20 Years of Growing Dividends for Ontario

LCBO Annual Report 2013–14

Two decades ago, LCBO's dividend transfer to the Ontario government was $630 million. In fiscal 2013–14, LCBO transferred a new, record dividend of $1.74 billion. This latest transfer marks the twentieth consecutive dividend increase to the province. Adding up each dividend transfer over this 20-year period equals a total of $22.5 billion. These revenues help pay for important public services, such as health care and education, that benefit all Ontario residents.


Canadian Club
CC
20

2013–14 Highlights

$1.740 billion Dividend transfer to the government	**$4.99 billion** Revenues
$1.745 billion Net earnings	**$8.2 million** Total fundraising
4.1% Ontario wine sales increase	**27%** Ontario craft beer sales increase
82% Ontario craft cider sales increase	**25** New stores, expansions and relocations

Table of Contents

639
Total number of stores

11.4 million
Total number of challenges for all reasons

414,600
Total refusals for all reasons

508,402
Quality Assurance laboratory tests

86
Number of countries where we buy products

2 billion
Number of beverage alcohol containers returned through Ontario Deposit Return Program (ODRP) since 2007

Letter of Transmittal

The Honourable Charles Sousa, Minister of Finance

Dear Minister,

I have the honour to present you with the 2013–14 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

Edward Waitzer, Chair

20 Years of Growing Dividends for Ontario

When customers visit the LCBO, it's usually with enjoyment and entertaining in mind. They may be hosting guests for dinner, going to a party, or looking for the perfect accompaniment to dinner at home.

Each occasion is special. Our employees take a great deal of pride in ensuring our customers leave the store satisfied that they had access to a wide product assortment, good value for their money, and expert advice.

They can also take with them the knowledge that each transaction contributes to Ontario's financial well-being.

That's because profit from each and every sale goes to the province in the form of a dividend. With the expansion and refreshing of our store network, together with ongoing improvements to operational efficiency and the customer shopping experience, we have been able to increase the return to the government and the people of Ontario.

Two decades ago, LCBO's dividend transfer was $630 million. In fiscal 2013–14, LCBO transferred a new, record dividend of $1.74 billion. This latest transfer marks the twentieth consecutive dividend increase to the province. Adding up each dividend transfer over this 20-year period equals a total of $22.5 billion. These revenues help pay for important public services, such as health care and education, that benefit all Ontario residents.

The LCBO is committed to continuous improvement to ensure it delivers the best possible return to the province. As part of our current three-year strategic plan, which we unveiled and rolled out during the 2013–14 fiscal year, we are targeting $5.4 billion in net income in this timeframe, an increase of 10 per cent versus the previous three-year period.

DIVIDEND ($000,000s)

94–95	95–96	96–97	97–98	98–99	99–00	00–01	01–02	02–03	03–04	04–05	05–06
630	680	730	745	780	800	850	905	975	1,040	1,115	1,200

To achieve our long-term vision – to be the world's best beverage alcohol retailer – we are implementing multiple initiatives: continuing to invest in staff training and development, evolving our brand vision, increasing our presence in digital marketing and social media, expanding and enhancing the store network, further integrating technology with the organization, better leveraging customer insights, improving supply chain efficiencies, and elevating the customer experience. This is all in addition to maintaining and enhancing our core social responsibility strategies (responsible retailing, product quality/safety, environmental sustainability, community fundraising).

Empowering our customers to make informed buying decisions.

Enhancing customers' responsible enjoyment of beverage alcohol.

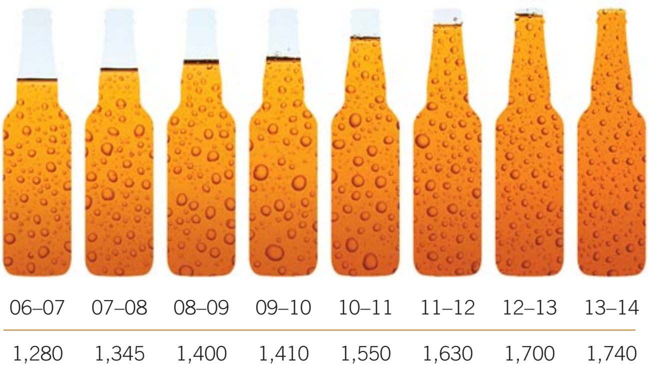
Outperforming sales growth of the overall Ontario retail market.

These are ways we can continue to make a difference.

To mark the milestone of 20 years of dividend growth, we have identified 20 key drivers that we believe helped make it possible for the organization to achieve this success. You will find brief descriptions of these drivers on select pages as you read through the annual report.

Engaged Employees

Having a dedicated and resourceful workforce, that cares deeply about helping their customers and their community, is a hallmark of the LCBO.



Message From the Minister

Our government is committed to providing greater opportunity for the people of this province, creating jobs, growing the economy and helping Ontario families prosper. We continue to invest in key public services, including health care and education, while remaining on track to balance the budget by 2017–18.

The LCBO helps fund the programs that support the priorities of Ontarians, both now and in the future.

In 2013–14, the LCBO transferred $1.74 billion to Ontario, an increase of $40 million over the previous year. I am pleased to note that this marks the LCBO's 20th consecutive year of dividend growth for the province.

With the leadership of its Board of Directors, the LCBO showed sound expense management while continuing to invest in opportunities to grow responsibly. Investments to expand and upgrade the store network, provide new customer service initiatives and promote Ontario's domestic wine, beer, cider and spirits industries all helped increase revenue while giving customers even better and more convenient shopping experiences.

The LCBO continues to provide Ontario consumers with new shopping choices through two exciting new store formats. Three initial *Our Wine Country Ontario* destination boutiques opened in the fall of 2013, featuring the largest selection of Ontario wines of any LCBO stores and bringing an Ontario wine country experience to LCBO stores in St. Catharines, Niagara Falls and Windsor. In addition, a Request for Proposals was issued for LCBO *Express Stores* on April 1, 2014. These stores, to be operated by LCBO, will offer popular wine, beer and spirits, including Ontario brands, within a large grocery store environment. The first *Express Store* is expected to open in 2014–15.

I am also pleased to see positive results from the LCBO's accelerated store expansion program, which added 25 new and expanded stores in 2013–14. Another 26 stores are scheduled for opening in 2014–15. This highly successful program has not only added more stores in response to Ontario's population growth, but created more jobs and boosted revenue, which are two key ways we are reducing the provincial deficit.

The LCBO continues its strong commitment to social responsibility. Its *Check 25* and *Challenge & Refusal* programs help keep alcohol out of the hands of minors and those who appear intoxicated. The *Deflate the Elephant* advertising campaign continues to help keep our roads safe by deterring drinking and driving and promoting responsible hosting. And the LCBO has helped divert two billion containers from landfills since the launch of the government's Ontario Deposit Return Program in 2007. The combined diversion rate for beverage alcohol containers, including municipal Blue Box programs, achieved an impressive 93 per cent.

I wish to thank long-time chair Philip Olsson. Under his leadership, the LCBO consistently increased its dividend to the province and significantly increased sales of domestic products. I am pleased to welcome Edward Waitzer to his new role of chair of the LCBO. Mr. Waitzer has a strong public service background and is supported by an experienced Board and management team.

LCBO has an excellent track record of good corporate governance, transparency and accountability. We expect the agency to continue helping fund important Ontario public services while maintaining a high level of responsible and knowledgeable customer service.

The Honourable Charles Sousa, Minister of Finance

This is my first annual report message as chair of the LCBO. It's been a privilege to be entrusted with this responsibility and to begin to learn more about such a unique institution and the important roles it plays in our province. Many thanks to the senior management team and my fellow directors for their support and assistance, and to Philip Olsson, my predecessor, for his sound advice and guidance in the transition. Thanks also to the countless employees who have gone out of their way to introduce themselves and welcome me to the LCBO.

As a Board, our responsibility to Ontario is to create value by growing our business, maintaining high levels of customer service and fulfilling a broad range of public policy mandates. Despite a challenging external environment, the LCBO has delivered in an exemplary manner.

Traditional business performance measures – such as the 20 consecutive years of increasing dividends the LCBO has paid to Ontario – focus on the overall financial results achieved by an enterprise in a given period. This report not only recognizes this important milestone, but provides insight into how the LCBO has taken advantage of its unique market position to drive operational efficiencies, promote social responsibility, support the domestic industry, and deliver great service, selection and prices to our customers.

The focus on providing customers with a positive and consistent shopping experience – one based on a feeling of trust and discovery – is ongoing, as is our commitment to excellence in the pursuit of a broad range of operational and social objectives. Many of these objectives are outlined in the LCBO's new three-year strategic plan.

None of this would be possible without the leadership of Bob Peter and his outstanding management team, as well as the extraordinary commitment of the LCBO's employees. A remarkably diverse workforce, these employees know they are making a contribution to the LCBO's strategic objectives and, through that, the interests of Ontarians. We recognize the unique value (and individual needs) that each employee brings to building a great organization. They, in turn, are fully committed to the success of the organization and the communities they serve. Challenging more than 11.4 million customers and refusing service to 414,600, as well as "giving back" with the help of our customers more than $8.2 million through fundraising efforts for a wide range of worthy issues, speaks volumes about their commitment. I am proud to serve along with them.

Subsequent to the end of the year, we welcomed the Premier's decision to establish an Advisory Council on Government Assets. The Council has adopted the same principles that guide our Board in its stewardship responsibilities: maximizing value to Ontarians and ensuring that the public interest remains paramount and protected. Likewise, we have benefitted from the ongoing input from, and support of, the Premier's Office and the Ministry of Finance (to which we report), as well as from other ministries that have an interest in the LCBO.

During the year, we accepted with regret the resignation of Pamela Livingston. During her five years on the Board, she made substantial contributions and is missed by her colleagues. We were also pleased to welcome two new Board members: Cheryl Hooper and Michael Strople. Each brings a range of relevant skills and experience to the Board. We are already benefitting from their contributions.

We hope this report will provide you with a well-balanced picture of the performance of a unique institution, one which Ontarians should be proud of. On behalf of the Board, our management team and LCBO employees, we look forward to continuing to serve this great province.

Edward Waitzer, Chair

Strategic/Business Planning

The LCBO considers strategic planning a continuous process and a key element of its success. It is integrated with other internal planning processes, as well as Enterprise Risk Management, to ensure the organization addresses the needs of stakeholders and minimizes risks.

Bob Peter, President & CEO

Edward Waitzer, Chair

Message From the President & CEO

Twenty years of growing dividends for Ontario is a milestone worth celebrating. And I am pleased we are doing so in this annual report.

The LCBO has accomplished a great deal over the past two decades. Without our dual focus on excellence in customer service and excellence in operational efficiency, we would not be in the strong position we are today. All Ontario residents, be they consumers of beverage alcohol or not, are benefitting from the LCBO's financial success through the public services the agency helps fund. We are poised to continue along this prosperous path.

That said, records only get harder to break, and the year 2013–14 was no exception. There were external challenges, mainly extreme weather conditions and sluggish consumer spending, that caused us to narrowly miss our sales target. This meant we had to increasingly focus our attention on expense control, particularly in the Retail and Logistics areas. As a result, we were able to meet our dividend obligations.

Despite the challenges noted above, we transferred an all-time record dividend to Ontario. It was valued at $1.74 billion, which is $40 million more than the previous year.

I want to thank employees across the LCBO organization for everything they did to make the year as successful as it was given the retail realities we face. In addition to the profit we generated, which helps fund important public services and infrastructure, we also helped Ontario businesses through the promotion of local products, such as Ontario wine and craft beer – a proud part of our mandate.

Our frontline Retail staff are known for their comprehensive product knowledge and attention to customer care. But they also carry out a task that relates to the LCBO's founding principle: social responsibility. Keeping beverage alcohol out of the hands of minors and those who appear intoxicated is job number one. In 2013–14, they challenged more than 11.4 million people, refusing service to about 414,600 – 86.9 per cent for reasons of age.

