



The Source for Entertaining Ideas

October, 2000

Dear LCBO Shareholder:

Andrew S. Brandt
Chair & Chief
Executive Officer

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Entitled *The Source for Entertaining Ideas*, the 1999-2000 Annual Report describes how the LCBO transferred a record \$800 million dividend to the province. That's an increase of \$20 million over last year's record; \$55 million more than the year before that; and \$215 million more than in 1993-94. It marks the second straight year that the LCBO's total transfer - its dividend and provincial sales tax combined - topped \$1 billion.

Knowledgeable and helpful staff, store upgrades, in-store promotions and other customer service enhancements, growing customer appreciation of premium products, an improving economy and excellent support from our suppliers were key factors behind this success.

We continued to outperform comparable provincial liquor jurisdictions in both volume and revenue growth. We also outperformed Ontario's retail sector as a whole.

This year's Annual Report will help you evaluate our performance in the context of today's beverage alcohol marketplace, and show how far the LCBO has come in its drive to become Ontario's *Source for Entertaining Ideas*. We also highlight the many ways in which we help promote responsible drinking, including innovative advertising, strong strategic partnerships and our Challenge and Refusal program. In fiscal 1999-2000, our employees challenged some 913,000 would-be customers who appeared intoxicated or could not provide valid ID and refused service to more than 82,000.

When you read this report - or visit one of our stores - you'll see that we continue to improve our services and performance. Recent LCBO research shows this improvement has not gone unnoticed by our customers. They are generally more satisfied than ever with the products and services the LCBO provides. In fact, only one per cent said they were dissatisfied with service in our stores. With the government's support, we plan to continue that improvement next year and beyond. We expect to transfer a dividend of \$850 million in fiscal 2000-01, which would mark a sixth straight record year, and place us well ahead of the financial targets established for the first three years of our five-year strategic plan.

Sincerely,

Andrew S. Brandt
Chair and Chief Executive Officer

LCBO ANNUAL REPORT 1999-2000

The SOURCE

for ENTERTAINING

IDEAS



THE ANNUAL REPORT

Under the *Liquor Control Act*, we're required to prepare an annual report to the Minister of Consumer and Commercial Relations. The Minister submits the report to Cabinet and tables it in the Provincial Legislature. This document is first and foremost a formal record of the LCBO's financial performance for the past fiscal year; however, it also provides an overview of the Ontario beverage alcohol marketplace. We've tried to make the report easy to use and understand by using plain language and including a glossary of LCBO terms.

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LCBO BOARD MEMBERS DURING FISCAL 1999-2000

Andrew S. Brandt, *Chair and Chief
Executive Officer*

Chantal Haas, *Vice Chair; Member, Audit
and Governance Review Committee*

Dick Dolphin, *Member; Chair, Audit and
Governance Review Committee*

John C. Hopper, *Member*

Merle A. Jacobs, *Member*

John S. Lacey, *Member; Member, Audit and
Governance Review Committee*

Richard Ling, *Member*

Larry C. Gee, *Executive Vice President*

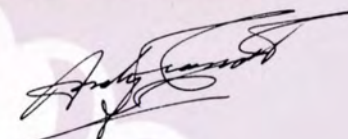
LETTER OF TRANSMITTAL

The Hon. Robert W. Runciman
Minister of Consumer and
Commercial Relations

Dear Minister,

I have the honour to present
you with the 1999-2000 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 Members of the Audit and Governance Review Committee of the Board for their assistance in preparing this document.

Produced by LCBO Corporate Communications.

Financial information prepared by LCBO Financial Planning & Economic Development.
French adaptation by LCBO French Language Services.

Ce rapport est également publié en français sous le titre : Rapport annuel de la LCBO 1999-2000.



MESSAGE FROM THE MINISTER

I am pleased to provide you with the LCBO 1999-2000 Annual Report.

As the Minister responsible for the LCBO, it is my commitment to you to ensure that the LCBO continues to serve you well. And I believe it served consumers and taxpayers very well indeed in fiscal 1999-2000, as demonstrated in this report.



LCBO employees, management and Board Members have all worked hard to deliver better customer service and more efficient operations. New training programs have helped frontline employees improve their product knowledge and customer service skills. Stores continue to be opened, renovated and relocated to provide consumers with accessible and appealing places to shop. Product selection and services have been expanded so customers can find the right product for every occasion at competitive prices.

I'm particularly pleased that the LCBO has also promoted responsible drinking through in-store messaging, external advertising and partnerships with MADD Canada and other groups. Last year employees challenged more than 910,000 customers, and refused service to more than 82,000 who could not provide valid proof of age, or appeared intoxicated. This is a fine example of the LCBO's commitment to local communities.

A recent survey shows that, as a result of improvements made over the past fiscal year, customers are more satisfied than ever with the LCBO, and the products and services its employees provide. In fact, only one per cent were dissatisfied.

The LCBO produced an \$800 million dividend for the provincial Treasury in 1999-2000, its fifth record dividend in a row. Combined with the \$239 million in Provincial Sales Tax that the LCBO collected, more than \$1 billion was transferred from the LCBO to the Treasury last year, to help pay for roads, schools, hospitals and other important social and infrastructure projects.

Our government remains committed to providing excellent public services and value for the taxpayers of Ontario. Since 1995, we have worked hard to improve the quality and efficiency of all government operations and the results are showing.

I believe today's LCBO is a leading example of an efficient and effective government operational enterprise, and my staff and I will do everything we can to ensure it continues to improve in all facets of its business.

Sincerely,

A handwritten signature in dark ink, appearing to read 'R. W. Runciman'.

Robert W. Runciman

MPP, Leeds-Grenville

Minister of Consumer and Commercial Relations

September, 2000

THE LCBO AT A GLANCE

THE LIQUOR CONTROL BOARD OF ONTARIO
REGULATES THE PRODUCTION, IMPORTATION,
DISTRIBUTION AND SALE OF ALCOHOLIC
BEVERAGES IN ONTARIO.



The LCBO operates 602 retail stores across Ontario, many with Vintages sections offering consumers a wide selection of fine wines, premium spirits and specialty beer.

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 602 stores across Ontario. Through this integrated distribution and retailing network, some 7,000 quality products are available to consumers, including wine, beer, spirits, coolers and accessories.

The LCBO operates six *Vintages* stores, which offer consumers a wide selection of fine wines, premium spirits and specialty beer. *Vintages* products are also available in eight *Vintages* boutiques and over 135 sections in regular LCBO stores. They can also be ordered through any LCBO outlet. An additional 500 premium products can be ordered from each edition of the *Vintages Classics Catalogue*, which is published three times a year.

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 107 agency stores in communities without large enough population bases to support regular LCBO stores.

The LCBO also regulates the sale of products through 427 Brewers Retail stores, 37 on-site brewery stores, 349 winery stores, three distillery stores, 11 land border-point duty-free stores, and duty-free operations at Pearson International Airport and Ottawa International Airport.

In the interests of consumer protection, the LCBO conducted more than 298,000 tests on 12,600 different alcoholic beverages in fiscal 1999-2000. This Quality Assurance testing helps ensure that all products sold by the LCBO and Brewers Retail stores comply with the federal *Food and Drugs 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).

CORPORATE GOVERNANCE

THE MISSION OF THE LIQUOR CONTROL BOARD OF ONTARIO (LCBO) IS TO BE A CUSTOMER-INTENSE, PERFORMANCE-DRIVEN AND PROFITABLE RETAILER OF BEVERAGE ALCOHOL, SUPPORTING THE ENTERTAINING AND RESPONSIBLE USE OF OUR PRODUCTS THROUGH ENTHUSIASTIC, COURTEOUS AND KNOWLEDGEABLE STAFF.

Our customers are the people who buy our products and services. Our stakeholders include the people of Ontario, their elected officials, our employees, our trade partners, and groups that share our concern for public safety. To serve their interests, we:

- *deliver quality products and services at competitive prices*
- *distribute our products and services through a variety of retail formats and other sales channels, such as catalogues*
- *promote the responsible use of alcohol*
- *implement policies aimed at ensuring our workplaces are safe and free of harassment or discrimination*
- *control the importation, transportation, warehousing and sale of liquor outside of licensed premises, together with quality assurance and pricing, in a fair and impartial manner. (The authorization now given by the LCBO for Ontario winery retail stores, Beer Stores and liquor delivery is expected to be transferred to the Alcohol and Gaming Commission of Ontario.)*

To fulfill our responsibilities to the government and people of Ontario, we:

- *develop and implement programs and services aimed at deterring the sale of beverage alcohol to persons who cannot provide valid proof of age, who appear intoxicated, or who are believed to be buying for either of these parties*
- *maximize dividends to the Government of Ontario*
- *enhance the LCBO's value to the Government of Ontario*
- *manage the LCBO's business risks.*

WHAT IS CORPORATE GOVERNANCE?

Corporate governance means the processes and procedures a corporation uses to manage its business and affairs to enhance shareholder value. It includes ensuring 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 an operational enterprise of the provincial government, we're not subject to these policies. However, we believe that effective corporate governance and accountability are essential to fulfilling our mandate, and we've 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.

THE BOARD

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

- *ensuring that the LCBO provides high quality service to the public*
- *developing and approving the strategic plan and monitoring management's success in meeting its business plans*
- *approving annual financial plans*
- *ensuring that the organization remains financially sound*
- *assessing and managing business risks*

- *submitting an annual financial plan to the Minister of Consumer and Commercial Relations*
- *ensuring the organization has communications programs to inform stakeholders of significant business developments*
- *ensuring that the LCBO performs its regulatory role in a fair and impartial manner.*

APPOINTMENT OF BOARD MEMBERS

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

RESPONSIBILITIES OF BOARD MEMBERS

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

- *acting honestly and in good faith in making decisions with a view to the best interests of the LCBO and all its stakeholders*
- *overseeing the management of the business and affairs of the LCBO*
- *avoiding conflicts of interest. Board Members may not enter into arrangements with the LCBO for personal gain*
- *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*
- *providing guidance on policy development.*

STRATEGIC PLANNING PROCESS

Since 1987, the LCBO has had a five-year strategic planning process. The process begins with an annual strategic planning conference whose purpose is to help define priorities and goals over the five-year period and shape our efforts over the shorter term. The Board 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 *Beyond the Numbers 1999-2000: Management's discussion and analysis of operations.*

AUDIT AND GOVERNANCE REVIEW COMMITTEE

The Audit and Governance Review Committee is composed of three Board Members elected annually by the Board. The Committee ensures the reliability and accuracy of the LCBO's financial statements, helps coordinate and improve its internal control functions, reviews and advises on possible changes to the LCBO's corporate governance policies and practices, and ensures that the LCBO adheres to sound corporate governance principles. The Committee:

- *monitors the Board's activities and operations*
- *reviews the LCBO's policy and procedures manuals to ensure that they describe adequate and commercially reasonable procedures and activities and set out appropriate control and management processes*
- *reviews the LCBO's strategic planning process and the appointment, training and monitoring of the performance of senior management*
- *reviews the scope of the responsibilities of the LCBO's Chair and CEO and the Members of the Board, and the limits of senior management responsibility, and makes recommendations to the Members of the Board accordingly*

- *advises and counsels the LCBO General Audit Department*
- *in conjunction with 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 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 new policy 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 recommended General List 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. 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 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, an operational enterprise of the Ontario government, several of these functions are performed directly by government. This includes appointment of the Chair and CEO. In making major policy decisions, the Board often invites input from the provincial government and other stakeholders, and takes into account government policy objectives.

GLOSSARY OF LCBO TERMS

Agency stores: operated by established retailers in communities without the population base to support regular LCBO or Beer Stores. At the end of fiscal 1999-2000, there were 107 agency stores, most in Northern Ontario.

AIR MILES Rewards: a loyalty program operated in Canada by Loyalty Management Group Canada Inc. that allows participating LCBO customers to earn travel and other rewards – such as movie passes, car rentals or long distance calls – by making purchases from the LCBO and other participating sponsors. AIR MILES is a trademark of AIR MILES International Holdings N.V., used under licence by Loyalty Management Group Canada Inc.

Alcohol and Gaming Commission of Ontario (AGCO): a regulatory body of the Ontario government responsible for the administration of the *Gaming Control Act*, the *Liquor Licence Act* and the *Wine Content Act*. Among other things, it regulates the sale and service of liquor in licensed premises and at Special Occasion Permit events.

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 427 Beer 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 37 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 BRI stores and licensed establishments. Cards can be obtained with proper identification and a \$15 fee. Applications are available at all LCBO stores.

Challenge and Refusal: an LCBO social responsibility program in all stores that helps ensure beverage alcohol is not sold to minors, to persons who are intoxicated, or to anyone making purchases on behalf of these two groups.

Check 25: the LCBO social responsibility program whereby anyone appearing to be under the age of 25 is routinely asked for identification by retail staff.

Classics Catalogue: published three times a year by Vintages, each edition offers hundreds of premium quality spirits, critically acclaimed wines from older vintages and sought-after selections from smaller producers and estates.

Combination or “combo” stores: these sell the full range 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 Beer Stores. Regular LCBO stores mainly sell six-packs of selected domestic and imported beer.

Consignment Warehouse: this program allows agents/suppliers to bring products not regularly sold at LCBO retail stores, to an LCBO warehouse to be held for sale. Licensed suppliers' agents are responsible for finding buyers for these products; suppliers are not paid until the product is sold.

CSR: an LCBO Customer Service Representative, trained to offer helpful, knowledgeable and socially responsible service.

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

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.

Duty-free shop: a retail shop located at an international airport in Ontario, or a bridge, tunnel or land-border exit from Ontario, licensed by the Canada Customs & Revenue Agency to sell items free of duties and taxes, and authorized by the LCBO to sell beverage alcohol. Duty-free shops are privately operated and regulated, as regards the sale of beverage alcohol, by the LCBO.

Embassy or Official Government Sales Discount: a discount on beverage alcohol provided by the LCBO to foreign embassies, consulates, trade missions and other diplomatically staffed foreign institutions recognized as such by Foreign Affairs and International Trade Canada. They may purchase imported beverage alcohol products through the LCBO's Private Ordering Department at a discount for official use within the institutions, comparable to discounts that foreign governments provide to Canadian diplomatic institutions abroad.

FOOD & DRINK: the LCBO's free magazine, published six times a year to help customers entertain responsibly and with ease.

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).

General List: a list of products regularly available in LCBO stores.

Icewine: a dessert wine made from grapes – most often Vidal or Riesling – left on the vine until they freeze solid. Once the grapes are picked, ice crystals are removed, leaving behind an intensely sweet, concentrated juice often called “liquid gold.” Ontario Icewines are widely considered the best in the world, winning award after award in open competitions.

IMAGE program: provides LCBO suppliers the opportunity to purchase display space to promote their products in selected stores during 13 four-week periods.

LCBO Private Stock Program: enables LCBO customers to obtain beverage alcohol products that may not be listed for sale in LCBO retail stores. Individuals can order case lots from anywhere in the world as long as the supplier will ship them to the LCBO.

Licensee: the holder of a licence to sell beverage alcohol to the public at licensed premises, issued by the Alcohol and Gaming Commission of Ontario under the *Liquor Licence Act*.

Limited Time Offers (LTOs): month-long price discounts of up to 20 per cent on selected beverage alcohol products.

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

Microbrewery: a brewery that produces less than 100,000 hectolitres of beer annually.

POS: the point-of-sale system used in LCBO stores. It helps speed up every sales transaction in LCBO stores; transmits vital information on inventory movement to Head Office; and facilitates debit/credit authorization and other interfaces with financial institutions. New full-screen displays also help promote customer services, such as the AIR MILES Rewards program, and transmit social responsibility messages.

Product Consultants: LCBO employees whose expert knowledge of wines, spirits and beers helps them inform customers and colleagues about every aspect of beverage alcohol. As of March 31, 2000, there were 115 Product Consultants in our stores.

Product Knowledge

Correspondence Course: a three-level employee training program that is mandatory for all LCBO retail staff. The program is also available to the public at a cost of \$80. A CD-ROM version is now in development.

Quality Assurance: the department of the LCBO responsible for testing products for safety and analytical purposes. It also conducts chemical tests and taste assessments for outside agencies, such as other beverage alcohol regulators or retailers or the Vintners Quality Alliance [see VQA] and assists in investigations of the sale of illegal alcohol.

Refreshment flavoured wine beverages: Varietal wines mixed with essences of fruit and/or lightly carbonated.

Single Malt: a type of Scotch whisky made in a single distillery, in a pot still, with malted barley as the main ingredient.

SMAART (Strategies for Managing Age and Alcohol-Related Troubles):

LCBO's comprehensive video-based training program designed to educate staff about responsible service and related judgment calls, alcohol issues and how to handle problem customers. All employees who serve the public are required to take SMAART training.

Source for Entertaining Ideas: the brand vision of the LCBO, designed to position the organization in the eyes of customers – and employees – as the place where Ontarians can find a full range of products and services to help them entertain easily and responsibly.

Special Occasion Permit: a one-time permit – issued under the *Liquor Licence Act* by the Alcohol and Gaming Commission of Ontario and available in selected LCBO stores – that allows holders to serve or sell beverage alcohol at a specific location which is not a licensed establishment or a private place or residence.

Spirit cooler: a mixture of spirits and soft drinks or fruit juices. Wine- and beer-based coolers are also sold in LCBO stores.

Strategic Scorecard: A strategic management tool the LCBO uses to gauge its progress against targets in key areas such as customer satisfaction, social responsibility and financial performance.

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.

That's the Spirit: a training program created and implemented jointly by the LCBO and Ontario's distillers to help make retail employees more knowledgeable about spirits, and more comfortable advising customers on ways to entertain with them.

U-Brew/U-Vint/U-Ferment: a privately operated service outlet that provides customers with ingredients, equipment and expertise to make their own beer or wine at the shop. Under legislation proclaimed in March 2000, these outlets are licensed and regulated by the AGCO.

Value-adds: bonus items attached by suppliers to a liquor product sold in LCBO stores.

Varietals: wines made from particular grape varieties, as opposed to blends. Well-known red varietals include Cabernet Sauvignon and Merlot; popular white varietals include Chardonnay, Sauvignon Blanc and Riesling.

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 niche market interest.

VQA: Vintners Quality Alliance (VQA) designation awarded to Ontario and B.C. wines of superior quality that meet strict wine-making and taste standards, modeled on "Appellation of Origin" systems used in other wine producing countries. VQA legislation, proclaimed in June 2000, has replaced the voluntary system in place since 1988.

VQA Ontario: a non-profit corporation designated by the provincial government under the VQA legislation to control the use in Ontario of specified terms, descriptions and designations of wine, and to set quality standards for wines to which these terms, descriptions and designations are applied.

Wholesale channel: refers to the LCBO's sale and distribution of liquor to liquor retailers such as licensees, BRI, agency stores and duty-free stores.

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. Due to international trade agreements, the number of "off-site" stores is capped. There are a total of 349 winery retail stores in Ontario.

WOW – Uncork the Knowledge: a training program designed by the LCBO and trade partners to increase employees' knowledge of Wonderful Ontario Wines (WOW). The program was extremely well received by employees, and is being followed up with WOW 2000: From Vines to Wines, which will afford every LCBO employee the opportunity to visit Ontario wineries, to see first hand how domestic wines are made.

