These transactions are not disclosed separately in the consolidated financial statements.

During fiscal year 2010-2011, the SAQ sold a total of $4.3 million in alcoholic beverages to its joint venture, TWIST, LP.

25.
COMPARATIVE FIGURES

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

26.
SUBSEQUENT EVENT

On April 8, 2011, TWIST, LP, 50%-owned by the SAQ, acquired the net assets of J.J. Buckley, a U.S. retailer specialized in the e-commerce of mid- and high-end alcoholic products. Its annual sales are approximately $25.0 million.

QUARTERLY RESULTS

Fiscal years ended March 26, 2011 and March 27, 2010
(unaudited data)

	2011				
	Fiscal year	Q4	Q3	Q2	Q1
Number of weeks	52	12	16	12	12
FINANCIAL RESULTS *(in millions of dollars)*					
Net sales[1]	2,660.3	513.3	965.7	598.8	582.5
Gross margin[1]	1,417.3	273.1	511.1	323.0	310.1
Net operating expenses[1,2]	502.6	129.7	151.8	108.4	112.7
Net earnings	914.7	143.4	359.3	214.6	197.4
Dividend paid	926.2	278.0	224.0	147.0	277.2
NET SALES BY NETWORK[1] *(in millions of dollars)*					
Outlets and specialized centres	2,365.0	458.3	855.9	538.3	512.5
Wholesale grocers	295.3	55.0	109.8	60.5	70.0
Total	2,660.3	513.3	965.7	598.8	582.5
VOLUME SALES BY NETWORK *(in millions of litres)*					
Outlets and specialized centres	142.8	27.4	49.0	34.3	32.1
Wholesale grocers	37.7	7.2	13.9	7.7	8.9
Total	180.5	34.6	62.9	42.0	41.0
VOLUME SALES BY PRODUCT CATEGORY *(in millions of litres)*					
Wines	148.3	29.1	52.4	33.5	33.3
Spirits	20.8	4.0	7.7	4.8	4.3
Imported and microbrewery beers, ciders and coolers	11.4	1.5	2.8	3.7	3.4
Total	180.5	34.6	62.9	42.0	41.0
OTHER FINANCIAL DATA *(in millions of dollars and in millions of litres)*					
Net sales to brewers and beer distributors[3]	270.2	48.2	71.3	76.1	74.6
Beer sold to brewers and beer distributors[3]	214.5 L	35.7	58.9	60.1	59.8

1. Due to the adoption of a new presentation method, the Éduc'alcool fund and Environmental fund deductions are included in the operating expenses. In 2010-2011, these deductions totalled $7.2 million compared to $6.9 million the previous fiscal year.
2. After deducting other revenue.
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.

QUARTERLY RESULTS (cont.)
Fiscal years ended March 26, 2011 and March 27, 2010
(unaudited data)

	2010				
	Fiscal year	Q4	Q3	Q2	Q1
Number of weeks	52	12	16	12	12
FINANCIAL RESULTS *(in millions of dollars)*					
Net sales[1]	2,549.1	493.8	918.7	579.9	556.7
Gross margin[1]	1,350.9	262.9	482.0	312.6	293.4
Net operating expenses[1,2]	483.7	125.2	148.7	103.4	106.4
Net earnings	867.2	137.7	333.3	209.2	187.0
Dividend paid	817.0	251.0	206.0	137.0	223.0
NET SALES BY NETWORK[1] *(in millions of dollars)*					
Outlets and specialized centres	2,260.1	441.2	812.8	516.8	489.3
Wholesale grocers	289.0	52.6	105.9	63.1	67.4
Total	2,549.1	493.8	918.7	579.9	556.7
VOLUME SALES BY NETWORK *(in millions of litres)*					
Outlets and specialized centres	137.4	26.6	47.0	33.2	30.6
Wholesale grocers	36.6	6.9	13.1	8.0	8.6
Total	174.0	33.5	60.1	41.2	39.2
VOLUME SALES BY PRODUCT CATEGORY *(in millions of litres)*					
Wines	142.3	27.8	49.8	32.9	31.8
Spirits	20.3	4.0	7.4	4.6	4.3
Imported and microbrewery beers, ciders and coolers	11.4	1.7	2.9	3.7	3.1
Total	174.0	33.5	60.1	41.2	39.2
OTHER FINANCIAL DATA *(in millions of dollars and in millions of litres)*					
Net sales to brewers and beer distributors[3]	270.8	53.9	68.3	83.7	64.9
Beer sold to brewers and beer distributors[3]	201.0 L	41.3	48.2	65.7	45.8

TEN-YEAR HISTORICAL REVIEW

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

	2011[1]	2010[1]	2009[1]	2008
OPERATING RESULTS				
(in millions of dollars)				
Net sales[4]	**2,660.3**	2,549.1	2,424.5	2,300.3
Gross margin[4]	**1,417.3**	1,350.9	1,282.6	1,245.5
Net operating expenses[4,5]	**502.6**	483.7	475.9	484.6
Net earnings	**914.7**	867.2	806.7	760.9
FINANCIAL POSITION				
(in millions of dollars)				
Total assets	**641.0**	627.8	590.3	592.5
Property, plant and equipment and intangible assets	**238.8**	225.8	209.6	214.4
Net working capital	**(172.0)**	(157.7)	(140.5)	(146.2)
Long-term liabilities	**21.9**	23.2	24.3	25.1
Shareholder's equity	**44.8**	44.8	44.8	43.1
CASH FLOWS				
(in millions of dollars)				
Cash flows from operating activities	**960.6**	915.0	834.6	816.5
Acquisitions of property, plant and equipment and intangible assets	**43.2**	43.3	26.6	21.1
Dividend paid	**926.2**	817.0	802.0	742.0