The Store Development & Real Estate team kept busy too, opening stores at almost twice the traditional rate of expansion for the second year in a row. It is all part of a strategy to increase responsible customer access and convenience in communities with high population growth and in dense urban areas, while delivering forecasted returns at an accelerated rate. This year, we added 25 new and replacement stores, bringing our total store count to 639. But it is not just the quantity of stores that is on the rise, but the quality. In response to insights we gain from our customers, we are adding more VINTAGES alcoves with premium wine and spirits, and walk-in beer cold rooms featuring Ontario craft beer.

We also continued to invest in making our Logistics operation more efficient in bringing products from the supplier to the shelf. I am particularly excited about the rollout of an autopalletization project at the Durham Warehouse in the coming year. This cutting-edge, technological innovation has an investment payback of only 1.9 years. It is a very smart use of capital, and you can read more about this and other projects in a separate Logistics section of this report.

I would also like to acknowledge our Information Technology group, which has been a key enabler of change in virtually every business function of the LCBO for the last two decades.

The group's latest initiative is "digitally reinventing" the LCBO. Working in partnership with Marketing and the Sales, Marketing & Insights divisions, in 2013-14, the LCBO set the stage for the deployment of a new platform that will support all of our customer-facing digital experiences, with embedded social media feeds and enhanced product information. Our investments in technology position us to deliver the next generation retail experience, and we look forward to sharing the results with customers in the coming year.

This year also marked the first full year of implementation of our lightweight bottle strategy, which requires that almost all wine products under $15 be packaged in 420 gram bottles – a 20 per cent reduction in weight and carbon generation. That some jurisdictions use the phrase "Canada bottle" to refer to this strategy is a source of great pride for me. The LCBO is a pioneer of the lightweight packaging movement in the realm of beverage alcohol. In future, we plan to expand the program to other sizes and price points, as it makes good environmental and business sense.

In addition, we launched our new three-year strategic plan. This plan contains extensive strategies and tactics to achieve the LCBO's multiple goals and objectives. But my favourite part of the plan is the addition of what we call LCBO Vision 2020: To be the world's BEST beverage alcohol retailer.

While some may view the LCBO as a monopoly with little or no competition, the reality is that we exist in a shared marketplace. In this highly competitive retail environment, being good is not good enough. We have to be the best. Our corporate vision reflects that.

We cannot promise to break records for the next 20 years. But breaking records is not our business. Our business is balancing the responsible sale of alcohol with delivering dividends to the people of Ontario to help pay for social services. This is a promise we have kept since our founding – and it always will be.

Bob Peter, President & CEO

Operational Efficiency

We constantly question how we can do things better, through process improvements and technology investments, and reduce costs wherever practical to provide a higher financial return to the government.

Corporate Structure

MISSION STATEMENT

We make a difference in Ontario by being a best-in-class, socially responsible, customer-focused and profitable retailer of beverage alcohol.

The LCBO is a Crown agency reporting to the Minister of Finance and is classified by the Ontario government as an operational enterprise.

The LCBO is overseen by a Board of Directors consisting of up to 11 members appointed by the Lieutenant-Governor-in-Council on the recommendation of the Premier of Ontario and the Minister of Finance, for terms of no more than five years that can be renewed. The chair of the Board of Directors is responsible for providing strategic leadership to its members and to the president & CEO and ensuring the LCBO and its Board of Directors meet their respective responsibilities.

The mandate of the Board is to oversee the management of the business affairs of the LCBO. Its most important responsibilities are to:

- ensure that policies and processes are in place to maintain the integrity of the LCBO's internal controls
- establish by-laws governing the operations of the LCBO
- approve both the three-year strategic plan and annual business plans and monitor management's success in meeting the objectives set out in these plans
- submit annual financial plans and business plans to the Minister of Finance
- ensure the LCBO has an appropriate communications policy
- ensure the LCBO operates in a fair, ethical and impartial manner in accordance with applicable laws
- establish and oversee the succession planning strategy for senior management
- approve major policy and business decisions
- assess and evaluate annually the performance of the president & CEO
- establish committees of the Board as appropriate to exercise some or all of the Board's responsibilities; at present, this includes an audit committee and a governance and compensation committee.

ETHICS AND BUSINESS CONDUCT

The Board has adopted a code of conduct that includes policies addressing human rights, conflict of interest, confidentiality, the outside activities of employees and officers, gifts and entertainment.

HEALTH AND SAFETY

The Board approves an annual health and safety policy and the senior vice president, Human Resources, provides the Board with regular health and safety reports.

BOARD COMMITTEES

Audit Committee

The Audit Committee assists the Board of Directors with oversight of the integrity of LCBO's financial statements; the financial reporting process; the systems of internal control and risk management functions; and the performance of the Internal Audit Services Department's functions.

Governance and Compensation Committee

The Governance and Compensation Committee is responsible for recommending the LCBO's corporate governance framework and practices to the Board and ensuring the LCBO adheres to sound corporate governance principles. It also makes recommendations on human resources and management employee compensation.

MANAGEMENT COMMITTEES

Store Planning and Development Committee reviews real estate and leasing transactions and makes recommendations to the Board for final approval.

Listings Appeals Committee reviews supplier and agent appeals of business unit decisions concerning product listings.

Management Positions Evaluation Committee evaluates and rates management positions in the organization for purposes of determining appropriate pay classifications.

ACCOUNTABILITY

The LCBO is accountable to its stakeholders in several ways, including:

- its annual report is required to be tabled in the provincial legislature and is made available to all Ontarians online at www.lcbo.com
- annual audits of LCBO financial statements are required by the *Liquor Control Act* and conducted by the Office of the Auditor General of Ontario
- public access to various records under the *Freedom of Information and Protection of Privacy Act*
- appointment of Board members by Order-in-Council

Succession Planning

Preparing for the future has always been an important part of our HR strategy, particularly today, as we develop our employees to take on leadership roles in anticipation of a high number of retirements in the next few years.

- various statutory reporting requirements under the *Liquor Control Act* require the corporation to provide reports to the Minister of Finance and the Treasurer of Ontario
- compliance with applicable Management Board directives.

SENIOR MANAGEMENT TEAM

Day-to-day operations of the LCBO are overseen by the following members of senior management:

Bob Peter, president & chief executive officer

George Soleas, executive vice president

Nancy Cardinal, senior vice president, Sales, Marketing & Insights

Bob Clevely, senior vice president, Retail Operations

Rob Dutton, senior vice president, Finance & Administration and chief financial officer

Gayle Fisher, senior vice president, Human Resources

Hugh Kelly, senior vice president, Information Technology[1]

Penny Wyger, senior vice president, general counsel and corporate secretary, Legal Services

Jackie Bonic, vice president, Store Development and Real Estate

Kerri Dawson, vice president, Marketing[2]

Shari Mogk-Edwards, vice president, Products, Sales & Merchandising

Patrick Ford, executive director, Corporate Affairs

Bill Kennedy, executive director, Corporate Communications

Beili Wong, chief audit executive and executive director, Internal Audit

Shelley Sutton, director, Strategic Planning & Enterprise Risk Management

1. Retired May 2014
2. Effective May 28, 2013

Board Members

Edward J. Waitzer

Cheryl Hooper

EDWARD J. WAITZER

Appointed chair of the Board in August 2013 for a three-year term.

Mr. Waitzer has a strong affiliation with York University where he is a professor and Jarislowsky Dimma Mooney Chair in Corporate Governance at Osgoode Hall Law School and the Schulich School of Business, a title he has held since its inception in 2007. He is also director of the Hennick Centre for Business and Law.

He served as chair of Stikeman Elliott LLP from 1999 to 2006 and remains a senior partner at the firm. His practice focuses on complex business transactions and a wide range of public policy and governance matters.

Mr. Waitzer earned his LL.B. and LL.M. from the Faculty of Law, University of Toronto. He was called to the Ontario Bar in 1978 and the New York Bar in 1985. From 1993 to 1996, he was chair of the Ontario Securities Commission and, until 1981, was vice-president of the Toronto Stock Exchange. He has written and spoken extensively on a variety of legal and public policy issues, and has served as director of many corporations, foundations and community organizations as well as editorial boards and advisory groups.

CHERYL HOOPER

Appointed February 12, 2014, for a two-year term. Member, Audit Committee.

Ms Hooper has acquired extensive financial and managerial background across diverse industries in multiple capacities, including C-suite, board and international experience. She has an MBA from York University, is a CPA, CA and is a member of the Institute of Corporate Directors.

As a board member of Velan Inc., a public company with international operations, she is chair of the Audit Committee and a member of the Corporate Governance and Human Resource Committee. Previous board involvement included not-for-profit organizations in Toronto, Quebec and France.

From 2005 to 2012, Ms Hooper was employed at the Canadian Public Accountability Board (CPAB), Canada’s regulator of public company auditors. Prior to joining CPAB, she was president of a Montreal-based company providing strategic consulting, financial monitoring and management services to a high net worth family with forestry and real estate holdings in Canada and internationally. From 1983 to 1996, Ms Hooper worked for Olympia & York Developments and then its property management successor, O & Y Properties Inc., where she became its first Chief Operating Officer in 1993.

Earlier in her career, Ms Hooper worked at Ernst & Young (then Clarkson Gordon), Bishop’s University where she was an assistant professor and Shaw Festival where she was their first controller.

Penny Lipsett

Laurel Murray

PENNY LIPSETT

Appointed May 30, 2007. Term renewed in 2010 and on February 1, 2013, for a two-year term. Vice chair and member, Governance and Compensation Committee.

Ms Lipsett is an investor and government relations specialist. She spent much of her career in the political and business worlds. Following graduation from the University of Western Ontario, she worked as a special assistant on Parliament Hill in Ottawa during the Trudeau years. Following this and until 1992, she worked for Xerox Canada in increasingly responsible roles concluding with the management of all corporate affairs functions.

Ms Lipsett has run her own consulting practice with a focus on investor and government relations since 1993. She is chair of the Ontario Place Corporation and a member of the Board of Directors of the Bank of America Canada Bank and Speed River Track & Field Club, Guelph, Ontario.

LAUREL MURRAY

Appointed August 8, 2005. Term renewed in 2008, 2011 and August 7, 2012, for a two-year term. Chair, Audit Committee.

Ms Murray is a Chartered Professional Accountant (CPA, CA) with 25 years of experience in the public and private sectors. Since 2008, Ms Murray has served as the Audit Committee chair for the Office of the Privacy Commissioner of Canada. She is also a member of the Audit Committee for the Office of the Commissioner of Official Languages of Canada and, since 2012, Ms Murray has served as a member of the Senior Advisory Council for Shared Services Canada. Shared Services Canada was established in 2011 to oversee and manage the transformation of the federal government's information technology infrastructure.

Since 2000, Ms Murray has been President of Murray Management Consulting Inc. Her firm specializes in the areas of governance, audit, CFO and financial management services, strategic planning and risk management, providing clients in the private and public sectors with expert leadership, advice and support in these areas. Working for the Treasury Board of Canada Secretariat, Ms Murray developed the federal government's *Guidebook for Departmental Audit Committees* as well as the federal *Guidelines for Audit Committees of Crown Corporations*.

From 1991 to 1998, Ms Murray was with the Ontario Ministry of Health and Long-Term Care. As area manager, Ms Murray managed a budget of $250 million and a service-delivery network of over 200 agencies.

After obtaining a bachelor of commerce, honours degree from Carleton University in 1986, Ms Murray joined KPMG in Ottawa where she obtained her Chartered Accountant designation and worked as an audit manager.

Susan Pigott

SUSAN PIGOTT

Appointed February 9, 2011. Term renewed May 1, 2013, for a two-year term. Member, Governance and Compensation Committee.

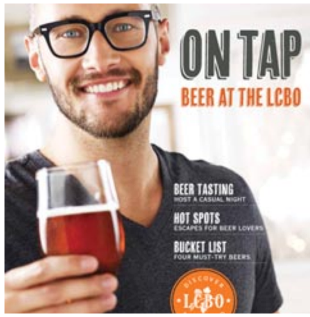
Ms Pigott is executive in residence at Ashoka Canada, a global association of the world's leading social entrepreneurs – individuals with system-changing solutions for the world's most urgent social problems.