CHAIR'S MESSAGE



Photo: Dan Lim

Chair and CEO Andrew S. Brandt commends the effort and commitment of all LCBO employees.

IN LAST YEAR'S ANNUAL REPORT, I LED OFF MY REMARKS BY SAYING THE FISCAL YEAR IN QUESTION HAD BEEN OUR BEST EVER BY ALMOST ANY MEASURE. AT THE RISK OF REPEATING MYSELF, I AM PLEASED TO BEGIN IN MUCH THE SAME WAY THIS YEAR.

Fiscal 1999-2000 was another great success for the LCBO – our fifth straight record year. We recorded the highest net sales in our history: more than \$2.5 billion, a growth of 8.9 per cent over the previous year. We also recorded the highest dividend transfer in our history: \$800 million to the Government of Ontario.

That is \$20 million more than last year; \$55 million more than the year before that; and \$215 million more than just six years ago.

We also collected \$239 million in Provincial Sales Tax in fiscal 1999-2000, which means the LCBO broke the billion-dollar mark for the second year in a row, giving our owners – the people of Ontario – a total of \$1,039,071,000.

HOW DID WE ACHIEVE THIS SUCCESS?

To be sure, we operated in a much improved economy than we did just a few years ago. Ontario today boasts lower unemployment, higher consumer confidence and greater disposable income per capita than it has in several years.

The millennium celebrations also contributed to our success. In the Product Trends section that begins on page 26, our category directors report without exception a trend towards premium products in fiscal 1999-2000. Whether they bought red wine or white, Champagne or Cognac, spirits, liqueurs or beer, many LCBO customers spent more to treat themselves to something special. With premium products, of course, come higher profits.

But that alone doesn't explain our growth rate, which exceeded Ontario's retail sector as a whole (8.9 per cent vs. 7.9). As I suggested last year, much of our success can be attributed to the strategic direction we embarked upon in 1997, and to the employees who have turned that strategic vision into reality.

We have some 6,200 full- and part-time employees at the LCBO, each of whom worked hard in fiscal 1999-2000 to attain the outstanding results described in this report. Whether in our retail stores or behind the scenes, they strove to improve their product knowledge and customer service skills, increase productivity and contain the costs of doing business. I commend their efforts and their commitment to the LCBO's core values of customer service, social responsibility, excellence and integrity.

The strategic vision to which I alluded is described in our mission statement, which was updated this fiscal year as follows:

"The LCBO will be a customer-intense, performance-driven and profitable retailer of beverage alcohol, supporting the entertaining and responsible use of our products through enthusiastic, courteous and knowledgeable staff."

Our objectives as laid out in our five-year strategic plan are: to increase customer satisfaction; to promote the responsible use of beverage alcohol; and to maximize returns to Ontario taxpayers by generating a total of \$4.2 billion in dividends to the Ontario government over the next five years.

We measure our progress by asking customers. For example, in February 1999, we conducted a poll of more than 1,000 adults across the province, and developed benchmarks that go beyond financial indicators, measuring our performance in more than 40 key areas like customer satisfaction and social responsibility. These benchmarks were noted in a "Strategic Scorecard." Ongoing research tracks percentage changes in each area so we can see if we're meeting our objectives.

The research shows that staff are the most important determinant of customer satisfaction at the LCBO. I am pleased to report that in the latest February 2000 survey, in which 2,200 people were surveyed, employees rated higher in key aspects of customer service than they had the year before. For example, 82 per cent of respondents said staff were helpful, compared to 79 per cent in 1999; 80 per cent said staff were friendly (77 per cent in 1999); and 74 per cent said staff were available when needed (70 per cent in 1999). Areas that still need work, if we are to achieve our vision of being Ontario's "Source for Entertaining Ideas," are our employees' ability to recommend gifts (56 per cent satisfaction) and match beverage alcohol with food (41 per cent satisfaction).

When it came to our stores, again ratings had improved. Overall customers found our stores more appealing, bright and conveniently located than they had the year before. In the area of product selection, 71 per cent of customers were satisfied with our selection – the same as the year before.

In the area of social responsibility, 70 per cent approved of our overall performance in promoting the responsible use of beverage alcohol, compared to 65 per cent the year before; 72 per cent approved of our control of sales to those appearing intoxicated and 79 per cent approved of our control of sales to minors.

Based on these results, I think it is fair to say that LCBO customers are more satisfied than ever with our staff, our stores, our selection and our commitment to social responsibility. In fact, only one per cent said they were dissatisfied, down from two per cent the year before. And we'll continue to earn higher ratings in the year ahead through increased staff training, further improvements to our store network, and leadership in the promotion of social responsibility.

While customer research helps us define and measure our goals, another research project proved critically important this fiscal year. I speak of the Employee Attitude Survey conducted in June 1999, the first such survey done at LCBO in more than a decade.

All employees were given the opportunity to respond in complete confidence to a detailed questionnaire about work at the LCBO. Nearly 70 per cent responded, and what they told us was extremely valuable.

The vast majority of respondents told us they took great pride in the LCBO's commitment to social responsibility and customer service. They also said they want us to strive for excellence and integrity in everything we do. This input helped us define the core values formally adopted by the LCBO to guide us in every aspect of our business.

In their survey responses, and in subsequent focus groups, employees also told us about improvements they'd like to see in specific areas of the organization, especially in the way we reward good performance and how we communicate with employees. Their concerns have been discussed at a number of senior management planning sessions and we've already begun rolling out new programs to address the issues they raised.

LOOKING AHEAD

In February 2000, I was reappointed to a fourth three-year term as Chair and CEO of the LCBO. Needless to say, I was extremely pleased. The men and women who work at the LCBO have brought the organization so far along in the 10 years I've been here and I believe even better things lie ahead for the LCBO and its stakeholders in the years to come.

We'll continue to define our progress against the benchmarks in our strategic plan. We have set aggressive goals for the 2000-01 fiscal year - net sales growth of 8.2 per cent, and a dividend of \$850 million - and I believe we can achieve them for the following reasons:

Our employees are committed to improving their product knowledge and customer service skills, and we are committed to providing the training to help them do that.

We continue to improve our stores, as noted on page 34, renovating and relocating them as needed to meet the expectations of increasingly sophisticated consumers.

We are fortunate to have a visionary Senior Management team, backed by a strong Board, whose sound knowledge of business practices helps ensure we maximize our opportunities and minimize our risks. And we have a Minister of Consumer and Commercial Relations, the Hon. Bob Runciman, who has been supportive of our goals and strategic direction and has encouraged us to seek additional ways of further improving the LCBO.

We have created a new Wholesale department to improve service to 16,000 licensees and other wholesale customers.

We have reviewed our supply chain - the way goods move from suppliers to store shelves - and have recommended a number of improvements to make it more efficient, flexible and cost-effective. The recommendations, approved by the government, are designed to improve our ordering and distribution practices; improve customer satisfaction; lower our cost of doing business, while maintaining optimum stock levels in stores; and enhance relations with our trade partners.

We'll continue to challenge anyone who appears to be younger than 25, and will refuse service to those who cannot provide valid photo ID. We'll challenge and refuse to serve anyone who appears to be intoxicated. And we'll challenge those we believe to be making a purchase on behalf of a minor or intoxicated person.

We'll promote the responsible use of alcohol through dramatic television commercials and other media that send the message that "Drinking and driving is no accident. It's a choice. Make the right one."

We'll continue to find ways to increase employee satisfaction, because we believe satisfied employees help create satisfied customers. We have already developed and rolled out a number of programs designed to improve performance management, management effectiveness and management integrity - key areas identified in the 1999 Employee Attitude Survey as needing improvement.

As I said at the outset, we value greatly the contributions our employees have made to our success. One cornerstone of our strategic plan is "to have the right people in the right place with the right attitude and skills." With a new two-year contract recently ratified and new training programs designed to increase employees' product knowledge, this aspect of our plan is well in hand.



Andrew S. Brandt
Chair and CEO

*Toronto, Ontario
August 2000*

OUR CORE VALUES

In the fall of 1999, the LCBO formally adopted four "core values" to guide its undertakings. They are:

- CUSTOMER SERVICE
- SOCIAL RESPONSIBILITY
- EXCELLENCE
- INTEGRITY.

Employees themselves helped define these values in the LCBO's 1999 Employee Attitude Survey. "The vast majority of respondents told us they took great pride in the LCBO's commitment to social responsibility and customer service," explains Chair and CEO Andrew S. Brandt. "They also said they want us to strive for excellence and integrity in everything we do."

Core values are the principles that guide a company through all business cycles, according to Brandt. "They tell people not what we do but who we are."

"We've always strived to achieve these values," he adds. "We're now inviting stakeholders to measure us on them."

We believe every LCBO employee does his or her best to bring these core values to life every day. Following are a few brief examples.

CUSTOMER SERVICE

Perfect scores are no mystery

It's not easy to get a perfect score when a "mystery shopper" visits your store.

But 54 LCBO stores did precisely that between December 1, when the program debuted, and our fiscal year-end at March 31, 2000.

These three did it twice: 164 at Eglinton Avenue and Laird Drive in Toronto; 228 on Ellesmere Road in Scarborough; and 536 on Major Mackenzie Drive in Maple.

"That's just who my employees are," says Tony McGrath, Manager of Store 228. "They care, that's their nature. They're all trying to develop their careers with the LCBO, taking night courses in merchandising and product knowledge. They're really into providing good quality customer service."

As a reward for their outstanding performance, the staff received money to treat themselves to pizza for lunch – and promptly donated it to the Children's Wish Foundation.



The employees of Store 228 in Scarborough have already achieved two perfect scores in the LCBO's mystery shopper program. From left to right are: Customer Service Representative (CSR) George Mertsis; CSR Barry McKay; CSR Jill Hay; Manager Tony McGrath; CSR Cyril Prisciak; and CSR Dennis McCabe.

The staff recently completed a week-long training course called Compelling Customer Service. "But we got our perfect scores before that, so in my view we're only going to get better," says McGrath.

The LCBO launched its mystery shopper program to help measure how well its stores are meeting its standards of customer service.



An LCBO customer wrote Customer Service Representative Phil Rosato, right, to thank him for refusing to serve her while she was intoxicated. All LCBO retail employees are trained to challenge customers who appear impaired or underage, or are suspected of attempting to buy for either group.

Trained, certified professionals pose as ordinary customers in LCBO stores and then answer 28 questions about their experience.

The questions cover such topics as:

- *the appearance of the store exterior and front entrance*
- *in-store displays*
- *employees' appearance and attire*
- *their product knowledge and customer service skills.*

Mystery shoppers are asked to test these skills by presenting a scenario to the employee who serves them. For example: I'm having a dinner party and I need to know what wines to serve.

The mystery shoppers also rate their experience at the checkout: whether they were asked for ID (if applicable); whether they were asked if they had an AIR MILES Rewards card; whether their order was priced and packaged correctly; whether they were thanked and invited to return.

Finally, they rate their overall shopping experience as excellent, good, fair or poor, and can include general comments, positive or negative.

"The information generated by the mystery shoppers is confidential," adds District 22 Manager Paul Mancini, "but I do know that the mystery shoppers who visited Store 164 were served by different people each time. To me, that reflects a consistent level of excellence at that store. I'm very proud of the staff there, and at every store that strives to exceed customer expectations."

SOCIAL RESPONSIBILITY

A thankful job

Tens of thousands of customers are refused service in LCBO stores every year. But how many stop to say thanks?

One woman did after being refused service at Store 584 in Coventry Square, Scarborough.

Helen (not her real name) was a regular customer at the store. "She'd come in regularly for vodka or gin," recalls Customer Service Representative Phil Rosato. "She'd usually be sober, but she had been refused several times in the past."

One Saturday afternoon, she came up to a checkout with a bottle of vodka. Rosato and another colleague on cash felt she was under the influence and refused the sale. But their efforts didn't stop there. When they saw her heading for a car outside the store, they told their manager they wanted to try to talk her out of driving. He gave them the go-ahead and they followed her out to her car.

"We told her she was putting people's lives at risk, including her own, and asked her to leave the car where it was and amazingly enough, she did - for three days," Rosato recalls.

About two weeks later, a handwritten note from Helen arrived. In it, she apologized for her conduct and thanked the employees for refusing to serve her.

"When I think about what could have happened had you not stopped me – well it scares the hell out of me," she wrote. "I am sincerely sorry for putting your jobs in jeopardy and thank you again for caring about the lives of the general public."

Even more amazing to Rosato was Helen's postscript, which read: "I haven't had a drink since that night."

"It's very touching to think we made a difference, maybe helped someone turn things around," he says. "As far as I know she hasn't been back to the store. I hope for her sake it stays that way."

EXCELLENCE

Getting better all the time

Shortly after the LCBO's new flagship store on Rideau Street in Ottawa opened, Design Co-ordinator Sylvie Rioux dropped in to observe customers in the environment she had helped create.

"I watched them using our Internet terminal to search out product information," she recalls. "I saw them listening to CDs at one of our music stations and browsing at our gift displays. I saw them tasting products downstairs in the Vintages section. And I felt great pride because I knew we hadn't just created a store that was aesthetically pleasing. It was a store designed to further the LCBO strategic plan and, from what I could see, it was working."

Rioux is one of five design co-ordinators who help create new LCBO stores with one ideal in mind: that each should be better than the last. "Not better in an abstract sense," adds Rioux, who was also lead designer on the LCBO's award-winning flagship store in Toronto's Bayview Village Plaza. "But better for the specific market and the community it will serve."

An infusion of capital and availability of good retail space has enabled the LCBO to modernize its store network with unprecedented speed over the last two fiscal years. But the pace of work has not diluted the design team's high standards of quality.

LCBO stores have won more than 30 design awards since 1990, including prestigious Excellence in Retail Awards from the Retail Council of Canada. Equally important is research that confirms customers today find our stores more appealing than ever before.

"I believe we've done so well because of the team approach we take," notes Store Development & Real Estate Director Jackie Bonic.



Design Co-ordinator Sylvie Rioux, left, reviews floor plans with Jackie Bonic, Director, Store Development & Real Estate.

"On a macro level, that refers to the partnership between divisions at LCBO," she explains. "Our colleagues in Merchandising, for example, help determine where a new store is needed, and the customer profile it should fit. They also determine the product mix and much of the store merchandise layout, and they do a great job preparing the store displays, graphics and visual merchandising in time for opening day."

Virtually every other division is involved at some point, she adds. "You can't overemphasize the collaborative nature of the process."

Within her department, designers work closely together, and with their colleagues in Construction, share information on what has worked for them and what hasn't, inspiring each other to do better work each time out.

As Rioux says, "Just knowing that other design co-ordinators will be coming to the store on opening day makes me push for every detail to be perfect."

Acting Design Manager Kayla Janjic recently watched a video about the opening of the new Ottawa store and says she felt "enormous pride at what we had accomplished."

"When you remember that it all started with a hole in the ground, and you see how every detail has fallen into place, there's a sense of disbelief. Even if you didn't work on that particular project, you know what it took to get there," adds Janjic, the longest serving designer on the team.

"I come into work every day determined to do better than I did the day before," she says. "That has nothing to do with what other people expect of me. It's what we all expect of ourselves."

INTEGRITY

Testing, testing

Kirby Hom inserts a syringe through the stopper of a small glass vial, withdraws a sample of amber-coloured liquid and injects it through a coil into a programmable oven. The liquid is whisky and it is about to undergo a range of tests that will determine everything from its alcohol "fingerprint" to its country of origin.

Hom is Manager of the LCBO Quality Assurance (QA) laboratory, which tests thousands of products each year to ensure they are safe to drink, authentic and of the highest quality. In fiscal 1999-2000, just under 300,000 tests were performed on 12,600 products.

The lab is equipped with state-of-the-art equipment that can tell a Highland Single Malt Scotch from a Lowland product, based on the atomic weight of oxygen in the water with which it was made.

"Every product has a unique fingerprint based on its chemical makeup," explains QA Director George Soleas. "Bootleggers might be able to fool consumers with imitation products, but they can't fool a gas chromatograph."



Customer Service Representative Happi Pollard puts the finishing touches on a gift pack. Many LCBO stores offer a wide range of gifts – and free gift wrap service – as a convenience to busy shoppers.

The LCBO laboratory performs a number of vital functions for the LCBO and its stakeholders.

Employees test – and taste – all new products to ensure they meet high standards of quality. They test products to ensure they are free of glass particles and other defects; that they are tamper-resistant; and that their labels comply with federal guidelines. And with industry support, Soleas conducts leading-edge research into the health benefits of beverage alcohol products, in collaboration with researchers from the University of Toronto and Mount Sinai Hospital.

The lab also tests samples seized by enforcement agencies to confirm whether products were illegally manufactured or smuggled into Ontario.

Soleas and Hom are frequently called as expert witnesses, either in provincial court (in cases involving smuggled or illegally manufactured alcohol) or at licensing hearings held by the Alcohol and Gaming Commission of Ontario (AGCO), which involve licensees found serving illegal and/or sub-standard alcohol.

They've developed a reputation in legal circles for the integrity of their lab procedures and their testimony.

"Their work has been excellent," notes AGCO Counsel Richard Kulis. "I can't think of one instance when a guilty party has been able to refute their findings, even when they call in their own experts."

"I testified in one case recently where the defence called in an expert and he endorsed all of our findings in his summary report," Hom recalls.

But Soleas emphasizes that the fight against illegal alcohol – though dramatic and important – is far from the biggest part of the Quality Assurance department's work.

"We do more than help catch the bad guys. We also enhance the reputation of the honest providers – who outnumber the dishonest ones by far – because a certificate of analysis from our lab is proof of their product's high standards.

"We also provide a measure of peace of mind for our customers," Soleas adds. "They can shop our stores with confidence, knowing we are looking out for their health and safety."



The LCBO tests thousands of products each year to ensure they are safe to drink, authentic and of the highest quality. Left to right are Quality Assurance Director George Soleas and Laboratory Manager Kirby Hom.

BEYOND THE NUMBERS | 1999-2000

Management's discussion and analysis of operations

LCBO SENIOR MANAGEMENT TEAM AS OF MARCH 31, 2000

Larry Gee

Executive Vice President

Alex Browning

VP Finance & Administration

Mary Fitzpatrick

VP General Counsel & Corporate Secretary

Larry Flynn

VP Merchandising

Murray Kane

VP Human Resources

Hugh Kelly

VP Information Technology

Bill Kennedy

Director, Corporate Communications

Gerry Ker

Director, Corporate Policy

Ian Martin

VP Logistics

Barry O'Brien

Director, Corporate Affairs

Gar Sherwood

VP Retail

Shelley Sutton

Director, Strategic Planning

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 operational 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)

	1998-99	1999-2000
Dividend to government	\$780,000	\$800,000
Net sales and other income	\$2,349,832	\$2,549,458
Per cent increase	8.8	8.5
Operating expenses	\$374,558	\$414,861
Net income	\$809,425	\$845,694
Per cent increase	8.7	4.5

The following table gives a 10-year history of the dividend paid to the province of Ontario.

Dividend	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00
(\$000,000s)	\$650	\$675	\$615	\$585	\$630	\$680	\$730	\$745	\$780	\$800

The dividend hit a low of \$585 million in 1993-94 but has been steadily increasing ever since. This can be attributed to overall improved economic conditions and LCBO retailing and merchandising initiatives such as new store formats and store improvements, staff training, application of technology, and more recently, to the introduction of debit/credit cards, AIR MILES Rewards and year round Sunday openings.

