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October, 1998

Andrew S. Brandt
Chair and Chief Executive Officer

Dear LCBO Shareholder:

I am pleased to provide you with your personal copy of the LCBO 1997-98 annual report.

Entitled *Our third straight record year*, the 52-page report tells how the LCBO scaled new performance heights, transferring a record \$745 million dividend to the province to support schools, hospitals, roads and other important social and capital projects. That's an increase of \$15 million over last year's record transfer; \$65 million more than the year before that; and \$160 million more than in 1993-94.

We broke another important barrier in 1997-98: the \$2 billion mark in net sales, which we'd never reached in our 71-year history. Knowledgeable staff, Sunday shopping, AIR MILES, new store formats and upgrades, in-store promotions, and other customer service enhancements, along with productivity gains and an improving economy, all helped us reach that mark for the first time.

We continued to outperform Canada's other provincial liquor jurisdictions in sales growth (as we have for several years running), posting an 8.7 per cent volume growth rate; the closest jurisdiction was Newfoundland with 2.2 per cent. In value sales, we tied with Newfoundland for first with a 6.5 per cent gain.

With so much good news, it's hard to pick out one event that stands out among the rest. But that event arguably was when the Retail Council of Canada named us Canada's Innovative Retailer of the Year *for the second straight year*. This recognition by our peers, along with an award in Staff Motivation and Development, shows how far LCBO staff have come in creating a better shopping experience for our customers.

When you read this report – or visit one of our stores – I believe you'll see just how much we have improved over the past fiscal year. And with the government's support, and the efforts of our staff and suppliers, we plan to continue to improve next year and beyond. In fiscal 1998-99, we are aiming for another record transfer dividend: \$761 million, based on net sales of \$2.229 billion.

Sincerely,

Andrew S. Brandt
Chair and Chief Executive Officer

LCBO ANNUAL REPORT 1997-1998

Our third straight record year



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LCBO BOARD OF DIRECTORS DURING FISCAL 1997-1998

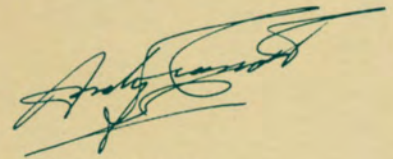
- Andrew S. Brandt
Chair and Chief Executive Officer
- Chantal Haas
Vice Chair; Member, Audit Committee
- Dick Dolphin
Director; Chair, Audit Committee
- John C. Hopper
Director
- Merle A. Jacobs
Director
- John S. Lacey
Director; Member, Audit Committee
- Richard Ling
Director
- Rajula Atherton
*Director; Chair, Audit Committee
(term expired October 6, 1997)*
- Orrin O. Benn
*Director; Member; Audit Committee
(term expired September 7, 1997)*
- M. Sharon Broderick
*Director
(term expired September 14, 1997)*
- Vernon C. Parrington
*Director; Member, Audit Committee
(term expired September 7, 1997)*
- Larry C. Gee
Executive Vice President

LETTER OF TRANSMITTAL

The Hon. David H. Tsubouchi
Minister of Consumer and
Commercial Relations

Dear Minister,
I have the honour to present to you
the 1997-98 Annual Report of the
Liquor Control Board of Ontario.

Respectfully submitted,



Andrew S. Brandt
Chair and CEO

The LCBO wishes to thank the
Office of the Provincial Auditor and
the Audit Committee of the Board
of Directors for their assistance in
preparing this document.

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en français sous le titre : Rapport
annuel de la LCBO 1997-98.

Stock content: 50% per cent total
recovered fibre, 20% per cent post-
consumer waste

On the cover:

The LCBO's new-look IMAGE store
on Avenue Road in Toronto.

The LCBO at a glance

The Liquor Control Board of Ontario (LCBO) regulates the production, importation, distribution and sale of alcoholic beverages in Ontario.

The LCBO is the largest single retailer of beverage alcohol in the world, buying wine, spirits and beer from more than 60 countries for Ontario consumers and licensees.

To provide this service, the LCBO operates five regional warehouses that supply 596 stores across Ontario. Through this integrated distribution and retailing network, more than 5,000 quality products are available to consumers.

The LCBO operates four stand-alone Vintages stores, which offer consumers a wide selection of fine wines, spirits and beer. Vintages products are also available in seven Vintages boutiques and over 140 corners in regular LCBO stores. They can also be ordered through any LCBO outlet. Some 500 additional premium products can be ordered from each edition of the Vintages *Classics Catalogue*.

Customers can also obtain many other products not regularly listed in Ontario through the LCBO Private Stock ordering program.

In partnership with the LCBO, established retailers operate 97 agency stores in communities without large enough population bases to support regular LCBO stores.

For air travellers, the LCBO operates duty-free stores at Terminals 1 and 2 at Toronto's Pearson International Airport.

The LCBO also regulates the sale of products through 428 Brewers Retail stores, 36 on-site brewery stores, 335 winery stores, three distillery stores, 11 land border-point duty-free stores, and duty-free operations at Pearson International Airport Terminal 3 and at Ottawa International Airport.



Our automated Durham Warehouse handles more than 30,000,000 cases of beverage alcohol a year. Case-handling costs have dropped considerably at Durham and our four other warehouses over the last five years, even as the number of cases handled per hour has increased.

In the interests of consumer protection, the LCBO conducts approximately 200,000 tests on 11,000 different alcoholic beverages each year. This Quality Assurance testing ensures that all products sold by the LCBO, Ontario winery stores and Brewers Retail stores comply with the federal *Food and Drug Act*, as well as the LCBO's high standards for quality and taste.

For further information about LCBO products and services, call the LCBO toll-free Infoline at 1-800-ONT-LCBO (668-5226). In Metropolitan Toronto, call (416) 365-5900 or visit the LCBO's two Internet sites: www.lcbo.com (our corporate home page), and www.vintages.com (the Vintages home page).

How to read this report

Under the *Liquor Control Act*, we're required to prepare an annual report for the Minister of Consumer and Commercial Relations. The Minister submits the report to Cabinet and tables it in the Provincial Legislature. Like the annual report of a corporation, this document is first and foremost a formal record of the LCBO's financial performance for the past fiscal year. We've tried to make the report easy to use and understand by:

- › using plain language
- › including glossaries to explain technical and financial terms
- › adding a new section, *How to Read this Report*.

This section expands on the table of contents to help you get the most from this report. We've also included two glossaries for easy reference. The first is a list of technical terms that we use at the LCBO to describe our operations; the second explains financial terms used in the text.

LCBO at a Glance gives you a quick overview of the LCBO – its mandate, number of stores and different types of retail outlets, as well as its distribution network.

Corporate Governance tells you about the structure of the LCBO, including the role of the Board of Directors, committee titles and mandates, and an explanation of the relationship between the LCBO and the Ontario Government.

Highlights 1997-1998 describes noteworthy accomplishments for the fiscal year.

Chair's Remarks provides context and perspective on the details elsewhere in the annual report. Look here for information about:

- › LCBO's strategic direction
- › contributing factors to successful initiatives
- › an overview of the performance numbers
- › any anticipated challenges ahead.

Beyond the Numbers contains a detailed discussion of the LCBO's financial performance. This is equivalent to the management's discussion and analysis section of a private corporation's annual report. Look here to find:

- › how LCBO sales compare to other liquor jurisdictions
- › how sales were distributed by retail region
- › which product categories showed the strongest growth and why
- › and explanations of items in the income statement, balance sheet, and statement of changes in financial position.

Board of Directors shows you pictures and profiles of our Directors.

LCBO Useful Facts is a compilation of interesting facts and figures about LCBO operations.

Income Statement, Balance Sheet and Statement of Changes in Financial Position contain the financial statistics for the 1997-98 fiscal year.

Statistical Insert contains more detailed financial data on LCBO operations, including 11-year trends.

Glossary of LCBO terms

Agency stores: operated by established retailers in communities without the population to support regular LCBO or Brewers Retail stores. They carry 100 or more products and have no standard design format. Preference is given to operators who can offer chilled products and attractive displays. At the end of fiscal 1997-98, there were 97 agency stores, all but nine in Northern Ontario.

Airport duty-free shop: a retail shop located at an airport in Ontario servicing outbound international travelers, licensed by Revenue Canada to sell items free of applicable duties, taxes, markup and levies, and authorized by the LCBO to sell beverage alcohol. The LCBO also owns and operates duty-free shops at Terminals 1 and 2 at Toronto's Pearson International Airport. The duty-free shops at Terminal 3 and the Ottawa International Airport are regulated by the LCBO, but privately operated.

Beer cold room: the in-store refrigerated section of an LCBO combination store. Of the 177 LCBO combo stores, 66 now have beer cold rooms.

Beer cooler: a mixture of beer and soft drinks or fruit juices, generally with a maximum alcohol concentration of 6.9 per cent alcohol by volume.

Brewers Retail Inc. (BRI): a private company owned by three Ontario brewers (Labatt, Molson and Sleeman) authorized by the LCBO to sell domestic and foreign beer and related merchandise through 428 Brewers Retail stores located in 227 communities across Ontario.

Brewery store (on-site): a retail store authorized by the LCBO and operated by a brewer at its manufacturing site. There are 36 on-site brewery stores.

BYID (Bring Your Identification) card: a tamper-resistant photo ID card issued by the LCBO, and accepted as valid proof of age in all LCBO and Brewers Retail stores and licensed establishments. Cards can be obtained with proper identification and a \$15 fee. Applications are available at all LCBO stores.

(BYO) Bottle-Your-Own/bulk wine store: a pilot LCBO retail store at the Crossroads shopping centre in Toronto that offers customers the opportunity to bottle and cork wine from tanks set up in the store.

Challenge and Refusal: this LCBO social responsibility program in all stores helps ensure that beverage alcohol is not sold to minors, to persons who are intoxicated, or anyone making purchases on behalf of these two groups. Statistics are kept on the numbers of individuals challenged and refused service in LCBO stores.

Check 25: the LCBO frontline retail program whereby anyone appearing to be under the age of 25 is routinely challenged for identification.

Classics Catalogue: published three times a year by Vintages (two full issues and one smaller supplement). It offers some 500 different products, such as premium quality spirits, critically acclaimed wines from older vintages and sought-after selections from smaller producers and estates.

Combination or "combo" stores: these sell a full variety of domestic beer in every size, as well as regular LCBO products. This format originated as a customer service initiative in smaller, usually rural communities where there are no Brewers Retail stores. There are two types of combo stores: those with beer cold rooms and those without.

Consignment Warehouse: this program allows agents/suppliers to bring products not available in the LCBO, for sale in pre-set amounts (maximum 350 cases). Agents are responsible for finding buyers for these products; suppliers are not paid until the product is sold.

Depots: wholesale stores servicing licensees and beverage alcohol trade representatives. The five urban LCBO depot stores are not open to the public.

Diplomatic discount: discount on beverage alcohol provided by the LCBO to foreign diplomatic institutions in Ontario accredited by the federal Department of Foreign Affairs and International Trade, comparable to discounts that foreign governments provide to Canadian diplomats posted abroad.

Distillery store (on-site): a retail store authorized by the LCBO and operated by a distiller at its manufacturing site. There are three on-site distillery stores.

Ethnic kiosks: these outlets supply designated products to specific communities, such as the Chinese kiosk in Markham and the kosher kiosk in Thornhill. An Italian kiosk is planned for Hamilton.

Flagship stores: up to 25,000 square feet and located in larger urban centres, these stores carry a global assortment of LCBO General List and Vintages products and gifts. They also offer a complete range of LCBO customer services and special events.

Fortified wine: wine whose alcohol level has been "fortified" (up to 20 per cent) by the addition of spirit (e.g., port, sherry and madeira).

Full-service stores: up to 20,000 square feet, these stores provide customers with a complete range of LCBO products and services in easily accessible locations. They have a wide assortment of products (2,500-3,000), a gift centre, and a Vintages boutique carrying 500-800 brands. They also offer special events to suit the specific market.

Illegally manufactured wine: wine made by a party in Ontario for illegal sale (contrary to the *Liquor Licence Act*), rather than for personal consumption.

IMAGE stores: the design standard for LCBO urban stores since 1990. Design consistency gives IMAGE stores a clear corporate identity, consisting of green and gold decor package, light wood and customized signage. These stores offer 1,400-2,000 products, Vintages sections and a variety of other LCBO customer service features.

Land border-point duty-free shop: a retail shop located at a bridge or tunnel exit from Ontario, licensed by Revenue Canada to sell items free of applicable duties, taxes, markup and levies, and authorized by the LCBO to sell beverage alcohol. The 11 land-based border points are privately owned and regulated by the LCBO.

LCBO Private Stock Program: this program imports beverage alcohol products from around the globe not carried by the LCBO. Individuals can order case lots from anywhere in the world as long as the supplier will ship them to the LCBO.

Licensee discount: discount on beverage alcohol products to be served in licensed establishments, provided by the LCBO to parties licensed by the Alcohol and Gaming Commission of Ontario.

Limited Time Offers (LTOs): month-long price discounts on selected beverage alcohol products. These products are discounted by as much as 20 per cent of their regular price.

Liquor Control Act: provincial legislation passed in 1927 that gives the LCBO powers to control the transportation, sale and delivery of beverage alcohol in Ontario.

Minister of Consumer and Commercial Relations: Minister of the Government of Ontario to whom the LCBO reports as a Schedule II agency.

Mini-stores: at 600-3,000 square feet, located in high-traffic shopping areas, these stores are designed to service a specific customer niche and close the gap in under-served areas. They are often located where there is a strong retail anchor, including enclosed shopping malls. Mini-stores offer 500 of the most popular brands from the General List and Vintages.

New IMAGE stores: at 7,000-10,000 square feet, these stores provide customers with a wide range of LCBO products, services and special events in easily accessible locations. These stores carry 1,800-2,000 General List products and have a Vintages boutique with up to 500 brands. The colour, signage and decor also vary somewhat from the standard IMAGE store.

Product Knowledge Correspondence Course: a three-level employee training program that's mandatory for all LCBO retail staff. The program is also available to the public at a cost of \$80.

Sale of space program: provides LCBO suppliers with an opportunity to purchase display space to promote their products in LCBO IMAGE stores.

Shop the World: a fully integrated marketing program designed to bring excitement to the LCBO shopping experience and introduce the buying public to products we source from around the world. There are usually four or five themed promotions a year, highlighting different categories of products from our global selection. Participating stores offer tastings, recipes, contests, music, food-matching and other activities.

SMAART (Strategies for Managing Age and Alcohol-Related Troubles): this comprehensive LCBO training program is designed to educate staff about responsible service and related judgement calls, alcohol issues and how to handle problem customers. All LCBO employees who serve the public are required to take SMAART training.

Spirit cooler: a mixture of spirit and soft drinks or fruit juices, generally with a maximum alcohol concentration of 6.9 per cent alcohol by volume.

Supply chain management: this term applies to all components of the product ordering and delivery system from the time orders are placed with suppliers to when the product arrives on store shelves.

U-Brew: a privately operated retail shop (not authorized by the LCBO) that provides customers with ingredients, equipment and expertise to make their own beer at the shop.

U-Vint/U-Ferment: a privately operated retail shop (not authorized by the LCBO) that provides customers with ingredients, equipment and expertise to make their own wine at the shop.

Value-adds: bonus items attached by suppliers to a host product.

Vintages: the fine wine, spirits and specialty beer division of the LCBO. It offers an ever-changing assortment of premium products of unusual nature, limited production and/or ethnic interest.

VQA: Vintners Quality Alliance (VQA) designation awarded to Ontario and B.C. wines that meet strict wine-making and taste standards, modeled on traditional "Appellation of Origin" systems used in other wine producing countries such as France, Italy and Germany.

Wine cooler: a mixture of wine and soft drinks or fruit juices, generally with a maximum alcohol concentration of 6.9 per cent alcohol by volume.

Winery retail store: a retail store operated by an Ontario winery under an authorization from the LCBO. Due to international trade agreements, there are two types of winery retail stores: "On-site" stores at the winery that may sell only wine made by the winery at that location, and "off-site" stores that may sell only wine made by the winery. There are 335 winery retail stores in Ontario.

Glossary

of financial terms

Administrative expenses: all costs not directly associated with warehousing, merchandising and retail sales. They include finance and administration, human resources, information technology, and corporate offices.

Balance sheet: a financial statement showing a company's assets, liabilities, and shareholders' equity on a particular date. In a government enterprise like the LCBO, there is no shareholders' equity. The owners are the taxpayers of Ontario, and their stake in the company is represented by the significant annual contributions the LCBO makes to the government's Consolidated Revenue Fund.

Current assets: assets that will be used or converted to cash within one year, for example, cash, accounts receivable, and inventory.

Current liabilities: debts that will come due within one year.

Current ratio: current assets divided by current liabilities. This ratio shows the company's ability to pay its current debts from current assets.

Gross margin rate: margin is the difference between revenues and the cost of sales. Gross margin includes profit and other expenses. The gross margin rate is expressed as a percentage of total revenues and indicates the rate of profit on net sales. The formula is:

$$\frac{\text{Net sales} - \text{cost of goods sold}}{\text{Net sales}} \times 100$$

Gross sales: includes all relevant sales taxes and discounts.

Income statement: a financial statement showing a company's revenues, expenses and net income or profit over a given period.

Income-to-sales ratio: net income divided by net sales and other income. A higher ratio indicates a given amount of sales is generating more income, usually due to lower expenses.

Inventory turnover ratio: indicates how many times inventory is sold and replaced during a year. A rising ratio indicates goods are being sold more quickly to customers.

Net income: sales minus cost of goods and expenses.

Net sales: gross sales less federal and provincial sales taxes and any discounts (such as licensee and diplomatic discounts).

Operational expenses: the direct costs of operating our stores and warehouses, including related Head Office support activities.

Statement of changes in financial position: a financial statement showing sources and uses of cash during a given period.

Total revenues: gross sales and other income less discounts.

Working capital: funds invested in current assets, e.g., cash, accounts receivable, inventory. More working capital means there is more cash available to fund business activities.

Corporate governance

SERVING OUR CUSTOMERS AND STAKEHOLDERS

The mission of the Liquor Control Board of Ontario (LCBO) is to be a customer-focused and profitable retailer of beverage alcohol, a leader in promoting social responsibility in the use of alcohol, and an impartial and objective regulator of the beverage alcohol industry.

To serve the interests of our customers and stakeholders, we:

- › distribute and sell quality products at fair prices through a variety of retail formats and other sales channels, such as catalogues
- › promote the responsible use of alcohol.

The LCBO is a Schedule II Crown agency. To fulfill our responsibilities to the Government and people of Ontario, we:

- › maximize dividends to the Ontario Government
- › enhance the LCBO's value to the Government of Ontario
- › manage the LCBO's business risks.

**The mission of the Liquor
Control Board of Ontario
(LCBO) is to be a customer-
focused and profitable
retailer of beverage alcohol,
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objective regulator of the
beverage alcohol industry.**

WHAT IS CORPORATE GOVERNANCE?

Corporate governance means the processes and procedures a corporation uses to direct and manage its business and affairs to enhance shareholder value. Its aim is to ensure the financial viability of the business and the corporation's positive relationship and dealings with stakeholders.

Since 1995, the Toronto and Montreal Stock Exchanges have required listed companies to disclose their corporate governance practices. As a government enterprise, we are not subject to these policies. However, we believe that effective corporate governance and accountability are essential to fulfilling our mandate, and we have included this section to increase understanding of how we are governed.

Members of LCBO's Board have responded to the need to establish forward-looking policies for corporate governance and to monitor these policies to ensure their effectiveness. The LCBO strives to meet the highest standards of both corporate governance and disclosure.