Prior to that, she served as vice president, Communications and Community Engagement, at the Centre for Addiction and Mental Health (CAMH) in Toronto. In June 2011, she was appointed to the Commission on the Reform of Ontario's Public Services, which provided advice to the provincial government on how to deliver the most efficient and effective public services possible.

She trained as a nurse at the Wellesley Hospital School of Nursing in Toronto and then worked as a registered nurse for 10 years in Toronto and in Australia and Papua New Guinea.

In 1978, Ms Pigott earned a master's degree in social work at the University of Toronto. Since then, she has worked in the non-profit, human services field for over 25 years. Prior to CAMH, she was the chief executive officer of St. Christopher House, a community-based, multi-service agency that operates in the west end of Toronto. Before that, she spent seven years at the United Way of Greater Toronto, first as allocations director and then as vice president of Fundraising. In 2006–07, she took a leave of absence from St. Christopher House to serve as the executive lead for Citizen Engagement, supporting the Ontario Citizens' Assembly on Electoral Reform.

An active volunteer, Ms Pigott has served on several boards including the Community Social Planning Council and the Hospital for Sick Children. Currently, she is a board member of The Change Foundation.



Informative Marketing

Our monthly thematic promotions provide consumers with more than a list of products and prices; they contribute to informed buying decisions and stress-free, successful entertaining.

Walter Sendzik

Paul Sparkes

WALTER SENDZIK

Appointed June 4, 2008. Term renewed in 2011 for another three-year term. Chair, Governance and Compensation Committee.

Mr. Sendzik is chief executive officer of the Greater Niagara Chamber of Commerce. He is also a member of the board of Niagara College, the Hotel Dieu Shaver Rehabilitation Centre, and Business Education Council. He founded *Vines* magazine, wrote *Guide to Niagara's Wine Country* and is co-author of the *Buyers' Guide to Canadian Wine*. He sold *Vines* to Osprey Media Group in 2003 when he joined that company as publisher of the *Niagara* magazine division, where he helped launch *Niagara* magazine.

He left Osprey to join the St. Catharines Chamber of Commerce in 2006 and oversaw the merger of the St. Catharines and Thorold chambers, which created one of the largest chambers of commerce in southern Ontario. Mr. Sendzik was awarded the Bernie Gillespie Award by the Ontario Chamber of Commerce for outstanding leadership, was a recipient of Niagara's Top 40 Under 40 award and the St. Catharines Volunteer Recognition Award, and was a finalist in the Niagara Youth Entrepreneur of the Year Award.

PAUL SPARKES

Appointed February 9, 2011. Term renewed May 1, 2013, for a two-year term. Member, Audit Committee.

Mr. Sparkes brings extensive media, public and private sector service experience to the LCBO Board. He is currently co-founder and executive vice chairman of Difference Capital Inc., and Difference Capital Financial (TSX:DCF), a publicly-listed merchant bank. He joined CTVglobemedia (now Bell Media) in 2001 and was most recently executive vice president, Corporate Affairs. During his decade-long tenure, Mr. Sparkes oversaw regulatory and communication functions such as strategy, public and media relations and corporate communications for all divisions, including 27 conventional TV stations, 29 specialty and pay channels, 34 radio stations and *The Globe and Mail*. Prior to joining CTVglobemedia, Mr. Sparkes held senior management positions with the Government of Canada and the Government of Newfoundland and Labrador. From 1996 to 2001, he served in the Prime Minister's Office as director of operations and special assistant, Atlantic Canada, to then-Prime Minister Jean Chretien. He also served as executive assistant to two premiers of Newfoundland and Labrador – Clyde Wells and Brian Tobin. Mr. Sparkes serves on other boards, including Thunderbird Films, Blue Drop Performance (TSX-V:BLP), Canadian Venture Capital Association, and femMED. He is a founding member and board chair of the Smiling Land Foundation. Mr. Sparkes holds a bachelor of arts in political science from Memorial University.

Ramesh Srinivasan

RAMESH SRINIVASAN

Appointed April 18, 2007. Term renewed in 2010 and May 1, 2013, for a two-year term. Member, Governance and Compensation Committee.

Mr. Srinivasan is a senior hospitality educator with over 30 years of international experience in hospitality management. He holds a master's degree in hotel administration from Cornell-Essec in Paris, France. Areas of expertise include hotels, restaurants, catering and convention centre management, marketing and finance. He is Professor of Hospitality Management, School of Hospitality, Recreation and Tourism at Humber Institute of Technology and Advanced Learning, Toronto. Areas of specialization include wine education, revenue management, hospitality management accounting, entrepreneurship, conventions and meetings management.

His professional certifications include: Certified Foodservice Manager; Certified Specialist of Wine; and Certified Hospitality Educator. He holds the diploma in Wines and Spirits from the U.K. Wine & Spirit Education Trust. He is a member of the Society of Wine Educators; the Hospitality Sales and Marketing Association International; Canadian Association of Professional Sommeliers; International Council on Hotel Restaurant and Institutional Education; Canadian Restaurant and Foodservices Association; and the Institute of Internal Auditors.

Knowledgeable Frontline Staff

LCBO employees are known for their product knowledge, food-matching and entertaining recommendations, and are always happy to provide this information to customers.

Michael Strople Harvey T. Strosberg

MICHAEL STROPLE

Appointed February 12, 2014, for a two-year term. Member, Audit Committee.

Mr. Strople is the president of Allstream. Allstream is a Canadian leader in IP communications and the only national communications provider that works exclusively with business customers of all sizes. A licensed professional engineer with a bachelor of Applied Science in Electrical Engineering, he has more than two decades of experience in the telecommunications industry.

Mr. Strople joined MTS Allstream in October 2005, as vice-president, Technology, overseeing the integration of the MTS and Allstream networks. He later became chief technology officer for the combined companies before being named chief operating officer of Allstream. In his capacity as COO, he was accountable for all aspects of day-to-day operations including sales, marketing, customer operations as well as network and information technology.

His career began at Nortel Networks in 1994 in its Global Operations division as a research and velopment engineer. During his tenure, he acquired increasingly senior roles within the organization in both technical and direct customer relationship management. He worked closely with large global telecom carriers improving voice, data and wireless networks.

Mr. Strople currently sits on the board of the Metro Ethernet Forum. He has previously been an advisory board member of the University of Toronto's Master of Engineering in Telecommunications Executive Development Program. He also sat on the TR Tech Board of Directors where he served as chair of its Governance Committee and its Technology Advisory Council.

HARVEY T. STROSBERG, QC, LSM, LLD, DCL

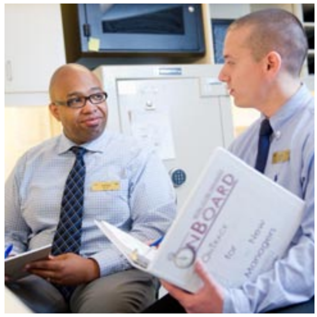
Appointed March 7, 2007. Term renewed in 2010 and 2012 for a two-year term, which expired May 16, 2014. Member, Governance and Compensation Committee.

Mr. Strosberg, Q.C., is a senior partner at Sutts, Strosberg, LLP, Windsor. He was called to the bar in 1971. He has extensive trial and appellate experience in the areas of class action litigation, torts, personal injury, product liability and commercial disputes. He has been a bencher (director) of the Upper Canada Law Society since 1987 and was the treasurer (president) from 1997–1999. He is the editor of the *Canadian Class Action Review*. The Law Society of Upper Canada awarded him a doctor of laws (LLD) and the Law Society Medal. Assumption University awarded him a LLD and the University of Windsor awarded him a doctor of civil law (DCL).

REMUNERATION

Board members receive a per diem remuneration for attending regularly scheduled meetings and for serving on either the Audit Committee or the Governance and Compensation Committee. The table below lists the total remuneration each Board member received for the 2013 calendar year.

Board Member	Remuneration
Edward Waitzer (chair)	$ 3,325
Philip J. Olsson (former chair)[1]	$ 18,095
Penny Lipsett	$ 4,710
Pamela Livingstone[2]	$ 1,620
Laurel Murray	$ 3,860
Susan Pigott	$ 2,800
Walter Sendzik	$ 3,750
Paul Sparkes	$ 2,400
Harvey Strosberg	$ 3,110
Ramesh Srinivasan	$ 3,500



Staff Training and Development

Our employees want to continually learn new things and advance, and we provide opportunities to do so through internal courses and mentoring, as well as a tuition assistance program.

1 Resigned from the LCBO; appointed chair of the Ontario Lottery and Gaming Corporation in 2013.

2 Resigned in December 2013.

Support for the Domestic Industry

Promoting local Ontario products is one of the LCBO's strategic objectives. Twenty years ago, sales of Ontario wine measured $145 million and Ontario craft beer just $100,000. Today, sales are approaching $400 million for Ontario wine and exceed $50 million for Ontario craft beer. We are proud of our role in collaborating with local producers and helping to build a sustainable and competitive local wine and beer industry through increased product selection and continual promotion.

WINE

The year 2013–14 saw the debut of an exciting new initiative: *Our Wine Country Ontario* boutiques. The first three boutiques opened inside LCBO stores in St. Catharines, Windsor and Niagara Falls. The boutiques are designed to provide an Ontario wine country experience to customers through an expanded selection of quality Ontario wines – including hard-to-find wines from smaller producers – housed within a distinctive design. Sales growth of Ontario wine at the initial locations is very strong, and we plan to open several more in the coming years to further educate and engage customers in discovering the excellence of Ontario's home-grown wine products.

It was another good year for Ontario wine sales overall in 2013–14, which rose 4.1 per cent to $395.9 million. While VQA sales gained 2.1 per cent, the VINTAGES VQA category exhibited growth of 9.5 per cent, demonstrating consumers are interested in drinking higher-quality Ontario wine products. Sales of International Canadian Blends (ICB) rose 6.4 per cent.

The LCBO listed 44 new Ontario wines (including 26 new VQA wines), or 25 per cent of the total number of new wine listings. Over 200 VQA products are released through VINTAGES each year. An additional 22 wines are continuously available in the VINTAGES *Essentials* program, to which three new wines were added this year. The revised *Wines to Watch* program and the new *Our Wine Country Ontario* destination boutique stores will add a further 241 Ontario wine purchases annually.

Promotion of Ontario wine starts with a dedicated team across LCBO and VINTAGES that includes a category manager, product manager and category administrator. On the retail floor, we have trained more than 330 WOW (World of Ontario Wines) leaders, employees who take pride in sharing their knowledge and recommending Ontario wines to customers.

In association with the Ontario wine industry, we have developed and refined several initiatives over the years to showcase Ontario as a quality wine producer, including an annual promotion from mid-September to mid-October. Ontario is the only wine-producing region that is the focus of an annual promotion at the LCBO, which includes consumer tastings, in-store Ontario wine and food events, a VINTAGES catalogue featuring VQA wines, advertising, social media elements and more.

Other initiatives throughout the year include:

— **Prominent Shelf Space and Location:** Ontario wines are located at the entrance of each store and displayed on higher-quality wood fixtures to set them apart from other regions; they also occupy significantly more shelf space than their share of sales in LCBO stores.

— **Our Wine Country Superstar Program:** dedicated shelf space and promotional material every month for two LCBO VQA wines and one VQA VINTAGES product.

— **VINTAGES Programs:** *Local Find* features an Ontario wine chosen every four weeks by Ontario wine buyer Astrid Brummer highlighting VQA wines that deliver value from a quality and price perspective. Drawing on the expertise of the person who actually buys VQA wines, it is a reliable source for wine recommendations. *Local Talent* features three to four Ontario wines every four weeks and serves as an opportunity to educate customers about varietals and styles from Ontario, as well as their regions and sub-region. *VQA Flagship In-store Discovery* is a third program offering customers premium-priced, smaller production Ontario wines by releasing limited quantities to select stores.

— **Wines to Watch Limited Availability:** A new program introduced in 2013–14 offering top Ontario wines not available regularly in about 60 stores. A curated collection of up to 12 products is rotated three times a year, giving customers the best of the season and provides additional access to Ontario wineries.

— **Our Wine Country Program:** Every other month, this program features up to five seasonal VQA wines, with advertising distributed in major newspapers and prominently displayed in stores.