BILLION DOLLAR PAYOUT

The LCBO dividend does not include Provincial Sales Tax (PST), which amounted to \$239 million in fiscal 1999-2000.

If you combine the dividend and the PST we collected, the LCBO broke the billion-dollar mark for the second year in a row, giving our owners – the government of Ontario – a total of \$1.039 billion. This is almost four per cent more than last year.

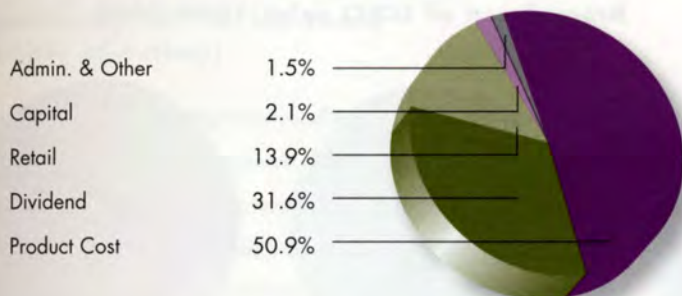
SALES SET NEW RECORD

Against a background of rising consumer confidence and a buoyant Ontario economy, LCBO net sales rose \$207.9 million last year, or 8.9 per cent, to \$2.534 billion.

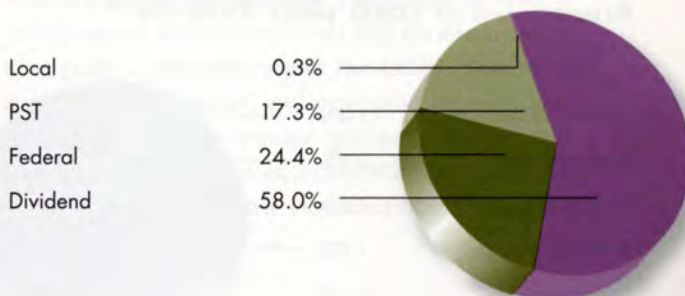
The LCBO outpaced comparable liquor jurisdictions, in B.C. and Quebec, in terms of volume and value growth in sales. Volume sales in B.C. fell this year compared to last, while value sales grew by one per cent. Although Quebec retail sales grew at a slightly faster pace than Ontario (10 per cent vs. 9 per cent), volume sales in Ontario increased 9 per cent compared to 4 per cent in Quebec.

On a broader national level, total retail sector sales grew 6.7 per cent between 1999-2000 and 1998-99. According to Statistics Canada, Ontario outperformed the national average, with retail sales growing by 7.9 per cent. The LCBO produced a sales increase of 8.9 per cent, outperforming total retail sales growth on both a national and a provincial level.

Breakdown of \$1 in net sales

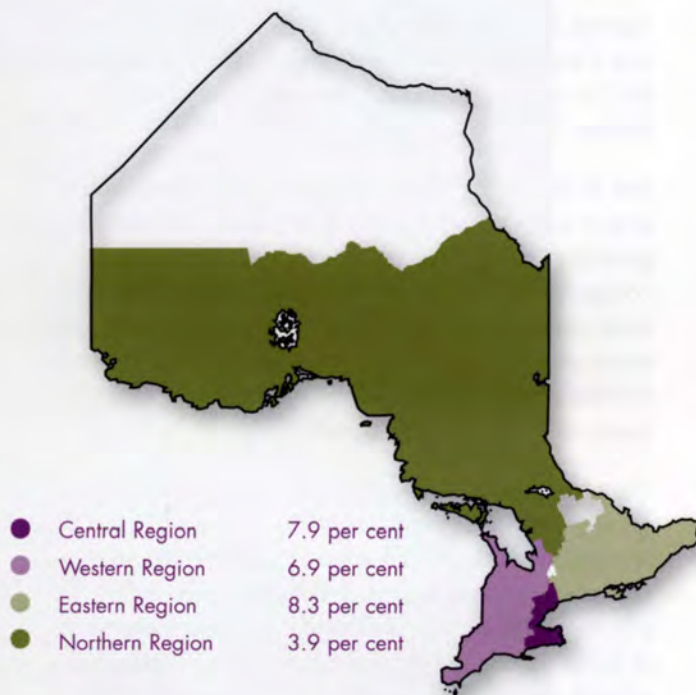


LCBO Payments to Government



SALES STRONGEST IN EASTERN, CENTRAL REGIONS

All four LCBO retail regions experienced strong growth in fiscal 1999-2000; as the following map shows, it was strongest in the Eastern and Central regions.



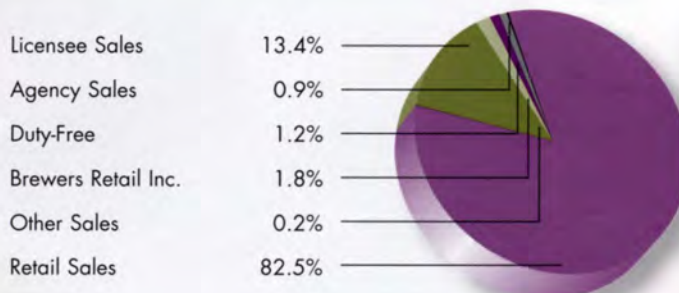
RETAIL AND WHOLESALE SALES BOTH STRONG

For comparative purposes across sales channels, including retail and wholesale channels which are subject to different discount programs and taxes, gross retail sales (including all taxes) are compared. LCBO retail sales, which we define as sales to home consumers, grew by 8.2 per cent over last year and continue to account for 80.5 per cent of total gross sales.

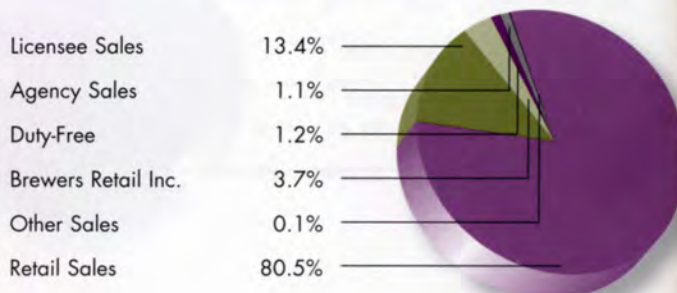
Gross sales through wholesale channels also grew strongly last year, by almost 12 per cent. More Ontario consumers are dining out, evidenced by the fact that licensee sales increased by 7 per cent, accounting for over 13 per cent of our total sales. Sales to Brewers Retail Incorporated (BRI) have also increased as imported beer becomes more popular and accessible through the Beer Store system. Sales to BRI accounted for almost four per cent of our total sales. Sales to agency stores and duty-free operators accounted for one per cent of total sales each in fiscal 1999-2000; non-store retailing (i.e., catalogue sales) accounted for 0.1 per cent.

In all, wholesale sales account for 19.5 per cent of total LCBO sales, equivalent to last year but up from 17.5 per cent five years ago (see charts below).

Breakdown of LCBO sales 1995-96



Breakdown of LCBO sales 1999-2000



LCBO IN THE SHARED MARKETPLACE

The LCBO operates in a shared marketplace along with other retailers of beverage alcohol, including BRI, Ontario winery retail stores, and on-site brewery stores. There are currently 1,540 outlets selling alcohol in Ontario.

Here's what the market looked like at March 31, 2000 (percentages have been rounded):

- 602 LCBO stores (39 per cent of all outlets)
- 427 Brewers Retail stores (28 per cent of all outlets)
- 349 Ontario winery stores (23 per cent of all outlets)
- 107 agency stores (7 per cent of all outlets)*
- 37 on-site brewery stores (2 per cent of all outlets)
- 11 land border-point duty-free stores (0.7 per cent of all outlets)
- 3 on-site distillery stores (0.2 per cent of all outlets)
- 4 airport duty-free stores (0.1 per cent of all outlets)

*If you combine the LCBO's 602 stores and Ontario's 107 agency stores, the market share is approximately 46 per cent.

CHANGES IN MARKET SHARE

Ontario's total beverage alcohol marketplace amounted to approximately \$6.9 billion in gross sales in fiscal 1999-2000. The LCBO's market share by value has risen from 38.1 per cent in 1995-96 to 42.9 per cent in 1999-2000 (41.3 per cent in 1998-99). Winery retail store sales have grown from 1.9 per cent in 1995-96 to 2.0 per cent in 1999-2000. BRI maintained its market share at 33.6 per cent in 1999-2000, the same as in 1998-99, but down by 1.8 percentage points compared to 1995-96.

By volume, LCBO's market share rose 5.8 percentage points between 1995-96 and 1999-2000, from 20.2 per cent to 26 per cent. Winery retail stores increased their market share from 1.2 per cent to 1.3 per cent over the same time period, while Brewers Retail Inc. fell from 69.4 per cent to 65.8 per cent.

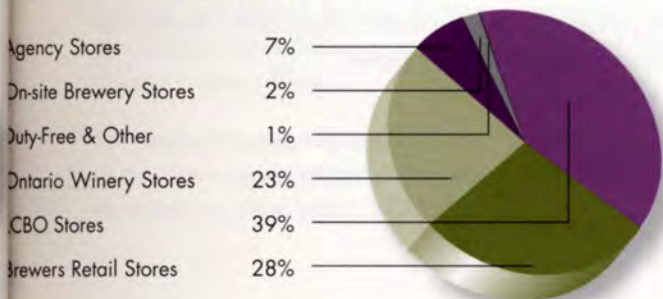
HOBBY BEER- AND WINE-MAKING

In 1999-2000, the U-Brew and U-Vint market is estimated to have maintained an 11.3 per cent share established in 1998-99, as measured by gross sales.

ILLEGAL COMPETITION

Since 1993-94, the estimated size of the illegal market in Ontario has been falling steadily. In 1999-2000, illegal alcohol accounted for an estimated \$456 million in sales, or approximately 6.6 per cent of the total Ontario beverage alcohol market. This is down from the estimated \$543 million or 8.2 per cent market share in 1998-99, and the estimated \$736 million or 12.7 per cent market share in 1995-96. This decline is due largely to the efforts of law enforcement agencies to curb this problem, continuing public education about the health risks of consuming illegal alcohol; and new customer-service initiatives - such as Sunday openings, credit/debit card payment options, and upgraded store formats - that have helped draw customers back to legal channels.

LCBO percentage of market share by number of outlets)



YEAR 2000

BACKGROUND

The Year 2000 problem – also known as Y2K – arose from the inability of many computer programs to correctly identify data referring to dates beyond the year 1999. As the year 2000 approached, many experts became concerned that this could create problems on or after January 1, ranging from minor errors to significant systems failures.

ADDRESSING THE PROBLEM

The LCBO established a Year 2000 Corporate Compliance Office in the summer of 1998 to oversee activities and to manage Y2K issues. A Director of Year 2000 Compliance was appointed. Internal project teams took on the task of anticipating possible problems and creating detailed contingency plans to deal with them. An external company was hired to assist.

The LCBO implemented a communications plan to inform its key business partners and third-party suppliers in some 60 countries around the world about our Year 2000 plans and to monitor and document their Year 2000 readiness.

Hardware and software throughout the LCBO was inventoried and assessed to determine what needed to be remediated (fixed, retired or replaced), with priority given to mission-critical application systems and IT infrastructure.

An independent firm inspected most rewritten code to ensure it performed date/time functions as expected. An extensive integrated testing phase proved in a simulated environment that programs and systems could successfully handle a rollover from the year 1999 to 2000. This was completed by mid-August 1999.

The implementation phase – during which remediated systems went “live” – took place from late August through October 1999.

The rollover from December 31, 1999 to January 1, 2000 was extensively planned and carefully monitored. It went extremely well with no issues to report. LCBO stores opened for business on Sunday January 2, 2000 as planned (Saturday was a statutory holiday) and it has been ‘business as usual’ since – including Leap Year on February 29, 2000.

The Vice President of Information Technology kept Board Members informed of the LCBO’s progress regarding Y2K issues on an ongoing basis.

Ultimately, the Y2K project helped position the LCBO technologically for the 21st century through widespread program remediation and system upgrades and the streamlining of our IT infrastructure. The project also prepared the LCBO for the worst through the creation of corporate wide business continuity and contingency plans.

These measures should improve the efficiency of LCBO operations in the new millennium.

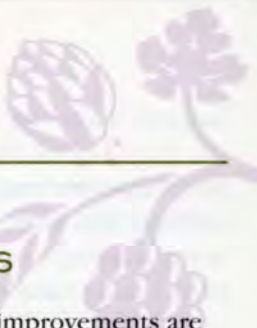
The Y2K effort was a success at the LCBO in that all work was completed to deadline, the project came in five per cent below budget and all LCBO operations were ready for business on January 1, 2000 – and beyond.

SUMMARY

Due to careful planning, the Y2K issue never adversely affected the LCBO and its operations.

The Y2K project presented a considerable cost to the LCBO – over \$6.7 million was spent this fiscal year – but it was an investment that had to be made. Otherwise, systematic failures could have resulted in serious business interruptions.

INCOME STATEMENT



NET INCOME UP \$36.3 MILLION

Net income for fiscal 1999-2000 was \$846 million. This was \$30.6 million over target and \$36.3 million higher than the previous year.

The income-to-net sales ratio was 33.4 per cent, exceeding our 1999-2000 target of 33.3 per cent.

Stronger net sales in general – an 8.9 per cent increase over last year – were boosted by LCBO promotional activities, a successful Christmas season as Ontarians celebrated the millennium, and the long summer season's impact on our sales of beer, coolers and other summer refreshment beverages. Other contributing factors were overall improved economic conditions; a trend towards premium products (discussed in greater detail in our Product Trends section); new store formats and store improvements; staff training; application of technology; and customer service initiatives such as debit/credit cards, AIR MILES Rewards and permanent Sunday openings.

GROSS MARGINS

Gross margin as a percentage of net sales for 1999-2000 was 49.1 per cent, slightly below last year's 49.9 per cent. This decline reflects the continuing shift in the product mix away from spirits and towards beer and wine. For every dollar of net sales, our gross margin return on spirits is 58 cents. On wine, however, it is 51 cents and on beer 34 cents. Beer and wine now represent 50 per cent of total net sales, up from 49 per cent last year and 45 per cent five years ago. The increasing strength of beer and wine in the product mix means an ever greater proportion of our incremental sales dollars come from the sale of lower margin product lines.

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

PRODUCTIVITY RATIOS

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

In fiscal 1999-2000, four of seven retail productivity ratios matched or bettered their targets. These four are considered the most important performance indicators.

Store salary to sales: We met the target ratio of 7.6 per cent and bettered last year's 7.8 per cent ratio despite extending hours in many stores to enhance customer service.

Store expenses as percentage of sales: We bettered last year's mark of 10.6 per cent, coming in at 10.5 per cent. We did not meet our target of 10.3 per cent, due mainly to increased costs related to staff product knowledge training.

Store salary per unit sold: We met the target ratio of \$0.84 and bettered last year's ratio of \$0.85.

Store expenses per unit sold: We came in at \$1.17, just over the \$1.16 in 1998-99 and our target of \$1.14.

Unit sales per hour: We came in at 25.7 in 1999-2000, below the 25.8 obtained in 1998-99 and the 26.8 target set for this fiscal year. One reason is the fact we opened a number of stores for the first time on Boxing Day – an unplanned event for which we had not budgeted. The trend towards trading up to premium products also contributes, as the net sales line moves up without proportionally affecting the unit line.

Sales per customer: At \$27.19, we did better than last year (\$26.19) by a full \$1.00 per customer and better than the target of \$26.82. This provides further evidence that LCBO initiatives and programs geared at encouraging customers to trade up to premium products are succeeding.

Sales per square foot: This ratio rose considerably, from \$1,546 to \$1,674, well past the target of \$1,605, despite adding more than 2.0 per cent, or 27,000 square feet, to our store network.

LOGISTICS PRODUCTIVITY RATIOS

Salary cost per case: This ratio fell from 74 cents last year to 73 cents this year. We had hoped to shave another two cents per case off the cost, but had to pay significantly more in overtime to build up stock for the millennium holiday season.

Warehouse cost per case: This figure increased slightly from 91 cents last year to 93 cents this year. In addition to the overtime referenced above, we incurred unplanned expenditures on third-party warehousing owing to forward buying and the Christmas buildup.

Logistics cases per hour: This figure rose from 59 cases per hour to 61, yet off the target of 64 cases per hour, due to a significant buildup of inventory designed to compensate for potential third-party supply problems related to Y2K.

Logistics cost per case handled: Total Logistics expenses per case increased marginally from 58 cents to 59, missing its target of 57 cents. The Y2K buildup affected this ratio as well.

Freight expense per case: This figure came in at \$1.13, just slightly above the target of \$1.11.

Inbound freight ratio: This came in at 2.0 per cent, 10 basis points below our target of 2.1 per cent.

Outbound freight ratio: Last year's outbound freight ratio of 0.5 per cent increased to 0.6 per cent.

RETAIL — FINANCIAL AND OPERATING HIGHLIGHTS

	1995-96	1996-97	1997-98	1998-99	1999-00
Store Salaries to Sales	8.5%	8.0%	7.8%	7.8%	7.6%
Store Expenses as Percentage of Sales	11.6%	11.1%	10.8%	10.6%	10.5%
Store Salary per Unit	\$0.91	\$0.86	\$0.84	\$0.85	\$0.84
Store Expenses per Unit Sold	\$1.25	\$1.19	\$1.16	\$1.16	\$1.17
Unit Sales per Hour*	n/a	24.5	25.4	25.8	25.7
Sales per Customer	\$24.75	\$25.28	\$25.75	\$26.19	\$27.19
Sales per Square Foot	\$1,349	\$1,365	\$1,452	\$1,546	\$1,674

*Note: Previous annual reports reported Unit Sales per Full-time Equivalent (FTE) Hour. This has been redefined as Unit Sales per Hour for consistency across all reports, including corporate statements, the Annual Financial Plan and Annual Report.

Since 1995-96, operating expenses as a percentage of net sales and other income have fallen from 17.0 per cent to 16.3 per cent in 1999-2000

LOGISTICS — FINANCIAL AND OPERATING HIGHLIGHTS

	1995-96	1996-97	1997-98	1998-99	1999-00
Salary Cost per Case	\$0.84	\$0.82	\$0.74	\$0.74	\$0.73
Warehouse Cost per Case	\$1.15	\$1.10	\$0.98	\$0.91	\$0.93
Logistics Cases per Hour	48	51	55	59	61
Logistics Cost/ Case Handled	\$0.76	\$0.70	\$0.63	\$0.58	\$0.59
Freight Expense per Case	\$1.22	\$1.22	\$1.15	\$1.07	\$1.13
Inbound Freight as % of Sales	2.1%	2.1%	2.0%	1.9%	2.0%
Outbound Freight as % of Sales	0.5%	0.5%	0.5%	0.5%	0.6%

BALANCE SHEET

LIABILITIES UP

Liabilities were up in 1999-2000, largely due to an increase in product accounts payable, from \$133.4 million to \$147.3 million. This reflects an increase in inventory purchases.