1. Due to the adoption of a new accounting standard on inventories in fiscal 2008-2009, direct shipping costs are deducted from operating expenses and charged to the cost of sales. In 2010-2011, direct shipping costs totalled $15.8 million compared to $14.4 million the previous fiscal year.
2. 53-week fiscal year.
3. The fiscal year was disrupted by a labour dispute.
4. Due to the adoption of a new presentation method, the Éduc'alcool fund and Environmental fund deductions are included in the operating expenses. In 2010-2011, these deductions totalled $7.2 million compared to $6.9 million the previous fiscal year.
5. After deducting other revenue and other income.

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

TEN-YEAR HISTORICAL REVIEW (cont.)
Fiscal years ended the last Saturday in March
(unaudited data)

2007[2]	2006	2005[3]	2004	2003	2002
2,180.0	2,019.4	1,810.6	1,836.8	1,725.1	1,575.5
1,187.0	1,120.0	1,000.8	1,022.1	939.5	850.1
479.0	463.1	455.0	451.3	399.1	361.4
708.0	656.9	545.8	570.8	540.4	488.7
573.0	658.8	682.8	742.6	651.6	575.8
240.2	272.4	295.4	313.7	297.4	214.6
(171.6)	(203.6)	(227.5)	(242.8)	(230.7)	(148.8)
24.4	46.4	47.5	52.2	53.4	54.5
44.2	35.6	35.6	34.9	34.1	33.7
769.0	679.5	727.5	523.3	580.5	544.4
19.0	24.9	32.2	57.4	110.7	72.0
674.0	598.0	558.0	606.0	509.0	441.0

	2011	2010	2009	2008
NET SALES BY NETWORK[3]				
(in millions of dollars and in millions of litres)				
Outlets and specialized centres	**2,365.0**	2,260.1	2,146.5	2,034.8
	142.8 L	137.4	132.1	127.9
Wholesale grocers	**295.3**	289.0	278.0	265.5
	37.7 L	36.6	36.0	34.6
Total	**2,660.3**	2,549.1	2,424.5	2,300.3
	180.5 L	174.0	168.1	162.5
NET SALES BY PRODUCT CATEGORY[3]				
(in millions of dollars and in millions of litres)				
Wines	**1,988.9**	1,905.5	1,804.9	1,705.2
	148.3 L	142.3	137.0	131.9
Spirits	**582.5**	552.9	530.9	515.0
	20.8 L	20.3	19.6	19.4
Imported and microbrewery beers,	**88.9**	90.7	88.7	80.1
ciders and coolers	**11.4 L**	11.4	11.5	11.2
Total	**2,660.3**	2,549.1	2,424.5	2,300.3
	180.5 L	174.0	168.1	162.5
OTHER FINANCIAL DATA				
(in millions of dollars and in millions of litres)				
Net sales to brewers and beer distributors[4]	**270.2**	270.8	231.2	209.3
Beer sold to brewers and beer distributors[4]	**214.5 L**	201.0	167.3	148.2

1. 53-week fiscal year.
2. The fiscal year was disrupted by a labour dispute.
3. Due to the adoption of a new presentation method, the Éduc'alcool fund and Environmental fund deductions are included in the operating expenses. In 2010-2011, these deductions totalled $7.2 million compared to $6.9 million the previous fiscal year.
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.

TEN-YEAR HISTORICAL REVIEW (cont.)
Fiscal years ended the last Saturday in March
(unaudited data)

2007[1]	2006	2005[2]	2004	2003	2002
1,918.5	1,758.0	1,510.2	1,650.0	1,491.9	1,353.7
123.6	114.9	101.2	108.2	105.3	97.7
261.5	261.4	300.4	186.8	233.2	221.8
32.8	31.9	34.9	29.4	28.9	29.2
2,180.0	2,019.4	1,810.6	1,836.8	1,725.1	1,575.5
156.4	146.8	136.1	137.6	134.2	126.9
1,606.4	1,474.6	1,315.8	1,326.2	1,225.6	1,107.9
126.0	116.7	107.6	109.0	105.3	100.9
493.8	461.3	406.2	428.7	415.4	401.9
19.0	18.2	16.1	17.3	16.9	16.7
79.8	83.5	88.6	81.9	84.1	65.7
11.4	11.9	12.4	11.3	12.0	9.3
2,180.0	2,019.4	1,810.6	1,836.8	1,725.1	1,575.5
156.4	146.8	136.1	137.6	134.2	126.9
190.3	159.5	181.6	238.5	150.1	121.2
132.4	122.8	131.7	203.6	110.1	84.4

TEN-YEAR HISTORICAL REVIEW (cont.)
Fiscal years ended the last Saturday in March
(unaudited data)