WE ARE A CROWN AGENCY

The LCBO is responsible for the sale of beverage alcohol for home consumption and for distribution of beverage alcohol in Ontario. The LCBO is a Schedule II Crown agency. That means that although we are a creation of the provincial government, with powers and duties set out in the *Liquor Control Act*, we have a degree of independence from government. As a Crown agency, the LCBO must live up to the highest standards of ethics and fiduciary responsibility.

**We believe that effective corporate governance and accountability
are essential to fulfilling our mandate.**

The roles and responsibilities of the Members of the Board and LCBO officers are established in a by-law passed by the Board.

Members of the Board are appointed by the Lieutenant Governor, through Order-in-Council, on the recommendation of the Premier and Minister of Consumer and Commercial Relations.

Here we have provided the highlights of our corporate governance practices. If you would like the complete terms of reference for our Board, committees, and operations, or if you have comments or questions about any of these issues, call or write to:

Mary Fitzpatrick
General Counsel and Secretary to the Board
LCBO
55 Lake Shore Blvd. East
Toronto, Ont. M5E 1A4
Tel. (416) 864-2578
Fax (416) 864-2504

THE BOARD OF DIRECTORS

The mandate of the Board of Directors is to supervise the business affairs of the LCBO. Among the most important responsibilities of the Board are:

- › developing and approving the strategic plan and monitoring management's success in meeting its business plans
- › preparing annual financial plans
- › ensuring that the organization remains financially sound
- › assessing and managing business risks
- › ensuring that the LCBO provides high-quality service to the public
- › ensuring that the organization has communications programs to inform stakeholders of significant business developments.

APPOINTMENT OF MEMBERS TO THE BOARD

Members of the Board are appointed for a term of up to five years.

The LCBO provides new Members with a comprehensive orientation program, which includes information about its business, operations and current strategies and issues, and visits to LCBO facilities. New Members also receive written materials and meet with senior management.

Performance appraisals are tied to corporate and departmental business plans: every employee up to the vice president level is assessed by how well he or she helps the LCBO achieve its objectives.

RESPONSIBILITIES OF BOARD MEMBERS

Each Board Member has individual responsibilities for corporate governance, including:

- › overseeing the management of the business and affairs of the LCBO
- › acting honestly and in good faith in making decisions with a view to the best interests of the LCBO
- › having adequate knowledge of the LCBO's business, how it is organized, and how it functions
- › attending Board meetings and seeking professional advice where necessary
- › exercising judgment independent of management
- › avoiding conflicts of interest. Board Members may not enter into arrangements with the LCBO for personal gain
- › providing guidance on policy development.

THE STRATEGIC PLANNING PROCESS

Since 1987, the LCBO has had a five-year strategic planning process. The process begins with a strategic planning conference attended by management and frequently by key stakeholders. The purpose of the conference is to help define priorities and goals over the five-year period and shape our efforts over the shorter term. The Board of Directors approves the corporate strategies and reviews the objectives developed by each division to achieve them. Performance appraisals are tied to corporate and departmental business plans: every employee up to the vice president level is assessed by how well he or she helps the LCBO achieve its objectives.

The strategic plan is supported by our five-year capital plan. For further information, please see the five-year plan section in *Management's Discussion and Analysis: Beyond the Numbers*.

AUDIT COMMITTEE

The Audit Committee is composed of three independent Board Members elected annually by the Board. The committee ensures the reliability and accuracy of the LCBO's financial statements and helps co-ordinate and improve its internal control functions.

The committee:

- › investigates the Board's activities and operations
- › advises and instructs the LCBO General Audit Department
- › reviews the LCBO's internal control system, internal compliance audits, and the annual budget and makes recommendations as required
- › identifies the principal risks facing the business and reviews systems to manage these risks
- › acts as a liaison among the Board, the LCBO's General Audit Department and the Provincial Auditor
- › oversees the production of the Annual Report.

The committee meets at least twice a year.

ETHICS AND BUSINESS CONDUCT

The Board of Directors is responsible for establishing and monitoring a system for corporate governance, and for administering and enforcing a code of conduct for business ethics.

Following a review of the LCBO's corporate governance practices, in March, 1998, the Board approved a protocol for the conduct of the business of the corporation, including terms of reference and practices for the Board and for all committees of the Board. In April, 1998, the Board approved a new Code of Business Conduct, with policies for conflict of interest; confidentiality; the outside activities of employees, officers and Members of the Board; gifts and entertainment; and human rights.

HEALTH AND SAFETY

The Board approves an annual health and safety policy, and ensures that regular meetings are held by joint bargaining unit and management health and safety committees. As part of its monitoring of the policy, the Board ensures it is kept informed of workplace health and safety issues. Reports are provided to the Board monthly.

STORE PLANNING AND DEVELOPMENT COMMITTEE

This is a staff committee which reports to the Board. It reviews all real estate and leasing decisions and makes recommendations to the Board. The committee meets monthly.

LISTINGS COMMITTEE

This is a staff committee which reports to the Board. It reviews all applications to list beverage alcohol in LCBO stores, and makes recommendations to the Board about these applications and about the de-listing of certain products from LCBO stores. The committee normally meets quarterly.

LISTINGS APPEALS COMMITTEE

This is a staff committee which reports to the Board. It reviews all appeals of decisions denying listing applications and de-listing beverage alcohol products from LCBO stores and makes recommendations to the Board. The committee meets quarterly.

GOVERNANCE OF THE LCBO DIFFERS FROM PRIVATE-SECTOR CORPORATIONS

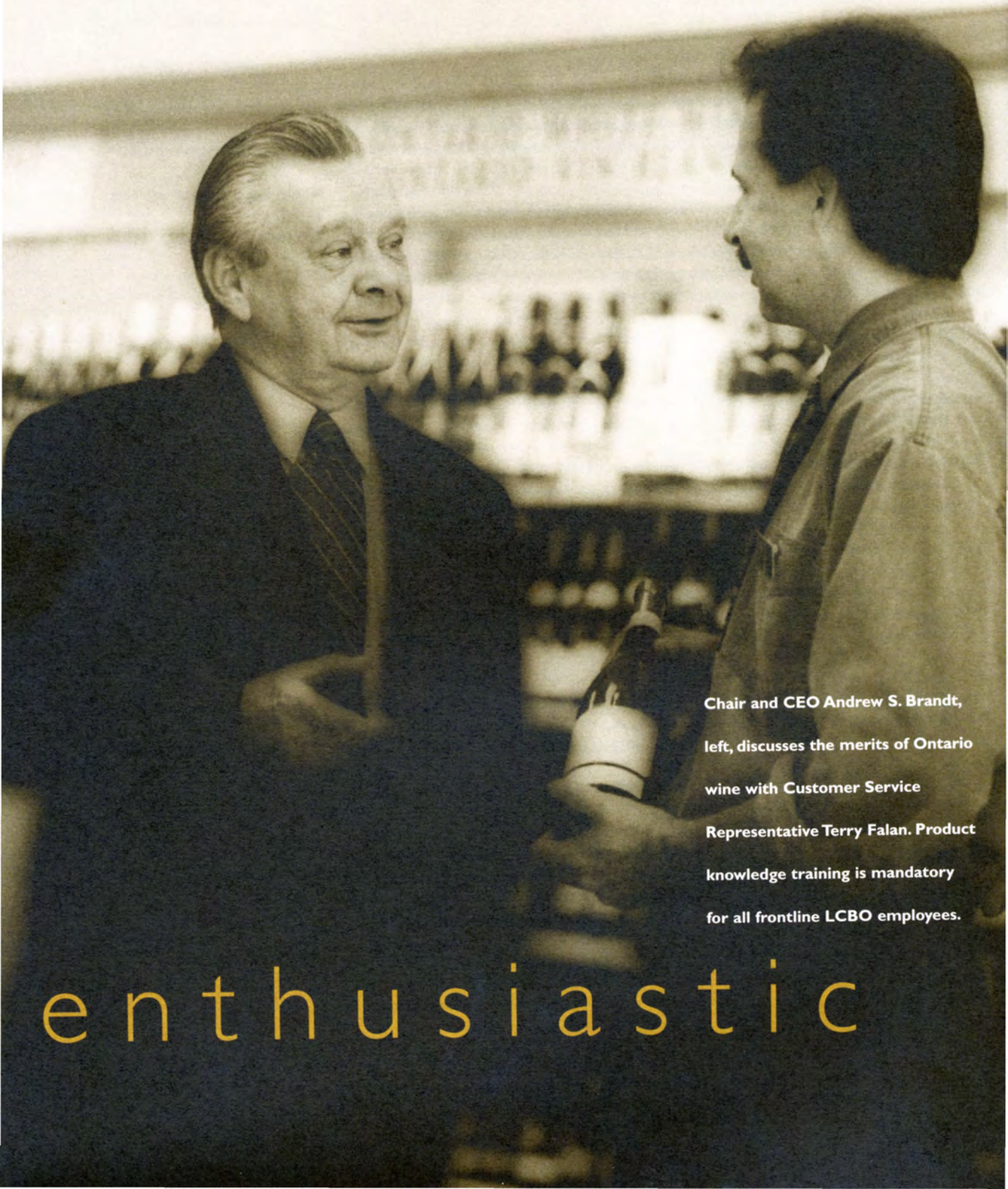
In public companies, boards of directors usually have a number of key responsibilities which they perform on behalf of shareholders to ensure an effective system of accountability. In the case of the LCBO, a Crown agency accountable to the Ontario Government, several of these functions are performed directly by government. This includes appointment of the Chair and CEO.

YEAR 2000 COMPLIANCE

The LCBO has undertaken a comprehensive Year 2000 program to ensure that the transition into the millennium proceeds smoothly and that our services remain uninterrupted. For further information, please see Year 2000 in *Management's Discussion and Analysis: Beyond the Numbers*.

The Board of Directors is responsible for establishing and monitoring a system for corporate governance, and for administering and enforcing a code of conduct for business ethics.

ONTARIO



Chair and CEO Andrew S. Brandt, left, discusses the merits of Ontario wine with Customer Service Representative Terry Falan. Product knowledge training is mandatory for all frontline LCBO employees.

enthusiastic

In fiscal 1997-98, we turned in our third straight record year, paying a \$745 million dividend to the government to support important programs and services, including roads, schools and hospitals.

Chair's Remarks

Our third straight record year

Sports teams that win back-to-back championships – like the Toronto Blue Jays in the 1992 and 1993 World Series – have an even tougher challenge when they try to “three-peat.”

By this measure, then, the LCBO is truly a winning team. In fiscal 1997-98, we turned in our *third straight record year*, paying a \$745 million dividend to the government to support important programs and services, including roads, schools and hospitals.

That's an increase of \$15 million over last year's record; \$65 million more than the year before that; and \$160 million more than in 1993-94.

We broke another important barrier in 1997-98: the \$2 billion mark in net sales, which we'd never reached in our 71-year history.

We outperformed the other provincial liquor jurisdictions in sales growth (as we have for several years running), posting an 8.7 per cent volume growth rate; the closest jurisdiction was Newfoundland with 2.2 per cent. In value sales, we tied with Newfoundland for first with a 6.5 per cent gain.

We believe there is still room for the LCBO to improve. Sales to home consumers have traditionally represented more than 85 per cent of our business, with the rest moving through wholesale channels to licensees and Ontario's beer stores.

In recent years, our wholesale business has grown faster than the home consumer market, and now stands at about 19 per cent of our total sales. If we can continue to serve our

wholesale customers well, while bringing the more profitable consumer market closer to its historic level, we can deliver even greater dividends to the people of Ontario.

THE FACTORS BEHIND OUR SUCCESS

Like many major retailers, we benefited from Ontario's improving economy, and the consumer confidence that came with it. But to benefit from external forces, you have to have vision, leadership, a workable plan, and the resources to put it into action. The LCBO brought all these elements together this year to set new records in productivity and profitability.

Our front-line employees are more enthusiastic, focused and knowledgeable than ever. Management is developing and implementing strategic plans that are both innovative and workable, making the LCBO shopping experience more entertaining, convenient and enjoyable for the customer.

These plans were carried out with the support of the Government of Ontario – and in particular, the Minister of Consumer and Commercial Relations, the Hon. David Tsubouchi – and a knowledgeable Board of Directors.



The LCBO is piloting a Bottle-Your-Own wine service at its store in Toronto's Crossroads Shopping Centre at Weston Road and Highway 401. Customers can bottle red or white wines from Ontario, California or Chile – ideal for those who want to save a little money, but don't have the interest, time or space to make their own wine.

Some of the innovations we offered in fiscal 1997-98:

- › **Year-round Sunday shopping:** This was a convenience the majority of customers wanted, as did our suppliers and our employees' union. Now that it's here we're seeing increased customer satisfaction – and some incremental growth in business.
- › **Changes to our stores:** The LCBO store network is constantly improving to meet the needs of its customers. Based on market research, we open new stores, or relocate or renovate existing ones; we're where people want us to be. In fiscal 1997-98, we opened three new stores in Toronto and Ottawa and expanded three others in Toronto, Parry Sound and Niagara Falls. We closed one store in Cornwall – where two other stores could adequately serve the market – and another in Thunder Bay, where a new and larger store was due to open.

- › **Agency Store expansion:** Some smaller communities in Ontario are a long way from the nearest LCBO store, but aren't large enough to support their own store. In such communities we partner with existing retailers who win the right to sell our products along with other goods. In 1997-98, we added seven LCBO agency stores to the 90 already in existence.
 - › **AIR MILES:** Like many progressive retailers, we now offer AIR MILES Rewards as a bonus on purchases made in our stores. It's a way to reward loyal LCBO customers, who can earn free air travel, baseball and theatre tickets, movie passes, car rentals and many more non-flight rewards.
 - › **BYO:** Short for Bottle-Your-Own, this service has been offered at one Toronto store on a pilot basis since November. Consumers can fill bottles with red or white bulk wines from Ontario, Chile or California, cork them, and even print their own custom labels.
 - › **Licensee credit:** In February, the LCBO became Canada's first provincial liquor authority to offer credit card payment options to owners and operators of licensed establishments.
- These initiatives – some of which are discussed in greater detail on pages 21-27 – build on the gains made in previous fiscal years, when we introduced:
- › **Credit and debit card payment options for consumers:** these now account for 14 and 19 per cent respectively of all LCBO transactions and make shopping more convenient for customers – and more secure for those who don't like to carry a lot of cash.
 - › **Limited Time Offers:** month-long discounts on selected products. More than 750 products were discounted by up to 20 per cent in fiscal 1997-98.
 - › **Value Adds:** bonus items attached by suppliers to a host product. Some 850 products carried value-add items last fiscal year.
 - › **Extended hours:** many more LCBO stores now stay open later as a convenience to today's busy customers.

› **Shop the World:** this series of month-long promotions has brought excitement to our stores – and solid sales increases to the suppliers of products featured during each “world event.” Each promotion features a range of interesting products built around a theme, country or region; suggestions and recipes for matching foods; contests for trips; and more. New this fiscal year were customized compact discs of complementary music. One dollar from the sale of each CD went to the Children’s Wish Foundation, raising more than \$23,000 in all.

All of these innovations have helped us become the kind of retailer consumers want us to be. And frankly, the kind *we* want to be. A number of years ago, senior executives at the LCBO drew up a list of programs and services that could help the LCBO complete its transformation from distribution-oriented bureaucracy to dynamic customer-oriented retailer. Just about all of the innovations I’ve mentioned were on this “wish list”. I’m pleased we’ve been able to bring it to life in our stores.

Another reason we continued to evolve so successfully is the stability and continuity of our senior team. Since I joined the LCBO in 1991, we’ve had largely the same senior management team in place, including Executive Vice President Larry Gee. Having this kind of stability has been key in

Our three-level Product Knowledge

Correspondence Course – once optional – is now mandatory for all Retail employees. And we augment that course with numerous other training programs, including *That’s the Spirit*, designed to make every frontline employee more knowledgeable about wine, spirits and beer, and better able to share that knowledge with customers.

The LCBO staged five Shop the World promotions in fiscal 1997-98, each featuring products that focused on a different country, region or theme. Shop the World not only adds excitement to the LCBO shopping experience – it boosts sales of the featured products by as much as 65 per cent year over year. At right are examples of the appealing displays created for three recent “world events.”



bringing our vision to reality. And now that we have in place a pay-for-performance plan for management – implemented this fiscal year – I believe we will be able to retain more of the managers and other professional staff who had been leaving the LCBO for the private sector.

KNOWLEDGE WORKERS

No retailer can succeed unless its stores are staffed by men and women who know about – and care about – the products they sell. Never has that been truer of the LCBO than today. Our three-level Product Knowledge Correspondence Course – once optional – is now mandatory for all Retail employees. And we augment that course with numerous other training programs, including *That's the Spirit*, designed to make every frontline employee more knowledgeable about spirits, and better able to share that knowledge with customers. Recent surveys show that customers recognize and appreciate the substantial improvements we've made in this area. Helping customers make more informed shopping decisions also improves the bottom line.

We also have ongoing training programs for our district and store managers, to help them ensure their stores are always ready for business, with the right product selection

and services for their communities. They're now better equipped than ever to perform well in the fast-paced, increasingly complex world of retail.

RIGHT ON TARGET

Our stores and warehouses have never been more productive. In fiscal 1997-98, we set 14 targets for productivity in our Retail and Distribution divisions – and met or exceeded every one. We've also worked hard to contain our administrative costs, and these too are lower than they were the year before. By managing our growth, and controlling our expenses, we've been able to provide the best possible return to our shareholders.

Growth in sales has not been limited to any one category. In fact, every category – wine, spirits and beer, domestic and imported – did better this fiscal year than last, while prices remained stable. Growing across all categories – rather than just one area – should help us resist any serious downturns should popular tastes change drastically in the near future.

Our suppliers also deserve a lot of credit for our success. In all categories, they've worked closely with our buyers to bring interest and innovation to our stores. By developing new products, as well as new sizes to suit every budget... by designing eye-catching packaging... by working with us to stage dynamic, popular promotional and educational events... these suppliers enhanced the selection and versatility of the products we can offer our customers.

Beverage alcohol has become a popular gift for birthdays, anniversaries and many other special occasions. In fact, nearly 40 per cent of our customers include alcohol on their gift lists. With free gift wrapping and gift packs in many of our stores, and expanded gift centres and interactive gift registries in some, we hope to earn an even greater share of Canada's lucrative gift market.

We're also offering our customers more ways to shop for our products. Customers can now buy rare premium products through the Vintages' *Classics Catalogue*, as well as a "Spirit

Beverage alcohol has become a popular gift for birthdays, anniversaries and many other special occasions. In fact, nearly 40 per cent of our customers include alcohol on their gift lists.



of Giving" holiday gift catalogue. Selected products can also be ordered via the Internet. And we've set up a Shop at Home service that customers can access over the phone.

RESPONSIVE... AND RESPONSIBLE

Minors and people who are intoxicated are finding it harder than ever to purchase alcohol in an LCBO store. Our staff are trained to challenge anyone who appears underage – in fact, anyone who appears to be under the age of 25 – and ensure they have valid identification, including our own BYID card. We refuse to serve anyone who seems impaired. Nor will we sell to anyone who might be buying on behalf of underage or intoxicated people.

In fiscal 1997-98, LCBO employees challenged 648,092 would-be customers – about 80,000 more than in the previous fiscal year. Of those challenged, 81,427 were refused service, about 5,000 more than in the previous year.

To help employees prevent sales to minors and intoxicated people, we created a second-generation video-based training program. The latest version of SMAART – which stands for Strategies for Managing Age & Alcohol-Related Troubles – was to be rolled out in the spring and summer of 1998.