EXPENSE TARGETS

The administrative expense ratio increased slightly from 1.4 per cent in 1998-99 to 1.5 per cent in 1999-2000.

Operating expenses grew by 10.8 per cent, or \$40 million in 1999-2000. This reflects an increase in spending in the Information Technology division to protect the supply chain from Y2K interruptions; depreciation tied to increased capital spending; the growing expense of accepting credit cards, and the introduction of AMEX (approximately 21 per cent of LCBO sales are now paid by credit cards, another 23 per cent is paid by debit cards); and, increased spending in the Retail division reflecting the greater emphasis on staff training.

Since 1995-96, operating expenses as a percentage of net sales and other income have fallen from 17.0 per cent to 16.3 per cent in 1999-2000.

OTHER INCOME

This category includes items such as parking revenues, Special Occasion Permits, airline markups, and investment income. Other income in fiscal 1999-2000 was \$15.8 million, down from last year's \$23.5 million.

YEAR-END INVENTORIES UP

Year-end inventory was up over last year - \$255.4 million in 1999-2000 versus \$236.3 million in 1998-99. We built up inventory to guard against possible interruptions in the supply chain resulting from the Y2K issue.

The inventory turnover ratio has declined from 5.4 to 5.2, down 3.7 per cent over last year.

CHANGES IN OUR FINANCIAL POSITION

MORE CASH ON HAND

Our cash position increased from \$24.6 million in 1998-99 to \$31.1 million at the end of 1999-2000.

CAPITAL EXPENDITURES

(values in \$000s, numbers rounded)

	1995-96	1996-97	1997-98	1998-99	1999-00
Retail	14,463	8,110	13,008	17,730	22,998
Information Technology	8,639	8,720	8,472	17,834	24,895
Logistics	1,846	782	1,213	1,658	1,760
Marketing Programs	1,600	1,554	1,989	2,558	2,434
Other Administrative Divisions	670	248	917	1,179	1,463
Systems Improvements	n/a	n/a	n/a	n/a	808
Total Capital Expenditures	27,218	19,414	25,599	40,959	54,358

The increase in Retail capital expenditures reflects needed improvements to the store network; the Information Technology increase related primarily to Y2K compliance and a new point-of-sale system in stores; Marketing Programs' increase reflected new store signage and promotions to position the LCBO as the Source for Entertaining Ideas.

CONTINUOUS INNOVATION

Our success as a retailer is due to continuous innovation. In the past year, we've introduced new retail formats, new products and services and increased staff knowledge to better serve our customers. Our number one goal is to provide compelling customer service.



Customer Service Representative Joan Grove leads a cooking demonstration designed to help customers match food with the appropriate wine.

THE FIVE-YEAR PLAN

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

- continue to succeed 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.

The plan calls for \$251 million in capital spending over five years, with over 80 per cent spent on operations - the elements that customers see and experience. We expect an average dividend of \$833 million each year under the plan, or transfers of \$4.2 billion over the five years.

LOOKING AHEAD

As we enter the third year of the plan in 2000-01, a growing economy and our continuing focus on improving the LCBO shopping experience should contribute to another strong year. We are forecasting an aggressive net sales growth of 8.2 per cent, or approximately \$208 million, to a total of \$2.741 billion.

Volume sales are also expected to increase by 8.8 per cent. This should exert less downward pressure on our gross margin as a percentage of sales. Gross margin will increase to 49.2 per cent from 49.1 per cent, as a result of greater growth anticipated in the spirits and wine categories, compared to beer.

Divisional expenses are budgeted to rise by 6.5 per cent to account for the increasing expense of marketing costs tied to new customer service initiatives designed to enhance the LCBO shopping experience, and the ongoing investment in staff training to provide knowledgeable service to our customers.

Our product costs are projected to fall slightly from 50.9 per cent to 50.8 per cent.

Given the margins and expenses we are budgeting, we expect net income to rise by 8.8 per cent or \$73.8 million.

Our dividend to government should increase for the seventh consecutive year, to \$850 million. Having achieved an \$800 million dividend in fiscal 1999-2000, we have now transferred an additional \$44 million over plan in the first two years of the five-year plan.

Our expense line was originally forecast at 16.8 per cent in the first year of our most recent five-year strategic plan and 16.9 in the second. However, having come in at 16.3 this year, and being projected to come in at 16.2 in 2000-01, we will have realized significant productivity savings.

We are well ahead of where we said we would be and will do everything we can to keep it that way.



LCBO stores proudly display the award-winning wines of Ontario. High-quality wines bearing the Vintners Quality Alliance (VQA) label sold well this fiscal year, increasing their share of the domestic market from 12 to 14 per cent.

PRODUCT TRENDS

Wine



THE WINES CATEGORY ENJOYED ANOTHER SOLID YEAR IN FISCAL 1999-2000, AS ONTARIO CONSUMERS CONTINUED TO SEEK OUT PREMIUM PRODUCTS TO MATCH THEIR INCREASING SOPHISTICATION.

Litre sales increased 6.0 per cent over the previous fiscal year and dollar sales increased 10.2 per cent to \$701.8 million.

White wines accounted for 44.9 per cent of litre sales; red wine for 38.1 per cent; sparkling, fortified and other wines for 12.7 per cent; and rosé for 4.3 per cent.

MILLENNIUM CELEBRATIONS

"The millennium celebrations were an important driver," says Director of Wines Tamara Burns.

"Champagnes and sparkling wines did exceptionally well for us, especially in December."

Sales of French Champagne totaled \$19.8 million this fiscal year, an increase of 50 per cent over the previous year. Sparkling wine sales totaled \$39.7 million, a 16.2 per cent increase.

Table wines in premium price bands also did well, Burns notes. "And that's been the case throughout the year."

IMPORTS GAIN SHARE

Imported wines gained market share, led by Australia.

Imported wines now hold about 67 per cent of market share and domestic wines 32.7 per cent, down slightly from last year's 33.2 per cent.

Australia enjoyed a 32.2 per cent increase in litre sales and has now surpassed Chile to become a top-five country. With the Olympic Games slated for Sydney in September, 2000, Burns expects Australia's market share to improve even further.



"The challenge is to keep our portfolio fresh and relevant, while also keeping inventory at optimum levels"

Other movers were South Africa, which gained 15.1 per cent to move into the top 10, and the U.S., which gained 9.2 per cent.

On the European side, Italy and Portugal enjoyed litre sales increases of 10.8 and 7.1 per cent respectively.

THE DOMESTIC PICTURE

Domestic wines did better than last year, with litre sales increasing by 4.3 per cent and dollar sales by 6.0 per cent. VQA (Vintners Quality Alliance) products led the way, increasing their share of the domestic market from 12 to 14 per cent.

The LCBO has undertaken a number of initiatives to promote Ontario wines to customers, including a training program called WOW – Uncork the Knowledge. All LCBO Retail staff were invited to day-long sessions where they could learn more about Wonderful Ontario Wines (WOW) and why they present good value to customers. A similar program called That's the Spirit helped turn around the spirits category in the mid-1990s.

Burns believes there's more the domestic industry can do to increase market share in coming years.

"Recent vintages have all been excellent, but Ontario is a tremendously competitive marketplace," she comments. "I think suppliers need to establish themselves more in the premium segments currently dominated by imported reds."

Domestic products from British Columbia sold well in the past year, she adds, and now account for about 2 per cent of domestic sales.

TRADING UP CONTINUES

Customers continue to learn about wines and buy more expensive products. "Four years ago, 97 per cent of wines in our category sold for under \$10," Burns notes. "Now it's around 90 per cent."

The LCBO has encouraged this trend by seeking out new products in the \$10 to \$15 price band, hiring more product consultants, posting more tasting notes in stores, offering product seminars and encouraging producers to include more information on labels.

VARIETALS STILL HOT

Customers continue to seek out varietals – wines made from a single grape variety – rather than blends.

Among white varietals, Chardonnay is generally the most popular, but Riesling did well last year, its sales increasing by 10 per cent. "That bodes well for Ontario, which makes fabulous Rieslings," says Burns.

Other white varietals to watch are Semillon and Chenin Blanc.

In red wines, Merlot continues to sell well, as does Shiraz – the New World version of the French grape Syrah. Malbec, planted mainly in Chile and Argentina, is gaining popularity as well.

The Wines category offered a total of 1,600 SKUs (Stock-Keeping Units) in fiscal 1999-2000. "We added about 400 new products and dropped some 250 that were not performing well," says Burns. "The challenge is to keep our portfolio fresh and relevant, while also keeping inventory at optimum levels."

One new product category emerged in 1999-2000: refreshment flavoured wine beverages. These are varietal wines mixed with essences of fruit or lightly carbonated, and generally low in alcohol. The LCBO offered 14 products in 1999-2000, nine from Ontario suppliers. Sales topped \$4 million.

LOOKING AHEAD

Burns expects Ports to do well in the coming year. So should dessert wines, including late harvest products from Ontario, Chile, Australia, France and Italy.

Ontario had another superb harvest in 1999, so she expects the new vintage to equal the excellent 1998s.

She expects the Australian success story to continue. One other New World country to watch, according to Burns, is Argentina, whose sales rose by 60.8 per cent this year.

She also sees room to grow the gift business. "That did very well for us last year, especially running up to the millennium. But we have a wide range of products that would make excellent gifts year round."

Spirits

WHEN SPIRIT SALES BOTTOMED OUT IN THE EARLY TO MID-1990S – BESET BY CHANGING CONSUMER TASTES, CROSS-BORDER SHOPPING, SMUGGLING AND A LONG RECESSION – THE LCBO AND ITS SUPPLIERS FACED CONSIDERABLE CHALLENGES IN RENEWING THE CATEGORY.

But renew it they have.

Spirit sales grew by 5.3 per cent in dollars in fiscal 1999-2000, to a record \$1.14 billion. Litre sales grew by 3.3 per cent.



"That's just shy of our 5.5 gain in fiscal 1998-99," says Director of Spirits Bob Downey. "Two years like that are important when you consider spirits generate some 53 per cent of our profits."

A number of factors have contributed to the turnaround:

- *Ontario's economy is stronger*
- *improvements to the LCBO shopping experience and increased enforcement efforts have helped curtail smuggling and the demand for illegal products*
- *LCBO retail employees have increased their knowledge of spirit products and their comfort level in discussing them*
- *the aging boomer population tends to choose premium products*
- *suppliers have delivered excellent products, especially in premium price bands*
- *the weaker Canadian dollar has discouraged cross-border shopping.*

This year's results were also boosted by the coming of the new millennium, and the fact that many people celebrated at home, Downey explains. "The millennium was not just a Champagne story. In general, people treated themselves to premium products, whether as gifts or as part of their entertainment plans. And that meant good news for the spirit category."

Spirit products also tend to represent the lion's share of pre-packaged gift items in LCBO stores, and these sold well this Christmas.

The most popular were giftpacks that combined snifters or other glassware with a 750 mL bottle of spirits, especially recognizable brands such as Canadian Club, Johnnie Walker and Crown Royal.

TEQUILA LEADS GROWTH

The strongest sales increases came in these sub-categories: Tequila (18.5 per cent); single malt Scotch (16.4 per cent); flavoured vodka (14.1 per cent); Irish whiskey (13.9 per cent); and American whiskey (10.4 per cent).

In most of the above categories, growth was driven by premium products – a trend that has been in evidence the last few years.

Liqueurs – especially fruit liqueurs – also grew strongly in fiscal 1999-2000, gaining 10.6 per cent year over year.

Grappa, a distilled spirit made from the fermented skins and seeds of grapes pressed for winemaking, grew by 35 per cent but is still a niche product with annual sales of less than \$700,000.

“The popularity of flavoured martinis seems to be waning,” in Downey’s opinion, “but at the same time we’re seeing a revival of classic cocktails like the Manhattan and the Sidecar. I see good long-term potential for this kind of drink.”

Canadian whisky accounts for nearly one-third of the entire LCBO spirits business. Sales this year grew by about 1.5 per cent to a total of \$337.3 million. Market share, however, declined to 30 per cent, down from 32 per cent last fiscal year.

UNDERSTANDING ETHNIC COMMUNITIES

The category offered nearly 900 listings in fiscal 1999-2000, an increase of 115 over last year.

Among the new brands offered were products requested by Ontario’s ethnic communities. Says Downey: “Retail managers who serve large ethnic populations in their stores funnel information to Merchandising on products of interest to these communities. That channel has worked really well for us, judging by the feedback we’ve received from customers.”

The LCBO will continue to improve service to ethnic communities by researching their tastes more thoroughly; by tying promotions to key holidays and festivals, such as Caribana and the Chinese New Year; and by creating signage and displays that help ethnic customers make more informed buying decisions.

LOOKING AHEAD

The LCBO will continue to promote cocktails by encouraging suppliers to take part in tastings, and by producing brochures that show how to make popular cocktails.

“We will also work with suppliers to go beyond the standard gift offerings in the category,” Downey notes.

One concern is a global shortage of Tequila due to supply and demand problems. This global problem has led to price increases of up to 60 per cent on popular brands and difficulties in securing supplies. The LCBO has bought as much Tequila as possible to meet customer demand.

Downey believes the time may have come for a rise in the popularity of gin – “an undervalued, under-appreciated product.”

Sales of single malt Scotch – which launched the trend toward premium spirits this decade – show no signs of waning.

The Spirits category will also feature new and interesting liqueurs.

“We’d like to make the category more accessible to consumers in a number of ways,” adds Acting Director Shari Mogk-Edwards, who took over the category on secondment this spring. “Our spirit displays are generally along the perimeter walls of our stores, in long lines that are not that interesting to look at. We plan to test new strategies that would help make these sections more appealing. We should also be providing more product information and tasting notes to shoppers who enjoy learning more about beverage alcohol and entertaining.”

Beers & Special Markets

ACTING DIRECTOR RANDI LANDY DESCRIBES THE PERFORMANCE OF BEERS & SPECIAL MARKETS IN 1999-2000 AS "ROCK SOLID."

The category posted gains of 9.6 per cent in litres and 11.7 per cent in dollars, with total sales climbing past \$500 million for the first time.

The main product lines in this category are beers; coolers, mainly spirit-based but also made with wine and beer; ciders; ready-to-drink and ready-to-mix products; kosher products; saké; and accessories.

PREMIUM BEER LEADS THE WAY

In all, the LCBO offered some 287 brands of domestic and imported beer in fiscal 1999-2000, not including those that are offered only in combo stores, such as 12- and 24-unit cases of domestic beer.

According to Landy, the fastest-growing sub-category was premium imported beer from countries other than the U.S., which grew by 30.2 per cent.

"Consumers are choosing quality and flavour over price, much as they are with spirits and wine," she comments.

Familiar brands like Old Milwaukee, Corona and Heineken topped the import list this year, along with beers from Germany, Poland and the U.K.

Domestic Ontario beer, which accounts for 37.1 per cent of the category, posted a 7.3 per cent gain year over year.

Sales of microbrews grew by 9 per cent.

Out-of-province Canadian beers (such as the popular Mooshead) grew by 23 per cent.

Sales of U.S. beer rose by 3.8 per cent last year, led by Old Milwaukee.

Beer has the potential to become a popular gift item, according to Landy. "Some suppliers have created excellent gift items, like the Dutch beer Grolsch,



which was introduced for the 1999 holiday season in a magnum size, with the same distinctive design and swing-top stopper known world wide. Customers told us the beer was great, the bottle was great and the price was right."

COOLER SALES COOL DOWN

Two years ago spirit coolers were the story in Beers & Special Markets. Sales of one new innovative product (Mike's Hard Lemonade) soared, taking the entire segment with it. In fact, in fiscal 1997-98 and 1998-99, cooler sales climbed by a remarkable 128 per cent.

Today, Mike's Hard Lemonade is still the best-selling cooler, but sales have slowed.

"The key to this category is new and innovative products," Landy explains. "This year, Mike's has expanded its product line with lower alcohol versions (4.9 per cent) of the original flavours. We're also anticipating success from new entries like REV, a vodka-based cooler complemented by unique ingredients like guarana, caffeine and kola nuts."

While accounting for a small volume of sales, beer coolers posted very strong growth last year – some 345 per cent.

OTHER PRODUCTS

Sales of ciders declined again in fiscal 1999-2000, by 15.1 per cent. "We have to work with suppliers to renew customer interest," Landy notes. She also plans to source some well-known cider brands from the U.K.

Ready-to-drink and ready-to-mix products also declined this year, though not as sharply as ciders. "There may be some confusion about these two sub-segments," she admits. "But we're planning a number of merchandising initiatives to eliminate that confusion and turn them around."

The LCBO's portfolio of kosher products is doing very well, according to Landy. "We've more than tripled the number of products we carry, up to 80, and grew the category year over year by 23 per cent. We've also worked to get the word out that the LCBO is more than a place to buy kosher wines. We can be a source of entertaining ideas year-round for Jewish customers as they celebrate holidays and plan festive meals. It is another example of how the LCBO serves Ontario's ethnic communities."

Sales of accessories continued to grow as the LCBO streamlined and focused its product lines. "By doing so, and by ensuring consistent stock year-round, we grew our accessory business by 39 per cent, up to \$5.4 million. Being a one-stop shop for busy customers is integral to our strategic vision," according to Landy.

LOOKING AHEAD

Anticipated growth areas include kosher wines, sakés, and beers from East Asia, Poland, Central America and the Czech Republic. While saké is a niche product, it is fast becoming more popular on its own and in cocktails such as the sakatini.

"We need to continue to inform our customers about the merits of premium products," adds Landy. "This will be achieved through product education, in-store tastings, exciting new purchases and promotions, and a seasonally rotated portfolio."

"We'll do everything we can to satisfy our customers' thirst for knowledge and to promote our products as year-round beverages – not just summer refreshment."

Promotions already planned for fiscal 2000-01 will focus on summer wheat beers and winter beers. Landy also plans to source more fruit-flavoured beers and will continue to promote the Mix & Match program, which allows customers to try beers, coolers and ciders without necessarily having to buy them in six-packs.

Vintages

VINTAGES IS THE PREMIUM PRODUCTS DIVISION OF THE LCBO. IT SOURCES FINE WINES, PREMIUM SPIRITS AND SPECIALTY BEERS FROM ALL OVER THE WORLD, RELEASING THEM TO THE PUBLIC IN SOME 150 LCBO STORES, AND THROUGH THE POPULAR *'CLASSICS CATALOGUE* AND OTHER PROGRAMS AND CHANNELS.

Vintages' sales in 1999-2000 totaled \$115 million, a 30 per cent increase over the year before.

"We saw constant growth throughout the year," Director Tom Wilson notes. "It didn't peak with a certain program or portfolio and then drop. In fact, it's been fairly constant over the past seven years."

The vast majority of Vintages' portfolio is red wine. "Most serious enthusiasts and collectors are mainly interested in red wines, which tend to be more sophisticated than whites, and have greater capacity to age," Wilson explains.

Every month, Vintages releases up to 175 new products into selected stores. It also stages up to eight "thematic" releases a year, which focus on a particular region or style.

The largest single supplier of Vintages wines is France, particularly its Bordeaux and Burgundy regions. Others include California, Italy, Australia, Canada, South Africa, New Zealand and Germany.

Another 1,500 products a year are available through the *Classics Catalogue*, now published three times a year, and through the Futures program, which allows customers to buy fine wines at lower prices before they are bottled. In all, some 3,570 products were offered in fiscal 1999-2000.