— **Ontario Wines Direct Delivery:** A program that allows smaller Ontario wineries to deliver their products directly to 158 LCBO stores in their neighbourhood, which helps smaller, craft wineries that produce limited quantities sell their product at the LCBO, especially those that have small quantities to bring to market.

CRAFT BEER

Thanks to a longstanding relationship between the LCBO and the Ontario Craft Brewers (OCB) industry association, Ontario is a thriving market for local brewers and the LCBO is a destination for Ontario craft beer. In 2013–14, the trend towards craft beer remained firmly in place globally and in Ontario. Ontario craft beer sales led all beer segments again, with sales growth of almost 27 per cent.

The LCBO has initiatives in place throughout the year to support local craft brewers:

— **Merchandising:** Ontario craft beer is located in a prominent position on shelf and all formats (single cans, bottles, multi-packs) are grouped together, which differs from how other beer is merchandised.

Support for Local Producers

Part of the LCBO's mandate is to support local producers. We are proud of the role we have played in raising the profile and sales of VQA wine and Ontario craft beer, and look forward to helping the Ontario craft cider and spirits industries continue to grow.

- **Product Display:** Dedicated shelf extenders and end aisles in more than 50 stores draw added attention to OCB products.
- **On-Shelf Displays:** These special displays showcase Ontario's smallest craft breweries on a rotational basis.
- **Display Walls:** In flagship stores, customers will find a "wall" of Ontario craft beer to raise the profile of the category.
- **Annual Promotion:** LCBO's annual summer beer promotion always includes attention to Ontario craft brews. In addition, the annual Ontario wine event also contains a mini Ontario craft beer promotion.
- **Industry Seminars:** Periodic meetings that assist breweries in conducting business with the LCBO and be successful suppliers.
- **Beer World:** Many newer stores are equipped with a larger selling area for beer and walk-in cold rooms, which feature a larger selection of Ontario craft beer.
- **Local Fridge Program:** Features the flagship brands of Ontario craft breweries in the refrigerated space of the LCBO in their community.
- **Beer Ambassadors:** Specially trained employees in 150 stores, who are well-versed in all beer products, especially the offerings of our OCB partners.

VINTAGES

Our premium wine and spirits business is the go-to section of our stores for discerning customers who are looking for high-quality, unique products. Our focus on adding VINTAGES sections to more stores has introduced more customers to these premium products.

In addition, the rising popularity of cider also benefitted the Ontario craft cider category, which rose 82.2 per cent (total cider grew 53 per cent). We are carrying an increased assortment of cider, including more products produced locally, enhancing our employees' knowledge of cider, and highlighting a greater number of cider products in promotional materials to help consumers better understand the category. We are also looking at new ways to merchandise cider.

CRAFT SPIRITS

Customers are showing an increasing interest in craft spirits. Sales of these small-batch products are encouraging, but still represent a very small part of the spirits portfolio at LCBO. However, we recognize their relevance to our customers who are interested in home-grown products and want to buy local. While still in its infancy, we look forward to continuing to help grow the craft spirits segment.


LCBO
RAHMANI
MODUS

Retail Expansion

Fiscal 2013–14 marked the second year of LCBO's accelerated store expansion program – the largest in its history.

Endorsed by the Ministry of Finance, this program saw a total of 25 stores constructed, relocated or expanded – nearly twice the historical rate of expansion. That is in addition to the 30 stores built in the first year of the program.

We are strategically adding new stores in densely-populated urban areas, which have experienced a sharp rise in condominium dwellings, as well as other communities that are witnessing significant population growth. New, upgraded and relocated stores create customer interest and, by extension, increase sales performance, which adds to the annual dividend the LCBO pays to the government to help fund infrastructure projects related to schools, roads and bridges, hospitals and social services.

The LCBO's store expansion program also creates several economic spin-off benefits in the form of increased employment opportunities in construction and businesses that supply goods and services to the stores.

The store network expansion program continues in fiscal 2014–15, which is expected to add about 26 new stores, relocations and major expansions to the network.

2013–14 NETWORK EXPANSION SUMMARY

The LCBO invested a total of $50 million in the store network for renovations, maintenance and repairs to the existing network, as well as the construction, expansion and relocation of stores in the following communities: Kemptville; Toronto (5); Burlington; Whitby; Wellington; Bowmanville; Ottawa; Fort Erie; Bracebridge; Niagara Falls (2); East Gwillimbury; Cornwall; Kanata; Rossmore; North York; Listowell; Simcoe; Hintonburg; Stoney Creek; and Pembroke. The construction activity resulted in the addition of 92,000 square feet of retail space to the store network. At the end of 2013–14, LCBO's total store count was 639.

RETURN ON INVESTMENT

In the last five years, more than 80 per cent of store investment projects have exceeded their performance targets, typically recovering the initial investments in less than 1.5 years, which is an outstanding return in the retail sector. Sales growth at new, relocated and expanded stores measured over 25 per cent in

Investment in the Store Network

We currently have 639 stores. We constantly upgrade stores and add service features to provide customers with the best possible shopping experience. New and upgraded stores have helped us deliver record dividends.

2013–14 compared to flat performance (zero per cent growth) for stores that remained in the same location and format. It is estimated that new and relocated stores increased sales incrementally by $40 million in 2013–14.

SITE SELECTION PROCESS

The Store Development & Real Estate division's analysis of proposed store locations examines multiple factors, including projected population growth and other demographic characteristics, commercial/residential development, and the size and capabilities of existing LCBO outlets in the area. Proposed stores are vetted by the Store Planning & Development Committee, which includes members from Retail, Sales & Marketing, Finance, Legal Services, and Store Development & Real Estate, and then put before the LCBO Board of Directors for final approval. The performance of each new store is tracked on a weekly basis and measured against sales forecasts. Annual reviews are conducted to ensure stores are meeting their targeted rate of return on capital investments.

NEW FORMATS

LCBO *Express Stores* and *Our Wine Country Ontario* destination boutiques are new formats being introduced to promote Ontario wines and craft beers while maintaining our commitment to social responsibility.

The first three *Our Wine Country Ontario* boutiques opened in 2013–14 in the cities of St. Catharines, Niagara Falls and Windsor. Sales of Ontario wine are significantly higher in these stores, which provide an Ontario wine country experience together with a comprehensive assortment of Ontario wine. More boutiques will be added in fiscal 2014–15.

The *Express Store* format, which will be located inside large grocery retailers and carry a range of products within 2,000 to 3,000 square feet of selling space, is moving forward. A Request for Proposal was issued on April 1, 2014 and bids will be evaluated in fiscal 2014–15. A total of 10 *Express Stores* are expected to open under this pilot project.

Merchandising Strategies

When customers walk into an LCBO store, they may have an idea of what they want, but our layout, displays and informative signs invite them to browse and discover something on offer, different and new.

Logistics Productivity Upgrades

Twenty years ago, the Durham Retail Service Centre was capable of processing 29 million cases of beverage alcohol a year. Today, with the addition of new technologies, increased productivity and innovation, the same-size facility can process more than 51 million cases annually. And we believe it can do even more in the future.

It is this mindset of continuous improvement, which is prevalent across the entire organization, which has allowed the LCBO to optimize its existing warehouse space and avoid the high cost of building a new facility. The LCBO operates five distribution centres serving a network of more than 1,000 outlets in Ontario – including LCBO stores, Agency stores, and The Beer Store. Building a new distribution centre would be extremely costly. Instead we've added technology and mechanization, reconfigured operations and are "working smarter" through process improvements and increases to labour productivity, without compromising quality and safety. As a result, we do not envision having to build or lease new warehouse space for up to another decade (except for the relocation of Toronto warehousing facilities resulting from the sale of the Head Office lands).

These efficiency improvements are positive for profitability, customer service and the financial return we provide to the government. They also give the LCBO the financial flexibility to invest precious capital into the retail network in the form of new stores, relocations, expansions and renovations.

During 2013–14, LCBO successfully completed the relocation of the VINTAGES bi-weekly release operation, which occupied the second floor of the Toronto warehouse, to Durham. The move followed upgrades to the facility's systems and equipment, including the replacement of 22 conveyors with zero-compression conveyors. With minimal investment and the elimination of a third-party warehouse, the project resulted in about $3 million in annual savings, as well as increased efficiency and improved service to our retail stores.

In addition, the re-engineering of Durham's sortation palletization dock advanced beyond the prototype stage. This first-of-a-kind, automated system, which can palletize up to 1,250 cases an hour compared to 250 cases per hour for the manual system, will be rolled out to 15 of the 28 manual palletization lanes (MPLs) in the coming year. The cost of rolling out the project to the 15 MPLs is $7.8 million, but it will deliver an

Efficient Logistics Network

Our five retail service centres processed 92 million cases this year. By optimizing our existing warehouse space, concentrating on flowing product instead of storing it, we have gained efficiencies and avoided the need to buy or lease new space, freeing capital for store network investments.


5
CAUTION

annual savings of $5.1 million. We are exploring the possibility of licensing this system, which we have patented, to external parties.

In London, warehouse capacity was improved with the addition of more pallet-racking systems, which make use of the facility's vertical space, as well as the addition of an auto palletization machine to the inbound area. An HVAC system was also installed to relieve negative pressure in the warehouse and improve air quality. The next two years will see significant changes in the London Warehouse as we embark on a project that will add about 40,000 square feet of staging area and 21 outbound doors, which can potentially expand the facility's capacity to 125,000 cases a day from about 70,000.

We actively research and plan new projects years in advance to ensure we minimize business disruption and unnecessary costs. Indeed, all our current systems are being evaluated to determine the potential for implementing newer, cutting-edge technologies at our distribution centres – from laser-guided vehicles to radio-frequency identification – to ensure they continue to serve our needs long into the future.

Lastly, but no less important, is the progress we have made in recent years to reduce injuries and ensure employees return home safely every day. The transportation of beverage alcohol products from the supplier to the shelf is not without its challenges. However, since 2009, Logistics has reduced lost-time injuries by 82 per cent, reduced the overall severity of accidents, and lowered WSIB claim costs by 89 per cent. This data is clear evidence of the success of our "Work Smart, Work Safe" culture.

Technology as an Enabler

Our technology investments have touched almost every area of our business and, through the modernization of systems and processes, have enabled the LCBO to help keep pace with changes in the marketplace.

Food & Drink Magazine

This free consumer publication, which pays for itself through supplier advertising, is LCBO's responsible hosting guide. Each issue contains product information, as well as entertaining ideas that make our customers a hero in all of their entertaining occasions.

Informative articles. Delicious food. Perfect drink matches. Stunning photos. And a talented group of people. All of these elements have come together over the last two decades to create a recipe for success. It's called *Food & Drink* magazine.

While it is commonplace for retailers to publish their own consumer magazines today, LCBO's *Food & Drink* was the trendsetter.

The publication, which humbly began as a 32-page newsletter 20 years ago, soon became a core component of LCBO's overall marketing strategy, with monthly promotional campaigns reflected in the magazine's content of seasonal recipes, articles on entertaining, beverage alcohol products and trends, and food pairing suggestions, along with its trademark mouth-watering photography.

Food & Drink maintains editorial independence, but as part of the LCBO's integrated marketing effort, the content is planned out in collaboration with the LCBO's broader marketing strategies. For instance, in the fall, when customers see a promotional emphasis on Ontario wine, it makes sense for the fall issue of *Food & Drink* to add additional Ontario wine content.

More than half a million copies are printed each issue, including a portion in French. But because each copy is believed to be shared several times, readership is estimated at 2 million, making it the most widely-read magazine in Ontario.

The sale of advertising in *Food & Drink* generates enough revenue to cover all of the magazine's costs. Indeed, the publication makes a profit for the LCBO.

Copies of *Food & Drink* are snapped up quickly by customers. This passion for the publication, read 60 per cent by women, is also evident in social media channels, where fans discuss content in blogs and online forums, and even tweet location alerts for stores running low on stock. Some people have even been known to host *Food & Drink* evenings, where a selection of recipes and wine matches are replicated to bring a particular issue to life.

Food & Drink is an industry icon and helped shape the way our customers entertain. Each issue is about making our customers a hero in all of their entertaining occasions. This philosophy has always guided the content of the magazine, which is published every two months, and has brought success and recognition to the LCBO, as well as the many businesses (hotels, restaurants) and personalities (chefs) featured in its pages.