We also developed our largest ever public education campaign, which includes a strong anti-drinking and driving component. The \$1.5 million campaign consists of a cinema commercial, a series of radio spots, and print ads in newspapers and magazines (including our own *Food & Drink* consumer publication). The Ontario Ministry of Transportation and MADD Canada partnered with us on this effort, as they have on other campaigns in the past.

Each year we raise hundreds of thousands of dollars for charity, from a variety of sources, and 1997-98 was no exception. Our employees raised \$156,000 for the United Way through donations and support of special events – an all-time record, and the best showing by any Ontario Government agency in 1997. We raised another \$230,000 through donation boxes at our counters – and that doesn't include \$94,000 collected for ice storm victims in just three weeks in January, 1998.



Police arrest an impaired driver in a scene from a SMAART training video produced by the LCBO to help employees prevent sales to minors and intoxicated people. All Retail employees are taught to refuse service to anyone who appears intoxicated, and to ask anyone who appears younger than 25 to show valid ID.

MODERNIZATION PLANS PROCEEDING

In every way, then, we had a great year. Over \$2 billion in net sales. Record profits. Lower expenses. Higher productivity. A record number of people challenged for proof of age and sobriety.

And yet we kept looking for ways to further improve. In the summer of 1997, the LCBO and the Ministry of Consumer and Commercial Relations (MCCR) launched a joint Modernization Review to ensure the taxpayer and customer get the best value for money from the LCBO.

We then developed a number of proposals, always with the goal of improving responsible service and profitability. After a third-party analysis by external consultants, recommendations were sent to Minister Tsubouchi, who in turn made recommendations to Cabinet.

Cabinet has since approved a plan to invest in the existing retail network, so that the LCBO can further improve service and efficiency, while continuing to focus on social responsibility.



This poster is part of an LCBO campaign that informs consumers about the impact illegal alcohol can have on their health, as well as Ontario's economy. Smuggling and illegal winemaking now account for slightly less than 10 per cent of Ontario's total beverage alcohol market – down from an estimated 15 per cent just five years ago – thanks in large part to the efforts of LCBO investigators and their partners in law enforcement.

In keeping with the government's continued support for modernization, the LCBO will:

- › offer more full-service stores with a greater selection of products and services
- › open new LCBO stores in under-served areas
- › work with suppliers and other beverage alcohol retailers to ensure that consumers and all businesses in this sector benefit from further modernization.

The LCBO will also review every step of its supply chain management process – everything from the way products are listed to how products get to store shelves. This review will focus on identifying cost-saving opportunities, as well as ways to further improve the responsiveness and flexibility of the supply chain process.

Key stakeholders, including employees, the Ontario Liquor Boards Employees' Union and suppliers, will be informed of the direction and outcome of this review and any other changes to the LCBO.

THE COMING YEARS

By the time this annual report is printed in the fall of 1998, the question of our future may well be resolved. Premier Mike Harris recently told reporters at Queen's Park that the LCBO was "a tremendous success story... far more efficient, effective, more customer friendly" than it had been before his government took office in 1995. He indicated the LCBO was not one of the assets the government planned to sell at this time.

This of course was good news. So was the ratification of a new two-year collective agreement with the Ontario Liquor Boards Employees' Union in June, 1998. The contract, which runs to March 31, 2000, provides for pay increases of two per cent a year, as well as lump sum payments totalling \$1,400 per permanent full-time employee over the two-year contract; part-time employees will earn a pro-rated share of those payments.

Capital funding will help us implement exciting marketing plans to establish the LCBO as Ontario's "source for entertaining ideas"... the place consumers come for information about food matching, party planning, responsible hosting – all aspects of entertaining.

We have asked the government to approve a capital plan for the next five years, so that we may continue to renovate and relocate older stores, and build new stores where needed. These would include larger full-service stores, as well as mini-stores and kiosks to increase convenience and improve service to our ethnic customers or niche market segments.

This capital funding will also help us implement exciting marketing plans that would establish the LCBO as Ontario's "source for entertaining ideas"... the place consumers come for information about food matching, party planning, responsible hosting – all aspects of entertaining.

This is an important part of our strategy to improve service to the home consumer – especially those identified through extensive market research as being most interested in our offerings, and who will provide the maximum return on our investment.

We will work diligently to ensure minimum disruption from the Year 2000 computer problem – discussed at greater length on page 32.

Fighting the illegal market will remain a priority. We made inroads against illegal wine makers and smugglers on two fronts this year: by partnering with law enforcement agencies such as the RCMP, OPP, municipal and regional police forces, Customs Canada and the U.S. Bureau of Alcohol, Tobacco and Firearms to shut down smugglers and illegal wine makers; and by offering the kind of service the bootleggers can't hope to match, including lab-tested products, knowledgeable employees, convenient payment options and more.

As you may have read in recent newspaper stories, some municipalities would like to see the government pass legislation to help them recoup some of the costs of recycling glass bottles. Whether such legislation is passed, and in what form,

remains to be seen. As always, the LCBO will do everything it can to protect the environment and carry out the policy directions of government.

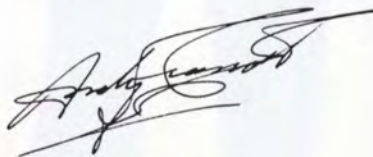
Our future therefore is largely sunny, with scattered clouds mixed in, as weather people like to say.

The horizon seems to be clearing, at least as far as privatization of the LCBO is concerned. A consensus is forming that we should not be sold, but continue to improve.

Further improvement won't be easy, because we have already done much to improve our products and services, as well as the dividend we pay to government.

We'll really have to dig down for new ideas, new ways of doing things better, of making ourselves ever more relevant to the lives of Ontarians, while remaining vigilant and responsible.

I believe we can do all that, if we have the needed working capital. We've got the right team, and the right playbook, to make fiscal 1998-99 another record year.



Andrew S. Brandt
Chair and CEO

Toronto, Ontario
June, 1998



Our senior management team shows some of the awards won by the LCBO in recent years for retail innovation, social responsibility, store design and communications.

Back row, left to right: David Wilcox, Vice President, Merchandising; Murray Kane, Vice President, Human Resources; Alex Browning, Vice President, Finance & Administration; Gerry Ker, Director, Corporate Policy. Middle row: Bill Kennedy, Director, Corporate Communications; Mary Fitzpatrick, General Counsel and Secretary to the Board of Directors; Gar Sherwood, Vice President, Retail; Shelley Sutton, Director, Strategic Planning. Front: Barry O'Brien, Director, Corporate Affairs. Absent from photo: Ian Martin, Vice President, Distribution and Hugh Kelly, Vice President, Information Technology.

"I believe the Innovative Retailer of the Year award confirms we've got what it takes

to be Ontario's source for entertaining ideas." LCBO Executive Vice President Larry Gee

Excellence in retailing award (ERA)

CANADA'S MOST INNOVATIVE RETAILER – AGAIN!

Being named Innovative Retailer of the Year by the Retail Council of Canada in 1997 was one of the LCBO's proudest moments.

Winning the Council's top award again in 1998 was no less exciting.

The Innovative Retailer of the Year award – which acknowledges overall industry leadership and innovative approaches to customer and employee relations – was presented to the LCBO in the large store category for the second straight year in June, 1998.

The LCBO also won an Excellence in Retailing (ERA) award for Staff Development & Motivation, and was a finalist in two other categories.

"We were up against some very tough competition in all categories," said Executive Vice President Larry Gee. "The other finalists for the Innovative Retailer of the Year – Chapters, Home Depot and Famous Players – are some of Canada's best retailers. To be nominated alongside them, and be voted best in class by our peers, shows how far we've come in our quest to be Canada's top retailer.

"Today's LCBO operates in a shared marketplace," he added. "To succeed in that marketplace, we have to meet and exceed the expectations of our customers, and provide them with an informative and satisfying shopping experience. To obtain 'wallet share' we have to be top-of-mind with consumers when they're thinking of treating themselves or buying gifts. We can only earn their business through compelling customer service.

"I believe the Innovative Retailer of the Year award confirms we've got what it takes to be Ontario's source for entertaining ideas."

The Staff Motivation & Development award deserves equal mention, according to Gee. "This comes for the latest phase



LCBO Executive Vice President Larry Gee

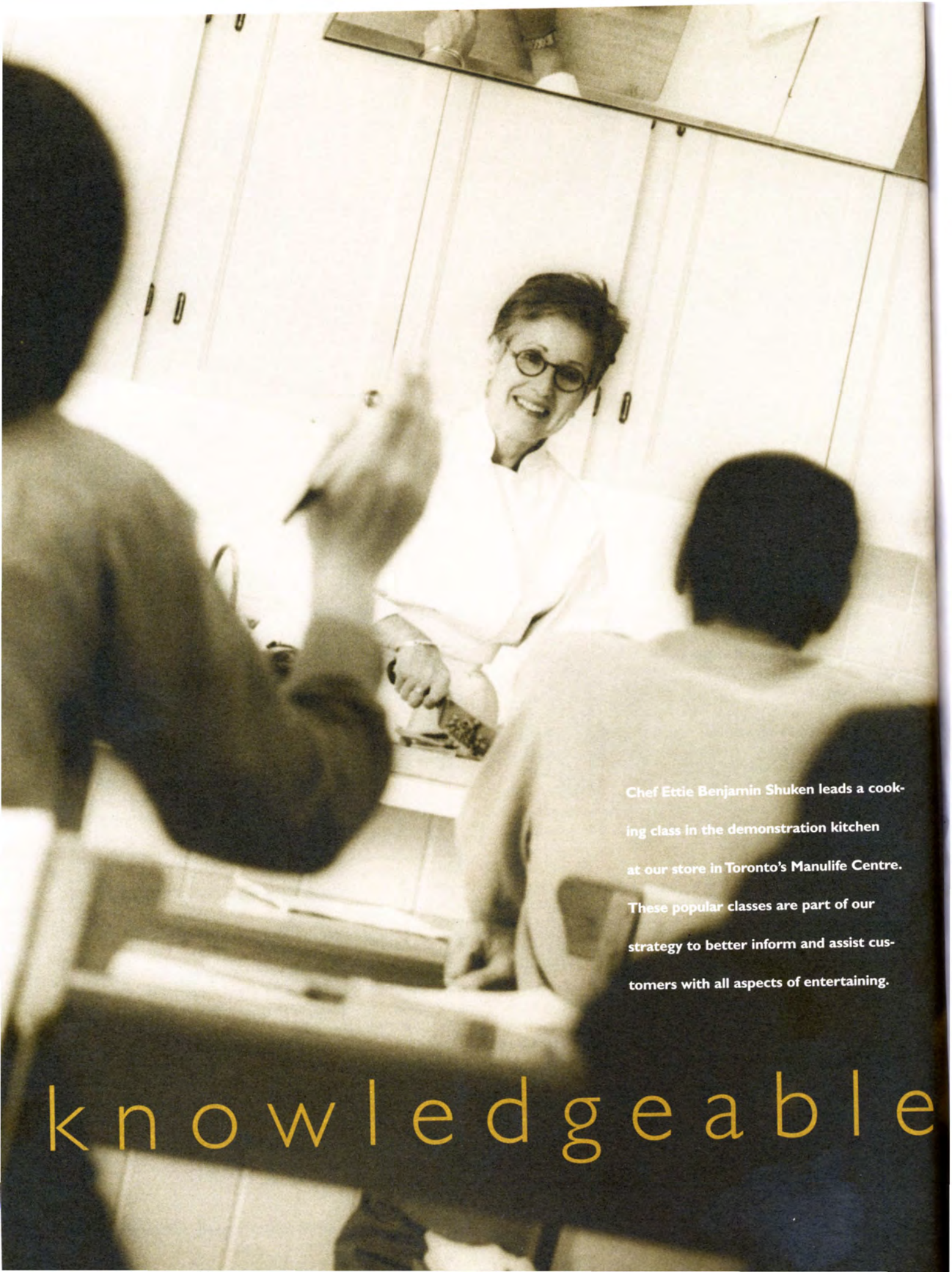
of a training program called *That's the Spirit*, which we developed with the Distillers' Council of Ontario and the Association of Canadian Distillers to equip our frontline employees with the product knowledge and confidence to better inform customers about spirits, and food and beverage matching.

"This program has contributed greatly to the revitalization of the spirits category, whose higher profit margins helped us achieve our record dividend of \$745 million in fiscal 1997-98."

Being named a finalist in two other categories – Marketing & Advertising and Store Layout & Design – shows that excellence is not confined to any one area at the LCBO, Gee notes.

"Our employees work hard at being the best at whatever they do, whether they're serving the public or working behind the scenes to deliver on our commitment to excellence.

"It takes a team to win – whether in competitions such as the ERA awards or the everyday competition of the marketplace – and a winning team is what we've got."



Chef Ettie Benjamin Shuken leads a cooking class in the demonstration kitchen at our store in Toronto's Manulife Centre. These popular classes are part of our strategy to better inform and assist customers with all aspects of entertaining.

knowledgeable

When you've had as successful a year as we did in fiscal 1997-98, it's bound to be marked by many highlights: new customer service initiatives, landmark social responsibility events, promotions and product launches....

We've selected seven initiatives that stand out among everything we did in fiscal 1997-98 to improve customer service, generate record revenue dividends for our shareholders – the taxpayers of Ontario – and contribute in other ways to the many communities we serve.

Highlights 1997-1998

SERVING ONTARIO... SEVEN DAYS A WEEK

There was a time when shopping for liquor on Sundays in Ontario would have been unthinkable.

Times have changed. People want to shop when and where it's convenient for them... and not just for beverage alcohol. Sunday shopping in general has been widely accepted in Ontario since 1995. So when the government announced November 14 that LCBO and beer stores could open Sundays year round, most Ontario consumers and visitors welcomed this latest customer service initiative.

Sunday shopping for beverage alcohol had been tested on several occasions in the past two years, most recently in August, 1997.

By the end of the 1997-98 fiscal year, about 550 LCBO stores were opening on Sundays, most of them from 11 a.m. to 6 p.m.

About 20 LCBO stores will remain closed on Sundays because the business just isn't there. Another 24 LCBO stores will remain closed on Sundays because local councils filed objections to Sunday openings, and we respect the wishes of those communities.

Sunday sales added about \$25 million to LCBO sales in fiscal 1997-98, based on incremental sales of about \$1.2 million a week over the 21 Sundays we were open.

Over a full fiscal year, that would boost sales by about \$40 million.

While started primarily as a convenience to customers and tourists, Sunday shopping should also repatriate some sales from Ontario's illegal alcohol market, which does most of its business when our stores close.

Right: Sunday shopping not only makes life more convenient for today's busy customer – it also helps battle the illegal market, which does most of its business when our stores are closed.



AIR MILES TAKE OFF

This year, we began offering AIR MILES Rewards as a bonus on purchases in our stores.

Customers enrolled in the AIR MILES Reward Program earn free air travel, baseball and theatre tickets, long-distance calls, movie passes, car rentals and other rewards.

As a socially responsible retailer, the LCBO can't offer deep price discounts, but we can reward loyal customers, and show them we value their business.

That's important, considering we hold less than a 40 per cent share of the beverage alcohol market in Ontario. And we compete not only against other beverage alcohol retailers for market share, but against other providers of gifts and entertainment for what is known as "wallet share."

AIR MILES collectors get one travel mile for every \$20 spent at the LCBO on a cumulative basis over a one-month period. They can then redeem the miles for free air travel and other non-flight rewards. Bonus travel miles may also be added to products by suppliers; these may not exceed \$5 in value, or 20 per cent of the product's selling price.

The AIR MILES program was tested at 86 Toronto-area stores in August and September, 1997; customer reaction quickly convinced management to extend it to all stores in October.

Some LCBO customers were already collecting AIR MILES or similar rewards by using certain credit cards in our stores; our new AIR MILES program simply extended that opportunity to all LCBO shoppers.

In addition to rewarding loyal customers, it's hoped this initiative will help chip away at Ontario's illegal market. As Chair and CEO Andrew S. Brandt noted when the AIR MILES Reward Program was launched: "We owe it to the government – to all stakeholders – to maintain or increase our revenue dividend by drawing people away from the illegal market."

The program also offers the LCBO a chance to develop strategic alliances with some of the other 120 major Canadian corporations that sponsor the AIR MILES Reward Program.

We'll also have access to the AIR MILES database, which provides us with useful information that can help ensure our stores are well located and stocked with the right mix of products and services that customers want. Although information on individual collectors is strictly confidential, aggregate data will help us improve our marketing and social responsibility programs, as well as customer communications.

Customers can indicate on their AIR MILES card applications whether they want to receive information about upcoming tastings, product launches, special events, and social responsibility initiatives.

The AIR MILES Reward Program was tested at 86 Toronto-area stores in August and September, 1997; customer reaction quickly convinced management to extend it to all stores in October.

In February, 1998, LCBO became Canada's first provincial liquor authority to offer credit card payment options to owners and operators of licensed establishments.

LICENSEE CREDIT A FIRST FOR CANADA

In February, 1998, we became Canada's first provincial liquor authority to offer credit card payment options to owners and operators of licensed establishments.

According to Ontario's Ministry of Consumer and Commercial Relations, the move will boost youth employment, improve selection in licensed establishments and help fight the illegal alcohol trade.

Debit and credit cards have proved popular at the LCBO since their use was approved by government in the fall of 1994; together they now account for about one-third of all transactions (19 per cent debit cards and 14 per cent credit cards).

While licensees could use debit cards in our stores, like consumers, they could not pay by credit card – until this year.

"We had been looking at ways to improve our service to the licensee market, which is an important – and growing – segment of our customer base," notes Chair and CEO Andrew S. Brandt. "Extending credit to licensees is one positive step in that direction."

Licensees now account for approximately 14 per cent of the LCBO's net sales.

"This move is the equivalent of a \$314 million line of credit for Ontario licensees," says Ken Baxter, Chair of the Ontario Restaurant Association. "This will go a long way to reducing our administrative costs and making us more efficient."

Consumer and Commercial Relations Minister David Tsubouchi, who announced the initiative at a Toronto restaurant February 10, expects licensee credit to help the hospitality industry create jobs.

"The use of credit cards will improve licensees' cash flow and tie up less capital in inventory," he predicted.

This would be especially helpful to the 19- to 25-year-olds who make up much of the hospitality industry workforce, the Minister added. "It's important that we open up as many opportunities as possible for today's young people."

Licensees say the move will enable them to keep a broader selection of products on hand.

The initiative could also prove a useful weapon against the illegal market, according to Brandt. "The option of paying on credit gives licensees another incentive to buy their products from us, rather than illegal channels, where transactions are cash only."



Customer Service Representative Kimberly Churchill rings up a sale for Donna Rose, Manager of Toronto's Safari Bar & Grill, one of 16,000-plus licensed establishments in Ontario. This year, the LCBO became the first Canadian liquor jurisdiction to offer licensees the option of paying by debit or credit card. For licensees, that's more than a convenience – it's a \$300 million line of credit that can help them do business more efficiently.



Attractive, upgraded stores consistently lead to increased satisfaction for LCBO customers, and a greater dividend for the taxpayers of Ontario. Two key players behind the redesign of many of our stores are Jackie Bonic, Director of Store Development & Real Estate, left, and Nancy Cardinal, Director of Marketing Communications.



OUR NEW IMAGE IS A WINNER

If you judge our new store on Avenue Road north of Lawrence in Toronto by looks alone, it's clearly a winner.

Just months after its grand opening in June, 1997, Store 452 (as it's known internally) won a visual merchandising and interior design award at a prestigious competition held by the New York-based Institute of Store Planners. It was the 21st store design award won by the LCBO since 1990.

Airy and filled with natural light – complete with a gift centre, a Vintages section and many of the other features our customers expect in a full-service store – 452 gets rave reviews from customers interviewed by our Customer Insights Group.