Wilson credits Vintages' strong performance to a number of factors, both external and internal.

"Ontario is a maturing marketplace, with many affluent people in empty-nest situations. A growing number are interested in wine - reading about it, travelling to wine regions, surfing the Internet for information. They want to experience the world of wine and entertainment - and we're well positioned to help.

"You also have to look at the quality of wine being made," he adds. "Not everyone realizes it, but Vintages sells many excellent wines for less than \$15. We can do that because a \$15 wine is better today than ever, thanks to improved grape growing and winemaking techniques."

Internally, new merchandising programs have helped demystify the world of fine wine; high-profile public events have fostered greater awareness of Vintages programs; and strategic alliances with other retailers have created greater brand awareness and an expanded client base.

One of this year's most successful innovations was the Wine of the Month program, designed to bring new customers into the Vintages fold.

"Customers who did not necessarily know a lot about wines would know that the Wine of the Month provided excellent value for money," Wilson observes.

Wines of the Month tend to range in price from \$10 to \$20. Five of the first six choices happened to be New World Wines - including one VQA product - which reflects current trends in customer interest.

Another success was the Essentials program, an international portfolio of Vintages products available on a continuous basis - which makes them attractive to licensees and retail customers.

Vintages' monthly release circulars and the *Classics Catalogue* were revamped to make them more accessible and informative.

"The Vintages audience wants information," says Wilson, "and doing a better job of providing that information helps drive our business."

Sales through the *Classics Catalogue* are now \$10 million to \$12 million a year, with each edition outperforming those that came before, according to Wilson. "This year, we made it larger and more readable, with more tasting notes by our panel, as well as experts like Robert Parker Jr. and the *Wine Spectator*."

The 1998 Bordeaux Futures program accounted for a record \$4.1 million in sales, 30 per cent higher than the previous best year, 1996. "With this program, and our catalogues, we are making products accessible to people who would otherwise seek them out in New York, Chicago or other markets," says Wilson.

Retail upgrades also boost Vintages sales. New flagship and full-service LCBO stores have included spacious, attractive sections that can accommodate hundreds of products.

"This is an extremely positive trend," Wilson believes. "It helps raise the satisfaction level of customers who like to feel they've come somewhere special, and who judge wine merchants by the breadth of the selection they offer."

LOOKING AHEAD

Wilson expects his business to grow in double digits again in 2000-2001.

"We will continue to develop and implement programs to increase the satisfaction levels of all our customers - those who've been with us a while and those just joining the fold.

"We'll have two Wines of the Month, to add to the excitement and convenience of the program. We also plan to launch a Vintages Cellar Direct program that would help budding collectors launch their wine cellars.

"We'd also like to develop a greater presence on the Internet. We see a huge opportunity to leverage our website (www.vintages.com) to increase the efficiency of our business and offer the broadest portfolio in a cost-effective way.

"We also plan to stage more high-profile events with strategic partners, both in the beverage alcohol trade and outside where synergy exists," Wilson concludes. "Special events are an important part of moving things forward."



UPGRADING OUR STORE NETWORK

LIKE OTHER MAJOR RETAILERS, THE LCBO MUST CONSTANTLY RE-EVALUATE ITS STORE NETWORK, AND IMPROVE IT WHEREVER POSSIBLE, TO ENSURE IT IS MEETING CUSTOMER EXPECTATIONS FOR SERVICE, SELECTION AND ACCESSIBILITY.

In fiscal 1999-2000 we spent \$14.2 million to build, upgrade or relocate stores, roughly the same as the previous fiscal year. Another \$7 million was spent on maintenance and repair costs for the store network and Head Office facility, and to replace outdated outdoor signage.

In all, 28 stores across the province were upgraded or relocated in fiscal 1999-2000, including outlets in Ajax, Brampton, Elgin, Gananoque, Hamilton, London, Markham, Newmarket, Oakville, Orangeville, Ottawa, Seeley's Bay, Sudbury, Toronto and Westport. Together they represent more than 130,000 square feet of new format space.

Our new full-service store in Ottawa (Nepean) opened to rave reviews in January. "Spectacular," wrote Ron Eade in the *Ottawa Citizen*. "It's nothing short of astounding.... Check it out and prepare to be dazzled." *Citizen* wine writer Peter Ward called it "the nicest liquor store I've been in." Customers have also shown their approval: according to recent figures, sales are up some 60 per cent since opening day.

The Brampton store, located in Orion Gate Power Centre at Highway 410 and Steeles Avenue, introduced a new, entirely unique feature designed to improve service to licensees and other wholesale customers: a separate 2,700-square-foot section called By the Case, where they can buy cases of domestic and imported wines right off warehouse-style racks. By the Case also features two dedicated checkouts to accommodate busy licensees, and specially designed shopping carts to help them move cases out to the parking lot.

Sales to licensees have tripled since it opened in the fall of 1999; overall, sales are up 104 per cent since opening. The trade area is also up by 10 per cent, meaning the sales haven't necessarily been cannibalized from nearby LCBO stores.

Every retail improvement project at the LCBO is designed to increase customer satisfaction and to generate sufficient additional revenue to pay for itself. Stores upgraded in fiscal 1998-99 experienced sales increases averaging 23 per cent, led by the Bayview Village flagship at 85 per cent.



The LCBO's new store in Brampton's Orion Gate Power Centre has a separate By the Case section to make shopping more convenient for wholesale customers. Customer Service Representative Linda Tome processes an order for area licensee Jack's Backyard. Left to right: co-owner Tosh Sourlis, manager Wendy LaVictoire and co-owner Jack Sourlis.

In some cases, we close older outlets that date back to a time when liquor stores were relegated to Ontario's backstreets. Today, we're interested only in locations that are visible, easily accessible and close to where people live and shop. In this we are guided by market research conducted by our Customer Insights Group, which uses everything from Statistics Canada research to our own detailed customer surveys to pinpoint the best possible locations for our stores.

Factors such as parking, visibility, barrier-free access, loading facilities and demographics are all considered before a lease is signed or ground broken for a new store.

Follow-up research tells us customer satisfaction increases as we improve our store network. In February of 2000, 63 per cent of more than 2,000 customers surveyed said they found our stores had appealing atmospheres, compared to 60 per cent the year before, and 85 per cent said our stores were bright and clean, compared to 84 per cent the year before. We believe these numbers will continue to rise as more stores are upgraded.

In-store interviews at the Bayview Village flagship store have elicited extremely positive comments from customers, some of whom said they had brought out-of-town friends to visit it much as they would a tourist destination. Some respondents said the new store fundamentally changed their perceptions of the LCBO - for the better - as well as their shopping behaviours. They were spending more time browsing; were being more experimental with their purchases; were coming in to look for items reviewed or featured in *FOOD & DRINK*; and were making Bayview Village their destination store - even if another LCBO was closer to home.

We have won more than 30 design awards in open competitions since 1990, including two from the Retail Council of Canada. We were a finalist for yet another Retail Council design award this year, for a kiosk erected in the Sherway Gardens mall this Christmas.

So whatever perspective we take - improved sales, improved customer satisfaction ratings, design awards - we believe our upgrades are well worth the effort.

Our current five-year strategic plan (which runs until 2003) calls for all new LCBO stores to fall into one of four formats: flagship, full-service, new IMAGE or mini. Over the next three years, we plan to improve the store network as follows.

Flagship stores: like our Bayview Village store in Toronto, which opened in February 1999, they range up to 30,000 square feet and are located in large urban centres, carrying 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, including demonstration kitchens; VQA sections; listening stations where customers can preview music to round out their party atmosphere; a computer terminal where "surfers" can look up product information on the Internet; and a gift centre, where shoppers can find the ideal gift for any occasion. It's also worth noting that prior to opening day, the staff at new flagship stores undergo up to two weeks of intensive training to ensure they can provide the knowledgeable service customers at flagship stores expect.



While no new flagships opened in fiscal 1999-2000, we did complete the lion's share of work on an impressive two-story flagship that opened on Rideau Street in Ottawa May 4, 2000. This 28,000-square foot store boasts all the same features as the Bayview Village store, plus a unique Vintages section on the lower level that evokes the old-world feeling of the cellar of a French chateau.

Three more flagships are expected to open over the next three years.

Full-service stores: up to 20,000 square feet in major and medium-sized urban markets, 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. Two opened in fiscal 1999-2000; another 20 are planned over the next three years.

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. They carry 1,800-2,000 General List products and have a Vintages boutique with up to 500 brands. They are found in both major and smaller urban markets. Eight opened in fiscal 1999-2000; up to 32 are planned over the next three years.

Mini-stores and kiosks: at 600-3,000 square feet in high-traffic shopping areas, these stores are designed to service a specific customer niche and close the gap in under-served areas. Several target specific niche markets, like our Chinese kiosk in Markham and our Kosher kiosk in Thornhill. Mini-stores offer 500 of the most popular brands from the General List and Vintages. Eighteen opened in fiscal 1999-2000, not including six seasonal kiosks we opened to handle increased millennium shopping in December 1999; another 15 are planned over the next three years.

By following this strategic plan, and heeding carefully the results of ongoing customer research, the LCBO retail network will continue to evolve to increase profitability, and to meet and exceed expectations in every market we serve.



New flat-screen point-of-sale monitors – like the one behind Customer Service Representative Brenda Seawright – display product information, social responsibility messages and transaction details.

SOCIAL RESPONSIBILITY

IN JUNE 1999, THE LCBO CONDUCTED A COMPREHENSIVE EMPLOYEE ATTITUDE SURVEY TO FIND OUT MORE ABOUT HOW EMPLOYEES FELT ABOUT WORKING FOR THE ORGANIZATION, AND TO GET THEIR THOUGHTS ON WAYS TO IMPROVE IT.

In analyzing more than 4,000 responses, the pride employees feel in working for the LCBO clearly stood out. And the greatest single determinant of their pride, most said, was the social responsibility role they play. As one employee wrote: "I feel proud to do my part here. It makes a difference in my life."

The LCBO believes it can make a difference in every community it serves, by refusing to serve minors or customers who appear intoxicated; by creating thought-provoking advertising aimed at deterring impaired driving; by creating and distributing other materials on responsible hosting and consumption; by raising funds for MADD Canada and other partner organizations; by conducting its business in an environmentally responsible fashion; and by deterring the production, smuggling and consumption of untested illegal alcohol.

Our commitment has not gone unnoticed by the public. In a February 2000 survey of Ontario residents, 70 per cent of respondents said they thought the LCBO was doing a good job of promoting the responsible use of beverage alcohol (up from 65 per cent one year earlier); and 79 per cent said they approved of our efforts in controlling sales to minors.

*The LCBO believes
it can make a difference
in every community
it serves*

Our key social responsibility initiatives in fiscal 1999-2000 can be broken down into the following categories:

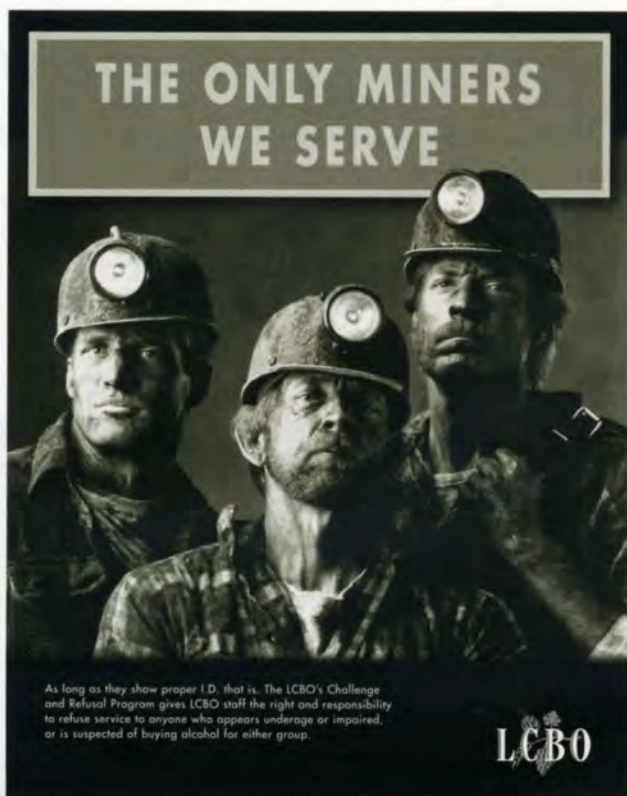
- *Challenge and Refusal*
- *Promoting responsible consumption*
- *Fundraising*
- *Advertising*
- *Partnerships*
- *Quality Assurance and the fight against illegal alcohol.*

Following are brief highlights of each.

Challenge and Refusal: All LCBO Retail employees are trained to challenge and refuse service to any would-be customer who appears to be impaired or who appears under 25 and cannot produce valid ID. They also refuse to serve "second-party purchasers" - anyone believed to be buying alcohol for minors or people already impaired. In fiscal 1999-2000, LCBO employees challenged 913,810 customers, almost 10 per cent higher than the year before. More than 82,000 were refused.

As a recent well-received LCBO in-store poster campaign attests, "the only minors we serve" are those who work underground - assuming they can prove they're of age. This poster, reproduced in newspapers and magazines, was developed to foster public awareness and support of our Challenge and Refusal program.

The LCBO issues tamper-resistant BYID photo cards to help its Retail staff - and others who sell beverage alcohol - determine whether prospective customers are of legal drinking age. We issued 3,123 cards in fiscal 1999-2000, each bearing a responsible consumption message on the back. As of fiscal year-end, nearly 12,000 BYID cards had been issued since the program's inception in 1996.



In fiscal 1999-2000, we also developed a Working SMAART Quick Check ID Guide that displays all forms of proof-of-age photo identification prescribed under Ontario's *Liquor Licence Act*. Though developed to support LCBO employees, it will be a useful resource for all beverage alcohol servers in Ontario.

Promoting responsible consumption: The LCBO believes beverage alcohol is best enjoyed in moderation and reinforces that message through a variety of media. These include its Internet sites at www.lcbo.com and www.vintages.com; brochures like *Having a Party?*, which provides useful tips on responsible hosting; and articles, ads and recipes in *FOOD & DRINK* that show how beverage alcohol can be best matched with food. The LCBO also offers many low-alcohol wines, beers and spirits in its stores, and sets minimum prices for its products, to encourage responsible consumption. LCBO shopping bags contain a responsible drinking message, as do display screens on all new point-of-sale terminals; and many LCBO staff appear at many trade shows and festivals where they distribute materials on social responsibility. Our new store formats – many of which include demonstration kitchens – reinforce the notion of beverage alcohol as a product to be enjoyed in moderation and with food.

This past holiday season, because of the intense focus on the coming of a new millennium, we paid particular attention to responsible hosting and other aspects of social responsibility. We created a Millennium party planner, which advised hosts on the best ways to welcome the year 2000 safely; created television commercials that urged people who drink to do so moderately; and distributed wallet-sized taxi cards in a number of markets to remind people who planned to drink to seek alternative transportation.

Fundraising: As part of its commitment to the communities it serves, the LCBO raises more than \$1 million a year for United Way and other charities. In the fall of 1999, employees raised a record \$234,800 for the United Way, through their own donations and by staging special events. Donation boxes in our stores raised another \$265,495 for national and provincial organizations. An additional \$99,000 was raised for veterans through the sale of poppies in our stores. We also raised \$65,000 for a number of charities through the sales of promotional compact disks in our stores. Other monies come from in-store tastings and many other events.

Advertising: The LCBO uses a variety of media to advertise its commitment not to serve minors and to encourage people not to drink and drive. In 1999-2000, we unveiled an innovative outdoor advertising campaign to send the message that "Drinking and driving is no accident" – whether the vehicle is a car, boat or snowmobile. The campaign, launched in partnership with MADD Canada, included a number of three-dimensional billboards on which actual wrecks of crashed vehicles were mounted. More than 26,000 posters bearing the same dramatic images were distributed province wide. Independent research shows the campaign was extremely well received; it also resulted in a great deal of media coverage, providing strong reinforcement of its message.

Other advertising campaigns promoted responsible drinking throughout the year, especially during the holiday season when the incidence of impaired driving tends to rise. Among these were an award-winning 90-second cinema commercial that elicited extremely favourable comments from viewers.

In fiscal 1999-2000, we began work on a hard-hitting multimedia campaign that will focus on the severe consequences of drinking and driving. Aimed at moderate drinkers who are most likely to modify their behaviour, especially males aged 25-34, the year-long campaign will build on the success of other recent campaigns. It will feature powerful 30-second television and radio commercials designed to make people think twice about driving after they've consumed beverage alcohol. The message emphasizes personal responsibility: "Drinking and driving is no accident. It's a choice. Make the right one." These will be supported by print ads in *FOOD & DRINK* and by posters mounted in washrooms of licensed establishments, where the target audience is likeliest to see them. The campaign commences in June 2000.

Partnerships: Our success in promoting the responsible use of alcohol, and protecting Ontario's communities from impaired driving and illegal alcohol, must be shared with many other organizations. In the past year alone, these included the Canadian Association of Liquor Jurisdictions, the Association of Canadian Distillers, the Distillers Council of Ontario, the Ontario Association of Chiefs of Police, RIDE, Variety Village, Ontario's Ministry of Transportation, MADD Canada, the Canadian Red Cross Society, the Ontario Community Council on Impaired Driving, BACCHUS Canada, the Lifesaving Society, the Canadian Power and Sail Squadrons, the Ontario Federation of Snowmobile Clubs and the Ontario Snowmobile Safety Committee.

The LCBO also partners with a number of organizations that work to improve Ontario's environment. In fiscal 1999-2000, these included Recycling Council of Ontario; Corporations Supporting Recycling; Pollution Probe; and the United Nations R-2000 Environmental Program. Chair and CEO Andrew S. Brandt also represents the LCBO on the Board of Directors of the Waste Diversion Organization - a partnership of government, municipalities and industry - whose mandate is to help fund and improve the effectiveness of municipal Blue Box and other waste reduction and diversion programs. The LCBO contributed \$5 million in 1999-2000 to this initiative.

Quality Assurance and the fight against illegal alcohol: Every year, the LCBO Quality Assurance laboratory runs hundreds of thousands of tests to ensure all products meet exacting standards for taste and safety. In fiscal 1999-2000, we ran 299,000 tests on 12,600 products. These represented increases of 13 and 5 per cent respectively over the previous year. QA staff also tasted 4,900 products - 14 per cent more than the previous year - to help determine whether they met the LCBO's high standards of quality. A recent survey of suppliers, agents and Canadian manufacturers of beverage alcohol show that 70 per cent believe the service they get from the Quality Assurance laboratory has significantly improved over the past two years.

Because of this effort, LCBO customers can buy new or familiar products, knowing they'll be safe to drink. The same, unfortunately, cannot be said of smuggled alcohol and illegally manufactured wine, which pose a threat to the health of anyone who drinks them. To protect the health of consumers - and prevent the diversion of revenue from the government to criminal organizations - the LCBO works diligently with law enforcement agencies across the province to stem the flow of illegal alcohol. These efforts appear to be working. The illegal market was estimated at \$456 million in fiscal 1999-2000, down about 16 per cent from the year before. This decrease can be traced not only to enforcement activities, but to the overall improvement of the LCBO shopping experience, which draws customers away from illegal channels.