	2011[1]	2010[1]	2009[1]	2008
NET OPERATING EXPENSES[4,5]				
(in millions of dollars)				
Compensation and employee social benefits	**350.3**	332.5	319.2	316.9
Building occupancy expenses[6]	**83.0**	79.6	76.9	73.6
Equipment use and supply expenses[6]	**39.8**	37.1	43.9	59.8
Freight out and communications	**8.8**	8.3	8.8	11.4
Other operating expenses[4,5]	**20.7**	26.2	27.1	22.9
Total	**502.6**	483.7	475.9	484.6
OPERATING RATIOS				
(as a percentage of net sales)				
Gross margin[4]	**53.3%**	53.0%	52.9%	54.1%
Net earnings	**34.4%**	34.0%	33.3%	33.1%
Net operating expenses[4,5]	**18.9%**	19.0%	19.6%	21.0%
OTHER DATA				
(at fiscal year-end)				
Number of employees[7]	**5,369**	5,265	5,260	5,337
Number of outlets	**414**	416	414	414
Number of agencies	**396**	395	398	397
Number of products offered for sale	**9,580**	8,833	8,611	8,231
SURFACE AREA OF BUSINESS PREMISES				
(in thousands of square feet)				
Outlets	**1,827.2**	1,822.1	1,759.0	1,703.8
Distribution centres	**1,467.3**	1,349.7	1,215.4	1,215.4

1. Due to the adoption of a new accounting standard on inventories in 2008-2009, direct shipping costs are deducted from operating expenses and charged to the cost of sales. In 2010-2011, direct shipping costs totalled $15.8 million compared to $14.4 million the previous fiscal year.
2. 53-week fiscal year.
3. The fiscal year was disrupted by a labour dispute.
4. Due to the adoption of a new presentation method, the Éduc'alcool fund and Environmental fund deductions are included in the operating expenses. In 2010-2011, these deductions totalled $7.2 million compared to $6.9 million the previous fiscal year.
5. After deducting other revenue and other income.
6. Including amortization expense.
7. The number of employees is expressed on a full-time equivalence basis.

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

TEN-YEAR HISTORICAL REVIEW (cont.)
Fiscal years ended the last Saturday in March
(unaudited data)

2007[2]	2006	2005[3]	2004	2003	2002
308.4	280.0	254.3	275.8	252.3	224.6
72.5	71.2	66.6	64.7	57.4	47.8
57.8	57.9	60.8	54.2	42.9	34.6
12.2	13.3	12.3	12.6	12.2	10.5
28.1	40.7	61.0	44.0	34.3	43.9
479.0	463.1	455.0	451.3	399.1	361.4
54.4%	55.5%	55.3%	55.6%	54.5%	54.0%
32.5%	32.5%	30.1%	31.1%	31.3%	31.0%
21.9%	23.0%	25.2%	24.5%	23.2%	23.0%
5,264	5,235	4,494	4,803	4,511	4,242
414	408	403	398	398	380
395	400	403	403	401	399
7,532	7,243	7,633	7,148	6,755	7,250
1,687.1	1,660.9	1,633.1	1,595.7	1,542.9	1,306.3
1,166.9	1,166.9	1,152.6	1,127.6	983.0	877.9

BOARD OF DIRECTORS

The Board of Directors of the Société des alcools du Québec is made up of 12 members, including the Chief Executive Officer.

The directors have diverse professional backgrounds and make their knowledge and skills available to the four Board committees: Governance and Ethics; Audit; Business Practices; and Human Resources.

Chaired by Norman Hébert Jr., the Board of Directors met 16 times during the 2010–2011 fiscal year and performed all its regular duties related to the conduct of the company's business. It reviewed and approved the budget, annual financial statements and annual report. It also approved the joint audit plan and the external auditors' fees, the human resources policies, the compensation standards and rates of remuneration and the other terms and conditions of employment applicable to the company's officers and employees. After each meeting of its committees, the Board received an oral report and the minutes of meeting summarizing the issues discussed at the meeting.

In addition, the Board followed up on the 2010–2012 Strategic Plan and examined and approved the directors' expertise and experience profile. It also carried out the annual evaluation of its operation and achievements.

In compliance with section 15.15 of the *Act respecting the governance of state-owned enterprises*, the SAQ's Board of Directors signed a memorandum of understanding with the Quebec Auditor General to grant to an outside firm a mandate to develop measures for assessing the company's effectiveness and performance.

Additionally, following the passage of the *Act to implement certain provisions of the Budget Speech of 30 March 2010, reduce the debt and return to a balanced budget in 2013-2014*, the Board adopted guidelines and measures for reducing expenses and increasing the company's productivity.

In actuality, the SAQ was asked to realize a \$5-million effort in fiscal 2010–2011. The adopted measures resulted in savings of \$15.3 million, including nearly \$12 million in productivity gains in the Sales and Logistics and Distribution divisions. In conformance with the act, the company revised downward the basic salary's target bonus of senior executives by 10% and of managerial staff by 30%. This reduction corresponds to a \$2 million decrease in the performance-based additional compensation of senior executives and managers. In addition, the salary scale increase for executive and managerial staff has been limited to 0.5%.

With respect to operating expenses of an administrative nature, the company launched several initiatives that, while taking into account its special characteristics, will enable it to reach the 10% reduction target by the end of fiscal 2013–2014. Advertising, training and travel expenses not incurred as part of the company's business mission were tightly controlled throughout the year. Accordingly, the overall objective set by the act will be reached by the end of the fiscal year beginning in 2013.

Lastly, the Board recommended to the government that it give the green light to the creation of TWIST, LP, a limited partnership involved in the alcoholic beverage industry and the delivery of related services, with the exception of store-based retail sales, outside Quebec.

BOARD COMMITTEES

GOVERNANCE AND ETHICS COMMITTEE

The Governance and Ethics Committee (GEC) is chaired by Louise Ménard. It has five members, who met on six occasions in fiscal 2010–2011. The committee performed all the regular functions specified in section 22 of the *Act respecting the governance of state-owned enterprises*.