Store 452 is a winner in sales too. In its first year, the store broke into our top ten list, based on sales during the critical pre-Christmas period. It's expected to top \$11 million in sales a year, without "cannibalizing" business from nearby stores; in fact, the entire trading area is up 40 per cent.

Consumers can expect to see more stores based on this design in the near future, says Store Development and Real Estate Director Jackie Bonic. "This will be the model for all new full-service LCBO stores: attractive and inviting, yet durable and cost-effective."

Whenever the LCBO renovates, relocates or opens a new store, it's because we've conducted market studies and listened carefully to what customers have told us through in-store surveys, suggestion cards, focus groups and phone interviews.

Like any progressive retailer, we want our stores to be where most people want them to be: well located, visible and accessible, with plenty of parking, and attractive, informative displays.

The end result is higher levels of satisfaction and greater profitability, which translates into greater earnings for the province.

When you conduct more than 77 million transactions a year, as the LCBO does, saving even a few seconds per transaction can add up to even faster customer service and increased productivity.

UPC SCANNERS COME TO STORES

When you conduct more than 77 million transactions a year, as the LCBO does, saving even a few seconds per transaction can add up to even faster customer service and increased productivity.

New Universal Product Code (UPC) scanners in our stores do that and a lot more.

For years, LCBO cashiers had to read a six-digit number on every bottle or case sold and key that code into their register by hand.

In fiscal 1997-98, all LCBO stores got new equipment that can scan labels and "tell" a cash register what's been bought.

Cashiers simply swipe a bottle past the scanner, which sends the information to the cash register. The scanners – normally mounted beside a cash – can also be unclipped to read codes on cases.

That's more convenient for our customers, especially at busy times like Christmas, Easter and summer long weekends. And time saved on cash means our staff can spend more time providing other types of customer service, like product information or food matching.

Scanners also tends to be more accurate than data entry, which means they provide the LCBO with even better inventory control than we've had in the past.

And suppliers all over the world will soon be using the same codes. Goods will move from the supplier to our warehouses to our stores to our customers, with every transaction recorded via the UPC.

That's especially important to an organization like the LCBO, which sources some 10,000 products from more than 60 countries worldwide.

Our retail employees can now scan Universal Product Code labels, rather than keying in product codes by hand. This speeds up every transaction – and ensures more accurate inventory control.





We were proud to raise more than \$227,000 for Canada's Commonwealth Games athletes during an in-store promotion that ran March 4-29 in 569 LCBO stores.

QUEST FOR GLORY... AND CONTRIBUTIONS

We were proud to raise more than \$227,000 for Canada's Commonwealth Games athletes during an in-store promotion that ran March 4-29 in 569 LCBO stores.

Previous promotions held in 1995 and 1996 to benefit endangered species and their habitats had proved that LCBO *Shop the World* events could provide a solid platform for fundraising, while building issue and product awareness.

Based on the same model, *Quest for Glory* raised \$227,000 to help send Canadian athletes to the XVI Commonwealth Games in Malaysia in September, 1998.

Funds were raised in three ways:

- › 27 participating suppliers contributed a total of \$173,500;
- › donation boxes at LCBO checkout counters raised another \$12,800;
- › and the sale of commemorative T-shirts raised \$40,862 through August 1, 1998.

Quest for Glory also raised public awareness about the Games, and the challenges facing Canada's amateur athletes, in several ways.

The March 4 Toronto launch, which drew such noted athletes as swimmer Mark Tewksbury, gymnast Elfi Schlegel and cyclist Steve Bauer, generated considerable media exposure.

An in-store contest, with a trip for two to Kuala Lumpur as the grand prize, sparked further interest in the Games.

Prominent athletes made personal appearances at LCBO stores in Toronto, Hamilton, Ottawa and Niagara Falls, where they signed autographs, and discussed training methods and the importance of funding to Canadian amateur athletes.

LCBO customers were also invited to sign "Petitions of Support" in all stores, which will be displayed at the Canadian quarters in the athletes' village during the Games.

"The kind of support the LCBO, its suppliers and customers are providing is absolutely vital to Canadian athletes," track cycling champion Lori Ann Muenzer told reporters at the March 4 media launch.

The Commonwealth Games are the world's second-biggest international competition, after the Olympics. About 6,000 athletes from 70 nations on five continents are expected to participate in Malaysia in September, nearly double the number that took part in Victoria, B.C., in 1994.

Canada hopes to send some 400 athletes, coaches and support personnel to compete in events such as track and field, cycling and swimming.

COLD HANDS, WARM HEART

When the worst ice storm in memory struck Eastern Ontario and Quebec in January, LCBO customers showed just how warmhearted they can be.

In just three weeks, they poured \$94,000 into donation boxes in our 596 stores across Ontario – the most successful such fundraising drive in our 71-year history.

According to many LCBO store managers, customers jammed donation boxes so full of loonies, twonies, tens and even twenties that many had to be emptied frequently during the three weeks they were at checkouts.

Consumer and Commercial Relations Minister David Tsubouchi called the fundraising campaign “remarkable... We knew the people of Ontario were generous, but this was extraordinary.”

It was Minister Tsubouchi who first announced January 13 that the LCBO would be a focal point for collection

efforts. “The LCBO is the perfect network to collect assistance province wide,” he said at the time.

The results show he was right on the money. Because the provincial government matched funds for eligible costs at a ratio of up to four to one, the \$94,000 raised in our stores is worth considerably more to the storm victims of Eastern Ontario.

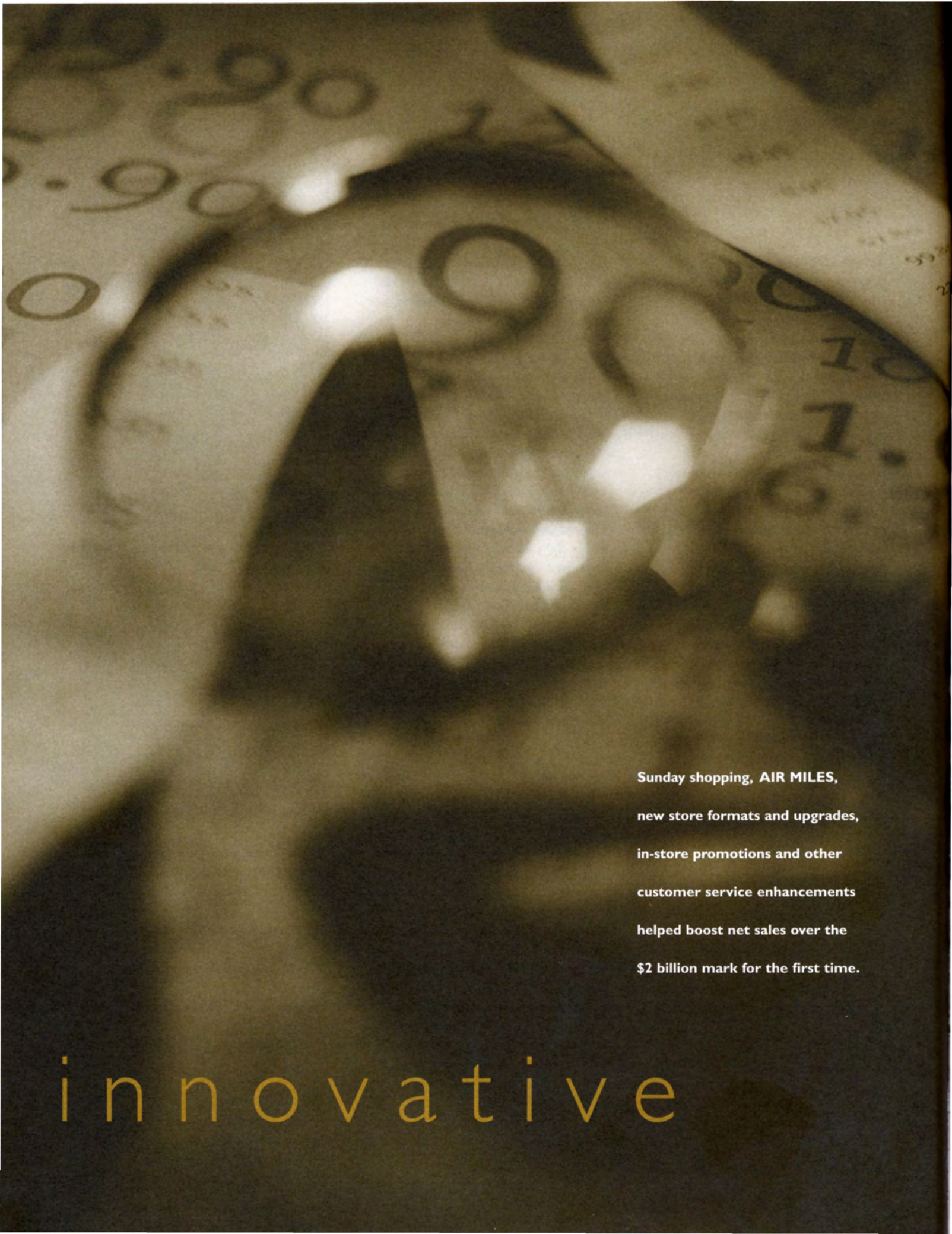
Minister Tsubouchi later commented: “The LCBO has been doing a lot of things right for the taxpayer and the consumers of the province, but people tend to overlook some of the things they do for the community.”

Added LCBO Chair and CEO Andrew S. Brandt: “LCBO employees were proud they were able to help. They’re always looking for ways to serve their communities.”



The LCBO produced this poster to inform customers about our hugely successful fundraising effort on behalf of ice storm victims – and to thank all those who contributed money in our stores.

When the worst ice storm in memory struck Eastern Ontario and Quebec in January, LCBO customers showed just how warmhearted they can be. In just three weeks, they poured \$94,000 into donation boxes in our 596 stores across Ontario – the most successful such fundraising drive in our 71-year history.



Sunday shopping, AIR MILES,
new store formats and upgrades,
in-store promotions and other
customer service enhancements
helped boost net sales over the
\$2 billion mark for the first time.

innovative

In 1998-99, we expect net sales to increase by 4.8 per cent, to \$2.229 billion. A growing economy and our continuing focus on improving the LCBO shopping experience should contribute to another strong year. Our dividend to government should increase for the fifth consecutive year, to \$761 million.

Management's Discussion and Analysis

Beyond the numbers 1997-98

This section of the report explains the financial results of the LCBO for the past year and provides background for evaluating its performance. Canadian securities regulations require public companies to include a discussion of operating results in the annual report, along with annual financial statements. As a government enterprise, the LCBO is not subject to these regulations. However, we've included this discussion to increase understanding of our operations and ensure full disclosure of our results to the widest possible audience.

HIGHLIGHTS

(value in \$000s)	1996-97	1997-98
Dividend to government	\$ 730,000	\$ 745,000
Net sales and other income	2,013,873	2,160,843
Per cent increase	5.4	7.3
Operating expenses	324,457	351,653*
Net income	701,030	744,904
Per cent increase	5.1	6.3

* The increase in operating expenses reflects the fact that a "pension contribution holiday" ended; it also reflects increased salary and related operating expenses associated with Sunday openings.

HIGHER DIVIDEND TO GOVERNMENT FOR FOURTH STRAIGHT YEAR

Dividend surpasses expectations

We delivered a record \$745 million dividend to government on behalf of Ontario taxpayers in 1997-98, surpassing our target of \$731 million. This is the fourth straight year we've increased our dividend.

Sales set new record

Against a background of rising consumer confidence and a buoyant Ontario economy, LCBO net sales rose \$130 million last year to \$2.127 billion. Sunday shopping, AIR MILES, new store formats, in-store promotions and other customer service enhancements helped boost net sales over the \$2 billion mark for the first time – see *Highlights 1997-1998* for more information.

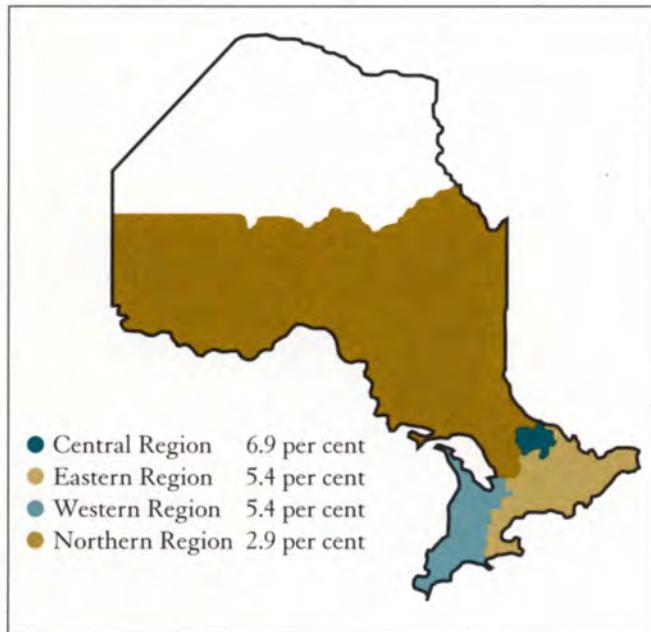
(Note: The above paragraph refers to net sales alone and not the net sales and other income referenced in the chart at left; the latter includes income from a wide range of sources, including airline markups, border levies, Special Occasion Permit levies, sale of data and IMAGE program revenues.)

LCBO's performance compared well with other liquor jurisdictions in Canada. Growth in sales by volume surpassed all other provinces by a wide margin in 1997-98 – LCBO volumes were up 8.7 per cent, compared to 2.2 per cent for the next closest province, Newfoundland. Since 1994, LCBO sales by volume have risen 28.3 per cent.

Revenue growth at LCBO outpaced the comparable jurisdictions of B.C. and Quebec (6.5 per cent vs. 3.3 per cent and 2.9 per cent), although revenues in the smaller Newfoundland market rose by 6.5 per cent. The reason the LCBO lags somewhat in revenue growth compared to its volume growth is that the government has not increased its tax structure.

Sales strongest in Central Region

Across the province, sales growth was as follows:



This pattern is consistent with past experience. Strong economic growth in the Central Region contributed to the large increase in sales. As well, the Central Region is most affected by illegal activity, and efforts to curb the illicit alcohol trade have had the most effect there.

PRODUCT CATEGORY HIGHLIGHTS

Beer market share continues to expand

LCBO beer sales (excluding sales to Brewers Retail Inc.) rose by 9.5 per cent in value and 8.4 per cent in volume in 1997-98. The entire beer market in Ontario is now worth an estimated \$2.5 billion in gross sales (*defined in glossary*). The LCBO's share of this market has risen from 9.8 per cent in 1993-94 to 12.2 per cent in 1997-98, generating almost \$300 million in gross sales.

Imported beer continues to grow in popularity as Ontario drinkers have greater access to these products and show more interest in different styles and flavours. Corona and Heineken in particular showed strong growth in the last year. LCBO imported beer sales by value, excluding sales to Brewers Retail Inc., account for 36.5 per cent of LCBO beer sales.

The convenience of shopping for beer, wine and spirits in one place, as well as the value added by LCBO's knowledgeable staff, contributed to the increase in our market share. So did our capital investment in refrigerated displays.

Rosé, red wines show strong growth

Total dollar wine sales rose 6.9 per cent over the previous year. Measured by volume, wine sales were up 2.7 per cent in 1997-98. Litre sales of wine priced in the \$10 to \$15 range and the \$15 to \$20 range showed double digit increases, reflecting wine consumers' increasing tendency to trade up.

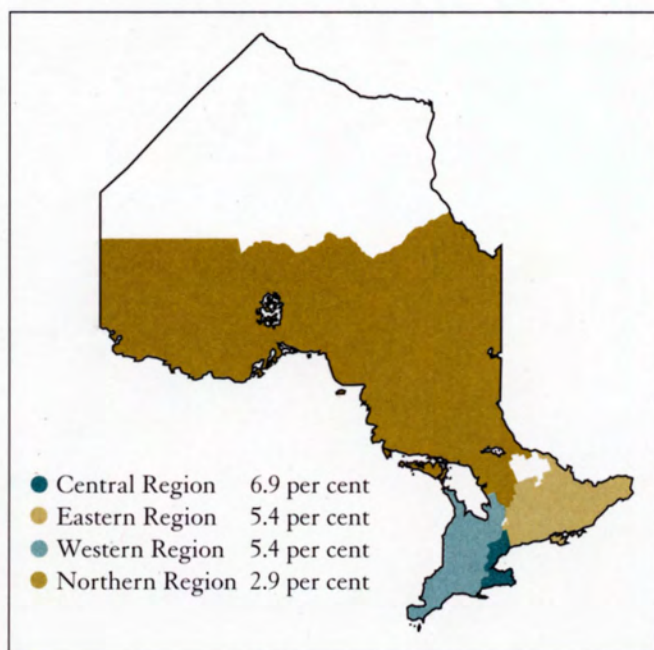
The popularity of rosé wines, especially from California, fuelled strong growth in table wines. U.S. rosé sales by volume are now higher than U.S. red wine sales. Total rosé wine sales by volume increased by 18.3 per cent over 1996-97.

Red wine continues to gain market share at the expense of white wine and now accounts for 37.1 per cent of total dollar wine sales, up from 26.4 per cent five years ago. This may be due to media reports of research showing that moderate consumption of beverage alcohol – especially red wine – has beneficial health effects (the so-called French Paradox).

New World wines also continue to grow in popularity, as reflected in both dollar and litre sales. We expect this pattern to continue in the coming year.

Domestic and imported wine

Dollar sales of domestic wine, which include LCBO sales and sales through Ontario winery stores, rose 7.0 per cent. Imported wine sales rose 7.1 per cent. Measured by volume, domestic wine sales rose 2.8 per cent, while imports rose 2.7 per cent.



The printed map on page 30 of this Report is incorrect.
Please refer to this insert map for the correct LCBO
Retail regional breakdown.

Coolers lead increase in spirit sales

Total spirit sales rose by 6 million litres or 11.6 per cent, compared to an increase of 1.1 million litres or 2.3 per cent the year before. Measured in dollars, total spirit sales rose by 4.5 per cent – \$47.7 million compared to \$29.0 million or 2.8 per cent the year before.

The increase in total spirit sales was led by domestic spirit coolers, most notably Mike's Hard Lemonade, which quadrupled in sales in 1997-98, and the introduction of Mike's Hard Cranberry.

Spirit sales in the 200 mL category were up over 50 per cent. Many customers find this size convenient for trying new spirits.

Retail and wholesale sales

Retail sales, which account for 81.1 per cent of total sales, rose 5.1 per cent over the previous year, reaching \$2.02 billion. Sunday shopping has contributed to this growth.

Wholesale channels grew strongly last year. More Ontario consumers are dining out, leading to a 10.3 per cent increase in licensee sales. Sales to Brewers Retail Inc. have also increased significantly as imported beer becomes more popular and available through this store system. Wholesale sales now account for 18.9 per cent of total LCBO sales, up from 15.8 per cent in 1993-94.

Looking ahead

In 1998-99, we expect net sales to increase by 4.8 per cent, to \$2.229 billion. A growing economy and our continuing focus on improving the LCBO shopping experience should contribute to another strong year. Our dividend to government should increase for the fifth consecutive year, to \$761 million.

LCBO IN THE SHARED MARKETPLACE

LCBO operates in the shared marketplace along with other retailers of beverage alcohol, including Brewers Retail, Ontario winery stores, U-Brew and U-Vint outlets, and duty-free stores. There are some 1,962 outlets selling alcohol in Ontario.