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 whose employment income is \$100,000 or more a year. In keeping with the requirements of the Act, the LCBO submits the following information for calendar 1999.

There are 29 names on this year's *Public Sector Disclosure Act* list, compared to 18 the year before. This increase is due in part to the fact that many LCBO managers are at the top of their pay ranges, owing to their years of service; a pay-for-performance plan for management and excluded staff, enacted in 1997 to bring LCBO salaries closer to industry standards; and because many managers opted to take unused Management Compensation Option (MCO) days as cash in lieu of days off. Management and excluded staff are eligible to receive five MCO days a year.

*While the Chair/CEO's base salary of \$104,054 remains unchanged, his remuneration for calendar 1999 includes a retroactive pay-for-performance bonus for three fiscal years (15 per cent for 1996-97, 1997-98 and 1998-99).

** The Executive Vice President's remuneration for calendar 1999 includes a retroactive pay-for-performance bonus for three fiscal years (15 per cent for 1996-97 and 1997-98 and 20 per cent for 1998-99).

Name	Position	Employment Income	Taxable Benefits
Bonic, J.	Director, Store Development & Real Estate	\$106,556.59	\$341.76
Brandt, A.S.	Chair & CEO	\$165,294.71*	\$349.92
Browning, J.A.	VP, Finance & Administration	\$144,101.40	\$422.44
Buck, P.	Director, Human Resources Services & Compensation Initiatives	\$103,211.02	\$337.56
Cardinal, N.	Director, Marketing Communications	\$111,442.53	\$347.64
Clute, C.P.	(seconded to Office of Privatization)	\$110,297.15	\$377.98
Dutton, R.	Director, Financial Planning & Economic Development	\$113,367.68	\$350.16
Ecker, R.	Director, Regional Office	\$111,402.54	\$408.64
Fisher, R.	Director, Regional Office	\$108,897.54	\$414.64
Fitzpatrick, Mary	VP, General Counsel & Corporate Secretary	\$142,717.77	\$422.44
Flynn, L.	Director, Regional Office	\$114,556.13	\$510.02
Gee, L.C.	Executive Vice President	\$240,877.21**	\$550.54
Green, M.	Lawyer	\$110,415.71	\$352.08
Kane, M.	VP, Human Resources	\$144,101.40	\$422.44
Kelly, H.	VP, Information Technology	\$153,771.40	\$422.44
Kennedy, W.	Director, Corporate Communications	\$114,997.21	\$352.08
Ker, G.	Director, Corporate Policy	\$104,267.63	\$337.80
Lyons, C.	Controller	\$104,601.46	\$342.96
Marshall, D.	Director, Regional Office	\$108,897.54	\$1,424.64
Martin, J.	VP, Logistics	\$144,101.40	\$422.44
Ramsay, G.	Director, Application Services	\$104,001.63	\$315.98
Sherwood, G.	VP, Retail	\$144,101.40	\$422.44
Tattle, W.	Lawyer	\$109,428.21	\$352.08
Tughan, W.	Director, Resource Protection	\$100,671.00	\$308.34
Wilcox, D.	VP, Merchandising	\$179,047.54	\$354.04
Wilson, M.	Director, IT Infrastructure	\$110,232.66	\$341.76
Wilson, T.	Director, Vintages	\$111,402.55	\$347.64
Yazecjian, L.	Director, General Audit	\$100,671.00	\$308.34
Zachar, W.	Director, Employee Relations	\$101,218.26	\$335.52

RESPONSIBILITY FOR FINANCIAL REPORTING

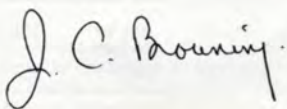
The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, 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 9, 2000.

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 and Governance Review Committee of the Board.

The Board, through the Audit and Governance Review Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Governance Review Committee, comprised of three Members who are not employees/officers of the LCBO, 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.

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 page 52, outlines the scope of the Auditor's examination and opinion.

On behalf of management:

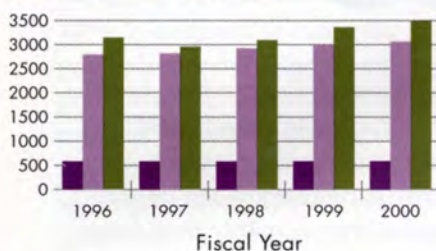


Alex Browning

Vice President, Finance & Administration

FINANCIAL OVERVIEW

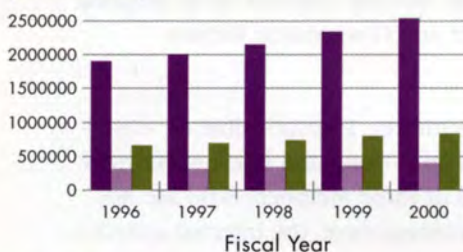
Key Indicators: 1996-2000



- LCBO Stores
- Permanent Employees
- Regular Products Listed

Financial Indicators: 1996-2000

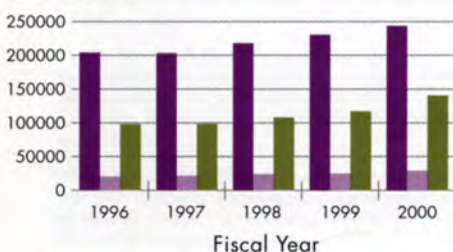
(values in \$000s)



- Net Sales and Other Income
- Operating Expenses
- Net Income

Operating Expenses: 1996-2000

(values in \$000s)



- Salaries and Benefits
- Depreciation
- Other Expenses

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

	1996	1997	1998	1999	2000
Number of LCBO Stores	596	595	596	600	602
Number of Permanent Employees	2,803	2,828	2,934	3,014	3,074
Number of Regular Products Listed	3,149	2,960	3,098	3,366	3,496

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

Financial (values in \$000s)

	1996	1997	1998	1999	2000
Net Sales and Other Income	1,909,804	2,013,873	2,160,843	2,349,832	2,549,458
% change/previous year	5.60%	5.45%	7.30%	8.75%	8.50%
Operating Expenses	323,819	324,457	351,653	374,558	414,861
As a % of Net Sales & Other Income	16.96%	16.11%	16.27%	15.94%	16.27%
Net Income	666,717	701,030	744,904	809,425	845,694
As a % of Net Sales & Other Income	34.91%	34.81%	34.47%	34.45%	33.17%

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 LCBO Sales Channel Summary on page 46.

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

	1996	1997	1998	1999	2000
Salaries and Benefits	204,629	203,699	218,631	231,486	244,399
Depreciation	20,962	22,167	24,666	25,580	29,582
Other Expenses	98,228	98,591	108,356	117,492	140,880
Total Operating Expenses	323,819	324,457	351,653	374,558	414,861

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

Treasurer of Ontario

	1996	1997	1998	1999	2000
Remitted by the Liquor Control Board: on account of profits	680,000	730,000	745,000	780,000	800,000
Remitted by the Liquor Control Board: Ontario retail sales tax on sales through liquor	182,762	192,357	202,148	220,645	239,071
Remitted by the Alcohol and Gaming Commission:* on account of licence fees and permits	529,690	520,829	505,656	519,472	537,569
Remitted by others:** Ontario retail sales tax on sales through Brewers Retail stores and Ontario winery retail stores	157,046	157,582	160,321	168,281	177,406
Ontario retail sales tax on sales through agency stores	2,301	2,565	2,839	3,305	3,672
Total	1,551,799	1,603,333	1,615,964	1,691,703	1,757,718

* 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

	1996	1997	1998	1999	2000
Remitted by the Liquor Control Board: Excise taxes and Customs duties	235,022	239,058	247,413	249,639	267,137
Goods and Services Tax	60,344	64,672	68,642	66,192	69,718
Remitted by others: Excise taxes, GST and other duties/taxes	327,660	342,763	329,802	333,407	367,637
GST remitted on sales through agency stores	1,343	1,496	1,656	1,928	2,142
Total	624,369	647,989	647,513	651,166	706,634

Ontario Municipalities

	1996	1997	1998	1999	2000
Remitted by the Liquor Control Board: grants in lieu of realty and business taxes	6,188	5,816	5,897	3,680	3,569
Total Revenue Payments	2,182,356	2,257,138	2,269,374	2,346,549	2,467,921

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 2000 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.

Share of Volume Sales



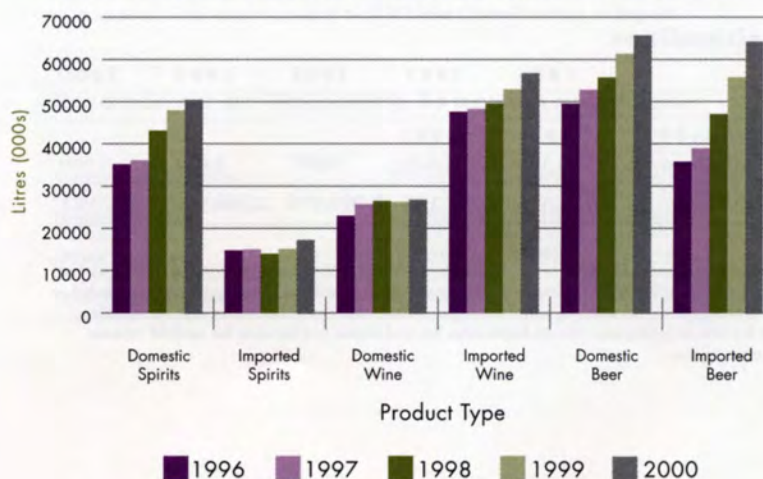
LCBO Volume Sales (in 000s Litres)

Product Type	1996	1997	1998	1999	2000
Domestic Spirits	30,585	30,615	31,015	31,834	33,310
Domestic Spirit Coolers	4,669	5,556	12,150	16,168	17,361
Imported Spirits	14,877	15,097	14,059	15,175	17,491
Total Spirits	50,131	51,268	57,224	63,177	68,162
Domestic Wine	22,208	24,957	25,845	25,795	26,523
Domestic Wine Coolers	903	895	718	544	489
Imported Wine	47,671	48,328	49,617	52,952	57,010
Total Wine	70,782	74,180	76,180	79,291	84,022
Domestic Beer	49,584	52,861	55,763	61,377	65,618
Domestic Beer Coolers	27	20	24	38	339
Imported Beer	35,873	39,021	47,082	55,827	64,451
Total Beer	85,484	91,902	102,869	117,242	130,408
Total Domestic	107,976	114,904	125,515	135,757	143,640
Total Imported	98,421	102,446	110,758	123,954	138,952
Total	206,397	217,350	236,273	259,710	282,592

Product Type	1996	1997	1998	1999	2000
Sales by Ontario Winery Stores	13,164	14,411	14,838	13,878	14,074
Sales by Brewers Retail & On-site Stores	670,539	653,106	654,284	654,413	663,806

Note: LCBO beer sales figures include LCBO sales to Brewers Retail Inc. The 2000 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 Volume Sales by Product Type: 1996-2000



Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of Coolers.

LCBO Value Sales (in \$000s)

Product Type	1996	1997	1998	1999	2000
Domestic Spirits	671,080	680,092	691,165	717,270	739,313
Domestic Spirit Coolers	22,148	27,893	61,093	80,716	84,579
Imported Spirits	340,638	354,929	358,363	391,872	435,093
Total Spirits	1,033,866	1,062,914	1,110,621	1,189,858	1,258,985
Domestic Wine	158,888	178,563	190,809	201,723	211,595
Domestic Wine Coolers	3,347	3,209	2,612	1,976	1,797
Imported Wine	435,845	469,803	503,290	559,624	635,112
Total Wine	598,080	651,575	696,711	763,323	848,504
Domestic Beer	145,816	160,544	170,538	194,149	208,882
Domestic Beer Coolers	87	67	83	144	1,035
Imported Beer	107,275	118,567	145,326	174,284	210,815
Total Beer	253,178	279,178	315,947	368,577	420,732
Total Domestic	1,001,366	1,050,368	1,116,300	1,195,978	1,247,201
Total Imported	883,758	943,299	1,006,979	1,125,780	1,281,020
Non Liquor	2,059	3,124	3,479	3,914	5,389
Total	1,887,183	1,996,791	2,126,758	2,325,672	2,533,610

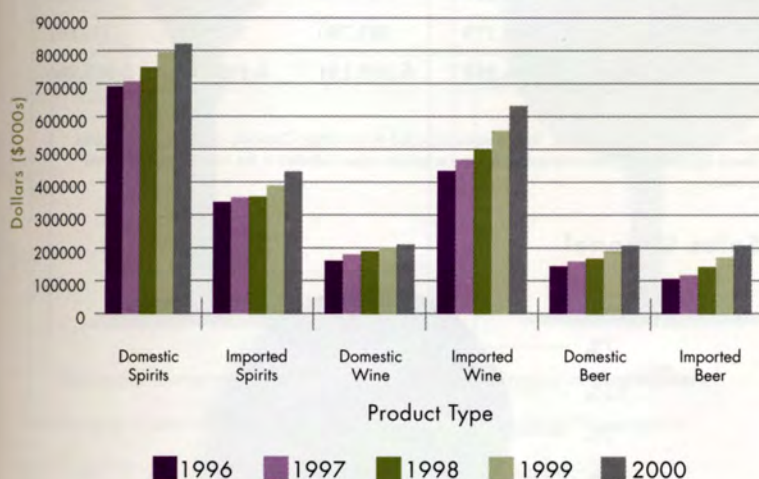
Product Type	1996	1997	1998	1999	2000
Sales by Ontario Winery Stores	95,227	106,257	114,805	111,765	118,219
Sales by Brewers Retail	1,809,030	1,804,847	1,858,377	1,937,004	2,021,111

Note: Value sales 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. Category totals provided here include sales through Vintages and the LCBO Private Stock Program, and therefore do not match the totals found in the Product Trends sections of this Annual Report.

Share of Value Sales



LCBO Value Sales by Product Type: 1996-2000



Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of Coolers.

Product Listings

	1996	1997	1998	1999	2000
Domestic					
Spirits	540	463	516	539	518
Wine	534	533	518	538	536
Beer	306	330	346	385	403
Imported					
Spirits	621	484	542	601	586
Wine	965	938	963	1,085	1,192
Beer	183	212	213	218	261
Total Regular Listings	3,149	2,960	3,098	3,366	3,496
Vintages Wines and Spirits	2,368	2,744	3,037	3,235	3,569
Duty-Free Listings	207	205	213	210	235
Consignment Warehouse and Private Stock	4,249	4,573	5,240	5,241	6,106
Total Product Listings	9,973	10,482	11,588	12,052	13,406

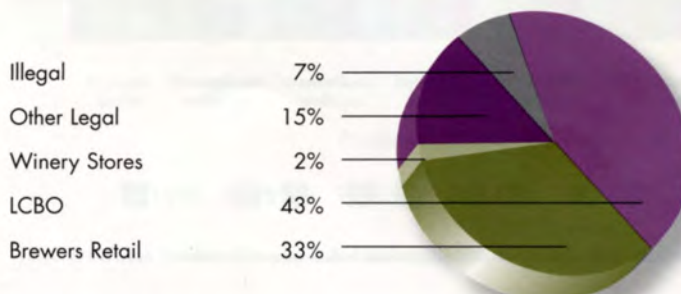
Note: The total number of regular products listed has been restated to reflect products listed for the entire fiscal year, rather than products listed in the LCBO Winter Price Book, as had previously been the case. Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services.

LCBO Sales Channel Summary (in \$000s)

	1996	1997	1998	1999	2000
LCBO Total Sales	2,215,523	2,342,998	2,493,935	2,725,858	2,967,710
Brewers Retail Total Sales	2,060,219	2,075,664	2,114,467	2,214,918	2,324,225
Winery Retail Stores Total Sales	113,320	126,553	136,618	133,001	140,681
Other Channels:					
Legal	603,701	801,799	861,708	888,670	941,465
Homemade	66,612	59,945	60,918	63,567	59,070
De-alcoholized Beer	20,117	19,217	17,708	23,872	22,314
Illegal	736,477	620,175	583,780	542,896	455,801
Grand Total	5,815,969	6,046,351	6,269,134	6,592,782	6,911,266

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. LCBO and Brewers Retail figures are slightly overstated due to reciprocal sales included in the totals. These sales are excluded in the chart below.

Value by Sales Channel

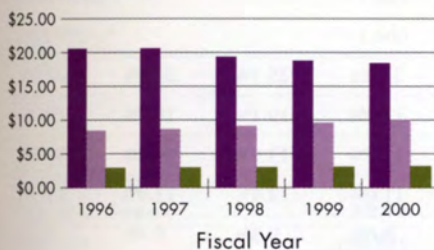


Average LCBO Retail Prices

Product Type	1996	1997	1998	1999	2000
Spirits	\$20.62	\$20.65	\$19.41	\$18.83	\$18.47
Wine	\$8.45	\$8.67	\$9.15	\$9.63	\$10.10
Beer	\$2.96	\$3.03	\$3.07	\$3.14	\$3.23
Average Transaction Value per Customer	\$25.98	\$26.69	\$27.40	\$28.07	\$29.55

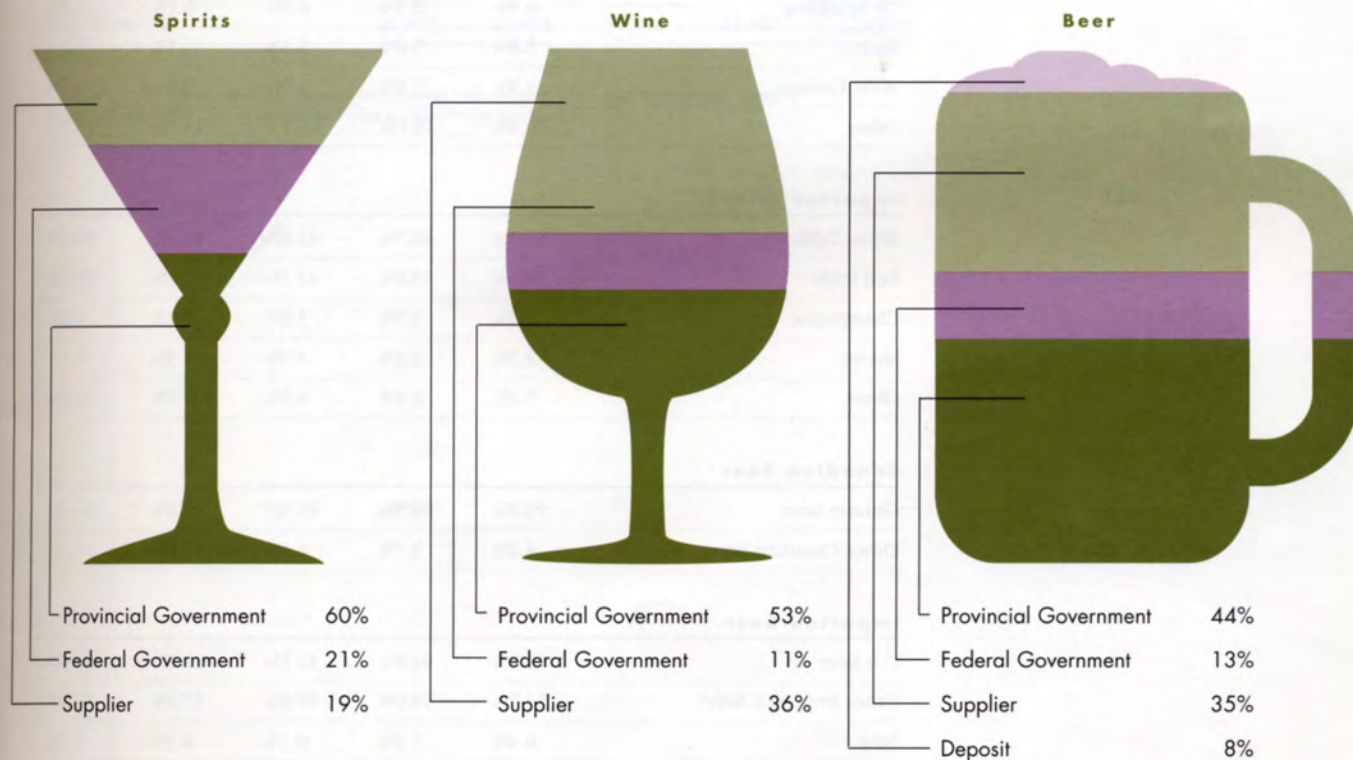
Note: Retail prices exclude GST and PST.