The teams of LCBO employees, freelancers and photographers, including writers, recipe developers, photographers and stylists responsible for *Food & Drink* have won accolades themselves, including gold recognition from the National Magazine Awards and the World Food Media Awards. In 2012, Jody Dunn, editor of *Food & Drink* for 13 years, received a Gold Award in the media and publishing category from the Ontario Hostelry Institute.

THE LCBO'S SOCIAL RESPONSIBILITY MANDATE HAS FOUR PILLARS:

- Responsible Retailing and Consumption
- Product Quality and Safety
- Environmental Sustainability
- Community Involvement and Fundraising

Social responsibility is the LCBO's reason for being. It is also a leading source of employee pride. We have established a Corporate Social Responsibility Council, which oversees the working groups for each of the four pillars of our mandate. With executive and senior management acting as chairs of these working groups, we are working towards the goals set out in a three-year plan. The following are key accomplishments in 2013–14.

RESPONSIBLE RETAILING

11.4 Million Challenges in 2013–14

Keeping beverage alcohol away from people who appear underage, intoxicated, or are suspected of purchasing for a minor or intoxicated person, is perhaps the most important way our frontline staff make a difference in Ontario. It is also one of the more difficult aspects of the job. But our employees are well trained and always professional and courteous in this respect. In 2013–14, our staff challenged more than 11.4 million people, with 414,600 refused service. About 86.9 per cent of refusals were for reasons of age. This data is a testament to the vigilance of our employees and their dedication to upholding the public's trust.

Following enhancements to our *Check 25* program, which added new exterior and in-store signage and audio announcements advising customers aged 19 to 25 to have their I.D. ready to show at the checkout counter, the LCBO unveiled several initiatives to help customers better understand policies related to second-party purchases. New marketing materials were developed to raise awareness and reduce customer confusion regarding the law and LCBO policy. Signage in stores now explains our second-party purchase and refusal policy, asking "Did you know that only people 19+ can legally handle alcohol in LCBO stores?" This signage is supplemented with in-store audio announcements that repeat the same message.

Alcohol Education and Awareness

Active since 2009, LCBO's *Deflate the Elephant* social responsibility campaign (TV, online, social media) aired a new television commercial during the 2013 holiday period. The 30-second spot, which encourages the public to speak up to help prevent drinking and driving, aired on major Ontario networks throughout the month of December. Other aspects of the campaign included online advertising, in English and French, promoting responsible hosting and entertaining on popular websites; the "Speak Up and Win" contest with Kia Canada; as well as the broadcast of the "Speak up. You could save a life." message on point-of-sale screens in stores.

Deflate the Elephant is active year-round on social media channels, particularly Facebook and Twitter, where we are building a community for the public to seek advice, share tips and relate personal stories on responsible entertaining and how to stop drinking and driving.

MADD Canada's 2013–14 school assembly program, *Smashed*, and its French companion program, *Impact*, reached 1,050 Ontario high schools. Like MADD's previous programs, which encouraged students to make responsible decisions, *Smashed* reinforces that every single death and injury caused by impaired driving is entirely preventable. It was presented free-of-charge to Ontario schools thanks to a prompted donation campaign at LCBO checkouts in December 2012 that raised $1.48 million. The record $1.99 million raised in support of MADD Canada in December 2013 will further enhance alcohol education programming during the 2014–15 school year.

Other Initiatives and Partnerships

Ontario's Office of the Fire Marshal and Emergency Management and the LCBO teamed up to share practical tips on how to cook safely and prevent kitchen fires year-round. The advice was shared with the public during a Fire Prevention Week media launch and a new brochure called "The Perfect Meal," distributed to all LCBO stores.

The *Parent Action Pack* was launched in collaboration with Parent Action on Drugs. The free print and online resource provides parents with a toolkit of essential facts and talking points about alcohol and other drugs, as well as effective strategies to enable them to have meaningful discussions with their teens and guide them in making healthier and safer decisions. The 16-page booklet was distributed with the 20th anniversary issue of *Food & Drink*.

A new brochure was released in collaboration with the Best Start Resource Centre containing information about alcohol and breastfeeding. As this is an area with many "myths," the brochure provides factual information for mothers and partners about drinking beverage alcohol while breastfeeding.

PRODUCT QUALITY AND SAFETY

Before a product is put on the shelf and offered for sale, it must be tasted, tested and certified. That is the job of the LCBO's Quality Assurance (QA) laboratory, which conducts more than 500,000 laboratory tests and tastes more than 7,000 products each year. These tests confirm that the products are safe to

Corporate Social Responsibility

Checking the I.D. of any customer that looks 25 or younger, implementing green energy retrofits to stores, ensuring our products are safe, "just asking" for a charitable contribution at the checkout: social responsibility is the foundation of what we do.

Promoting Workplace Health and Safety

Nothing is more important than having our employees return home after work safely. Thanks to a new "Work Smart, Work Safe" mindset and ergonomic aids, we have reduced lost-time injuries by 53 per cent in the last three years.

consume, authentic and meet the standards set out in Canada's *Food and Drugs Act* and *Consumer Packaging and Labelling Act* and their related regulations. Our world-renowned laboratory meets high standards set by the Geneva-based International Organization for Standardization and is registered under ISO 9001, as well as under ISO/IEC 17025, a designation specific to chemistry laboratories.

The findings of LCBO's QA laboratory are widely used as benchmarks by other liquor jurisdictions, both inside and outside of Canada, as well as by beverage alcohol producers and quality assurance bodies.

The following are some of the division's highlights for the year:

— Purchased and installed a new Laboratory Management Information System (LIMS) application used to manage the life cycle of the more than 23,000 samples that are tested by QA annually. The new system will increase efficiency and the communication of results to internal and external clients, as well as other corporate applications. The new application conforms with all current IT standards and will meet the needs of the QA Laboratory for the next 10 years.

— Provided new training tools to employees to help ensure returned products are handled in a consistent manner and in accordance with established policies to maintain product quality and safety.

— Retained dual ISO accreditation for its quality management system after undergoing an intensive series of audits performed by two external ISO certification companies. The auditors cited several "best practices" at the LCBO, which is a significant accomplishment and testament to the dedication and commitment of the people who work in QA.

— Installed an ergonomic lift-assist device in the QA rework area at the Durham Retail Service Centre to help employees lift and move cases. The equipment is expected to improve operational efficiencies and reduce muscular-skeletal and related injuries.

In addition, the investigated-complaint response time by the QA department was 13 days, our best result to date and a 19 per cent improvement over last year.

Quality Assurance by the numbers:

- total lab samples: 23,873, a 2.3 per cent increase
- total laboratory tests: 508,402 (down from last year due to changes to improve operational efficiency)
- percentage rejected by laboratory: 11.6 per cent (similar to previous year)
- total units returned/customer complaints: 85,066 (similar to previous year)
- number of customer complaints requiring investigation: 102 (a 35 per cent drop from the previous year)

ENVIRONMENTAL SUSTAINABILITY

Being good to the environment is also good for business. Following are highlights from the year of our progress towards reducing our environmental footprint. For a more detailed treatment, please see the Social Responsibility section of our corporate website.

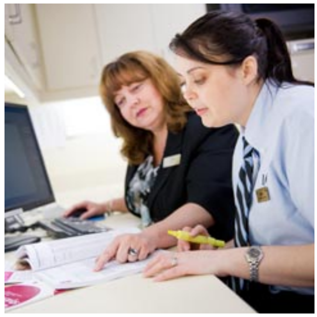
Green Construction and Retrofits

In 2010–11, LCBO set a five-year target to reduce energy consumption across the Retail store network by 10 per cent. This goal was achieved in less than four years (excluding new stores and expansions). In the second-quarter of 2013–14, reduction of energy consumption at Retail reached 11 per cent and $3.7 million in avoided costs. We are aiming to further reduce our consumption by one per cent a year, with every one per cent energy reduction equaling $1.6 million in cost avoidance.

All new stores are 25–30 per cent more energy-efficient than those built five to 10 years ago, benefitting from the use of LCBO green building specifications, which incorporate automation systems, free cooling cold rooms, energy-efficient lighting and increased insulation. We have 10 LEED-designated (Leadership in Energy and Environmental Design) stores in the network. Older stores are retrofitted with energy-saving technologies where appropriate.

Another Bright Idea

Lighting was replaced in 300 stores with energy-efficient LED bulbs, resulting in energy-reduction of up to 70 per cent. In 2013–14, LCBO was presented with a $500,000 rebate from the Ontario Power Authority and Toronto Hydro for its efforts.



Culture of Continuous Improvement

We encourage employees to be innovative and to bring forward ideas and solutions to help do their jobs better and safer, to the benefit of the entire organization. Our goal is to be the world's best retailer of beverage alcohol.


25 or younger?
HAVE YOUR I.D. READY
Jägermeister

In addition, the light fixtures in 124 cold rooms in rural-area stores underwent an LED retrofit. The retrofit, which involved the replacement of eight-foot traditional lamps with two four-foot LED lamps, followed a pilot project that showed energy consumption was reduced by 60 per cent. Because LED lamps last four times longer than traditional lamps, it is expected that the retrofit project will result in waste reduction of 75 per cent over the life cycle of the lamps. Further, despite the decrease in energy use, light level increased 185 per cent, which is better for both employees and customers.

Shelving Reuse

Notwithstanding the increased activity in store openings, it is not always necessary to buy new fixtures and refrigeration equipment for each new real estate project. Indeed, the LCBO takes care to reuse shelving and fixtures in renovations, existing stores and temporary locations whenever possible. This practice is not only good for the environment, but also for the bottom line.

Stores that have been expanded are good opportunities to reuse shelving, while old and worn shelving at existing stores can often be replaced with fixtures in better condition from relocated stores. The LCBO's metal shelving vendor collects and inventories existing shelving that can be used for future orders, which eases the stress on our own resources and reduces capital costs for shelving. The same goes for refrigeration units.

In addition to keeping working equipment out of landfill, the reuse of shelving and refrigerators can result in significant savings from not purchasing new. During fiscal 2013–14, LCBO relocated 750 store fixtures and other pieces of equipment, as well as 3,180 linear feet of metal shelving.

Ontario Deposit Return Program (ODRP)

The *Ontario Deposit Return Program*, also known as *Bag It Back* (www.bagitback.ca), was introduced in 2007 to keep the 400 million waste containers that result from the sale of wine, beer and spirits each year out of landfill. Since the program's inception, more than 2 billion containers have been recycled, equivalent to more than 758,000 tonnes of glass, plastic and metal containers. LCBO also supports municipal Blue Box programs for the recycling of marketing and promotional materials we produce, secondary packaging such as cardboard cases,

Evolving Services to Meet Customer Interests

The customer is the focus of everything we do and the insights we gain through research have helped us provide the services they desire and maintain a high rate of customer satisfaction and engagement.

Relationship With Suppliers

One of the reasons LCBO can offer such a wide assortment and secure allotments of rare products is because of its long-standing, fair treatment and open communication with the local and international supplier community.

as well as containers that don't make it into the ODRP system. In 2013–14, we maintained a combined waste diversion rate of 93 per cent, which includes containers recycled through the ODRP and municipal Blue Box programs.

Leadership in Lightweight Glass

LCBO's world leadership in the lightweight glass initiative is known throughout the world. Indeed, some jurisdictions use the phrase "Canada bottle" to refer to this strategy, which requires that almost all wine products under $15 are required to be in 420 gram bottles. The year 2013–14 was the first full year of its implementation, which means 80 million bottles, or 90 per cent of what we sell, is 20 per cent lighter. We are thankful for the assistance of trade groups, who consulted with us in determining the new standard, for endorsing this strategy, and we could not be more pleased with the results.

Lightweight glass is good for the environment because its manufacture reduces carbon emissions, and the lighter bottles and cases are easier for our employees and customers to handle. As expected, the program is realizing annual waste reduction of seven million kilograms and a 20 per cent decrease in greenhouse gas generation. This is due to a reduced environmental impact through the lifecycle of each bottle, from resource extraction to manufacturing, shipping and, finally, recycling. In the future, we expect other jurisdictions to adopt this standard, and we are considering applying it to larger-size and higher-price bottles.