Here's what the market looked like at March 31, 1998 (percentages have been rounded):

- > 596 LCBO stores (30 per cent of all outlets)
- > 454 U-Brew/U-Vint outlets (23 per cent of all outlets)
- > 428 Brewers Retail stores (22 per cent of all outlets)
- > 335 Ontario winery stores (17 per cent of all outlets)
- > 97 LCBO agency stores (5 per cent of all outlets)
- > 36 on-site brewery stores (2 per cent of all outlets)
- > 11 land border-point duty-free stores (0.5 per cent of all outlets)
- > 3 on-site distillery stores (0.25 per cent of all outlets)
- > 2 privately-owned airport duty-free stores (.25 per cent of all outlets)

LCBO, winery stores gaining market share

Ontario's beverage alcohol marketplace amounted to approximately \$6.4 billion in gross sales last year. LCBO's market share by value rose slightly from 38 per cent to 39 per cent. Winery retail store sales have grown from 1.5 per cent in 1993-94 to 2.2 per cent in 1997-98. Brewers Retail Inc. has lost almost three percentage points of market share between 1993-94 and 1997-98, falling to 33.3 per cent.

By volume, LCBO's market share rose 3.6 percentage points since 1993-94, from 17.6 per cent to 21.2 per cent in 1997-98. Winery retail stores increased their share of the market from 1.0 per cent to 1.3 per cent in the same period. Brewers Retail Inc. lost market share between 1993-94 and 1997-98, falling from 66.9 per cent to 61.8 per cent.

Hobby beer- and wine-making popular

The size of the U-Brew and U-Vint market is believed to have more than tripled in the last five years, from 3.3 per cent of total provincial beverage alcohol sales in 1993-94 to 11.0 per cent in fiscal 1997-98. As noted in last year's annual report, the size of this sales channel was underestimated in previous years. There has also been significant growth in the number of U-Brew and U-Vint outlets since they first appeared in the late 1980s. According to the Brewers of Ontario, the number of U-Brew outlets now exceeds the number of Brewers Retail stores in the province. And some U-Vint operations are larger in scope than boutique wineries.

Illegal competition

Since 1993-94, the estimated size of the illegal alcohol market in Ontario has been steadily falling. In 1997-98, illegal alcohol accounted for an estimated \$584 million in sales – less than 10 per cent of the total Ontario beverage alcohol market for the first time since estimates began. The decline from almost 15 per cent five years ago is due largely to the continuing efforts of law enforcement agencies to tackle the problem. This drop also reflects previous underestimates of other legal channels' market share.

LCBO is constantly looking for ways to discourage the use of illegal alcohol. The introduction of debit and credit cards for beverage alcohol purchases made them more convenient than illegal purchases, which are strictly cash. And Sunday openings plus expanded hours make legal alcohol more available – the illegal market does more business when LCBO stores are closed.

YEAR 2000

Background

The Year 2000 problem arises from the inability of many computer programs to process year data beyond the year 1999. That's because programmers – in a bid to save memory space – designed codes to represent years in two digits only. So January 1, 1965 became 01/01/65. Unless corrected, this shortcut is expected to create widespread problems when the clock strikes 12:00:01 a.m. on January 1, 2000. The code will read "00" for the year and some computers will interpret this as 1900. If not addressed the effects could range from minor errors to significant systems failures.

Any LCBO department that depends on date sequencing, such as payroll, accounting or inventory control may be affected.

The Year 2000 problem may also affect other equipment with computerized components, such as telephones, elevators and security systems.

The problem could also affect computer applications before January 1, 2000, if systems attempt to perform calculations into the year 2000. Nor can many computers detect the fact that 2000 is a leap year, which could result in incorrect data calculations.

To avoid the problem, recently introduced programs use four digits to denote the year.

Working on Year 2000 since 1997

LCBO has established a Year 2000 Corporate Compliance Office to handle all issues related to the Year 2000 problem and appointed a Director of Year 2000 Compliance.

The LCBO has been working on Year 2000 issues since mid-1997. We are in the process of identifying potential Year 2000 problems and developing plans to address them. A number of our computer applications are believed to be already compliant, notably our Inventory Management and Forecasting/Replenishment Systems. Deadlines have been set for other business-critical systems, as follows:

- › Enterprise Server Platform – July 1998
- › Information Library – July 1998
- › All computer workstations – January 1999
- › Financial Information System and Point-of-Sale system – April 1999
- › All other major systems throughout the LCBO – July 1999

Although it is not possible to be certain that all aspects of the Year 2000 issue affecting the LCBO, including those related to the efforts of its suppliers, customers or other third parties will be fully resolved, this schedule should give us the time we need to test and re-test our readiness for the year 2000.

The LCBO does business with third-party suppliers in some 60 countries around the world. There can be no assurance that another company's failure to ensure Year 2000 capability will not have an adverse effect on us. The LCBO has implemented a communications plan to inform its key business partners, suppliers and employees about our Year 2000 project. Changes are also being incorporated into technology contracts to ensure Year 2000 compliance. And we will be contacting our key business partners and suppliers to discuss their Year 2000 readiness. We will assess the potential effects on LCBO operations if these organizations do not make appropriate modifications to their systems on a timely basis.

THE INCOME STATEMENT

Net income up \$43.9 million

Net income was \$745 million. This was \$18.4 million over target and almost \$44 million higher than the previous year.

The income-to-sales ratio was 35.0 per cent, just missing our 1997-98 target of 35.1 per cent. This was largely because the target was set before the approval of Sunday openings, which added to expenses.

Stronger sales in general – a 6.5 per cent increase over last year – were boosted by 19 extra shopping days in 1997-98 and a one-time increase in other income, which is explained below.

Reduced gross margins

The gross margin as a percentage of net sales for 1997-98 was 50.0 per cent, below last year's 50.5 per cent. One reason for this is the continuing shift in the product mix towards beer and wine, which have lower margins than spirits. Beer and wine now represent 47.6 per cent of total net sales (*defined in glossary*), up from 42.1 per cent five years ago.

The growth in the wholesale market also contributed to the lower gross margin ratio, due to the discounts provided on these sales.

Productivity ratios are improving

To track expenses and see where improvements are needed, the LCBO sets targets for many productivity ratios each year. For example, the retail-expenses-to-sales ratio shows what percentage of net sales is needed to pay retail expenses such as salaries. A declining retail-expenses-to-sales ratio means that staff are becoming more productive.

Last year, we bettered or matched all retail productivity targets, despite the introduction of Sunday shopping in December. Although there is an added salary expense associated with Sunday staffing, the retail-expenses-to-sales ratio fell from 10.9 per cent to meet the target of 10.6 per cent. We also beat our distribution productivity targets for 1997-98

as sales by volume rose and costs fell. Better labour scheduling led to significant salary savings, while improved work procedures speeded up handling time. The following tables demonstrate the improved efficiency of LCBO staff at both the retail and distribution level.

RETAIL – FINANCIAL AND OPERATING HIGHLIGHTS

	1993-94	1994-95	1995-96	1996-97	1997-98
Store Expenses					
Per Unit Sold	\$1.32	\$1.29	\$1.25	\$1.19	\$1.16
Store Expense					
as % of Sales	11.8%	11.7%	11.5%	10.9%	10.6%
Sales Per					
Customer	\$23.77	\$24.00	\$24.75	\$25.28	\$25.75
Sales Per					
Square Foot	\$1,262	\$1,286	\$1,349	\$1,365	\$1,452

DISTRIBUTION – FINANCIAL AND OPERATING HIGHLIGHTS

	1993-94	1994-95	1995-96	1996-97	1997-98
Total Distribution					
Cost Per Case	\$1.60	\$1.65	\$1.51	\$1.40	\$1.27
Warehouse Cost					
Per Case	\$1.22	\$1.25	\$1.15	\$1.10	\$0.98
Distribution Cases					
Per Hour	45	43	45	47	51

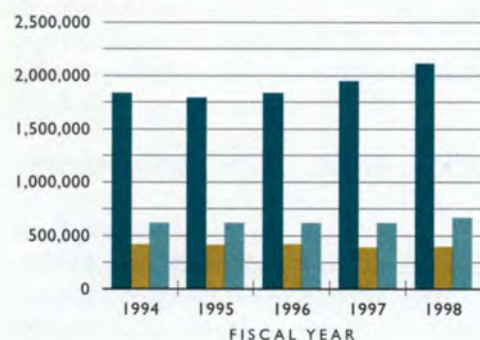
Holding the line on expenses

The administrative expense ratio met the target of 1.4 per cent, a considerable achievement since the first management salary increase in seven years was processed in 1997-98.

Operating expenses grew by 8.4 per cent, or \$27 million in 1997-98, reflecting the end of the pension holiday and higher salary and related operating expenses associated with Sunday shopping. Since 1993-94, operating expenses as a percentage of net sales and other income have fallen from 18.9 per cent to 16.3 per cent in 1997-98.

FINANCIAL INDICATORS: 1994-1998

(values in \$000s)



● SALES AND OTHER INCOME
 ● OPERATING EXPENSES
 ● NET INCOME

Other income

This category includes items such as parking revenues, special occasion permits, airline markups, and investment income. Other income was over \$34 million, more than double the target due to a large one-time payment. Canadian airline companies settled outstanding levies due to LCBO after a recent court judgement in our favour.

BALANCE SHEET

Liabilities down

Liabilities were down in 1997-98, largely due to a decline in accounts payable, from \$142.6 million to \$118.4 million.

Year-end inventories up slightly

Year-end inventory was up slightly over last year – \$193.4 million in 1997-98 versus \$193.0 million in 1996-97. However, average inventory fell from \$189.0 million in 1996-97 to \$187.0 million in 1997-98.

The inventory turnover ratio has improved to 5.5, up 7.8 per cent over last year.

CHANGES IN OUR FINANCIAL POSITION

Less cash on hand

Our cash position dropped from \$49.6 million in 1996-97 to \$19.0 million at the end of 1997-98, mainly due to a \$24.2 million reduction in our product accounts payable.

CAPITAL EXPENDITURES

(values in \$000s, numbers rounded)

	1993-94	1994-95	1995-96	1996-97	1997-98
Retail	11,929	13,223	14,464	8,110	13,009
Information Technology	1,508	9,826	8,639	8,720	8,472
Distribution	1,142	2,172	1,846	782	1,213
Marketing Programs	1	1,734	1,600	1,553	1,989
Other Admin. Divisions	173	681	670	248	917
Total Capital Expenditures	14,753	27,636	27,219	19,413	25,600

WE'RE NOT RESTING ON OUR LAURELS

Our success as a retailer is due to continuous innovation. In the past year, we've introduced new shopping hours, new retail formats, and new products and services to meet our customers' needs. Our number one goal is compelling customer service.

The five-year plan

To meet our goal, we've developed a five-year capital strategy to allow us to:

- › continue to compete in the changing beverage alcohol market
- › increase customer satisfaction and remain the beverage alcohol retailer of choice
- › maximize returns to Ontario taxpayers by generating increased dividends to the Ontario Government over the next five years.

The proposed plan calls for \$222.6 million in capital spending over five years, with more than 80 per cent spent on operations – the elements that customers see and experience. We expect an average dividend of \$801 million each year under the plan, or transfers of \$4.0 billion over the five years.

PUBLIC SECTOR DISCLOSURE ACT

The Public Sector Disclosure Act, passed by the Ontario Legislature in 1996, is designed to make the public sector more open and accountable to taxpayers. The Act requires Ontario's public sector organizations, including the LCBO, to disclose annually the names, positions, salaries and taxable benefits of employees paid \$100,000 or more a year. In keeping with the requirements of the Act, the LCBO submits the following information for calendar 1997.

Name	Position	Salary Paid	Taxable Benefits
Brandt, A.S.	Chair & CEO	\$ 104,054.69	\$ 443.66
Browning, J.A.	VP, Finance & Administration	\$ 119,976.10	\$ 510.60
Clute, C.P.	(seconded to Min. of Finance)	\$ 100,700.51	\$ 492.64
Gee, L.C.	Executive Vice President	\$ 152,292.21	\$ 661.92
Kane, M.	VP, Human Resources	\$ 109,262.85	\$ 532.76
Kelly, H.	VP, Information Technology	\$ 110,285.89	\$ 468.48
Lyons, C.*	Controller	\$ 100,472.40	\$ 876.84
Martin, J.	VP, Distribution	\$ 112,383.50	\$ 467.76
Sherwood, G.	VP, Retail	\$ 119,976.10	\$ 510.60
Wilcox, D.	VP, Merchandising	\$ 119,976.10	\$ 510.60

* One time retroactive maternity sub-allowance payment

RESPONSIBILITY FOR FINANCIAL REPORTING

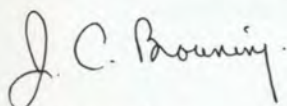
The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 5, 1998.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board of Directors.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, comprised of three directors who are not employees/officers of the Board, meets periodically with management, the internal auditors, and the Provincial Auditor to satisfy itself that each group has properly discharged its respective responsibility, and to review the financial statements before recommending approval by the Board of Directors.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:



Alex Browning
Vice President, Finance & Administration

KEY OPERATIONAL AND FINANCIAL STATISTICS

The following table lists three of the most important variables related to the operations of the LCBO: number of stores, of permanent employees and of regular products listed.

Operations

	1994	1995	1996	1997	1998
Number of LCBO Stores	600	597	596	595	596
Number of Permanent Employees	2,743	2,824	2,803	2,828	2,934
Number of Regular Products Listed	2,336	2,389	2,377	2,349	2,442

The critical financial variables of net sales and other income, total operating expenses and net income are given in the following table.

Financial (values in \$000s)

	1994	1995	1996	1997	1998
Net Sales and Other Income	1,764,731	1,808,518	1,909,804	2,013,873	2,160,843
% change/ previous year	-1.22%	2.48%	5.60%	5.45%	7.30%
Operating Expenses	333,716	313,029	323,819	324,457	351,653
As a % of net sales	18.91%	17.31%	16.96%	16.11%	16.27%
Net Income	598,909	637,299	666,717	701,030	744,904
As a % of net sales	33.94%	35.24%	34.91%	34.81%	34.47%

Note: The LCBO refers to sales in three different ways: first, gross sales which include the Federal Goods and Services Tax and the Provincial Sales Tax; second, net sales which exclude the two sales taxes and any relevant discounts (e.g., the discounts provided to licensees by the LCBO); and third, net sales also excluding any sales through the LCBO Private Stock Program. The Net Sales and Other Income line listed in the table consists of net sales plus any other income (e.g., interest on investments). Gross sales are given in the Sales Channel Summary on page 40.

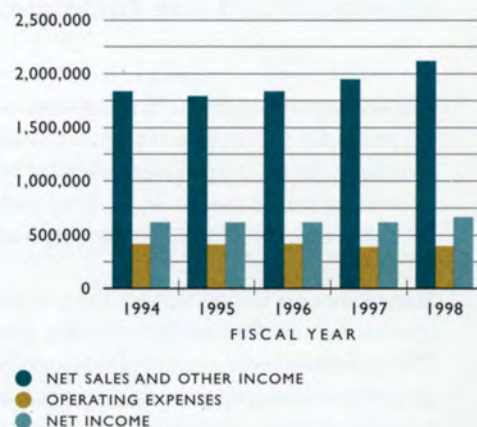
Breakdown of Operating Expenses (values in \$000s)

	1994	1995	1996	1997	1998
Salaries and Benefits	209,900	200,344	204,629	203,699	218,631
Capital	21,070	18,613	20,962	22,167	24,666
Other Expenses	102,746	94,072	98,228	98,591	108,356
Total Operating Expenses	333,716	313,029	323,819	324,457	351,653

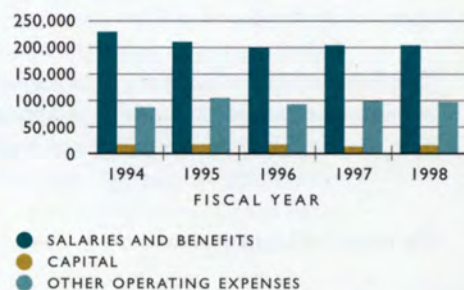
Key Indicators: 1994-1998



Financial Indicators: 1994-1998 (values in \$000s)



Operating Expenses: 1994-1998 (values in \$000s)



REVENUE PAYMENTS

Year ended March 31, 1998

The following tables show the breakdown of revenue payments for the last five years to the federal, provincial, and municipal governments.

Treasurer of Ontario (all values in \$000s)

	1994	1995	1996	1997	1998
Remitted by the LCBO:					
On account of profits	585,000	630,000	680,000	730,000	745,000
Remitted by the LCBO:					
Ontario retail sales tax on sales through liquor	173,497	174,189	182,762	192,357	202,148
**Remitted by the Liquor Licence Board:					
On account of licence fees and permits	521,784	532,116	529,690	520,829	505,657
**Remitted by others:					
Ontario retail sales tax on sales through Brewers Retail stores and Ontario winery stores	149,894	154,157	157,046	157,582	160,321
Ontario retail sales tax on sales through agency stores	1,786	1,927	2,301	2,565	2,839
Total	1,431,961	1,492,389	1,551,799	1,603,333	1,615,965

** The Liquor Licence Board, now the Alcohol and Gaming Commission of Ontario (AGCO), Brewers Retail Inc. and Ontario winery stores are separate, non-LCBO businesses.

Revenue payments from these entities are recorded by the LCBO and presented here in the interest of providing a global perspective of beverage alcohol retailing in Ontario.

Receiver General for Canada

	1994	1995	1996	1997	1998
Remitted by the LCBO:					
Excise taxes and Customs duties	225,518	227,803	235,022	239,058	247,413
Goods and Services Tax	59,137	60,939	60,344	64,672	68,642
Remitted by others:					
Excise taxes, GST and other duties/taxes	276,477	319,839	327,660	342,763	329,802
Goods and Services Tax remitted on sales through agency stores	1,042	1,124	1,343	1,496	1,656
Total	562,174	609,705	624,369	647,989	647,513

Ontario Municipalities

	1994	1995	1996	1997	1998
Remitted by the LCBO:					
Grants in lieu of realty and business taxes	6,218	6,084	6,188	5,816	5,897
Total Revenue Payments	2,000,353	2,108,178	2,182,356	2,257,138	2,269,375

Note: These amounts do not include corporation, realty and business taxes paid by the distilleries, wineries, breweries and licensees. Ontario Retail Sales Tax collected by the licensees and agency stores on sales of beverage alcohol is excluded from these figures. The 1998 figures for Remitted by Others are slightly understated due to several brewers not reporting financial information at the time of publication. Ontario Retail Sales Tax and Goods and Services Tax remitted on sales through agency stores are estimates.