Average Retail Prices per Litre 1996-2000



■ Spirits
■ Wine
■ Beer

Revenue Distribution



The following table shows LCBO volume sales by category for fiscal 1999-2000.

Product Category Share

Canadian Spirits	1996	1997	1998	1999	2000
Canadian Whisky	40.7%	39.9%	33.5%	30.4%	29.9%
Canadian Rum	18.6%	18.3%	15.6%	14.5%	14.5%
Canadian Vodka	16.6%	17.1%	15.4%	14.3%	14.2%
Spirit Coolers	13.3%	15.4%	28.1%	33.5%	34.3%
Canadian Dry Gin	3.6%	3.2%	2.5%	2.2%	2.1%
Other	7.2%	6.1%	4.9%	5.1%	5.0%

Imported Spirits

Scotch	23.3%	23.0%	25.1%	23.8%	22.0%
Liqueur	16.6%	17.9%	19.1%	18.7%	18.2%
Miscellaneous Liquors	12.7%	11.9%	13.9%	13.2%	13.5%
Vodka	10.4%	11.0%	12.4%	13.9%	15.5%
French Brandy	8.1%	8.0%	9.3%	9.4%	9.0%
Spirit Coolers	11.1%	10.1%	0.9%	0.1%	0.6%
Other	17.8%	18.1%	19.3%	20.9%	21.2%

Canadian Wines

White Table	56.1%	51.3%	49.2%	48.6%	48.4%
Red Table	17.0%	18.3%	20.5%	22.3%	24.1%
7% Sparkling	6.8%	6.3%	6.0%	6.1%	6.2%
Sherry	5.8%	5.0%	5.5%	4.5%	4.4%
Wine Coolers	3.9%	3.5%	3.7%	3.8%	3.1%
Other	10.4%	15.6%	15.1%	14.7%	13.8%

Imported Wines

White Table	50.4%	46.7%	43.8%	42.3%	39.6%
Red Table	36.6%	39.0%	42.1%	43.2%	44.4%
Champagne	3.7%	3.7%	3.8%	4.1%	4.6%
Sherry	2.2%	2.2%	2.0%	1.3%	1.1%
Other	7.1%	8.4%	8.3%	9.1%	10.3%

Canadian Beer

Ontario Beer	95.8%	94.3%	93.5%	92.4%	91.3%
Other Canadian Beer	4.2%	5.7%	6.5%	7.6%	8.7%

Imported Beer

U.S. Beer	45.9%	42.8%	42.1%	41.8%	36.9%
Other Imported Beer	53.7%	56.9%	57.6%	57.9%	62.9%
Saké	0.4%	0.3%	0.3%	0.3%	0.2%

The following table shows detailed sales of wine by volume and value (LCBO sales only).

Volume (000s litres)

Product Type	1996	1997	1998	1999	2000
Red Wine	20,911	23,106	25,570	27,875	31,012
White Wine	36,313	35,226	34,093	34,483	34,913
Rosé Wine	1,677	2,108	2,493	2,853	3,264
Sparkling Wine	3,989	4,035	3,969	4,121	4,704
Fortified Wine	3,764	3,602	4,083	3,349	3,373
Wine Coolers	903	1,094	1,004	1,019	1,594
Other Wine	1,914	3,627	3,336	3,820	3,321
VQA Wines*	1,660	2,494	2,534	2,718	3,158

Value (\$000s)

Product Type	1996	1997	1998	1999	2000
Red Wine	190,371	223,586	258,225	296,921	347,051
White Wine	284,955	287,892	288,217	301,198	312,901
Rosé Wine	12,846	16,341	19,983	23,490	27,699
Sparkling Wine	42,161	44,099	46,598	52,373	70,310
Fortified Wine	33,388	33,143	40,035	32,277	32,995
Wine Coolers	3,342	4,923	4,660	4,812	9,185
Other Wine	14,190	21,072	16,382	26,106	25,293
VQA Wines*	20,075	27,671	31,146	34,827	41,259

* VQA wine sales are reported in a separate consolidated total and also within each wine product category.
 Note: Sales figures of wine by volume and value exclude Private Stock sales.

The following table shows LCBO Spirits sales by country of origin for fiscal 1999-2000.

Spirits 1999-2000

Country Name	NET SALES	LITRES
Canada	817,453,290	50,615,452
Great Britain	138,683,352	5,252,108
France	67,489,839	2,174,210
U.S.A.	38,395,958	2,073,175
Ireland	42,184,636	1,593,884
Sweden	30,613,091	1,529,689
Italy	28,429,874	1,244,574
Mexico	25,889,327	1,034,032
Finland	11,927,703	564,156
Russian Federation	6,112,476	285,123
Germany	5,910,000	235,061
Poland	4,812,307	220,228
Barbados	3,672,890	168,691
Netherlands	3,215,349	164,082
Jamaica	3,575,092	148,839
Greece	3,167,334	142,070
South Africa	2,322,919	102,193
Switzerland	1,998,517	65,180
Cuba	1,058,535	42,715
Spain	858,543	38,012
Portugal	803,973	29,980
Hungary	670,319	29,584
Bermuda	841,852	28,425
Croatia	585,142	22,194
Ukraine	486,163	19,271
Lebanon	395,148	15,994
Venezuela	300,257	14,918
Bahamas	302,529	14,396
Denmark	317,189	12,899
India	280,001	12,203
People's Republic Of China	185,237	9,645
Puerto Rico	146,854	9,228
Austria	268,906	6,985
Chile	140,509	5,475
Guyana	147,401	4,201

Spirits continued

Country Name	NET SALES	LITRES
Belgium	128,792	3,831
Brazil	71,612	2,956
Israel	63,462	2,385
Czech Republic	57,942	2,054
Philippines	29,267	1,341
Australia	33,698	772
Bulgaria	13,885	468
Norway	13,965	391
Macedonia	5,494	264
Japan	2,687	201
Haiti	3,816	114
Estonia	356	12
Antigua	67	2
Total	1,244,067,555	67,943,660

The following table shows LCBO Wine sales by country of origin for fiscal 1999-2000.

Wine 1999-2000

Country Name	NET SALES	LITRES
Canada	209,267,300	26,941,445
France	202,357,242	17,541,570
Italy	124,376,481	12,550,930
U.S.A.	89,168,898	7,941,546
Australia	58,562,042	4,369,863
Chile	34,001,313	3,351,397
Germany	20,095,499	1,993,792
Spain	19,352,872	1,586,258
Portugal	18,594,058	1,703,840
South Africa	11,334,171	1,092,209
Greece	5,104,081	662,732
Argentina	4,955,674	488,214
Hungary	4,180,753	572,914
New Zealand	3,867,003	250,082
Bulgaria	3,466,968	471,788
Great Britain	1,272,898	210,159
Croatia	752,915	94,050
Austria	724,681	50,963
Israel	597,115	62,812
Romania	410,930	55,803
Denmark	300,177	26,862
Jamaica	227,035	25,814
Macedonia	192,956	26,933
Mexico	183,003	18,547
Czech Republic	135,783	19,136
Cyprus	125,166	14,593
Uruguay	119,312	11,047
Japan	98,371	10,229
Switzerland	71,502	3,548
Slovenia	69,626	8,018
Republic of Moldova	60,667	5,788
Federal Republic of Yugoslavia	56,836	7,420
Finland	36,659	3,435
Poland	34,806	2,459
Algeria	21,745	2,478
Malta	14,053	1,189
Belgium	10,033	533
Morocco	1,768	175
Lebanon	1,474	35
Peru	1,362	90
Turkey	117	18
Total	814,205,345	82,180,710

The following table shows LCBO Beer sales by country of origin for fiscal 1999-2000.

Beer 1999-2000

Country Name	NET SALES	LITRES
Canada	204,957,519	63,886,456
U.S.A.	54,541,328	20,359,327
Netherlands	40,186,401	9,710,086
Mexico	36,465,966	9,267,629
Germany	14,626,403	4,149,527
Great Britain	12,069,067	3,420,094
Ireland	9,111,908	2,206,134
Poland	4,859,128	1,440,810
Denmark	4,261,758	1,332,181
Czech Republic	2,752,663	808,081
Belgium	2,005,743	404,396
Japan	1,939,746	454,167
People's Republic Of China	897,271	246,245
Jamaica	813,847	217,297
Trinidad	709,300	182,182
Italy	551,442	151,693
Portugal	426,526	114,760
South Africa	413,734	132,377
New Zealand	349,652	101,352
Singapore	210,573	64,375
Croatia	189,203	50,281
Greece	151,484	35,690
Ukraine	123,535	37,724
Cyprus	71,444	16,965
Kenya	62,205	16,841
India	49,556	11,708
Spain	44,828	12,667
Cuba	27,109	6,534
France	9,091	1,621
Israel	7,963	2,089
Norway	7,056	1,187
Brazil	6,240	2,036
Austria	2	1
Total	392,899,689	118,844,512

Note: Net value represents net sales, excluding Private Stock sales. In fiscal 1999-2000, the LCBO sold products from 64 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, 2000 and the statements of income and retained income and of cash flows 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, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Toronto, Ontario
June 9, 2000

Erik Peters, FCA
Provincial Auditor

BALANCE SHEET

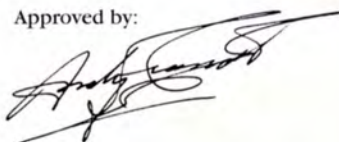
As at March 31, 2000

Assets (in \$000s)	2000	1999
Current		
Cash and short-term investments (Note 3)	31,133	24,578
Accounts receivable, trade and others	13,114	6,061
Inventories	255,398	236,292
Prepaid expenses	9,079	8,843
	308,724	275,774
Long-term		
Capital assets (Note 4)	172,124	148,183
	480,848	423,957
Liabilities and Retained Income		
Accounts payable and accrued liabilities	221,226	210,029
Retained income	259,622	213,928
	480,848	423,957

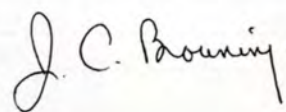
Commitments (Note 5)

See accompanying notes to financial statements.

Approved by:



Chair and Chief Executive Officer



Vice President
Finance & Administration

STATEMENT OF INCOME AND RETAINED INCOME

Year ended March 31, 2000

	2000	1999
Sales and other income	2,549,458	2,349,832
Costs and expenses		
Cost of sales	1,288,903	1,165,849
Retail stores and marketing	303,272	276,554
Warehousing and distribution	41,888	37,917
Administration	40,119	34,507
Amortization	29,582	25,580
	1,703,764	1,540,407
Net income for the year	845,694	809,425
Retained income, beginning of year	213,928	184,503
	1,059,622	993,928
Deduct: Dividend paid to Province of Ontario	795,000	776,000
Payment to municipalities on behalf of the Province of Ontario (Note 9)	5,000	4,000
	800,000	780,000
Retained income, end of year	259,622	213,928

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

Year ended March 31, 2000

	2000	1999
Cash Provided from Operations		
Net income	845,694	809,425
Amortization	29,582	25,580
Loss (Gain) on sale of capital assets	920	(540)
	876,196	834,465
Change in working capital	(15,198)	(8,651)
	860,998	825,814
Cash used for investment activities		
Purchase of capital assets	(54,456)	(40,958)
Proceeds from sale of capital assets	13	693
	(54,443)	(40,265)
Cash used for financing activities		
Dividend paid to Province of Ontario	(795,000)	(776,000)
Payment to municipalities on behalf of the Province of Ontario	(5,000)	(4,000)
	(800,000)	(780,000)
Increase in cash during the year	6,555	5,549
Cash and short-term investments, beginning of year	24,578	19,029
Cash and short-term investments, end of year	31,133	24,578

See accompanying notes to financial statements.

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

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 liquidity, high grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

Cash and short-term investments include \$8.0 million (1999 - \$15.5 million) of investments maturing within one year, yielding 5.27% (1999 - 5.1%) on average, with a market value that approximates carrying value.

4. CAPITAL ASSETS

	2000			1999
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
(\$000's)				
Land	13,835	—	13,835	13,848
Buildings	253,343	171,472	81,871	79,074
Furniture and fixtures	33,041	26,529	6,512	5,663
Leasehold improvements	92,776	62,863	29,913	22,922
Computer equipment	73,771	33,778	39,993	26,676
	466,766	294,642	172,124	148,183

5. LEASE COMMITMENTS

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

	(in \$000's)
2001	26,789
2002	23,161
2003	19,881
2004	16,432
2005	13,941
Thereafter	79,654
	179,858

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 \$9.4 million (1999 - \$9.9 million) and is included in Costs and expenses in the Statement of Income and Retained Income.

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, 2000 the Board had \$1,441,000 (1999 - \$1,485,000) forward foreign exchange contracts outstanding.

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.

8. YEAR 2000

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the Board, including those related to its customers, suppliers, or other third parties, have been fully resolved.

9. PAYMENT TO MUNICIPALITIES

The Board was directed by Cabinet to contribute \$5.0 million in 1999-2000 (1998-99 - \$4.0 million), directly to municipalities, based upon a funding formula developed by the Ministry of the Environment (MOE). This contribution is to support MOE's waste diversion program. Cabinet further directed that \$4.0 million be paid in fiscal year 2000-2001.

MEMBERS OF THE LCBO BOARD

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



Photo: Dan Lim

Andrew S. Brandt:

Appointed Chair and Chief Executive Officer February 6, 1991. Term expires February 2003.

Re-appointed in January 2000 for a fourth 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 wholesale and retail 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 Mérite Agricole and a Chevalier in the Confrérie des Chevaliers du Tastevin, and was admitted to the roll of the Keepers of the Quaich in Scotland.

Left to right are Board Members Dick Dolphin, Richard Ling, Chantal Haas, John Hopper, Merle Jacobs and John Lacey.

Dick Dolphin:

Appointed October 7, 1997. Term expires October 2000.

A Fellow of the Institute of Chartered Accountants of Ontario, Mr. Dolphin retired in 1997 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 Chair and CEO 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. He also serves as Chair of City of Peterborough Holdings Inc.

Chantal Haas:

Appointed Vice Chair May 15, 1995. Term expires May 2001.

The first woman to hold the position of Vice Chair of the LCBO, Ms. Haas is now serving her second three-year term. The Managing Director and National Public Relations Director for Bradson Staffing Services Inc., she led an executive committee in merging two long-standing organizations - namely the Association of Professional Placement Agencies & Consultants (APPAC) and Employment & Staffing Services Association of Canada (ESSAC) - and is National President-elect of the newly created organization ACSESS (Association of Career Search, Employment and Staffing Services). Ms. Haas has inspired many young women entrepreneurs through her extensive involvement with the Step Ahead One-on-One Mentoring Program. An active participant in Toronto's French community, she was the first woman to serve two terms as President of *Le Cercle Canadien de Toronto*. In 1998, she was elected first woman president of the French Chamber of Commerce (Ontario) and is now serving her third term. In 1997 she was appointed to the Executive Committee of the Economic Development Fund, Office of Francophone Affairs. She is an active

member of the Women Entrepreneurs of Canada and appears in the International, Canada and Ontario Who's Who.

John C. Hopper:

Appointed September 8, 1997. Term expires September 2000.

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 and Dealer Principal of Hopper Automobile Ltd., and President 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 is 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; a member of the Board of Governors of Thorneloe University, which is federated with Laurentian University; and he chaired the \$7,000,000 fundraising campaign for North Bay's new General Hospital, while also serving on its Advisory Board. He was the Kiwanis Club's Citizen of the Year in 1993. In 1998, he was elected a Mel Osbourne Fellow to the Kiwanis Foundation of Canada.

Merle A. Jacobs:

Appointed December 17, 1997. Term expires December 2000.

Dr. 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 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 maintained her skills as a Registered Nurse by working at the Women's Inpatient Unit of the Centre for Addiction and Mental Health. She has also served on the Board of Toronto's Queen Street Mental Health Centre and is an executive member of the Registered Nurses Association of Ontario's

Mental Health Interest Group. She is a director of Roots Cultural Foundation and Royal Business Training Centre and teaches at Ryerson Polytechnic University and York University. As a practising nurse psychotherapist and owner of The Lawrence Centre, Dr. Jacobs has also developed her business planning and budgeting skills, as well as her knowledge of human resources issues.

John S. Lacey:

Appointed June 26, 1996. Term expires June 2002.

Mr. Lacey is a veteran of the retail, hospitality and communications industries, with nearly 35 years of experience with companies such as Oshawa Group Ltd., WIC Western International Communications Ltd., Scott's Hospitality Inc., Molson, Loblaw's, and the Holiday Inn and Marriott hotel chains. Now non-executive Chairman of Loewen Group Inc., 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 Telus and Clarica, and Chairman of Doncaster Racing Ltd. His community interests include the Centre for Studies of Children at Risk, which is affiliated with McMaster University and the Chedoke-McMaster Hospitals.

Richard Ling:

Appointed September 8, 1997. Term expires September 2000.

Before becoming Resident Principal of Borden Ladner Gervais LLP'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. He is a Director of Markham Energy Corporation and a former Governor of Sheridan College and a former Director of St. Michael's Hospital Foundation Board; the Richmond Hill & Markham Chinese Business Association; Mon Sheong Foundation for the Aged; and the Chinese Cultural Centre of Greater Toronto.