The committee evaluated the performance of the Board of Directors. For this purpose, it developed and proposed to the Board of Directors criteria for carrying out an annual evaluation of the Chairman of the Board and of the functioning of the Board and its committees. The directors subsequently filled out questionnaires on the makeup of the Board and its committees, the organization and effectiveness of meetings and the role of the Board and its committees. The results were compiled and forwarded to the directors.

The committee also reviewed the directors' expertise and experience profiles and organized and oversaw the holding of three continuous training workshops for the directors.

In addition to performing follow-up on the results of the sales ethic program and on the initiatives of the SAQ's Sustainable Development Plan, the committee reviewed the Ombudsman's mandate and took part in the recruitment process for the new Ombudsman, Gilles Pharand, who took office on October 1, 2010. After each of its meetings, the committee reported on its activities to the Board of Directors.

AUDIT COMMITTEE

The Audit Committee (AC) has been chaired by Douglas M. Deruchie since February 9, 2011. Prior to that, it was chaired by Chantal Bélanger. The committee has six members, one of whom is a member of the Ordre des comptables généraux accrédités du Québec and another of whom is a member of the Ordre des comptables agréés.

During the 2010–2011 fiscal year, the Audit Committee held five meetings, during which it performed all the regular functions specified in section 24 of the *Act respecting the governance of state-owned enterprises*.

Specifically, it recommended to the Board of Directors that the consolidated financial statements be approved. It determined that the statements accurately reflected the company's financial situation and that the various internal control mechanisms in place were appropriate and effective.

In addition, the committee examined the quarterly reports and followed up on the progress of the transition to and implementation of the International Financial Reporting Standards (IFRS).

The committee also performed follow-up on the Risk Management Committee's work and on the plan for optimizing human resources and occupational health and safety management. Periodic follow-up reports on the recommendations and the savings achieved were submitted to the committee members. The committee took cognizance of the audits performed by the Internal Audit Department.

Lastly, the committee verified the independence of the external auditors, whose fees for professional services rendered as at March 26, 2011, totalled \$280,842. It approved the joint audit plan and periodically met in private with representatives of the Auditor General and the external auditors. After each of its meetings, the committee reported on its activities to the Board of Directors.

BUSINESS PRACTICES COMMITTEE

The Business Practices Committee (BPC) has been chaired by Pietro Perrino since February 9, 2011. Prior to that, it was chaired by Yves Archambault. The Business Practices Committees is made up of seven members, including the Chief Executive Officer, Philippe Duval. In fiscal 2010–2011, the committee met eight times.

The committee's terms of reference are to examine the current policies and business of the Société des alcools du Québec regarding the procurement and merchandising, including marketing and promotions, of the products distributed by the company. In addition, it ensures compliance with the Policy Regarding Contracts and Financial Commitments, including the development of the company's network of outlets and agencies. Lastly, it examines issues related to external communications and social responsibility.

To carry out all the duties delegated to it by the Board of Directors, the committee performed follow-up on the granting of donations and sponsorships and on the outlet network and agency development plan.

In addition, it revised the Procurement and Merchandising Policy, the Private Order Policy and the Donation and Sponsorship Policy and recommended their adoption to the Board of Directors. After each of its meetings, the committee reported on its activities to the Board of Directors.

HUMAN RESOURCES COMMITTEE

The Human Resources Committee (HRC) has been chaired by Lucie Martel since February 9, 2011. Prior to that, it was chaired by Adam Turner. The Human Resources Committee has seven members; one of its seats is currently vacant.

The committee's main terms of reference are to ensure that policies relating to human resources are implemented and maintained. In fiscal 2010–2011, the Human Resources Committee held 11 meetings, at which it performed all the regular functions specified in section 27 of the *Act respecting the governance of state-owned enterprises*.

Among other things, it revised the compensation structure and employment conditions of the company's officers and non-unionized employees and recommended to the Board of Directors the evaluation criteria for the Chief Executive Officer.

It also performed close follow-up on the recommendations resulting from the mandate focusing on human resources optimization and occupational health and safety management.

Lastly, the Human Resources Committee followed up on the succession plan for the company's officers. After each of its meetings, the committee reported on its activities to the Board of Directors.

DIRECTORS' ATTENDANCE AT MEETINGS OF THE BOARD AND BOARD COMMITTEES

2010–2011 fiscal year

Directors	BoD	BPC	GEC	AC	HRC
Number of Meetings	16	8	6	5	11
Norman Hébert Jr.*	15/16	4/8	5/6	2/5	9/11
Philippe Duval	15/16	7/8	N/A	N/A	N/A
Yves Archambault[1]	12/16	6/8	N/A	N/A	8/11
Chantal Bélanger[2]	13/16	N/A	6/6	4/5	N/A
Céline Blanchet	14/16	7/8	N/A	N/A	6/11
Johanne Brunet	16/16	7/8	N/A	5/5	N/A
Liliane Colpron[3]	2/16	1/8	–	N/A	N/A
Douglas M. Deruchie[4]	1/16	1/8	N/A	1/5	N/A
Lucie Martel[5]	2/16	N/A	–	N/A	1/11
Louise Ménard	16/16	N/A	6/6	N/A	10/11
Gary Mintz[6]	12/16	4/8	4/6	N/A	N/A
Robert Morier	16/16	N/A	N/A	5/5	11/11
Pietro Perrino	15/16	8/8	N/A	5/5	N/A
Jean-Marie Toulouse	13/16	N/A	6/6	N/A	9/11
Adam Turner[7]	13/16	N/A	N/A	2/5	10/11

*Ex officio member of all Board committees.
1. Yves Archambault's term ended on December 17, 2010.
2. Chantal Bélanger's term ended on December 17, 2010.
3. Liliane Colpron was appointed on January 19, 2011.
4. Douglas M. Deruchie was appointed on January 19, 2011.
5. Lucie Martel was appointed on January 19, 2011.
6. Gary Mintz's term ended on January 19, 2011.
7. Adam Turner's term ended on February 9, 2011.