Sustainable Shipping

Logistics continuously pursues opportunities to reduce shipping costs and carbon emissions associated with freight. To protect the integrity of beverage alcohol products arriving from overseas, we have traditionally employed containers equipped with thermal heating units. Logistics has been piloting the use of thermal blankets placed over pallets or affixed to the interiors of shipping containers to maintain stable temperatures. Unlike fuelled generators, a thermal blanket results in zero carbon emissions. We expanded this pilot to warehouses in Toronto and London and are planning a trial in Durham next. If results continue to be positive, the blankets, which result in a 30–35 per cent cost savings, could be rolled out by the end of 2014.

We are also increasing the amount of product we ship in concert with other retailers using a method called “less than truckload.” We have successfully implemented this shipping technique with loads leaving our Thunder Bay and Toronto warehouses, and in 2013–14 we began a 39-store pilot at the larger Ottawa facility. It’s a more environmentally-friendly shipping method and is demonstrating cost savings of about 40 per cent for stores served by those particular facilities.

COMMUNITY INVOLVEMENT AND FUNDRAISING

Thanks to the generosity of our customers and employees, we raised a new record total of more than $8.2 million for worthy causes in 2013–14, propelled by record fundraising results from our major fundraising programs, such as the annual United Way Centraide campaign, which raised $3.2 million. The LCBO contribution represents a significant portion of the Ontario Public Service’s overall campaign – 45 per cent. The funds are raised through a variety of sources, including customer donations, employee donations and pledges, and fundraising events ranging from barbecues to bowling tournaments. United Way Centraide uses the funds to help people move from poverty to possibility, build healthy and strong communities, and help kids realize their full potential.

LCBO’s in-store *Donation Box Program*, which runs year-round, is another key fundraising initiative. It includes the *Giving Back In Our Community* campaign each December, which raises critical funds for MADD Canada and four children’s hospitals serving Ontario. In 2013–14, more than $4.0 million was collected for this campaign – another new record. Beyond corporate fundraising efforts, employees commonly rally together to help important causes in their communities all through the year. For instance, each fall, store employees across the province collect donations for local food banks in the form of food and funds. This year, the combined total raised from all four regions exceeded 10,000 pounds of donated non-perishable food.

Wide Product Assortment From Near and Far

LCBO stores offer convenient, one-stop shopping through a wide assortment of wine, beer and spirits selected based on sales patterns and local tastes.

Wines | Product Trends

SUMMARY

Net sales: $1.334 billion
Performance to last year: +$31.1 million or 2.4 per cent
Margin dollars: $696.4 million
Performance to last year: +$17.9 million or 2.6 per cent
Total inventory turns performance: 6.35 from 6.56 the previous year

The New World Wines category posted another year of strong growth, with traditional leaders California rising 14 per cent and New Zealand rising 12 per cent. Customers continue to gravitate towards red blends, especially from California (up 46 per cent), along with crisp and aromatic New Zealand Sauvignon Blanc (up 17 per cent). This trend has hurt sales from the Australia and South Africa categories, which continued to decline.

Across the New World Wine countries, Cabernet Sauvignon, our largest single varietal wine, was up 3.7 per cent, followed by Pinot Grigio, up 3.2 per cent, and Moscato, up 47 per cent. In addition, a new and robust Licensee Only program also delivered good results, up 51 per cent, albeit on a much smaller sales base.

Sales of European wines were 2.5 per cent above last year. Italy, which accounted for 47 per cent of sales, grew by 2.6 per cent. The Ripasso subset remained particularly strong, gaining 9.5 per cent. Italian whites continue to be dominated by Pinot Grigio, which rose 2 per cent and accounted for 59 per cent of all Italian white wine sales. France, which makes up 27 per cent of sales, saw an increase of 2 per cent. The increase was partially due to growth in subsets such as red Côtes du Rhône (16.5 per cent) and Chablis (21 per cent). Excellent results continued to be seen from Spain and Portugal (Iberia), which grew 12.3 per cent and 5.2 per cent respectively.

In the LCBO wines category, VQA was up 0.8 per cent compared to last year. In contrast to previous years, VQA saw a pronounced shift toward red wines, which gained 1.1 per cent market share. VQA red wines rose 3.5 per cent, driven by red blends, which accounted for 28 per cent of the growth, followed by Baco Noir and Merlot. While VQA white wines lost share in favour of reds, the easy-drinking Pinot Gris/Grigio varietal gained popularity with customers, growing 17.5 per cent. Customers continued to trade up in VQA wines, with wines priced between $12 to $15 growing 7 per cent (up $3.9 million) and the $15–$20 price band growing 8 per cent (up $763,000).

In 2014–15, the New World Wines category is expected to grow at 3.0 per cent, with continued strength from California (red blends, Pinot Grigio and Moscato), New Zealand (Sauvignon Blanc) and also Chile (particularly reds). We expect further, but more measured, sales declines from Australia and South Africa. For Ontario, total sales growth is projected to be 3.6 per cent, consistent with our corporate objective of growing sales of Ontario wine at a faster rate than imported wines. European wines are expected to grow 2.6 per cent. With no major thematic in 2014–15 for European Wines, growth is expected to be modest in Italy and France, but double-digit growth is seen for Spain and Portugal (Iberia).


Our wine country
wine styles 101
FIELDING
SAVE $1.00

SUMMARY

Net sales: $1.967 billion
Performance to last year: +$18.0 million or 0.9 per cent
Margin dollars: $1.151 billion
Performance to last year: +$13.4 million or 1.2 per cent
Total inventory turns performance: 8.76 from 8.99 the previous year

Whisky, the largest spirits category (32 per cent of sales), exhibited solid growth, rising 2.8 per cent to $611 million. This sales growth was led by imported whiskies from Scotland, Ireland and the United States. Single malt Scotch was up 11 per cent, with American and Irish whiskies also performing well (rising 10.2 per cent and 15.7 per cent respectively).

Growth of vodka, the second-largest category (24 per cent of sales), was more measured, up 1.3 per cent to $471 million. The key growth-driver in the category continues to be the premium segment, accounting for 60 per cent of vodka sales. However, super-premium priced vodkas were the fastest-growing at 42.9 per cent. Flavoured vodkas continued to see strong growth, up 8.4 per cent, as a result of new product innovation, trendy new flavours and low-calorie products.

Flavour was also a key driver for rum. Spiced rum exhibited double-digit growth of 11.7 per cent. The total category, however, remained relatively flat at 0.4 per cent versus last year. Like vodka, a declining trend in the purchase of mainstream brands countered gains from the spiced segment. In particular, mainstream white rums, which account for 39 per cent of the category, were down 4.1 per cent.

Turning to brandy and cognac, product innovation boosted customer interest in premium and deluxe spirits, growing this category 2.3 per cent to $87 million.

Gin ended the year at $64.7 million, gaining 2.3 per cent. Gin consumers continue to gravitate to premium and deluxe-priced products, which rose 6.9 per cent and 15.6 per cent, respectively.

Tequila had another strong year, with sales rising to $43.7 million, up 4.5 per cent. Growth continued to be driven by premium, 100 per cent agave products, where LCBO has increased its assortment.

In 2014–15, whisky sales are expected to top $632 million, led by American, Irish and Scotch whiskies, as well as a stronger performance from the largest category, Canadian whisky. Spiced rum, gin and coolers are also expected to be categories that see increased consumer interest. Total category sales are expected to grow by 2.3 per cent, surpassing the $2 billion mark for the first time.

SUMMARY

Net Sales: $996.4 million[1]
Performance to last year: +$40.2 million, or 4.2 per cent
Margin dollars: $391.4 million
Performance to last year: +$17.0 million, or 4.6 per cent
Total inventory turns performance: 15.99 from 16.91 the previous year

Strong sales in the autumn and holiday periods, as well as continued growth of cider and Ontario craft beer, resulted in another good year for the category.

Cider accounted for 45.7 per cent of total sales growth last year. Cider sales were exceptionally strong, rising 52.7 per cent, boosted by increasing customer interest and the growth of the Somersby brand, which rose 263.0 per cent versus the previous year. Though overall beer sales in Ontario declined, LCBO saw solid increases in both domestic beer (3.3 per cent) and imported beer (2.9 per cent).

Ontario craft beer, which represents 6.8 per cent of beer sales, continued to see excellent growth, with sales rising 26.6 per cent. Craft beer growth was helped by seasonal products and new breweries entering the marketplace (namely Junction Craft Brewing and Big Rig Brewing).

Sales are forecast to rise 5.7 per cent in 2014–15, driven by the continued growth of cider and customers showing increased interest, sophistication and education in the beer category, as well as a willingness to explore and experiment in new flavours and styles.

LCBO will add new cider offerings, particularly bottled formats and local craft cider, introduce products from new Ontario craft breweries, provide innovative and seasonal releases from existing Ontario craft breweries, and feature new offerings from craft breweries in the U.S. and Europe. Strong customer interest in craft beers continues to fuel growth in craft brewing.

In the coming year, cider is expected to grow 34.8 per cent and Ontario craft beer is expected to grow 20.9 per cent. Another area of planned growth is gluten-free beer, which is expected to grow 26.7 per cent.

1 Shipments to The Beer Store accounted for $261.5 million in net sales representing growth of 0.6 per cent over the previous year.

BEER World
ONTARIO CRAFT BREWERS
BRASSEURS ARTISANS DE L'ONTARIO

SUMMARY

Net sales: $439.9 million
Performance to last year: +$9.3 million or +2.2 per cent
Margin dollars: $210.0 million
Performance to last year: +$3.1 million or 1.5 per cent
Total inventory turns performance: 3.13 from 3.24 the previous year

The majority of VINTAGES year-over-year sales growth was driven by its successful retail programs. While the *Front Line Release* program generated $238.0 million (54.1 per cent) of sales, the greatest growth came from the *Essentials* program, which rose 6.2 per cent to $176.6 million.

Products from the United States topped all countries in sales, with California leading the way, ending the year at $95.4 million in sales, up 11.3 per cent over the previous year. Most of this growth was in the $20–$24.95 price band, where California accounts for 46.0 per cent of all VINTAGES red wine sales within this price band. This is consistent with California's net sales per litre, which is at $29.32, easily the highest of any category in VINTAGES. California red has three very strong varietals: Cabernet, Zinfandel and Pinot Noir, growing at 14.5 per cent, 19.5 per cent, and 18.6 per cent respectively.

Beyond the United States, key areas of growth included Spanish red wines, which were up 15.3 per cent to $16 million, with the greatest growth coming from *Front Line* sales. Efforts to move towards premium products in the Spanish red wine portfolio resulted in an increase of $1.47 to their average *Front Line* Release price point from the previous year to $21.36. French wines also saw strong growth, up 6.4 per cent to $53.6 million, with the regions of Burgundy and the Rhône gaining the most traction in terms of sales growth. Lastly, New Zealand whites experienced healthy growth, up 15.2 per cent to $29.5 million.

Sales of Ontario VQA wines within the *Front Line* and *Essentials* groups outpaced the wines category with growth of 13.1 per cent, driven largely by *Front Line* growth of 20.3 per cent. Red wine significantly outpaced white wine growth, with VINTAGES red wines up sharply at 22.2 per cent. The largest dollar gains were realized in the $20–$25 price band, growing almost 30 per cent, which indicates customers' increasing confidence and willingness to purchase premium products in this category.

In 2014–15, the VINTAGES segment is expected to grow 2.1 per cent to $449.3 million. The bulk of the growth is forecast to come from the *Essentials* group. This is a result of a big change in product mix, where 30 of LCBO's top collaborative and release brands will be moved to *Essentials*. Margin is expected to increase at the rate of 2.2 per cent to reach $214.0 million. Consistent with VINTAGES' reputation for premium products, the focus will remain on products priced above $20.


France


hello
LCBO

Management Discussion & Analysis of Operations

The LCBO is a government business enterprise. In the fiscal year ended March 31, 2014 (hereafter referred to as 2014) it operated a network of 639 retail stores and special-order services, offering over 24,000 spirits, wine and beer products to consumers and licensed establishments throughout the province of Ontario. The LCBO estimates 1.2 billion litres of beverage alcohol products were sold in Ontario during 2014, with an estimated retail value of over $10 billion. The LCBO accounts for more than one-third of these volume sales and half of the retail value sales.