USEFUL FACTS

For the fiscal year ended March 31, 2000, unless otherwise noted

THE MARKETPLACE

602 Number of LCBO stores serving communities across Ontario

107 Number of LCBO agency stores serving Ontario communities without large enough populations to support a regular LCBO store

831 Number of Beer Stores, Ontario winery stores, on-site distillery and brewery outlets and privately operated duty-free stores in Ontario

42.9 Percentage share of Ontario beverage alcohol market, in dollar value, held by the LCBO

\$6.9 billion Total estimated value of Ontario's beverage alcohol market

\$456 million Estimated value of Ontario's illegal alcohol market

OUR STORES

69 Number of LCBO stores offering more than 2,500 brands for sale

196 Number of LCBO stores offering 1,500-2,500 brands for sale

159 Number of LCBO stores offering 1,000-1,500 brands for sale

150 Number of LCBO stores offering 500-1,000 brands for sale

28 Number of LCBO stores offering fewer than 500 brands for sale

9,200 Number of product tastings conducted in LCBO stores in 1999-2000

7 Number of days per week most LCBO stores are open

54 Number of LCBO stores that received perfect 100 per cent scores from mystery shoppers between December 1, 1999 and March 31, 2000

85.7 million Total number of transactions in LCBO stores in 1999-2000

23.3 Percentage of all LCBO transactions paid by debit card

20.9 Percentage of all LCBO transactions paid by credit card

OUR FINANCIAL PERFORMANCE

\$2.5 billion The LCBO's net sales and other income in 1999-2000

\$800 million Dividend the LCBO transferred to the Government of Ontario for 1999-2000 (excluding taxes)

\$2.325 billion Amount the LCBO has transferred to the Consolidated Revenue Fund the last three fiscal years combined (excluding taxes)

357 Percentage return on taxpayers' equity in 1999-2000

33 The LCBO's profit margin, expressed as a percentage, in 1999-2000

16.3 The LCBO's operational expenses as a percentage of net sales for 1999-2000 (down from 19 per cent in 1993-94)

\$239 million Amount the LCBO transferred to the provincial government in Provincial Sales Tax (PST) in 1999-2000

\$337 million Amount the LCBO transferred to the federal government in GST, excise taxes and Customs duties in 1999-2000

\$23 million Amount the LCBO spent on capital improvements to its stores (renovations, relocations, etc) in 1999-2000

1 Percentage of customers in a February 2000 survey who said they were dissatisfied with service in LCBO stores

PRODUCTS AND PRICING

13,406	Total number of products available through LCBO stores, catalogues and private ordering service in 1999-2000
3,569	Number of new Vintages products offered in stores and through the <i>Classics Catalogue</i> in 1999-2000
64	Number of countries from which the LCBO bought products in 1999-2000
813	Number of products discounted by up to 20 per cent through the LCBO's Limited Time Offer program in 1999-2000
978	Number of products that carried a "value-add" bonus item in 1999-2000
600	Number of products with bonus AIR MILES Rewards in 1999-2000
81	Percentage of domestic spirit prices made up of federal and provincial taxes, levies and mark-ups
64	Percentage of domestic wine prices made up of federal and provincial taxes, levies and mark-ups
57	Percentage of domestic beer prices made up of federal and provincial taxes, levies and mark-ups

OUR EMPLOYEES

3,074	Number of permanent full-time LCBO employees
3,158	Number of casual employees working in Retail stores at fiscal year end
115	Number of LCBO product consultants available to offer expert advice to customers
4,650	Number of LCBO Retail staff who have passed the highest level of our three-level Product Knowledge Course to date
988	Number of LCBO Retail staff who received training in 1999-2000 to help prevent service to minors or people who appear intoxicated
5,470	Number of LCBO Retail staff who have received responsible service training to date
108,541	Number of calls handled by LCBO Infoline officers in fiscal 1999-2000
2,860	Number of e-mails handled by LCBO Infoline officers in fiscal 1999-2000

OUR FUNDRAISING

\$234,000	Amount raised by LCBO employees for the United Way in 1999
1	Ranking of LCBO among government fundraisers for the United Way (per capita)
\$265,495	Amount raised for charity through donation boxes in LCBO in calendar 1999 (Note: This does not include \$99,048, raised by the Royal Canadian Legion Poppy Fund)

SOCIAL RESPONSIBILITY

913,810	Number of customers challenged for proof of age or sobriety by LCBO staff in 1999-2000
82,613	Number refused service by LCBO employees in 1999-2000
3,123	Number of BYID tamper-resistant identification cards issued by the LCBO during 1999-2000
11,920	Number of BYID cards issued as of March 31, 2000

QUALITY ASSURANCE

298,784	Number of product tests carried out in 1999-2000 by LCBO's Quality Assurance laboratory
276	Number of products rejected by Quality Assurance in 1999-2000 for health concerns, consumer safety issues and other quality control problems
696	Number of seized products tested for enforcement purposes by Quality Assurance in 1999-2000
0	Number of product recalls issued by Quality Assurance in 1999-2000

For 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 1999-2000

Sales Channel Summary (values in \$000,000)

	1999-2000	1998-1999	1997-1998	1996-1997	1995-1996
LCBO	2,500	2,100	1,800	1,500	1,200
Retail Sales	1,200	1,000	800	700	600
Direct Sales	1,300	1,100	1,000	800	600
Agency Store Sales	100	100	100	100	100
On-Premise Sales	100	100	100	100	100
Other Sales	100	100	100	100	100
Total	2,500	2,100	1,800	1,500	1,200
Product Listings					
Domestic					
Canadian					
Imported					
Wine					
Spirits					
Beer					
Soft Drinks					
Other					
Total					
Illegal					
Wine					
Spirits					
Beer					
Soft Drinks					
Other					
Total					
Grand Total					

Product Listings

Domestic	1996	1997	1998	1999	2000
Canadian Whisky	153	145	160	168	158
Canadian Blended Rums	97	95	112	123	105
Canadian Gin	27	21	20	22	22
Canadian Vodka	76	69	70	75	70
Canadian Brandy	9	7	6	6	6
Canadian Blended Brandy	12	8	9	9	12
Canadian Spirit Coolers	41	45	56	46	51
Fruit Spirits	2	2	1	1	0
Miscellaneous Liquors	29	7	22	23	24
Canadian Liqueurs	68	52	48	53	55
Ontario Wines	495	490	465	477	465
Ontario Wine Coolers	13	10	5	4	14
Other Canadian Wines	14	21	27	39	43
Canadian Cider	12	12	21	18	14
Canadian Beer (incl. Beer Coolers)	306	330	346	385	403
Alcohol	9	0	3	4	3
Miniatures	14	9	6	6	9
Bitters	3	3	3	3	3
	1,380	1,326	1,380	1,462	1,457
Imported	1996	1997	1998	1999	2000
Scotch Whisky	133	108	127	135	108
Irish Whiskey	12	6	8	10	11
American Whiskey	15	17	21	21	21
Gin	16	13	14	16	17
Rum	20	14	18	16	20
Vodka	39	31	38	41	47
Tequila	12	12	9	10	19
Brandy	92	66	72	107	100
Fruit Spirits	4	2	4	2	3
Miscellaneous Liquors	67	53	67	78	86
Liqueurs	128	116	134	135	125
Wines	965	936	958	1,080	1,181
Beer and Sake	183	212	210	216	256
Miniatures	57	22	19	20	18
Coolers	19	18	9	7	17
Bitters	7	8	10	10	10
Total Regular Listings	3,149	2,960	3,098	3,366	3,496
Vintages Wines and Spirits	2,368	2,744	3,037	3,235	3,569
Duty-Free Listings	207	205	213	210	235
Consignment Warehouse and Private Stock	4,249	4,573	5,240	5,241	6,106
Total Product Listings	9,973	10,482	11,588	12,052	13,406

Note: The total number of regular products listed has been restated to reflect products listed for the entire fiscal year, rather than products listed in the LCBO Winter Price Book, as had previously been the case. Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services.

Sales Channel Summary (value in \$000s)

LCBO	1996	1997	1998	1999	2000
Retail Sales	1,827,840	1,923,750	2,022,638	2,209,024	2,390,949
Licensee Sales	297,233	314,652	347,083	370,496	396,879
Agency Store Sales	20,329	22,643	25,059	29,180	32,420
Duty-Free/Warehouse	15,108	17,349	17,318	20,696	34,454
Duty-Free/LCBO	11,425	12,156	13,367	13,028	303
BRI Sales	40,150	48,920	64,891	80,438	109,692
Other Sales	3,438	3,528	3,579	2,996	3,013
Total	2,215,523	2,342,998	2,493,935	2,725,858	2,967,710
Brewers Retail					
Retail & Licensee Sales	2,060,219	2,075,664	2,114,467	2,214,918	2,324,225
Winery Stores					
Retail Sales	113,320	126,553	136,618	133,001	140,681
Other Channels					
Legal:					
Cross-Border Exempt	148,305	141,372	153,479	136,213	155,818
Cross-Border Declared	2,333	2,524	3,054	3,862	3,124
Brew Pubs	2,496	1,467	1,737	1,652	1,950
Wine Pubs	1,558	2,904	3,952	4,233	4,722
U-Brew Beer	114,127	151,482	149,534	157,633	163,959
U-Brew Wine	334,882	502,050	549,952	585,077	611,892
Total	603,701	801,799	861,708	888,670	941,465
Homemade:					
Wine	51,638	43,823	44,071	45,807	40,597
Beer	14,974	16,122	16,847	17,760	18,473
Total	66,612	59,945	60,918	63,567	59,070
De-alcoholized Beer	20,117	19,217	17,708	23,872	22,314
Illegal:					
Smuggling	454,001	421,443	393,991	353,344	279,883
Wine Manufacturing	282,476	198,732	189,789	189,552	175,918
Total	736,477	620,175	583,780	542,896	455,801
Grand Total	5,815,969	6,046,351	6,269,134	6,592,782	6,911,266

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 Ontario wineries.

Retail Price Breakdowns

Spirits

Examples as at March 31, 2000
for 750 mL bottle in Canadian Dollars

	Imported U.S.	Imported Non - U.S.	Domestic
Payment to Supplier	\$4.0542	\$4.0492	\$4.0653
Federal Excise Tax	\$3.3198	\$3.3198	\$3.3198
Federal Import Duty	\$0.0000	\$0.0148	\$0.0000
Freight	\$0.0258	\$0.2208	\$0.0467
Total Landed Cost	\$7.3998	\$7.6046	\$7.4318
LCBO Mark-up	\$10.7371	\$11.0267	\$10.2559
LCBO Bottle Levy	\$0.2175	\$0.2175	\$0.2175
LCBO Environment Fee	\$0.0893	\$0.0893	\$0.0893
LCBO Rounding Revenue	\$0.0440	\$0.0111	\$0.0310
Basic Price	\$18.49	\$18.95	\$18.03
Goods and Services Tax	\$1.29	\$1.33	\$1.26
Provincial Retail Sales Tax	\$2.22	\$2.27	\$2.16
Consumer Price	\$22.00	\$22.55	\$21.45

Revenue Distribution

Supplier (including freight)	\$4.08	\$4.27	\$4.11
Government of Canada	\$4.61	\$4.66	\$4.58
Government of Ontario	\$13.31	\$13.62	\$12.76

Wines

Examples as at March 31, 2000
for 750 mL bottle in Canadian Dollars

	Imported U.S.	Imported Non - U.S.	Domestic 100% Ont.
Payment to Supplier	\$2.6400	\$2.6400	\$2.6400
Federal Excise Tax	\$0.3842	\$0.3842	\$0.3842
Federal Import Duty	\$0.0000	\$0.0281	\$0.0000
Freight	\$0.1669	\$0.2038	\$0.0000
Total Landed Cost	\$3.1911	\$3.2561	\$3.0242
LCBO Mark-up	\$2.0423	\$2.0839	\$1.7540
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	\$0.0156	\$0.0000	\$0.0045
Basic Price	\$6.68	\$6.77	\$6.21
Goods and Services Tax	\$0.47	\$0.47	\$0.44
Provincial Retail Sales Tax	\$0.80	\$0.81	\$0.75
Consumer Price	\$7.95	\$8.05	\$7.40

Revenue Distribution

Supplier (including freight)	\$2.81	\$2.84	\$2.64
Government of Canada	\$0.85	\$0.88	\$0.82
Government of Ontario	\$4.29	\$4.33	\$3.94

Beer

Examples as at March 31, 2000
for a case of 24 x 341 mL bottles
in Canadian Dollars

	Imported U.S.	Imported Non - U.S.	Domestic
Payment to Supplier	\$7.4700	\$10.1400	\$10.2000
Federal Excise Tax	\$2.2903	\$2.2903	\$2.2903
Federal Import Duty	\$0.0000	\$0.0655	\$0.0000
Freight	\$0.3700	\$2.6300	\$0.4000
Total Landed Cost	\$10.1303	\$15.1258	\$12.8903
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	\$4.4998	\$4.0920
LCBO Bottle Levy	\$1.4404	\$1.4404	\$1.4404
LCBO Environment Fee	\$0.0000	\$0.0000	\$0.0000
LCBO Rounding Revenue	\$0.0104	\$0.0270	\$0.0212
Basic Price	\$21.97	\$27.39	\$23.40
Goods and Services Tax	\$1.54	\$1.92	\$1.64
Provincial Retail Sales Tax	\$2.64	\$3.29	\$2.81
Container Deposit	\$2.40	\$2.40	\$2.40
Consumer Price	\$28.55	\$35.00	\$30.25
Supplier (including freight)	\$7.84	\$12.77	\$10.60
Government of Canada	\$3.83	\$4.27	\$3.93
Government of Ontario	\$14.48	\$15.56	\$13.32
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

(value in \$000s)

	2000	1999	1998	1997	1996
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Statement of Earnings

Sales and Other Income	\$2,549,458	\$2,349,832	\$2,160,843	\$2,013,873	\$1,909,804
Cost of Sales	\$1,288,903	\$1,165,849	\$1,064,286	\$988,386	\$919,268
Gross Profit	\$1,260,555	\$1,183,983	\$1,096,557	\$1,025,487	\$990,536
Per Cent	49.44%	50.39%	50.75%	50.92%	51.87%
Operating Expenses	\$414,861	\$374,558	\$351,653	\$324,457	\$323,819
Net Income	\$845,694	\$809,425	\$744,904	\$701,030	\$666,717

Statement of Cash Flow

Cash Flow from Operations	\$875,289	\$834,465	\$769,507	\$723,197	\$687,663
Change in Working Capital	(\$15,198)	(\$8,651)	(\$29,537)	\$49,819	\$9,659
Cash Used for Investing Activities	(\$54,443)	(\$40,265)	(\$25,524)	(19,424)	(\$26,256)
Cash Used for Provincial Transfers	(\$800,000)	(\$780,000)	(\$745,000)	(\$730,000)	(\$680,000)
Decrease/Increase in Cash During the Year	\$6,555	\$5,549	(\$30,554)	\$23,592	(\$8,934)

Financial Position

Current Assets	\$308,724	\$275,774	\$230,720	\$256,209	\$239,516
Current Liabilities	\$221,226	\$210,029	\$179,175	\$203,647	\$160,727
Working Capital	\$87,498	\$65,745	\$51,545	\$52,562	\$78,789
Fixed Assets	\$172,124	\$148,183	\$132,958	\$132,037	\$134,780
Total Assets	\$480,848	\$423,957	\$363,678	\$388,246	\$374,296

Financial Ratios

Profit Margin	33.38%	34.80%	35.03%	35.11%	35.33%
Return on Shareholders' Equity	357.17%	406.31%	403.63%	352.13%	302.76%
Current Ratio	1.40	1.31	1.29	1.26	1.49

Statistics

Inventory Turnover	5.21	5.38	5.53	5.02	5.07
Number of Permanent Employees	3,074	3,014	2,934	2,828	2,803
Sales per Employee	\$824,206	\$771,623	\$724,866	\$706,079	\$673,273
Number of Stores	602	600	596	595	596
Number of Regular Products Listed	3,496	3,366	3,098	2,960	3,149

1995	1994	1993	1992	1991	1990
Statement of Earnings					
\$1,808,518	\$1,764,731	\$1,786,479	\$1,833,386	\$1,936,710	\$2,006,975
\$858,190	\$832,106	\$841,060	\$851,539	\$967,221	\$1,012,938
\$950,328	\$932,625	\$945,419	\$981,847	\$969,489	\$994,037
52.55%	52.85%	52.92%	53.55%	50.06%	49.53%
\$313,029	\$333,716	\$332,953	\$332,439	\$326,682	\$311,707
\$637,299	\$598,909	\$612,466	\$652,458	\$652,669	\$692,083
Statement of Cash Flow					
\$655,198	\$619,979	\$635,298	\$675,162	\$672,558	\$707,223
\$5,473	(\$15,824)	(\$8,694)	\$6,162	\$48,775	(\$29,481)
(\$26,895)	(\$14,753)	(\$21,075)	(\$25,754)	(\$29,751)	(\$23,784)
(\$630,000)	(\$585,000)	(\$615,000)	(\$675,000)	(\$650,000)	(\$640,000)
\$3,776	\$4,402	(\$9,471)	(\$19,430)	\$41,582	\$13,958
Financial Position					
\$229,541	\$201,204	\$192,955	\$207,155	\$231,212	\$219,752
\$132,159	\$92,813	\$104,789	\$118,212	\$116,677	\$98,024
\$97,382	\$108,391	\$88,166	\$88,943	\$114,535	\$121,728
\$129,470	\$120,474	\$126,790	\$130,564	\$131,161	\$122,322
\$359,011	\$321,678	\$319,745	\$337,719	\$362,373	\$342,074
Financial Ratios					
35.61%	34.24%	34.36%	36.04%	33.96%	34.70%
285.63%	269.90%	281.94%	280.50%	266.53%	314.34%
1.74	2.17	1.84	1.75	1.98	2.24
Statistics					
4.92	5.02	4.70	4.72	4.79	4.88
2,824	2,743	3,100	3,233	3,305	3,484
\$633,656	\$637,678	\$574,998	\$560,185	\$581,445	\$572,401
597	600	611	618	621	623
3,053	2,824	2,737	2,787	2,601	2,655

Note: The total number of regular products listed has been restated to reflect products listed for the entire fiscal year, rather than products listed in the LCBO Winter Price Book, as had previously been the case.

Eleven Year Financial Performance Review

(Values in \$000's)

	1991	1990 (Rev)	1989	1988 (Rev)	1987 (Rev)	1986 (Rev)	1985
Statement of Earnings				Explained to Management			
Sales and Other Income	179,606,294	158,017,348	138,12,051	142,200,00	123,120,74	11,700,00	112,000,10
Cost of Sales	829,510,815	815,904,155	780,005,019	743,100,00	690,000	640,000	600,000
Gross Profit	740,095,479	762,113,193	601,116,932	749,100,00	543,120,74	520,000,00	520,000,00
Net Cost	212,10	21,100,000	20,000	20,000	20,000	20,000	20,000
Operating Expenses	707,112,013	741,013,193	580,000,000	670,000,00	670,000,00	500,000,00	500,000,00
Net Income	290,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000
Statement of Cash Flow				well done to management			
Cash Flow from Operations	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Change in Working Capital	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Cash Used in Investing Activities	(100,000,000)	(100,000,000)	(100,000,000)	(100,000,000)	(100,000,000)	(100,000,000)	(100,000,000)
Cash Used for Financial Transactions	(100,000,000)	(100,000,000)	(100,000,000)	(100,000,000)	(100,000,000)	(100,000,000)	(100,000,000)
Decrease/Increase in Cash During the Year	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Financial Position				received information			
Current assets	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Current liabilities	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Working Capital	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Fixed assets	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Long Assets	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Financial Ratios				collected information			
Profit Margin	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Return on Investment	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Current Ratio	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Stockholders				collected information			
Dividend Yield	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Price per Share	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Number of Shares	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Number of Regular Shareholders	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000

Working with us, you'll find us at our best. We'll be there for you when you need us. We'll be there for you when you need us. We'll be there for you when you need us.



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