BoD – Seven unscheduled meetings
AC – One unscheduled meeting
HRC – Six unscheduled meetings
GEC – Two unscheduled meetings

DIRECTORS' COMPENSATION

2010–2011 fiscal year
(in dollars)

		Notes
Norman Hébert Jr.[1,2,3,4,5]	37,861	
Yves Archambault[1,2,5]	19,731	Term ended on December 17, 2010
Chantal Bélanger[1,3,4]	19,197	Term ended on December 17, 2010
Céline Blanchet[1,2,5]	21,064	
Johanne Brunet[1,2,4]	21,597	
Liliane Colpron[1,2,3]	3,320	Appointed on January 19, 2011
Douglas M. Deruchie[1,2,4]	3,965	Appointed on January 19, 2011
Lucie Martel[1,3,5]	3,965	Appointed on January 19, 2011
Louise Ménard[1,3,5]	25,330	
Gary Mintz[1,2,3]	15,915	Term ended on January 19, 2011
Robert Morier[1,4,5]	21,597	
Pietro Perrino[1,2,4]	22,397	
Jean-Marie Toulouse[1,2,5]	20,264	
Adam Turner[1,4,5]	20,619	Term ended on February 9, 2011
Total	256,822	

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

Note: Compensation payable to the directors under Order-in-Council 610-2006 enacted on June 28, 2006, and increased by 0.5% on April 1, 2010.

COMPENSATION PAID TO THE FIVE HIGHEST-PAID OFFICERS

2010–2011 fiscal year
(in dollars)

Name	Title	Base Salary as at March 28, 2010	Base salary as at February 16, 2011*	Annual bonus program	Other forms of compensation**
Philippe Duval	Chief Executive Officer	298,480	313,404	15,670	6,839
Alain Brunet	Vice-President and Chief Operating Officer	250,072		48,765	7,796
Richard Genest	Vice-President and Chief Financial Officer	228,323		44,523	7,915
Luc Vachon	Vice-President – Logistics and Distribution	220,074		42,915	10,972
Daniel Simard	Vice-President – Procurement and Merchandising	206,000		40,170	10,511

*Reappointment of the Chief Executive Officer.
**Taxable benefits based on the 2010 calendar year and related to the purchase of alcoholic beverages, use of a car, membership in a professional order and group insurance.

THE OMBUDSMAN: IN ALL FAIRNESS

The position of Ombudsman – Business Relations and Employees has been entrusted to Gilles Pharand. 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 and he submits a report on his activities to the Governance and Ethics Committee twice a year. In the last year, the Ombudsman dealt with many cases relating to employee relations and the SAQ's business practices and gave his recommendations. In addition to being a member of the Forum of Canadian Ombudsman, the SAQ's Ombudsman subscribes to the code of ethics of the International Ombudsman Association (IOA), of which he is a certified member.

For more information, please refer to the Ombudsman page in the SAQ at a Glance section of SAQ.com.

MEMBERS OF THE BOARD OF DIRECTORS

NORMAN HÉBERT JR.

Chairman of the Board of Directors
- Appointed on November 15, 2006, for a two-year term (Order-in-Council 1043-2006)
- Renewal on January 28, 2009, for a five-year term (Order-in-Council 47-2009)

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 sits on Concordia University's Board of Governors and was co-chair of the 2010 Centraide of Greater Montreal campaign. He is also a past president of the Montreal Automobile Dealers Corporation and of the Quebec division of the Young Presidents' Organization.

PHILIPPE DUVAL

Director
- Appointed on June 18, 2008, for a three-year term (Order-in-Council 615-2008)
- Renewal on February 16, 2011, for a three-year term (Order-in-Council 106-2011)

Chief Executive Officer
- SAQ

Possessing a degree in industrial relations from the Université de Montréal, Philippe Duval has acquired extensive experience in human resources, sales and management. He has held various positions in companies including Société de développement de la Baie-James, Delisle Canada, Aéroports de Montréal, Uniboard Canada and Molson Canada. He holds a university certificate in corporate governance from the Collège des administrateurs of Université Laval, qualifying him for the title Administrateur de sociétés certifié. He joined the SAQ in 2003 as Vice-President, Human Resources, and was appointed Vice-President, Sales Network Operation and Development, in February 2006. He has been the SAQ's Chief Executive Officer since June 2008.

YVES ARCHAMBAULT

Chair of the Business Practices Committee

Director
- Appointed on September 12, 2003, for a two-year term (Order-in-Council 937-2003)
- Renewal on November 16, 2005, for a two-year term (Order-in-Council 1085-2005)
- Second renewal on August 27, 2008, for a two-year term (Order-in-Council 798-2008)
- Term ended on December 17, 2010.