SALES VOLUMES

LCBO Sales (values in 000s litres)

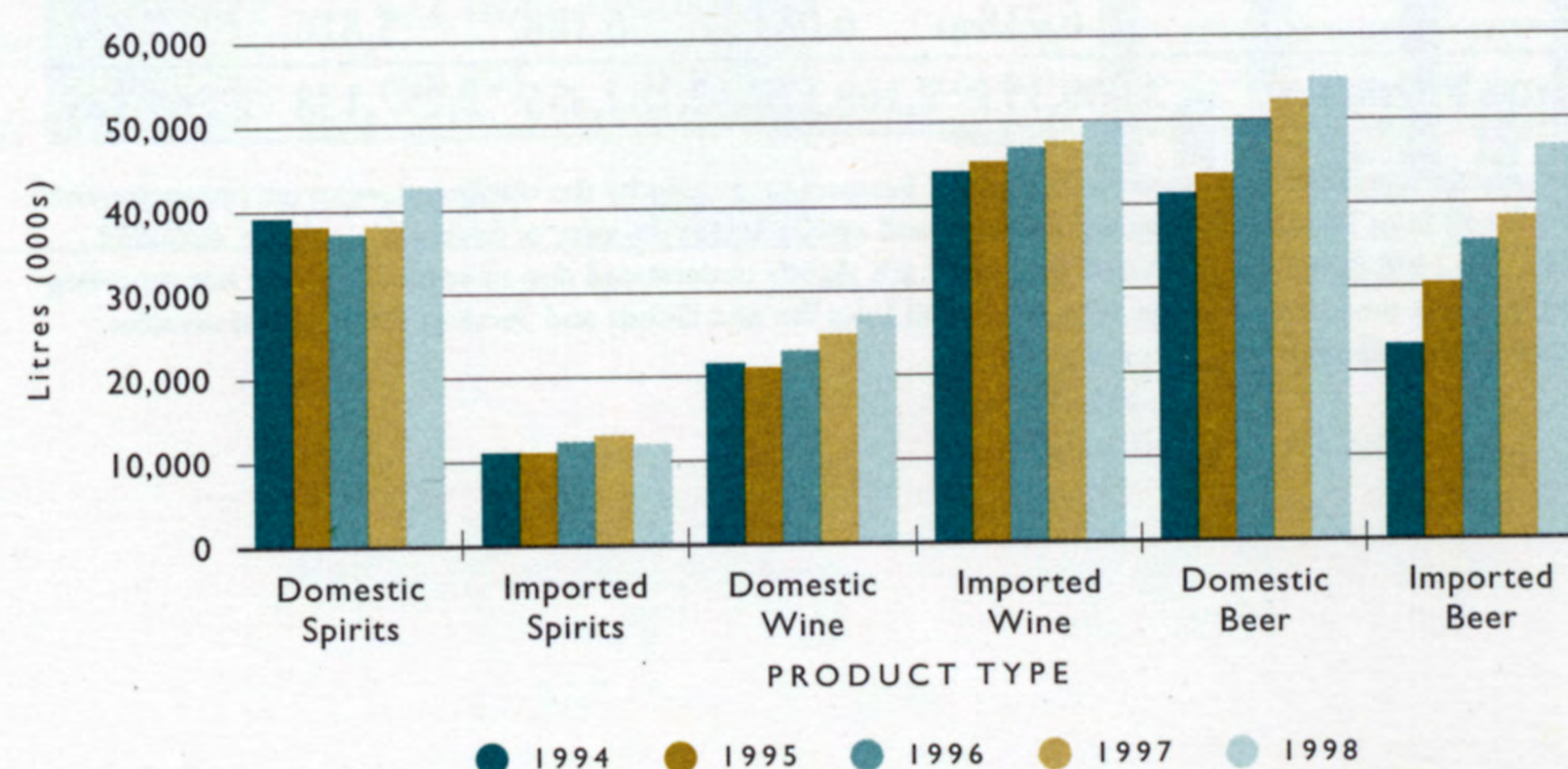
Product Type	1994	1995	1996	1997	1998
Domestic Spirits	31,924	30,836	30,585	30,615	31,015
Domestic Spirit Coolers	5,656	5,628	4,669	5,556	12,150
Imported Spirits	11,375	12,087	14,877	15,097	14,059
Total Spirits	48,955	48,551	50,131	51,268	57,224
Domestic Wine	20,969	20,483	22,208	24,957	25,845
Domestic Wine Coolers	1,255	1,042	903	895	718
Imported Wine	44,951	46,375	47,671	48,328	49,617
Total Wine	67,175	67,900	70,782	74,180	76,180
Domestic Beer	43,006	45,654	49,584	52,861	55,763
Domestic Beer Coolers	36	22	27	20	24
Imported Beer	24,966	31,012	35,873	39,021	47,082
Total Beer	68,008	76,688	85,484	91,902	102,869
Total Domestic	102,846	103,665	107,976	114,904	125,515
Total Imported	81,292	89,474	98,421	102,446	110,758
Total	184,138	193,139	206,397	217,350	236,273

(values in 000s litres)

Product Type	1994	1995	1996	1997	1998
Sales by Ontario winery stores	9,999	11,960	13,164	14,411	14,838
Sales by Brewers Retail & on-site stores	665,277	670,494	670,539	653,106	654,284

Note: LCBO beer sales figures include LCBO sales to Brewers Retail Inc. The 1998 figures for Sales by Brewers Retail and on-site stores are unaudited and understate total sales due to several brewers not reporting financial statements at the time of publication. LCBO domestic beer sales were overstated in fiscal 1997 and have been restated.

LCBO Sales Volume by Product Type: 1994-1998



SALES VALUE

LCBO Sales (values in \$000s)

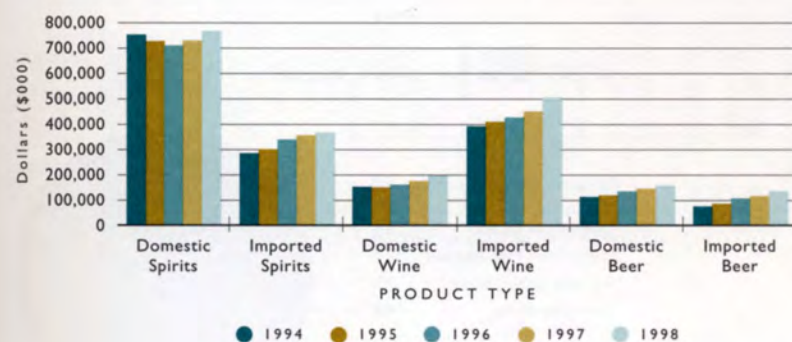
Product Type	1994	1995	1996	1997	1998
Domestic Spirits	698,695	678,101	671,080	680,092	691,165
Domestic Spirit Coolers	26,709	26,725	22,148	27,893	61,093
Imported Spirits	285,478	303,441	340,638	354,929	358,362
Total Spirits	1,010,882	1,008,267	1,033,866	1,062,914	1,110,620
Domestic Wine	143,270	143,105	158,888	178,563	190,809
Domestic Wine Coolers	4,663	3,739	3,347	3,209	2,612
Imported Wine	390,427	410,573	435,845	469,803	503,290
Total Wine	538,360	557,417	598,080	651,575	696,711
Domestic Beer	123,599	131,348	145,816	160,544	170,537
Domestic Beer Coolers	116	69	87	67	83
Imported Beer	73,641	90,143	107,275	118,567	145,326
Total Beer	197,356	221,560	253,178	279,178	315,946
Total Domestic	997,052	983,087	1,001,366	1,050,368	1,116,299
Total Imported	749,546	804,157	883,758	943,299	1,006,978
Non Liquor	2,553	2,201	2,059	3,124	3,479
Total	1,749,151	1,789,445	1,887,183	1,996,791	2,126,756

(values in 000s litres)

Product Type	1994	1995	1996	1997	1998
Sales by Ontario winery stores	68,317	83,369	95,227	106,257	114,805
Sales by Brewers Retail stores	1,754,761	1,792,638	1,809,030	1,804,847	1,858,377

Note: Sales values listed above for the LCBO and Ontario winery stores consist of net sales. Sales values for Brewers Retail Inc. consist of net sales plus GST. Sales by Brewers Retail for 1997 have been restated to reflect net sales plus GST.

LCBO Sales Value by Product Type: 1994-1998



Share of Volume Sales



Share of Dollar Sales



PRODUCT LISTINGS

	1994	1995	1996	1997	1998
Domestic					
Spirits	450	379	352	361	355
Wine	431	457	455	437	422
Beer	289	311	316	295	326
Imported					
Spirits	279	276	292	315	372
Wine	806	874	873	839	870
Beer	81	92	89	102	97
Total Regular Listings	2,336	2,389	2,377	2,349	2,442
Vintages Wines and Spirits	1,223	1,987	2,368	2,744	3,037
Duty-Free Listings	170	182	207	205	213
Consignment Warehouse and Private Stock	3,106	3,515	4,249	4,573	5,240
Total Product Listings	6,835	8,073	9,201	9,871	10,932

Note: Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services.

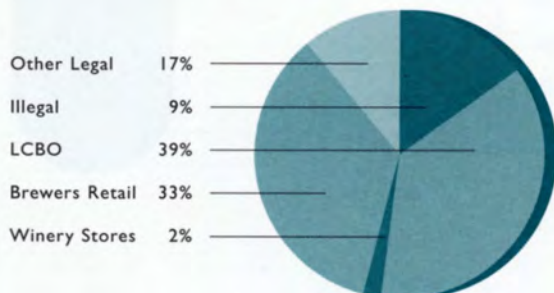
SALES CHANNEL SUMMARY

(values in \$000s)

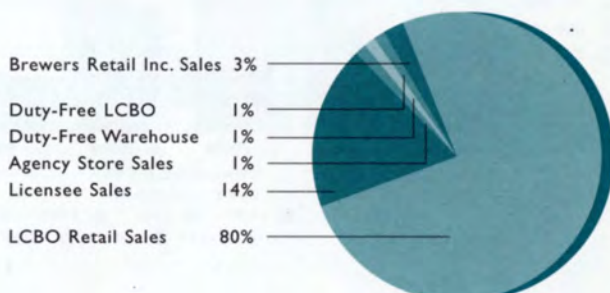
	1994	1995	1996	1997	1998
LCBO Total Sales	2,054,991	2,101,952	2,215,523	2,342,998	2,493,935
Brewers Retail Inc. Total Sales	1,910,584	1,951,825	2,060,219	2,075,664	2,114,467
Winery Retail Stores Total Sales	81,297	99,233	113,320	126,446	136,618
Other Channels					
Legal	352,746	334,139	280,559	799,332	935,686
Homemade	111,983	113,930	127,829	138,531	60,918
De-alcoholized Beer	15,069	19,600	22,540	24,140	25,854
Illegal	795,097	785,076	774,574	644,472	583,780
Grand Total	5,321,767	5,405,755	5,594,564	6,151,583	6,351,258

Note: All figures shown are gross sales. The numbers included in the Other Channels category are estimates. Brewers Retail and Ontario winery store data were provided by the Brewers of Ontario and individual winery retail stores. LCBO and Brewers Retail figures are slightly overstated due to reciprocal sales included in the individual totals. These are excluded in the Value by Sales Channel chart.

Values by Sales Channel

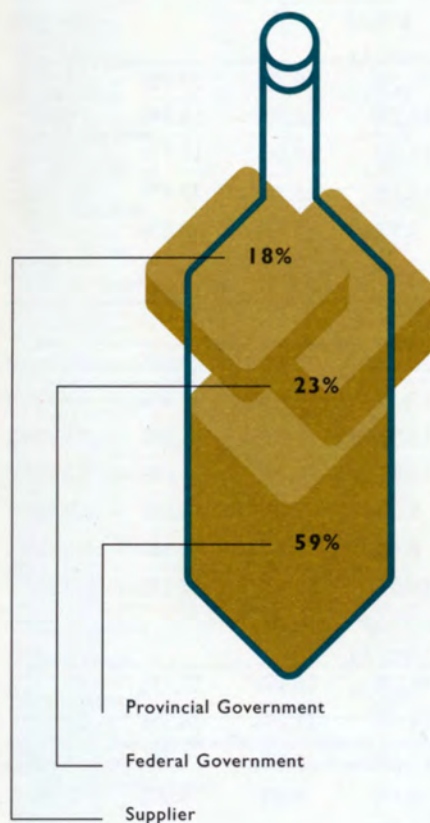


LCBO Value by Sales Channel

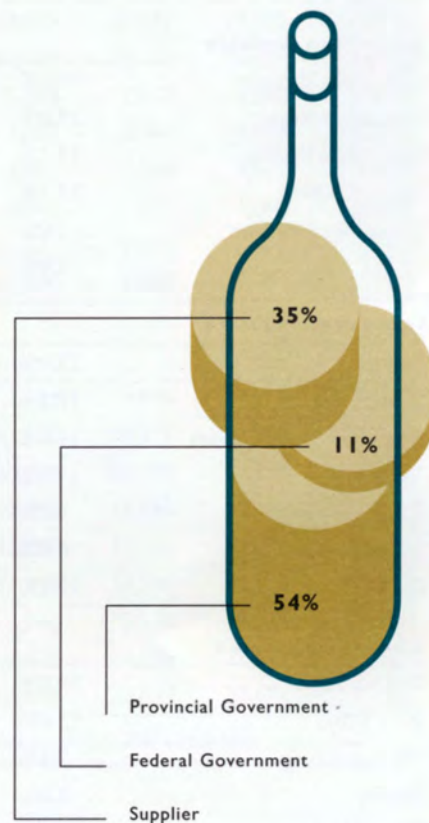


REVENUE DISTRIBUTION

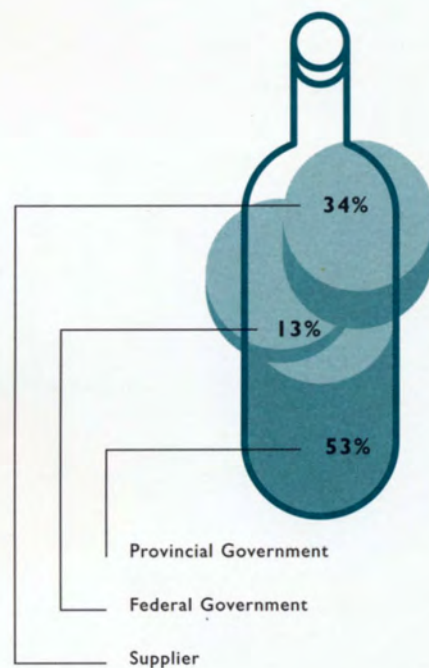
Domestic Spirits



Domestic Wine



Domestic Beer

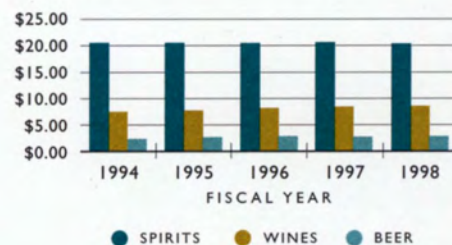


AVERAGE LCBO RETAIL PRICES

	1994	1995	1996	1997	1998
Spirits	\$ 20.65	\$ 20.77	\$ 20.62	\$ 20.73	\$ 19.41
Wine	\$ 8.01	\$ 8.21	\$ 8.45	\$ 8.78	\$ 9.15
Beer	\$ 2.90	\$ 2.89	\$ 2.96	\$ 3.04	\$ 3.07
Average Transaction Value Per Customer	\$ 22.00	\$ 22.43	\$ 23.33	\$ 22.89	\$ 23.34

Note: Average prices are exclusive of Ontario Retail Sales Tax and Goods and Services Tax.

Average Retail Prices
Per Litre: 1994-1998



LCBO SALES VOLUME BY CATEGORY

Category	Product Category Share				
	1994	1995	1996	1997	1998
Canadian Spirits					
Canadian Whisky	40.0%	41.3%	40.7%	39.9%	33.5%
Canadian Rum	18.0%	18.7%	18.7%	18.4%	15.6%
Canadian Vodka	15.1%	15.9%	16.6%	17.1%	15.4%
Spirit Coolers	15.1%	13.1%	13.3%	15.4%	28.1%
Canadian Dry Gin	3.9%	3.9%	3.6%	3.2%	2.5%
Other	7.8%	7.1%	7.2%	6.1%	4.9%
Imported Spirits					
Scotch	29.9%	26.1%	23.3%	23.0%	25.1%
Liqueur	17.1%	17.3%	16.6%	17.9%	19.1%
Miscellaneous Liquors	14.6%	13.5%	12.7%	11.9%	13.9%
Vodka	11.3%	11.0%	10.4%	11.0%	12.4%
French Brandy	9.8%	8.6%	8.0%	8.0%	9.3%
Spirit Coolers	0.0%	8.4%	11.1%	10.1%	0.9%
Other	17.2%	15.0%	17.8%	18.1%	19.3%
Canadian Wines					
White Table	59.6%	58.5%	56.1%	51.3%	49.1%
Red Table	12.6%	14.6%	17.0%	18.3%	20.5%
7% Sparkling	7.1%	7.1%	6.8%	6.3%	6.0%
Sherry	7.0%	6.7%	5.8%	5.0%	5.5%
Wine Coolers	5.7%	4.8%	3.9%	3.5%	3.7%
Other	8.1%	8.3%	10.4%	15.6%	15.1%
Imported Wines					
White Table	56.2%	53.7%	50.4%	46.7%	43.8%
Red Table	31.4%	34.0%	36.6%	39.0%	42.1%
Champagne	3.8%	3.8%	3.7%	3.7%	3.8%
Sherry	2.2%	2.0%	2.2%	2.2%	2.0%
Other	6.4%	6.6%	7.1%	8.4%	8.3%
Canadian Beer					
Ontario Beer	96.4%	95.4%	95.8%	94.3%	93.5%
Other Canadian Beer	3.6%	4.6%	4.2%	5.7%	6.5%
Imported Beer					
U.S. Beer	48.6%	48.6%	45.9%	42.8%	42.1%
Other Imported Beer	50.9%	50.9%	53.7%	56.9%	57.6%
Sake	0.5%	0.5%	0.4%	0.3%	0.3%

DETAILED SALES OF WINE BY VOLUME AND VALUE

LCBO sales only

Volume (000s litres)

Product Type	1994	1995	1996	1997	1998
Red Wine	16,474	18,345	20,911	23,106	25,570
White Wine	37,750	36,793	36,313	35,226	34,093
Rosé Wine	1,248	1,365	1,677	2,108	2,493
Sparkling Wine	4,028	3,959	3,989	4,035	3,969
Fortified Wine	3,892	3,810	3,764	3,602	4,083
Wine Coolers	1,255	1,042	903	1,094	1,004
Other Wine	1,182	1,227	1,914	3,627	3,336
VQA Wines*	1,485	1,200	1,660	2,494	2,534

Value (\$000s)

Product Type	1994	1995	1996	1997	1998
Red Wine	142,342	163,030	190,371	223,586	258,225
White Wine	280,849	280,061	284,955	287,892	288,217
Rosé Wine	9,510	10,460	12,846	16,341	19,983
Sparkling Wine	41,855	41,840	42,161	44,099	46,598
Fortified Wine	32,627	32,648	33,388	33,143	40,035
Wine Coolers	4,655	3,740	3,342	4,923	4,660
Other Wine	10,175	9,426	14,190	21,072	16,382
VQA Wines*	15,339	16,446	20,075	27,671	31,146

Note: *VQA wine sales are reported as a separate consolidated figure and also within each product category. Sales figures of wine by volume and value exclude Private Stock sales. Rosé wine and other wine sales have been restated as a result of a reclassification.