HIGHLIGHTS[1]

- Revenues reached nearly $5.0 billion, 0.9 per cent below plan but greater than that of the previous year by 2.2 per cent
- Net income increased by $33.7 million or 2.0 per cent over the previous year, 0.4 per cent below plan
- Dividend to the provincial government was $1.74 billion, reflecting a 2.4 per cent improvement over the previous year
- The LCBO retail store network increased by five net new locations during the year to 639 stores, an additional five were delayed until fiscal 2015[2]
- Four year LCBO-OPSEU Collective Agreement was ratified in June 2013, increasing expenses by $9 million in 2014[3]
- Management salary bands were frozen for the fourth straight year

	2014	vs. 2013	vs. Plan
Dividend to Government of Ontario	$ 1,740,000,000	2.4%	0.0%
Revenues	$ 4,999,339,000	2.2%	-0.9%
Net income	$ 1,744,683,000	2.0%	-0.4%
Number of LCBO stores	639	5	(5)

1 Numbers for fiscal years after 2011 within this document are presented in accordance with International Financial Reporting Standards (IFRS). Financial information prior to 2011 complies with Canadian Generally Accepted Accounting Principles (CGAAP). Net income and dividend are presented for a 10-year history since the net impact of IFRS changes on net income is minimal and is non-existent for dividends.

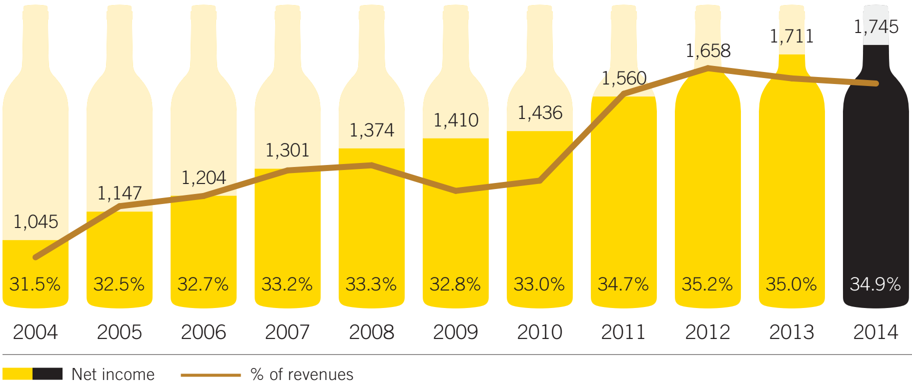
2 See details on page 56.

3 See details on page 65.

NET INCOME

In 2014, net income represented 34.9 per cent of revenues, down 10 basis points from the previous year.

Net Income ($ millions) and as a Percentage of Revenues

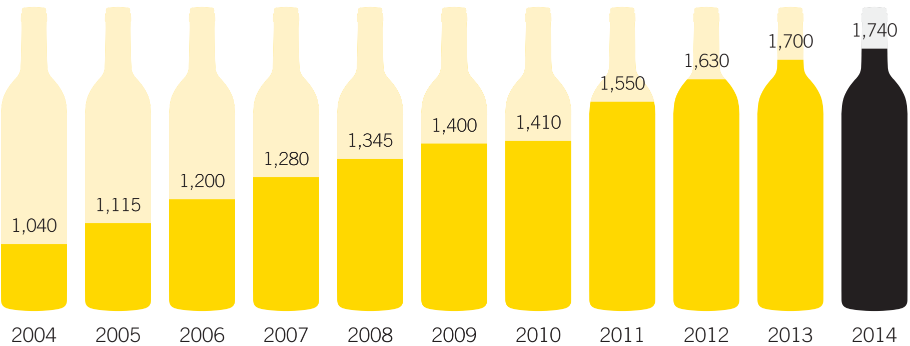


Over the past 10 years, net income has advanced by $699 million or 67 per cent as a result of sales growth, improved margins and good expense control.

DIVIDEND

In addition to taxes, the LCBO transferred $1.74 billion in dividends to the Government of Ontario in 2014. Compared to 2013, the amount rose by $40 million and marked the 20th straight year of increased transfers.

Dividend ($ millions)



The dividend has grown by two-thirds over the last 10 years, reflecting an additional $700 million. Cumulatively, the Government of Ontario has received $14.4 billion in dividend transfers from the LCBO during the past decade.

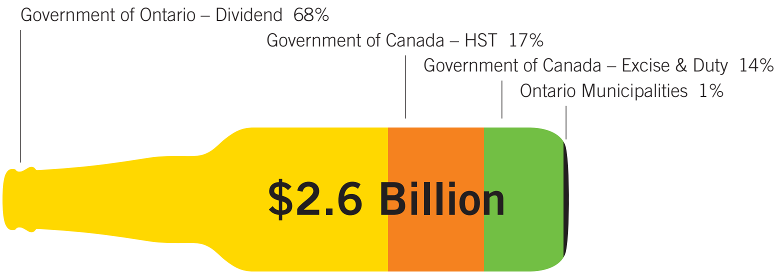
PAYMENTS TO GOVERNMENT

In 2014, the LCBO paid $2.6 billion to all levels of government. The dividend, which excludes excise, duty and all sales and municipal taxes, was the sole payment at the provincial level and accounted for 68 per cent of the total. The Government of Canada received $800 million in the form of excise, duty and sales taxes. Realty and leased property taxes comprised the nearly $26 million the LCBO paid to Ontario municipalities.

	2014
Total payments	$ 2,566,373,537
Government of Ontario – Dividend	68%
Government of Canada – HST	17%
Government of Canada – Excise & Duty	14%
Ontario Municipalities	1%

Note: HST collected by the LCBO is remitted to the Government of Canada where a portion near eight per cent, approximately $270 million, is later transferred back to the Government of Ontario.

LCBO Payments to Government



LCBO IN THE SHARED MARKETPLACE

The LCBO operates in a shared marketplace along with other retailers of beverage alcohol in the province of Ontario, including The Beer Store, Ontario winery retail stores (WRS), on-site brewery and distillery stores, and duty-free operators. In addition, the LCBO has authorized established retailers in smaller Ontario communities to act as agents on its behalf and sell alcoholic beverages in conjunction with other goods. These agency stores sell spirits, wine and imported beer purchased from the LCBO and domestic beer purchased from TBS or other domestic beer suppliers.

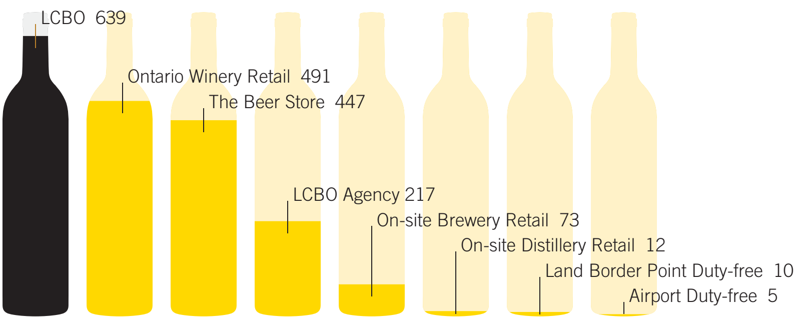
Number of Outlets

As of March 31, 2014, there were 1,894 retail outlets selling alcoholic beverages in Ontario. Since 2010, the number of outlets has increased by 118 locations or almost seven per cent.

Number of outlets	2014	2013	2012	2011	2010
LCBO[4]	639	634	623	617	611
LCBO Agency	217	219	214	217	216
Ontario Winery Retail	491	479	472	464	448
The Beer Store	447	446	442	440	440
On-site Brewery Retail	73	52	45	43	44
Land Border Point Duty-free	10	10	10	10	10
On-site Distillery Retail	12	7	5	3	3
Airport Duty-free	5	4	4	4	4
Total	1,894	1,851	1,815	1,798	1,776

Note: When the LCBO's 639 locations are combined with Ontario's 217 LCBO agency stores, the total market share as a percentage of the total number of outlets is approximately 45 per cent.

Ontario's Alcohol Marketplace by Number of Outlets



4 LCBO store count includes four depot locations

Market Share

The total Ontario beverage alcohol marketplace, which includes LCBO, The Beer Store, Ontario winery retail stores, as well as other legal[5] (e.g., ferment on premise), homemade and illegal channels, amounted to an estimated 1.2 billion litres sold during 2014. The LCBO's overall market share by volume increased to 36.2 per cent from 35.7 per cent in 2013[6].

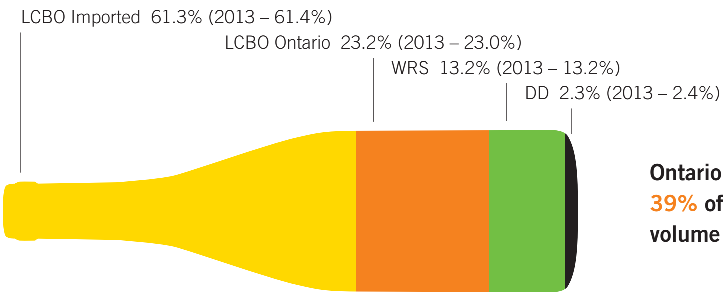
Wine

Sales of wine in the province grew by 5.3 million litres or 3.2 per cent in 2014. Imported wines, representing 61.3 per cent of all wine sold in Ontario, increased 3.1 per cent compared to the previous year and accounted for 59 per cent of the volume increase. Wine produced in Ontario increased its share by 10 basis points to 38.7 per cent of total provincial wine sales, as sales advanced 3.4 per cent from the previous year.

Ontario wine sold by the LCBO posted strong sales growth in 2014, topping all other channels. LCBO sales of Ontario wine (23.2 per cent share, up 20 basis points) increased 4.2 per cent compared to the previous year. By comparison, Ontario winery retail stores (13.2 per cent share) advanced 3.1 per cent while sales through the direct delivery channel – whereby products are delivered directly by Ontario wineries to licensees and duty-free operators – declined 2.3 per cent.

Over the past 10 years, the LCBO share of all Ontario wine sold in the province has grown 220 basis points to 60.0 per cent while winery retail store (WRS) share has declined 210 basis points to 34.0 per cent. Direct delivery (DD) sales account for the remaining 6.0 per cent of Ontario wine sales, down 10 basis points since 2005.

2014 Wine Market – Volume



Ontario wines represent 39% of provincial wine volume sales

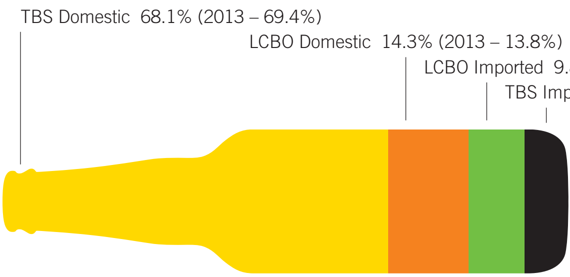
5 Illegal channel sales consist of LCBO estimates for smuggling and illegal wine manufacturing.
6 See Ontario Sales Channel Summary for further detail.

Beer

Beer volume sales in Ontario decreased by approximately 27 million litres or 3.4 per cent compared to 2013. The Beer Store (TBS), with 75.9 per cent of the market volume by the end of 2014, experienced a 4.5 per cent decline in sales during the year. At the LCBO, beer volume sales increased 0.5 per cent and expanded market share by 90 basis points to 24.1 per cent versus 23.2 per cent last year.

LCBO beer sales have benefitted from a growing customer preference for imported products and local premium beer produced by Ontario craft brewers, which registered strong sales growth near 30 per cent during the year. Over the last 10 years, the LCBO has increased its share of the beer market by seven full percentage points.

2014 Beer Market – Volume



LCBO accounts for 24% of all beer sold in Ontario

EXTERNAL ENVIRONMENT

Ontario experienced modest economic improvement between April 2013 and March 2014.