A graduate of HEC Montréal, Yves Archambault is currently a member of the board of directors of Desjardins Groupe d'assurances générales and of 20 20 Technologies Inc. He served as Executive Vice-President of Groupe Val Royal from 1988 to 1993. He moved on to become President and Chief Operating Officer of Réno-Dépôt from 1993 to 1997, then Chief Executive Officer until 2002. He has also held seats on the boards of directors of several corporations, including Arcon Canada, Culinar, Kingfisher PLC and Réno-Dépôt inc. He is currently Chairman of the Board of TWIST, Expert in Wine and Spirits Inc.

CHANTAL BÉLANGER

Chair of the Audit Committee

Director
- Appointed on December 18, 2002, for a two-year term (Order-in-Council 1507-2002)
- Renewal on November 16, 2005, for a two-year term (Order-in-Council 1085-2005)
- Second renewal on August 27, 2008, for a two-year term (Order-in-Council 798-2008)
- Term ended on December 17, 2010.

A member of the Ordre des comptables généraux agréés du Québec and the holder of an undergraduate certificate in accounting from the Université du Québec à Rimouski, 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 Administratrice de sociétés certifiée. For 20 years, Chantal Bélanger has held various management positions, including that of the first Senior Vice-President, Retail Financial Services – Quebec, at Laurentian Bank of Canada. She currently sits on the boards of directors of Industries Lassonde inc., the Régie des rentes du Québec and the Institute of Corporate Directors – Quebec Chapter, in addition to chairing the audit committees of the first two organizations. She is also a director of TWIST, Expert in Wine and Spirits Inc.

CÉLINE BLANCHET

Director
- Appointed on October 7, 2009, for a two-year term (Order-in-Council 1075-2009)

Vice-President, Corporate Affairs
- DeSerres Inc.

The holder of a bachelor's in economics and a law degree from Université Laval, Céline Blanchet has been a member of the Barreau du Québec since 1985. She also holds a certificate in corporate governance from the Collège des administrateurs de sociétés of Université Laval, qualifying her for the title Administratice de sociétés certifiée. She works in the retail sector as Vice-President, Corporate Affairs, at DeSerres Inc. She was formerly Senior Manager, Public Affairs, at Laurentian Bank of Canada, before which she held various professional positions at Hydro-Québec and with the Quebec government. She currently holds a seat on the board of directors of several organizations, including the Canadian Bar Association – Quebec Branch, Le Chaînon and the Canadian Committee of the House of Canadian Students in Paris.

JOHANNE BRUNET

Director
- Appointed on August 7, 2007, for a four-year term (Order-in-Council 623-2007)

Associate Professor
- Department of Marketing, HEC Montréal

A member of the Ordre des comptables généraux agréés, Johanne Brunet has a doctorate in industrial and business studies from the University of Warwick (United Kingdom) and an MBA in marketing and international management from HEC Montréal. She also holds a certificate in corporate governance from the Collège des administrateurs de sociétés of Université Laval, qualifying her for the title Administratrice de sociétés certifiée. In 1999, Ms. Brunet received the Action femmes d'affaires award from the Board of Trade of Metropolitan Montreal. 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 boards of Vivavision Inc., Théâtre du Rideau Vert and the Société d'habitation et de développement de Montréal (SHDM) as well as others in the United Kingdom.

LILIANE COLPRON

Director
- Appointed on January 19 , 2011, for a four-year term (Order-in-Council 23-2011)

President and Founder
- Boulangerie Première Moisson

A visionary and woman of action, Liliane Colpron founded Boulangeries Mansion in 1980. In 1992, she took on a new challenge when she created Boulangerie Première Moisson, the company to which she has since devoted herself. As president, she manages the company with her children. In constant growth since its founding, the company employs more than 1,200 persons across Quebec.

DOUGLAS M. DERUCHIE

Director
- Appointed on January 19 , 2011, for a four-year term (Order-in-Council 23-2011)

Chartered Accountant

The holder of a bachelor of commerce degree from Carlton University and a chartered accountant diploma from the Canadian Institute of Chartered Accountants, Douglas M. Deruchie began his career in 1968 in the Taxation Department of KPMG in Toronto. In 1971, he was transferred to KPMG in Montreal, made a partner in 1973 and a senior partner in 1980. He later joined Rietmans Canada Ltd. as director of finance.

LUCIE MARTEL

Director
- Appointed on January 19 , 2011, for a four-year term (Order-in-Council 23-2011)

Vice President, Human Resources
- AXA Canada

With a degree in industrial relations from the Université de Montréal, Lucie Martel began her career at Uniroyal as a labour relations advisor. She quickly rose through the ranks, becoming head of labour relations at Direct Film and then Vice-President, Human Resources Development and Management, at Laurentian Bank. Since 2000, she has held the position of Vice President, Human Resources, AXA Canada.

LOUISE MÉNARD

Chair of the Governance and Ethics Committee

Director
- Appointed on August 7, 2007, for a four-year term (Order-in-Council 623-2007)

President
- Groupe Méfor inc.

Holding a law degree from the Université de Montréal, Louise Ménard has also obtained a certificate in corporate governance from the Collège des administrateurs de sociétés of Université Laval, qualifying her for the title Administratice de sociétés certifiée. She is currently President of Groupe Méfor inc. as well as a member of the board of directors and chair of the human resources committee of ProMetric Life Sciences Inc. and chair of the governance committee of On the Tip of the Toes Foundation. Ms. Ménard was previously Vice-President, Corporate and Legal Affairs and Secretary at Sodarcan Inc. She was a member of the board of directors of Assuris Inc.; secretary of the board of directors of the Montreal Heart Institute Foundation as well as a member of the foundation's executive and human resources committee; chair of the advisory board of Nomad Logic Inc.; and chair of the board of directors of Alena Capital Inc.