LCBO SALES BY COUNTRY OF ORIGIN - VOLUME AND VALUE

SPIRITS

Country	Net Value	Litres
Canada	744,350,442	43,125,781
Great Britain	123,143,141	4,557,319
France	56,044,252	1,780,154
U.S.A.	29,502,148	1,556,854
Ireland	33,265,687	1,248,768
Italy	23,136,097	1,095,259
Sweden	20,681,895	906,641
Mexico	21,686,277	861,349
Finland	9,227,520	426,416
Russian Federation	4,497,570	204,932
Germany	4,533,557	189,365
Barbados	3,343,586	149,770
Poland	3,034,129	139,186
Greece	2,991,938	132,089
Netherlands	1,985,331	104,584
Jamaica	2,615,685	97,959
South Africa	1,968,000	87,863
Switzerland	2,240,489	67,885
Spain	1,106,783	51,274
Guyana	624,384	29,498
Cuba	660,700	28,100
Hungary	510,140	25,234
Portugal	593,852	22,366
Bermuda	603,396	19,126
Venezuela	480,832	19,108
Bahamas	362,444	16,715
Croatia	388,071	15,062
India	334,556	14,885
Ukraine	331,699	14,868
Denmark	330,809	13,586
Lebanon	302,308	12,970
People's Republic Of China	248,956	12,451

Spirits continued

Country	Net Value	Litres
Belgium	136,518	4,201
Austria	149,990	4,010
Israel	54,606	2,417
Puerto Rico	60,824	2,331
Chile	39,544	1,688
Estonia	34,700	1,453
Macedonia	33,985	1,406
Grenada	34,273	1,209
Czech Republic	24,224	939
Japan	21,785	800
Trinidad	15,355	717
Cyprus	5,127	246
Philippines	1,277	59
Norway	1,531	54
Martinique	303	1
Grand Total	1,095,740,716	57,048,949

WINE

Country	Net Value	Litres
Canada	189,002,766	26,503,439
France	165,718,034	16,435,276
Italy	98,688,287	10,593,632
U.S.A.	72,129,563	6,952,322
Australia	32,917,588	2,688,378
Chile	27,655,602	3,054,330
Germany	17,219,267	1,782,474
Spain	15,968,202	1,430,020
Portugal	15,292,460	1,428,026
South Africa	9,585,945	942,576
Greece	5,726,107	807,009
Hungary	4,738,356	664,232
Bulgaria	2,328,087	322,376
New Zealand	2,152,177	154,919
Argentina	1,437,794	159,060
Croatia	950,321	116,790
Great Britain	927,143	165,858
Israel	890,256	97,046
Romania	493,687	66,708
Austria	387,501	34,111
Denmark	289,472	25,664
Cyprus	182,601	22,391
Macedonia	156,360	23,534
Czech Republic	136,688	18,073
Switzerland	101,271	5,324
Jamaica	96,779	10,956
Mexico	93,669	9,877
Japan	90,642	9,389
Slovenia	75,253	8,532
Bolivia	72,348	6,267
Uruguay	64,879	6,301
Belgium	5,554	332
Morocco	4,119	539
Russian Federation	501	18
Turkey	363	56
Slovakia	86	26
People's Republic Of China	57	9
Brazil	16	5
Grand Total	665,579,800	74,545,873

BEER

Country	Net Value	Litres
Canada	166,174,812	54,362,652
U.S.A.	43,982,234	16,911,240
Mexico	23,109,626	6,310,435
Netherlands	21,926,434	5,542,705
Germany	10,621,226	3,119,192
Great Britain	9,699,019	2,675,227
Ireland	5,303,073	1,324,771
Denmark	2,531,860	798,039
Poland	2,339,568	676,233
Czech Republic	2,136,784	647,280
Japan	1,777,908	417,161
People's Republic Of China	768,890	207,769
Italy	559,584	160,841
Jamaica	464,287	127,390
South Africa	375,403	115,037
Trinidad	371,224	95,762
France	361,802	95,602
New Zealand	278,311	83,739
Austria	154,582	46,074
Croatia	166,122	45,139
Belgium	316,003	45,073
Portugal	128,458	36,069
Kenya	126,763	36,054
Cyprus	125,232	27,250
Ukraine	57,026	17,406
Greece	28,077	7,596
Thailand	33,296	7,372
Brazil	27,603	5,001
Switzerland	4,848	605
North Korea	64	27
Australia	4	2
Grand Total	293,950,124	93,944,742

Note: Net value represents net sales, excluding Private Stock sales.
In fiscal 1997/98, the LCBO sold products from 62 different countries.

AUDITOR'S REPORT

To the Liquor Control Board of Ontario and to the Minister of Consumer and Commercial Relations

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 1998 and the statements of income and retained income and of changes in financial position for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Toronto, Ontario
June 5, 1998

Erik Peters, FCA
Provincial Auditor

BALANCE SHEET

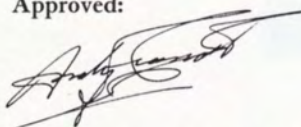
As at March 31, 1998 (in \$000s)

Assets	1998	1997
Current		
Cash and short-term investments (Note 3)	19,029	49,583
Accounts receivable, trade and others	12,446	6,728
Inventories	193,434	193,021
Prepaid expenses	5,811	6,877
	230,720	256,209
Long-term		
Capital assets (Note 4)	132,958	132,037
	363,678	388,246
Liabilities and Retained Income		
Liabilities		
Accounts payable and accrued liabilities	179,175	203,647
Retained income	184,503	184,599
	363,678	388,246

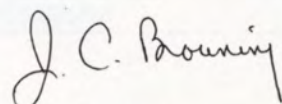
Commitments (Note 5)

See accompanying notes to financial statements.

Approved:



Chair and Chief Executive Officer



Vice President
Finance and Administration

STATEMENT OF INCOME AND RETAINED INCOME

Year Ended March 31, 1998 (in \$000s)

	1998	1997
Sales and other income	2,160,843	2,013,873
Costs and expenses		
Cost of sales	1,064,286	988,386
Retail stores and marketing	249,747	235,260
Warehousing and distribution	38,293	38,625
Administration	38,947	28,405
Amortization	24,666	22,167
	1,415,939	1,312,843
Net income for the year	744,904	701,030
Retained income, beginning of year	184,599	213,569
	929,503	914,599
Deduct dividend paid to Province of Ontario	745,000	730,000
Retained income, end of year	184,503	184,599

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended March 31, 1998 (in \$000s)

	1998	1997
Cash provided from Operations		
Net income	744,904	701,030
Amortization	24,666	22,167
Gain on sale of capital assets	(63)	—
	769,507	723,197
Change in working capital	(29,537)	49,819
	739,970	773,016
Cash used for investment activities		
Purchase of capital assets	(25,654)	(19,432)
Proceeds from sale of capital assets	130	8
	(25,524)	(19,424)
Cash used for dividend paid to Province	(745,000)	(730,000)
(Decrease) Increase in cash during the year	(30,554)	23,592
Cash and short-term investments, beginning of year	49,583	25,991
Cash and short-term investments, end of year	19,029	49,583

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

As at March 31, 1998

1. NATURE OF THE CORPORATION

The Liquor Control Board of Ontario (Board) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The corporation is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario. As an Ontario Crown Corporation, the Board is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*. The Board transfers most of its profits to the Consolidated Revenue Fund in the form of a dividend.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The Board's financial statements are prepared in accordance with generally accepted accounting principles.

(b) Inventories

At March 31, 1998, inventories are valued at the lower of cost and net realizable value with cost being determined by the moving average cost method.

(c) Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

Buildings	20 years
Furniture and Fixtures	5 years
Leasehold Improvements	5 years
Computer Equipment	3 years

Minor capital expenditures and the expenditures for repairs and maintenance are charged to income.

3. CASH AND SHORT-TERM INVESTMENTS

The Board's investment policy restricts short-term investments to high-liquid, high-grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

Cash and short-term investments include \$13 million (1997 - \$27 million) of investments maturing within one year, yielding 4.95% (1997 - 3.2%) on average, with a market value that approximates carrying value.

4. CAPITAL ASSETS

	1998		1997	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
(in \$000s)				
Land	13,941	—	13,941	13,941
Buildings	237,928	156,447	81,481	83,951
Furniture and Fixtures	32,316	27,477	4,839	4,285
Leasehold Improvements	66,668	50,970	15,698	13,437
Computer Equipment	61,418	44,419	16,999	16,423
	412,271	279,313	132,958	132,037

5. LEASE COMMITMENTS

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

	(in \$000s)
1999	22,684
2000	18,508
2001	15,621
2002	12,519
2003	8,962
Thereafter	36,593
	<u>114,887</u>

6. PENSION PLAN

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario.

The Board's expense related to the PSPF and the OPSEU Pension Fund for the year was \$14.4 million (1997 - \$2.5 million) and is included in Costs and expenses in the Statement of Income and Retained Income. The expense increased significantly during the current year due to the termination of the pension holiday provided by the *Ontario Public Service Employees' Union Pension Act, 1994*.

7. HEDGING

The Board has entered into forward foreign exchange contracts to manage the foreign exchange risk associated with its purchases from foreign suppliers. A forward foreign exchange contract is an agreement between two parties to set exchange rates in advance.

As at March 31, 1998 the Board had no forward foreign exchange contracts outstanding (1997 - \$950,000).

Credit risk is the risk that a party to a forward foreign exchange contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risk by only dealing with major Canadian chartered banks and Canadian subsidiaries of major foreign banks.

The LCBO

Board of Directors

ANDREW S. BRANDT: APPOINTED CHAIR AND CHIEF EXECUTIVE OFFICER FEBRUARY 6, 1991. Re-appointed in March 1997 for an unprecedented third three-year term as Chair and CEO, Mr. Brandt came to the LCBO after a long and distinguished career in the private and public sectors. He began his public-service career in Sarnia, where he served on City Council for almost a decade, including three terms as mayor. In 1981, he was elected to the Ontario Legislature as MPP for Sarnia and became, successively, Parliamentary Assistant to the Minister of Labour, Minister of the Environment, and Minister of Industry and Trade. In 1987, he was named Leader of the Ontario Progressive Conservative Party, a post he held until 1990. In the private sector, Mr. Brandt ran a successful musical instrument business for many years. He is also an active and award-winning volunteer in several community organizations, including the United Way, Rotary Club, Kiwanis Club and Lambton College Foundation. One of Canada's top 200 CEOs, according to the Financial Post magazine, he was named Business Support Person of the Year by the Ontario Grape and Wine Festival in 1997. He has also been appointed an Officer of France's Ordre du Merite Agricole and a Chevalier in the Confrerie des Chevaliers du Tastevin, and was admitted to the roll of the Keepers of the Quaich in Scotland.

CHANTAL HAAS: APPOINTED VICE-CHAIR MAY 15, 1995. Ms. Haas is Managing Partner and National Director, Public Relations, for Bradson Staffing Services Inc. She also participates actively in Toronto's French community. Ms. Haas is currently a Member of the Board of Directors and Past President (two-terms) of Le Cercle canadien de Toronto. She is Chair of the French Chamber of Commerce (Ontario) – the first woman to be elected to that post – and Vice-President, Public Relations, for Women Entrepreneurs of Canada. Ms. Haas is also a National Board Director with the Association of Professional Placement Agencies & Consultants and is a Regional Board Director for the Employment & Staffing Services Association of Canada. She has inspired many young women entrepreneurs through her extensive involvement with the Step Ahead and Step-Up mentoring programs.

JOHN S. LACEY: APPOINTED JUNE 26, 1996. Mr. Lacey is a veteran of the retail, hospitality and communications industries, with nearly 35 years of experience with companies such as WIC Western International Communications Ltd., Scott's Hospitality Inc., Molson, Loblaw's, and the Holiday Inn and Marriott hotel chains. Now President and Chief Executive Officer of Oshawa Group Ltd., Mr. Lacey is a graduate of the Harvard Business School who emigrated to Canada in 1978 and became a Canadian citizen in 1983. Mr. Lacey is also a director of Scott's Restaurants Inc., the Family Channel and Canadian Satellite Communications Inc., which he chairs. His community interests include the Centre for Studies of Children at Risk, which is affiliated with McMaster University and Chedoke-McMaster Hospitals.

JOHN C. HOPPER: APPOINTED SEPTEMBER 8, 1997. A native of Ottawa, Mr. Hopper began work in automobile sales there in 1963. He moved to North Bay in 1971 to establish John C. Hopper Pontiac Buick, and is today President of Hopper Automobile Ltd., and President and Dealer Principal of Saturn of North Bay. He was a founding member of the North Bay Automobile Dealers Association and the Northern Ontario Automobile Dealers Association, and past president of the Ontario Automobile Dealers Association. A former North Bay City councillor, he has a long history of community service: he's a member of North Bay Masonic Lodge, a member and past president of both the Rorab Shrine Club and North Bay Kiwanis Club; a member of the Northern Ontario Cancer Research Foundation; Honourary Chair of the Kidney Foundation, North Bay Chapter; and chaired the \$7,000,000 fund raising committee for the Partners for Life Hospital campaign. He was the Kiwanis Club's Citizen of the Year in 1993.

RICHARD LING: APPOINTED SEPTEMBER 8, 1997. Before becoming Resident Principal of Borden & Elliot's York Region Office, lawyer Richard Ling was Senior Partner in the firm Ling & Wong; Managing Director of Lehndorff Asia Inc.; and Resident Counsel for Graham & James in Beijing. The Chinese-born Willowdale resident speaks five languages, and is well versed in banking, real estate and corporate practice. Mr. Ling has lived in China, Japan, France, Germany and the U.S. And as a bank employee, before becoming a lawyer, he lived all across Ontario: in St. Catharines, Thorold, Lindsay, Bowmanville and Kitchener. He is on the Board of Governors

The Directors of the LCBO, like those of other provincial government agencies, boards and commissions, are appointed by the sitting government through Order-in-Council. Appointments, up to five years, are sometimes renewed.

of Sheridan College, and a former Director of St. Michael's Hospital Foundation Board; the Richmond Hill & Markham Chinese Business Association; Mon Sheong Home for the Aged; and the Chinese Cultural Centre of Greater Toronto.

DICK DOLPHIN: APPOINTED OCTOBER 7, 1997. A Fellow of the Institute of Chartered Accountants of Ontario, Mr. Dolphin recently retired from financial services giant KPMG, for whom he'd worked for 23 years. He spent many of those years as managing partner of its Thunder Bay office, practising his specialty of municipal finance. Mr. Dolphin spent six years as a director of the Thunder Bay Chamber of Commerce, including one year as president, and is currently 2nd vice-chair of the Ontario Chamber of Commerce. He served on Thunder Bay's St. Joseph's Hospital Board in several capacities between 1986 and 1991, including a term as Chair of its Finance and Audit Committee. He was also a member of the Port Arthur Rotary Club from 1984 to 1997. Mr. Dolphin now resides in Peterborough, where he owns and operates the consulting firm Dick Dolphin & Associates.

MERLE A. JACOBS: APPOINTED DECEMBER 17, 1997. Ms. Jacobs began her career as a nurse, eventually becoming a nurse manager in the department of psychiatry at North York Branson Hospital. Over nearly 30 years in the field, she has also pursued her education, and has now completed a Diploma in Nursing, a Bachelor of Arts degree, a Master's, and all the course work for a Ph.D. in Sociology at York University. Her professional experience and studies have shared a focus on mental health, as does much

of her extensive volunteer work. She has served on the Board of Toronto's Queen Street Mental Health Centre and the North York Chapter of the Canadian Mental Health Association. She is also a director of Roots Cultural Foundation and Royal Business Training Centre. As director and owner of the Lawrence Avenue Centre for Eating Disorders, Ms. Jacobs has also developed her business planning and budgeting skills, as well as her knowledge of human resources issues.



As at March 31, 1998

LCBO

Useful Facts

THE MARKETPLACE

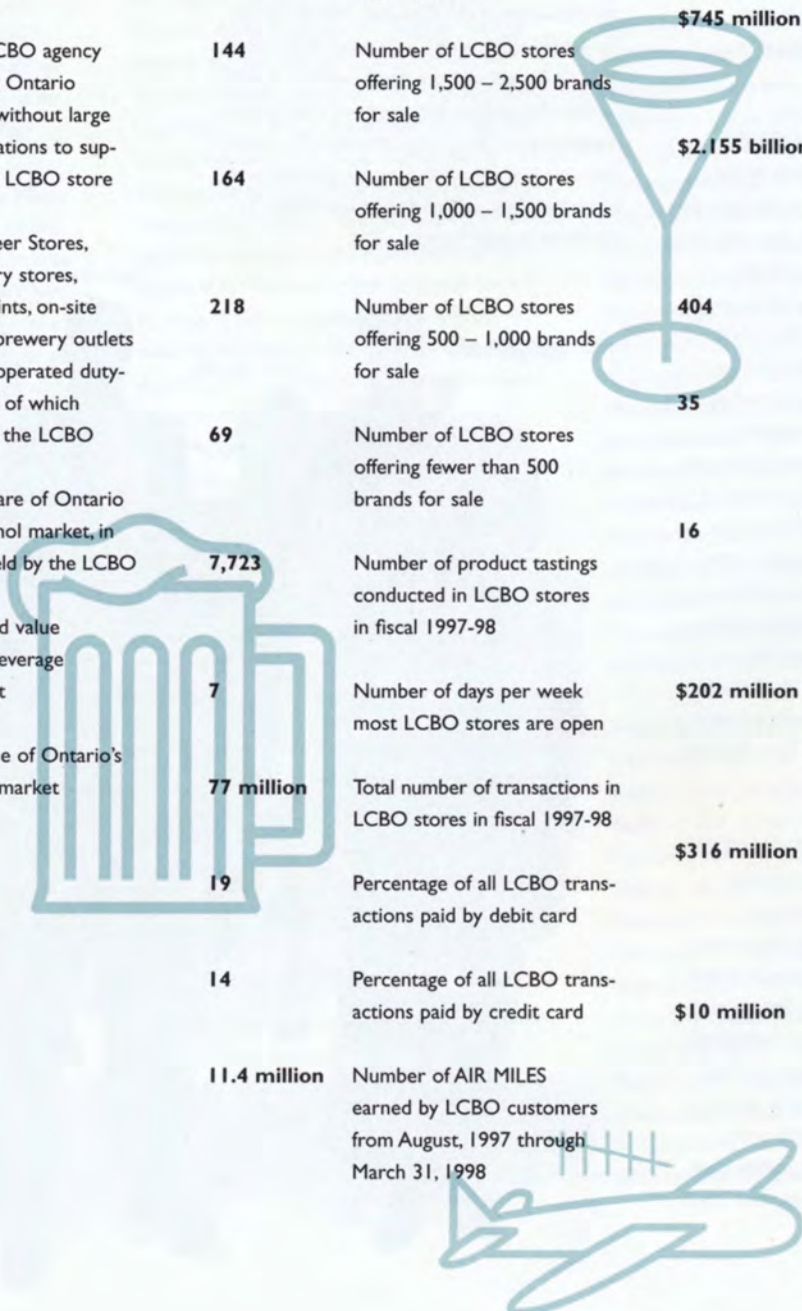
596	Number of LCBO stores serving communities across Ontario
97	Number of LCBO agency stores serving Ontario communities without large enough populations to support a regular LCBO store
1,269	Number of Beer Stores, Ontario winery stores, U-Brews, U-Vints, on-site distillery and brewery outlets and privately-operated duty-free stores, all of which compete with the LCBO
39	Percentage share of Ontario beverage alcohol market, in dollar value, held by the LCBO
\$6.4 billion	Total estimated value of Ontario's beverage alcohol market
\$584 million	Estimated value of Ontario's illegal alcohol market

OUR STORES

3	Number of LCBO stores offering more than 2,500 brands for sale
144	Number of LCBO stores offering 1,500 – 2,500 brands for sale
164	Number of LCBO stores offering 1,000 – 1,500 brands for sale
218	Number of LCBO stores offering 500 – 1,000 brands for sale
69	Number of LCBO stores offering fewer than 500 brands for sale
7,723	Number of product tastings conducted in LCBO stores in fiscal 1997-98
7	Number of days per week most LCBO stores are open
77 million	Total number of transactions in LCBO stores in fiscal 1997-98
19	Percentage of all LCBO transactions paid by debit card
14	Percentage of all LCBO transactions paid by credit card
11.4 million	Number of AIR MILES earned by LCBO customers from August, 1997 through March 31, 1998

OUR FINANCIAL PERFORMANCE

\$2.16 billion	The LCBO's net sales and other income in fiscal 1997-98
\$745 million	Dividend the LCBO transferred to the Government of Ontario for fiscal 1997-98 (excluding taxes)
\$2.155 billion	Amount the LCBO has transferred to the Consolidated Revenue Fund the last three fiscal years combined (excluding taxes)
404	Percentage return on taxpayers' equity in fiscal 1997-98
35	The LCBO's profit margin, expressed as a percentage, in fiscal 1997-98
16	The LCBO's operational expenses as a percentage of net income for fiscal 1997-98 (down from 19 per cent in fiscal 1993-94)
\$202 million	Amount the LCBO transferred to the provincial government in Provincial Sales Tax (PST) in fiscal 1997-98
\$316 million	Amount the LCBO transferred to the federal government in GST, excise taxes and Customs duties in 1997-98
\$10 million	Amount the LCBO spent on capital improvements to its stores (renovations, relocations, etc.) in 1997-98



PRODUCTS AND PRICING

10,932	Number of products available through LCBO stores, catalogues and private ordering service in fiscal 1997-98	2,934
2,812	Number of new Vintages products offered in stores and through the <i>Classics Catalogue</i> in fiscal 1997-98	69
62	Number of countries from which the LCBO buys its products	4,119
752	Number of products discounted by up to 20 per cent through the LCBO's Limited Time Offer program	5,052
857	Number of products that carried a "value-add" bonus item in 1997-98	89
82	Percentage of domestic spirit prices made up of federal and provincial taxes	123,000
65	Percentage of domestic wine prices made up of federal and provincial taxes	
66	Percentage of domestic beer prices made up of federal and provincial taxes	

OUR EMPLOYEES

Number of permanent full-time LCBO employees
Number of LCBO product consultants available to offer expert advice to customers
Number of LCBO Retail staff who have passed the highest level of our three-level Product Knowledge Correspondence Course to date
Number of LCBO Retail staff who have received training to date to help prevent service to minors or people who appear intoxicated
Rating, out of 100, given to LCBO employees for product knowledge in a recent customer survey
Number of calls handled by LCBO Infoline officers in calendar 1997

OUR FUNDRAISING

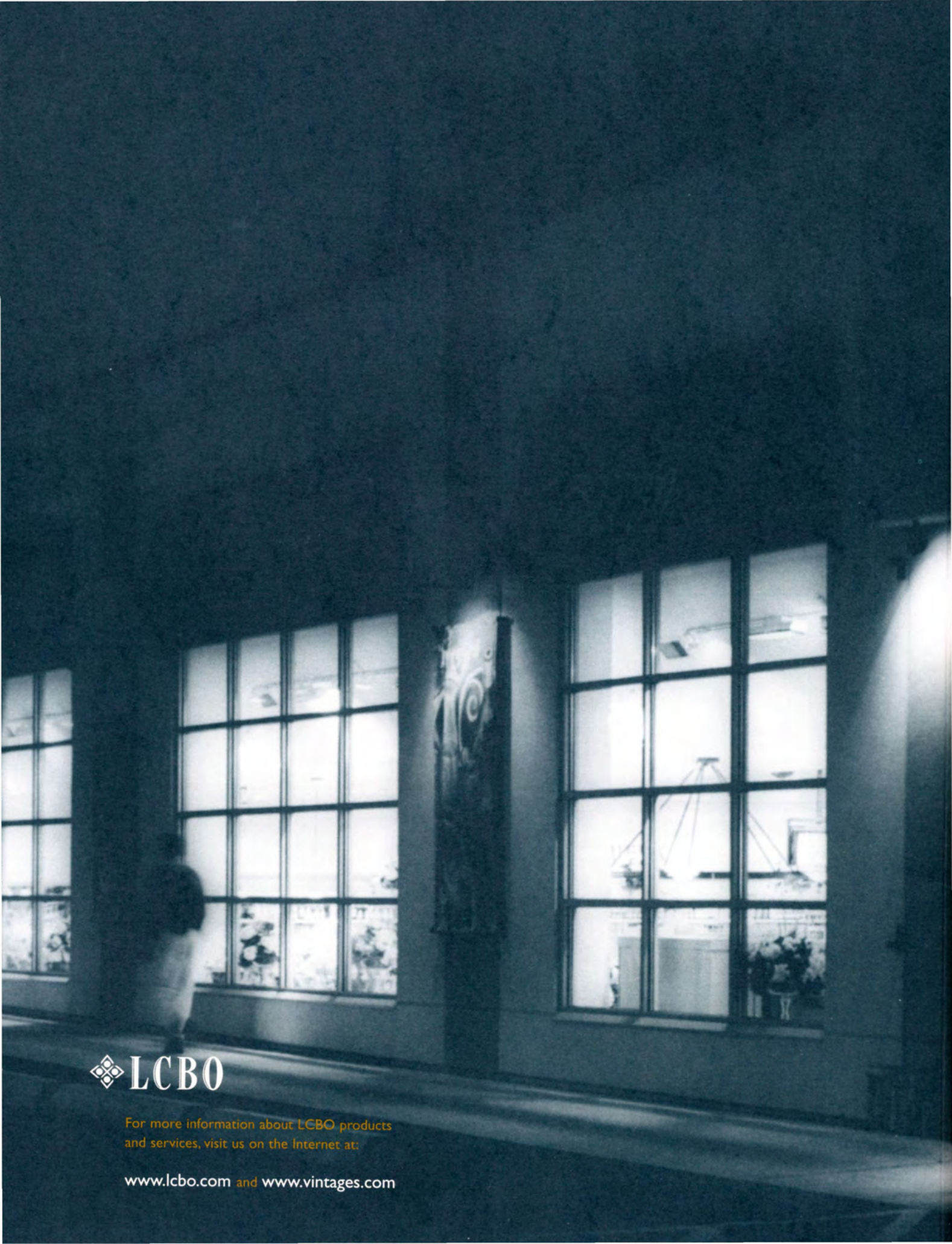
\$156,000	Amount raised by LCBO employees for the United Way in 1997 - \$41,000 over goal.
1	Ranking of LCBO among government fundraisers for the United Way
\$245,970	Amount raised for charity through donation boxes in LCBO in calendar 1997
\$94,000	Amount raised for ice storm victims in January, 1998

SOCIAL RESPONSIBILITY

648,092	Number of customers challenged for proof of age or sobriety by LCBO staff in fiscal 1997-98
81,427	Number refused service by LCBO employees in fiscal 1997-98
3,734	Number of BYID tamper-resistant identification cards issued by the LCBO during fiscal 1997-98

QUALITY ASSURANCE

203,901	Number of product tests carried out in 1997 by LCBO's Quality Assurance Laboratory
397	Number of products rejected by Quality Assurance in 1997 for health concerns, consumer safety issues and other quality control problems
1,122	Number of seized products tested for enforcement purposes by Quality Assurance in 1997
1	Number of product recalls issued by Quality Assurance in 1997



For more information about LCBO products
and services, visit us on the Internet at:

www.lcbo.com and www.vintages.com

Statistical Insert

for LCBO Annual Report, Fiscal 1997-1998

PRODUCT LISTINGS

	1994	1995	1996	1997	1998
Domestic					
Canadian Whisky	125	103	99	94	100
Canadian Blended Rums	90	69	64	68	73
Canadian Gin	26	16	14	17	16
Canadian Vodka	52	50	47	45	46
Canadian Brandy	4	4	4	6	6
Canadian Blended Brandy	12	12	14	8	8
Canadian Spirit Coolers	21	31	25	38	29
Fruit Spirits	4	3	3	1	1
Miscellaneous Liquors	11	7	6	26	25
Canadian Liqueurs	87	66	57	47	43
Ontario Wines	400	420	421	403	378
Ontario Wine Coolers	15	14	11	7	5
Other Canadian Wines	10	16	14	10	25
Canadian Cider	6	7	9	17	14
Canadian Beer (incl. Beer Coolers)	289	311	316	295	326
Alcohol	6	6	6	0	0
Miniatures	9	9	10	8	5
Bitters	3	3	3	3	3
Imported					
Scotch Whisky	68	63	58	69	76
Irish Whiskey	3	4	4	3	3
American Whiskey	5	5	5	10	10
Gin	15	16	16	10	10
Rum	13	10	9	11	10
Vodka	20	19	22	23	24
Tequila	6	9	8	11	9
Brandy	55	31	43	45	47
Fruit Spirits	2	10	2	2	3
Miscellaneous Liquors	13	7	4	11	53
Liqueurs	59	73	77	76	91
Wines	806	874	873	839	870
Beer and Sake	81	92	89	102	97
Miniatures	11	12	19	24	19
Coolers	3	6	19	12	9
Bitters	6	11	6	8	8
Total Regular Listings	2,336	2,389	2,377	2,349	2,442
Vintages Wines and Spirits	1,223	1,987	2,368	2,744	3,037
Duty-Free Listings	170	182	207	205	213
Consignment Warehouse and Private Stock	3,106	3,515	4,249	4,573	5,240
Total Product Listings	6,835	8,073	9,201	9,871	10,932

Note: Consignment Warehouse and Private Stock product listings are estimates based on invoices produced by Specialty Services.

SALES CHANNEL SUMMARY

(values in \$000s)

LCBO	1994	1995	1996	1997	1998
Retail Sales	1,731,071	1,740,387	1,827,840	1,923,750	2,022,638
Licensee Sales	276,306	288,956	297,233	314,652	347,083
Agency Sales	15,824	17,005	20,329	22,643	25,059
Duty-Free/Warehouse	12,137	12,640	15,108	17,349	17,318
Duty-Free/LCBO	8,979	9,869	11,425	12,156	13,367
BRI Sales	7,866	29,729	40,150	48,920	64,891
Other Sales	2,808	3,366	3,438	3,528	3,579
Total	2,054,991	2,101,952	2,215,523	2,342,998	2,493,935

Brewers Retail Inc.

Retail & Licensee Sales	1,910,584	1,951,825	2,060,219	2,075,664	2,114,467
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Winery Stores

Retail Sales	81,297	99,233	113,320	126,446	136,618
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Other Channels

Legal:

Cross-Border Exempt	171,703	147,538	148,305	141,372	230,874
Cross-Border Declared	2,346	1,599	2,333	2,524	3,054
Brew Pubs	2,570	2,976	2,496	1,467	1,737
Wine Pubs	422	489	448	437	535
U-Brew-Beer	141,305	142,413	110,771	151,482	149,534
U-Brew-Wine	34,400	39,124	16,206	502,050	549,952
Total	352,746	334,139	280,559	799,332	935,686

Homemade:

Wine	101,279	99,991	112,855	122,409	44,071
Beer	10,704	13,939	14,974	16,122	16,847
Total	111,983	113,930	127,829	138,531	60,918

De-alcoholized Beer	15,069	19,600	22,540	24,140	25,854
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Illegal:

Smuggling	549,132	534,132	490,372	421,443	393,991
Wine Manufacturing	245,965	250,944	284,202	223,029	189,789
Total	795,097	785,076	774,574	644,472	583,780
Grand Total	5,321,767	5,405,755	5,594,564	6,151,583	6,351,258

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. Brewers Retail Inc. and Winery Store sales data were supplied by the Brewers of Ontario and individual wineries.

RETAIL PRICE BREAKDOWNS

Spirits

Examples as at March 31, 1998 for 750 mL bottle in Canadian Dollars

	Imported U.S.	Imported Non-U.S.	Domestic
Payment to Supplier	\$3.0400	\$3.3600	\$3.3800
Federal Excise Tax	\$3.3198	\$3.3198	\$3.3198
Federal Import Duty	\$0.0000	\$0.0175	\$0.0000
Freight	\$0.2775	\$0.1640	\$0.0466
Total Landed Cost	\$6.6373	\$6.8613	\$6.7464
LCBO Mark-up	\$9.6307	\$9.9489	\$9.3100
LCBO Bottle Levy	\$0.2175	\$0.2175	\$0.2175
LCBO Environment Fee	\$0.0893	\$0.0893	\$0.0893
LCBO Rounding Revenue	\$0.0252	\$0.0258	\$0.0168
Basic Price	\$16.60	\$17.14	\$16.38
Goods and Services Tax	\$1.16	\$1.20	\$1.15
Provincial Retail Sales Tax	\$1.99	\$2.06	\$1.97
Consumer Price	\$19.75	\$20.40	\$19.50

Revenue Distribution

Supplier (including freight)	\$3.32	\$3.52	\$3.43
Government of Canada	\$4.48	\$4.54	\$4.47
Government of Ontario	\$11.95	\$12.34	\$11.60

Wines

Examples as at March 31, 1998 for 750 mL bottle in Canadian Dollars

	Imported U.S.	Imported Non-U.S.	Domestic 100% Ont.
Payment to Supplier	\$2.4500	\$2.4500	\$2.4500
Federal Excise Tax	\$0.3842	\$0.3842	\$0.3842
Federal Import Duty	\$0.0000	\$0.0297	\$0.0000
Freight	\$0.1669	\$0.2038	\$0.0000
Total Landed Cost	\$3.0011	\$3.0677	\$2.8342
LCBO Mark-up	\$1.9207	\$1.9633	\$1.6438
LCBO Wine Levy	\$1.1250	\$1.1250	\$1.1250
LCBO Bottle Levy	\$0.2175	\$0.2175	\$0.2175
LCBO Environment Fee	\$0.0893	\$0.0893	\$0.0893
LCBO Rounding Revenue	\$0.0330	\$0.0079	\$0.0146
Basic Price	\$6.39	\$6.47	\$5.92
Goods and Services Tax	\$0.45	\$0.45	\$0.42
Provincial Retail Sales Tax	\$0.76	\$0.78	\$0.71
Consumer Price	\$7.60	\$7.70	\$7.05

Revenue Distribution

Supplier (including freight)	\$2.62	\$2.65	\$2.45
Government of Canada	\$0.83	\$0.87	\$0.80
Government of Ontario	\$4.15	\$4.18	\$3.80

Beer

Examples as at March 31, 1998 for a case of 24 x 341 mL bottles in Canadian Dollars

	Imported U.S.	Imported Non-U.S.	Domestic
Payment to Supplier	\$5.9376	\$8.6400	\$9.8000
Federal Excise Tax	\$2.2903	\$2.2903	\$2.2903
Federal Import Duty	\$0.0000	\$0.2373	\$0.0000
Freight	\$0.6400	\$2.5400	\$0.3800
Total Landed Cost	\$8.8679	\$13.7076	\$12.4703
LCBO In-store COS	\$4.9595	\$4.9595	\$4.9595
LCBO Out-of-store COS	\$1.3422	\$1.3422	\$0.0000
LCBO Mark-up	\$4.0920	\$4.0920	\$4.0920
LCBO Bottle Levy	\$1.4404	\$1.4404	\$1.4404
LCBO Environment Fee	\$0.0000	\$0.0000	\$0.0000
LCBO Rounding Revenue	\$0.0123	\$0.0046	\$0.0210
Basic Price	\$20.71	\$25.55	\$22.98
Goods and Services Tax	\$1.45	\$1.79	\$1.61
Provincial Retail Sales Tax	\$2.49	\$3.06	\$2.76
Container Deposit	\$2.40	\$2.40	\$2.40
Consumer Price	\$27.05	\$32.80	\$29.75
Supplier (including freight)	\$6.58	\$11.18	\$10.18
Government of Canada	\$3.74	\$4.32	\$3.90
Government of Ontario	\$14.33	\$14.90	\$13.27
Container Deposit	\$2.40	\$2.40	\$2.40

Note: COS refers to the LCBO's cost of service. The container deposit applies only to products which can be returned for a container refund.

ELEVEN-YEAR FINANCIAL PERFORMANCE REVIEW

(values in \$000s)

	1998	1997	1996	1995	1994
Statement of Earnings					
Sales and Other Income	\$2,160,843	\$2,013,873	\$1,909,804	\$1,808,518	\$1,764,731
Cost of Sales	\$1,064,286	\$988,386	\$919,268	\$858,190	\$832,106
Gross Profit	\$1,096,557	\$1,025,487	\$990,536	\$950,328	\$932,625
Per Cent	50.75%	50.92%	51.87%	52.55%	52.85%
Operating Expenses	\$351,653	\$324,457	\$323,819	\$313,029	\$333,716
Net Income	\$744,904	\$701,030	\$666,717	\$637,299	\$598,909

Statement of Cash Flow

Cash Flow from Operations	\$769,507	\$723,197	\$687,663	\$655,198	\$619,979
Change in Working Capital	(\$29,537)	\$49,819	\$9,659	\$5,473	(\$15,824)
Cash Used for Investing Activities	(\$25,524)	(\$19,424)	(\$26,256)	(\$26,895)	(\$14,753)
Cash Used for Provincial Transfers	(\$745,000)	(\$730,000)	(\$680,000)	(\$630,000)	(\$585,000)
Decrease/Increase in Cash During the Year	(\$30,554)	\$23,592	(\$8,934)	\$3,776	\$4,402

Financial Position

Current Assets	\$230,720	\$256,209	\$239,516	\$229,541	\$201,204
Current Liabilities	\$179,175	\$203,647	\$160,727	\$132,159	\$92,813
Working Capital	\$51,545	\$52,562	\$78,789	\$97,382	\$108,391
Fixed Assets	\$132,958	\$132,037	\$134,780	\$129,470	\$120,474
Total Assets	\$363,678	\$388,246	\$374,296	\$359,011	\$321,678

Financial Ratios

Profit Margin	35.03%	35.11%	35.33%	35.61%	34.24%
Return on Shareholders' Equity	403.63%	352.13%	302.76%	285.63%	269.90%
Current Ratio	1.29	1.26	1.49	1.74	2.17

Statistics

Inventory Turnover	5.53	5.02	5.07	4.92	5.02
Number of Permanent Employees	2,934	2,828	2,803	2,824	2,743
Sales per Employee	\$725	\$706	\$673	\$634	\$638
Number of Stores	596	595	596	597	600
Number of Regular Products Listed	2,442	2,349	2,377	2,389	2,336

Note: Sales per Employee have been restated to reflect values in thousands of dollars.

1993	1992	1991	1990	1989	1988
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Statement of Earnings

\$1,786,479	\$1,833,386	\$1,936,710	\$2,006,975	\$1,930,319	\$1,867,684
\$841,060	\$851,539	\$967,221	\$1,012,938	\$994,294	\$968,472
\$945,419	\$981,847	\$969,489	\$994,037	\$936,025	\$899,212
52.92%	53.55%	50.06%	49.53%	48.49%	48.15%
\$332,953	\$332,439	\$326,682	\$311,707	\$275,580	\$258,185
\$612,466	\$652,458	\$652,669	\$692,083	\$664,124	\$640,827

Statement of Cash Flow

\$635,298	\$675,162	\$672,558	\$707,223	\$675,892	\$650,995
(\$8,694)	\$6,162	\$48,775	(\$29,481)	\$29,933	(\$23,430)
(\$21,075)	(\$25,754)	(\$29,751)	(\$23,784)	(\$15,447)	(\$9,968)
(\$615,000)	(\$675,000)	(\$650,000)	(\$640,000)	(\$645,000)	(\$635,000)
(\$9,471)	(\$19,430)	\$41,582	\$13,958	\$45,378	(\$17,403)

Financial Position

\$192,955	\$207,155	\$231,212	\$219,752	\$179,400	\$192,904
\$104,789	\$118,212	\$116,677	\$98,024	\$101,111	\$130,060
\$88,166	\$88,943	\$114,535	\$121,728	\$78,289	\$62,844
\$126,790	\$130,564	\$131,161	\$122,322	\$118,008	n/a
\$319,745	\$337,719	\$362,373	\$342,074	\$297,408	n/a

Financial Ratios

34.36%	36.04%	33.96%	34.70%	34.54%	34.45%
281.94%	280.50%	266.53%	314.34%	n/a	n/a
1.84	1.75	1.98	2.24	1.77	1.48

Statistics

4.70	4.72	4.79	4.88	5.56	4.99
3,100	3,233	3,305	3,484	3,396	3,460
\$575	\$560	\$581	\$572	\$566	\$538
611	618	621	623	626	623
2,302	2,390	2,570	2,825	2,974	2,814