GARY MINTZ

Director
- Appointed on September 12, 2003, for a two-year term (Order-in-Council 937-2003)
- Renewal on November 16, 2005, for a two-year term (Order-in-Council 1085-2005)
- Second renewal on August 27, 2008, for a two-year term (Order-in-Council 798-2008)
- Term ended on January 19, 2011

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 27 years. Mr. Mintz also serves as a volunteer with numerous charitable organizations, including the Sir Mortimer B. Davis Jewish General Hospital and Hôpital Notre-Dame.

ROBERT MORIER

Director
- Appointed on September 12, 2003, for a two-year term (Order-in-Council 937-2003)
- Renewal on November 16, 2005, for a two-year term (Order-in-Council 1085-2005)
- Second renewal on August 27, 2008, for a two-year term (Order-in-Council 798-2008)

President
- Robert Morier Inc.

Robert Morier holds an authorized life 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 Operation Red Nose fundraising campaigns. He is also a founding member and treasurer of the Fondation Athlétas, which assists young student athletes at the Université de Sherbrooke.

PIETRO PERRINO

Director
- Appointed on November 3, 2004, for a two-year term (Order-in-Council 1021-2004)
- Renewal on August 7, 2007, for a three-year term (Order-in-Council 623-2007)

President
- Pergui Groupe Conseil inc.

Vice-President
- VM Cap

Pietro Perrino holds a master's degree in business administration from the Université du Québec à Montréal. He also has a certificate in corporate governance from the Collège des administrateurs de sociétés of Université Laval, qualifying him for the title Administrateur de sociétés certifié. In March 1999, he founded Pergui Groupe Conseil inc., where he advises corporate executives on their strategic positioning and business development strategies. Mr. Perrino is also chairman of the board of ZoomMed.

JEAN-MARIE TOULOUSE

Director
- Appointed on August 7, 2007, for a four-year term (Order-in-Council 623-2007)

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.

ADAM TURNER

Chair of the Human Resources Committee

Director
- Appointed on May 25, 2005, for a two-year term (Order-in-Council 483-2005)
- Renewal on August 7, 2007, for a three-year term (Order-in-Council 623-2007)
- Term ended on February 9, 2011

President
- Divco ltée

The holder of a bachelor's degree in political science and French from the University of Western Ontario, Adam Turner is also a graduate of the McGill International Executive Institute. He is currently President of Divco ltée, a company that constructs 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.

CODE OF ETHICS FOR EMPLOYEES

In December 2006, the Quebec government passed Bill 53, the *Act respecting the governance of state-owned enterprises*. In order to comply with the act and adopt the best practices in the field, the SAQ has implemented a Code of Ethics for its employees. Developed with input from all the company's divisions and in effect since December 1, 2008, the code is a valuable reference guide that enables employees to act in accordance with the sound business practices promoted by the SAQ. Inspired by the company's values—enthusiasm, respect, responsibility, integrity, cooperation and balance—this reference tool provides clear guidelines for all SAQ employees. As a government-owned business corporation, the SAQ is eager to maintain the trust of its business partners and customers. Accordingly, it attaches great importance to the ethics of its employees. The Code of Ethics for Employees is thus a tool that integrates into a dynamic process in which the Ethics Advisory Committee plays a leading role.

PERSONNEL

(by sex and by division)
(as at March 26, 2011)

Division	Women	Men	Total
Chief Executive Officer	4	6	10
Finance	174	254	428
Human Resources	71	19	90
Informational Resources	84	180	264
Logistics and Distribution	97	704	801
Operations	7	6	13
Procurement and Merchandising	98	51	149
Public Affairs and Communications	36	4	40
Sales Network Operations	2,953	2,743	5,696
Secretary General and Legal	18	10	28
Total	**4,149**	**3,370**	**7,519**

MEASURES TO ASSESS EFFECTIVENESS AND PERFORMANCE

Under the *Act respecting the governance of state-owned enterprises*, the SAQ is required to adopt measures to assess its effectiveness and performance, including benchmarking against similar companies. These measures are to be carried out every three years by the Auditor General or, if the Auditor General considers it appropriate, by an independent firm. The benchmarking process was performed during the year with two organizations active in the sale and distribution of alcoholic beverages, namely the Liquor Control Board of Ontario (LCBO) and Alcool New Brunswick Liquor (ANBL).

The following indicators were examined:

- operating ratio;
- wages and benefits as a percentage of net sales;
- net sales per square foot;
- litre sales per square foot;
- litre sales of wines and spirits;
- inventory turnover – wines and spirits;
- logistics costs per case;
- percentage of marketing cost recovery.

The report reveals that, despite applying the principle of acceptable comparability in choosing the benchmark companies, the process was complicated by the very different business models of the companies concerned. To a large degree, these differences limit the ability to draw conclusions about the relative performance of the companies involved.

DIFFERENTIATING ELEMENTS

(2008 and 2009 fiscal years)

- Impact on the sales plan:

  The LCBO' sales volume is almost twice as high as the SAQ's. A large sales volume can generate economies of scale with respect to costs and increase the organization's flexibility in structuring these costs.

- Impact of the mix of products sold:

  Of the companies involved in the benchmarking exercise, the SAQ is the one that sells the least beer. Beer corresponds to about 1% of the SAQ's total litre sales, while it accounts for more than 50% of the LCBO's and more than 82% of the ANBL's. Beer requires less handling and storage space than other products because beer is received, distributed and sold by the case. The SAQ sells mainly wine: 81% of its volume sales compared with 29% for the LCBO and 8% for the ANBL. Spirits, on the other hand, comprise a bigger share of the other two companies' sales. The per-litre price of spirits is markedly higher than that of wines (more than double on average).

  The wines sold by the SAQ are mainly imported wines (95%), which generate higher operating expenses (handling, palletizing, packaging, quality control, etc.). Imported wines account for only 70% of the LCBO's wine sales.

- Range of products:

  The range of products offered by the SAQ is superior to that offered by the two benchmark companies. Most notably, it carries six or seven times more products than the ANBL.

- Agency stores:

  The SAQ does little business through agency stores. Only 3.5% of its net sales are made through such outlets, compared with 18.6% of the ANBL's sales.

- Population served:

  The population served by each of the LCBO's points of sale is bigger than is the case in Quebec. The difference was recently estimated at nearly 2,000 additional consumers per outlet in Ontario.

HIGHLIGHTS[1]

Generally speaking, the SAQ's performance improved between 2009 and 2009 while that of the benchmark companies was stable or declined. Among other things, the SAQ's operating expenses (expressed as a percentage of net sales) dropped 1.4 percentage points and its net sales per square foot increased 3.5%.

- The SAQ outperformed the benchmark companies with respect to the following indicators:
  - net sales per square foot;
  - litre sales of wine and spirits.
- The SAQ is positioned between the two benchmark companies with respect to the following indicators:
  - litre sales per square foot;
  - inventory turnover – wines;
  - percentage of marketing expenses recovered from promotional programs.
- The SAQ comes in third place with respect to the following indicators:
  - inventory turnover – spirits;
  - operating expenses and wages as a percentage of net sales;
  - logistics costs per case.

Careful to apply the best practices, the SAQ regularly performs divisional benchmarking focused on specific operations within its organization. It will continue to do so in coming years.

1. Some indicators have been adjusted to take into account differences in the business models.

ACCESS TO INFORMATION AND THE PROTECTION OF PERSONAL INFORMATION

*2010–2011 report**

The passage of Bill 86 amending the *Act respecting access to documents held by public bodies and the protection of personal information* has resulted in the application of the *Regulation respecting the distribution of information and the protection of personal information*, which requires all public bodies to distribute specific documents through their websites.

Application of the *Regulation respecting the distribution of information and the protection of personal information*, which began in fiscal 2009–2010 with the publishing on the SAQ's website of the documents specified in division III of the regulation, continued this year with the submission of a report on the activities performed with respect to access to information and the protection of personal information.

Report on access requests received by the SAQ*

The SAQ handled a total of 115 requests: 89 requests for access to documents and 26 requests for access to personal information, including a correction request. The following table presents a detailed breakdown of the handling of the requests received:

Requests accepted in full	55
Requests partly accepted	32
Requests refused	19
Documents not held by the SAQ	9
Requests for review	5
Abandoned requests	1

Reasons for refusal

The specified reasons for refusal related to sections 21 to 24 (commercial information) in 60% of the cases, to sections 53 to 58 (personal information without the consent of the person concerned) in 29% of the cases, to sections 30 to 40 (information affecting administrative or political decisions) in 10% of the cases and to section 88 (personal information regarding another person) of the *Act respecting access to documents held by public bodies and the protection of personal information* in 1% of the cases.

Average request processing time

The SAQ's average response time is 19.5 days. No request was subject to reasonable accommodation measures.

Progress report on activities relating to access to information and the protection of personal information

The Committee on Access to Information met four times during the period covered by this report.

A presentation on the protection of personal information, security systems and video surveillance was distributed to nine divisions and departments, grouping together around 100 persons. A presentation adapted to their specific needs in terms of access to information and the protection of personal information was also offered to the managers of the Informational Resources Divisions.

Two information bulletins, one on the protection of personal information and the other on access to information, were distributed by the Legal Department to the SAQ's administrative departments, a distribution pool of nearly 500 persons.

Lastly, the SAQ's Management Committee adopted a directive regarding procedures for communicating personal information in order to prevent an act of violence.

This report covers the period from January 1, 2010, to March 26, 2011.

CODE OF ETHICS AND PROFESSIONAL CONDUCT FOR THE 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.
Interpretation

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

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

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

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

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

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

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

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

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

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

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

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

SECTION 2.
General Provisions

3. The 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 donor or remitted to 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.

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 President and 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 holders*
Act respecting the Société des alcools du Québec
{Conflict of interest}

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

{Disclosure of interest}

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

Quebec Civil Code

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

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

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

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

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

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

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

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

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

Regulation respecting the ethics and professional conduct of public office holders

Chapter II:
Ethical principles and general rules of professional conduct

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

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

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

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

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

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

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

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

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

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

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

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

10. 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 _____________ 201___.

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 duties that a member of my immediate family performs or I perform or of 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 that 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, perform(s) in the following associations, as this term is defined in the Code of Ethics and Professional Conduct:

Nature of the relationship or interest

Association	Duties	Member	Purpose

Signature Position Date

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In this document, the masculine gender designates both sexes with no discrimination intended and is used solely to facilitate reading.