The province registered real GDP growth of only 1.3 per cent during the year as trade to the United States improved but at a measured pace. Along with subdued global conditions, reduced new home construction and lower business spending also limited growth during the year.

Ontario's labour market added over 60,000 jobs during the fiscal year as 40,000 more workers entered the labour force. The unemployment rate averaged 7.5 per cent, 30 basis points better than a year earlier but still a full percentage point higher than six years ago.

The provincial retail sector improved from the flat performance of the previous year, rising 3.2 per cent over the 12 months ended March 2014. However, when motor vehicle sales and transactions at gas stations are excluded, provincial retail advanced 2.2 per cent. The Conference Board of Canada's index of consumer confidence improved eight points to 77 (2002=100) during the year, but remained below the historical average, and monthly fluctuations indicated that the mood of consumers was particularly precarious when it came to household finances.


LCBO
MARVIS
LAIDLAW
Manager

The LCBO missed planned revenues by 0.9 per cent while exceeding those of the previous fiscal year by 2.2 per cent. Growth was supported by the continuing strategic expansion of the store network as well as effective marketing promotions and successful product launches. Performance was constrained by delayed new store openings[7] as well as adverse weather conditions throughout the year and especially during the winter season. Year-over-year results were further subdued by prevailing economic challenges and the absence of an Easter holiday during fiscal 2014.

NET SALES[8]

Net sales at the LCBO reached $4.99 billion in 2014, $105 million or 2.2 per cent greater than the previous year.

Channel Sales

The LCBO sells beverage alcohol to its customers through a variety of sales channels. Sales to home consumers through the retail channel accounts for the largest portion of sales, at 80.3 per cent of total sales at the LCBO. During 2014, this channel's share expanded 20 basis points and sales through this channel advanced 2.4 per cent to $4.0 billion.

Sales to agency stores, essentially an extension of the LCBO retail channel through independent local retailers serving smaller communities around Ontario, increased 1.0 per cent to $103 million during the year. This channel maintained its 2.1 per cent share of total LCBO sales.

Channel	Share	2014	vs. 2013
Retail	80.3%	$ 4,014,771,000	2.4%
Licensee	9.6%	$ 481,579,000	2.2%
TBS	6.3%	$ 312,060,000	-1.0%
Agency	2.1%	$ 103,170,000	1.0%
Direct Delivery	1.1%	$ 56,385,000	3.3%
Duty-free	0.5%	$ 25,996,000	-3.3%
Other	0.1%	$ 5,378,000	23.0%
Total	100%	$ 4,999,339,000	2.2%

Beverage alcohol purchased by licensed establishments such as bars and restaurants makes up the second largest LCBO sales channel. Licensee sales retained a 9.6 per cent share of total LCBO sales during 2014, rising 2.2 per cent during the year to $482 million.

LCBO sales to The Beer Store, the third largest LCBO sales channel, declined 1.0 per cent to $312 million in 2014. As a percentage of overall LCBO sales, this channel decreased by 20 basis points to a 6.3 per cent share.

7 Five planned store projects were delayed until fiscal 2015 due to conditions beyond LCBO control such as site unavailability, permit approval and other construction delays.

8 Net sales are equal to gross sales less discounts and taxes. Net sales are used to calculate retail and logistics productivity ratios.

Direct delivery sales, based on remittances by wineries to the LCBO, posted sales growth of 3.3 per cent in 2014. At $56 million, this channel continues to account for 1.1 per cent of total LCBO sales.

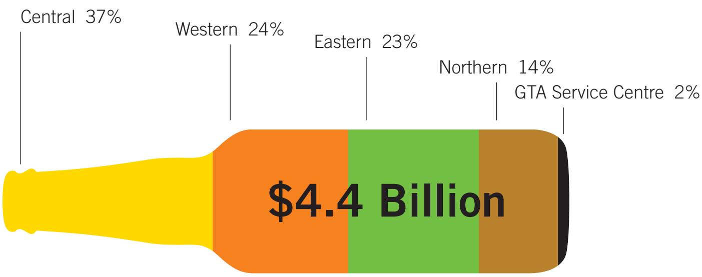
Duty-free operators at airports and land-border points, accounting for 0.5 per cent of LCBO sales in 2014, experienced decreased sales of $26 million, 3.3 per cent lower than in 2013.

Regional Sales[9]

Each of the four geographically-based LCBO retail regions experienced sales gains over the previous year. Store network investment activity – new stores, relocations and expansions – continued to contribute significantly to this result.

	2014		vs. 2013	
Region	Store count	Sales	Store count	Sales
Central	141	$ 1,620,533,081	3	2.3%
Western	168	$ 1,085,920,814	1	2.4%
Eastern	170	$ 1,030,760,830	1	2.8%
Northern	159	$ 603,055,892	0	1.1%
GTA Service Centre	1	$ 104,565,767	0	1.5%
Total	639	$ 4,444,836,384	5	2.2%

LCBO Sales by Region



The Central Region accounts for the largest share of LCBO store sales at over $1.6 billion, or 37 per cent of the total. In 2014 this region contributed $36 million to overall net sales improvement. This performance was supported in part by seven new store investment projects, three of which were brand new locations.

9 Regional sales represent sales at store and depot locations only; totals do not reconcile to the total LCBO Channel sales presented on page 58.

The Western Region represented almost $1.1 billion in LCBO net sales (24 per cent of the total) and posted a net sales increase of $25 million during the year supported by eight new, relocated or expanded locations. The Eastern Region, benefitting from investment in nine locations, experienced a sales increase of almost $28 million in 2014 and holds a 23 per cent share of total sales at just over $1.0 billion.

Stores in the Northern Region saw their sales rise by over $6 million in 2014 to $603 million (14 per cent of the total). The region had one store relocation during the year.

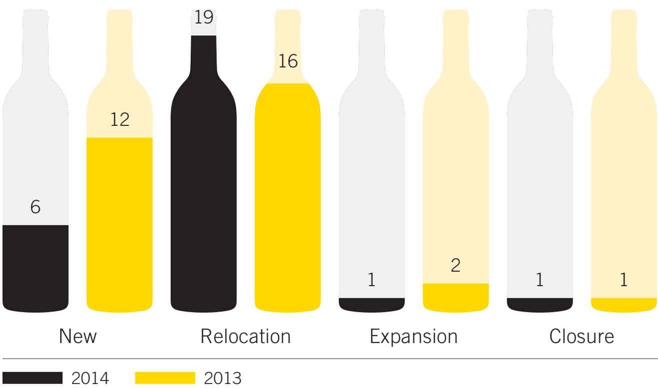
Same Versus Non-same Store Sales

Same store sales growth is a retail industry metric that measures sales performance at all stores that have been in the same location and format for one full year or longer, while excluding all stores that were added, moved, substantially renovated and closed during the year (i.e., non-same). To calculate annual sales growth, same stores must have been in the same location for two full years.

In 2014, sales at same stores were flat to the previous year, representing $3.8 billion in retail sales. Non-same stores, which included six new stores, 19 relocations, one expansion and one location closure, achieved sales of $487 million during the year.

Same Versus Non-same Store Sales Share in 2014

Store Investment Activity (Number of Projects)



Category Sales[10]

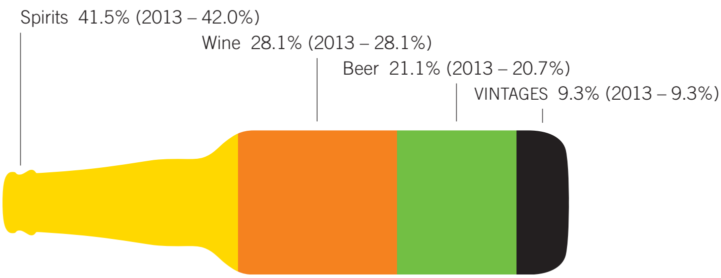
Spirits accounted for the largest portion of LCBO sales at just under $2.0 billion or 41.5 per cent of the total in 2014. For the second consecutive year, this category's share declined 50 basis points as sales increased 0.9 per cent compared to 2013. Spirits sales came in 1.5 per cent below plan.

Wine (excluding VINTAGES) remains the second-largest category for sales – with a steady 28.1 per cent of total net sales – at over $1.3 billion. Wines increased 2.4 per cent versus the previous year and missed plan by 0.7 per cent.

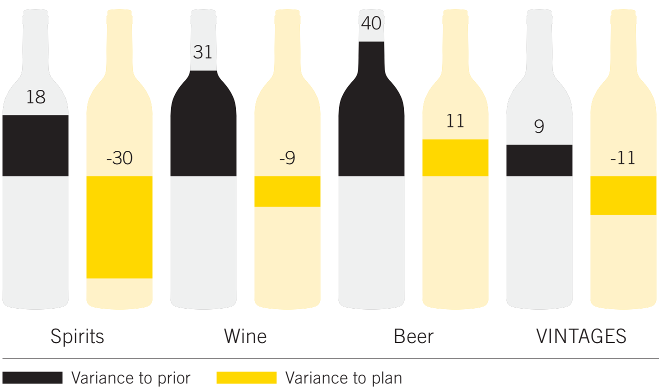
VINTAGES maintained a 9.3 per cent share of total net sales, reaching $440 million. Sales results for the category advanced 2.2 per cent from last year, but fell short of plan by 2.5 per cent.

Beer sales led all growth, up 4.1 per cent compared to the previous year and reaching the $1.0 billion mark for the first time. Exceeding its plan by 1.1 per cent, this category increased its share of overall sales by 40 basis points to 21.1 per cent.

Sales Share by Category



Category Sales Performance ($ millions)



10 Analysis of category sales examines performance by LCBO buyer group only and excludes specialty services and other sales.

OPERATING RESULTS

In 2014, every $1 in revenues was broken out in the following manner:

Product cost	$ 0.49
Income from operations	$ 0.35
Selling, general and administrative expenses	$ 0.16

Margins

Total LCBO gross margin reached $2.5 billion in 2014, representing an improvement of 1.9 per cent compared to the previous year, but 1.0 per cent less than plan. As a percentage of revenues, gross margin declined 10 basis points to 50.2 per cent. This reduction was due to the increased sales share for beer, which is a lower-margin product category.

From every $1 in sales, the major categories generated the following margins in 2014:

Spirits	$ 0.59
Wine	$ 0.52
VINTAGES	$ 0.48
Beer	$ 0.39

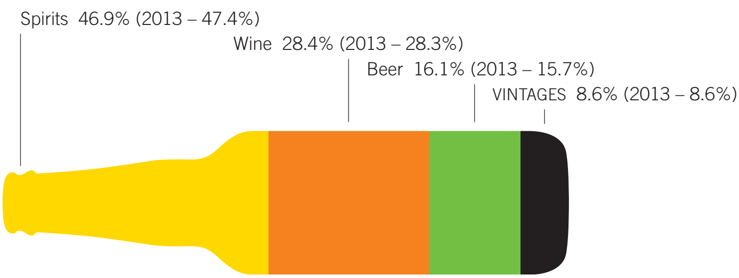
Spirits accounted for 46.9 per cent or almost $1.2 billion of margin in 2014. Spirits margin share declined by 50 basis points compared to 2013 and 20 basis points compared to plan.

Wine experienced a 10 basis point increase in margin share during 2014 to 28.4 per cent of total LCBO margin, also 10 basis points better than plan. This category posted margin growth of 2.6 per cent over 2013 to $696 million, 0.6 per cent less than plan.

Margins from beer totalled $394 million in 2014. At 16.1 per cent of total margin, beer's share of margin grew 40 basis points higher than last year and outpaced plan by 40 basis points.

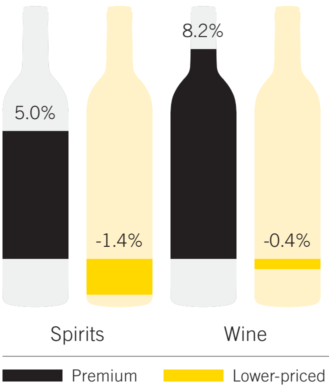
VINTAGES margin, at $210 million, increased 1.5 per cent from the previous year but fell short of plan by 3.7 per cent. As a result, margin share for VINTAGES held at 8.6 per cent while missing plan by 20 basis points.

Margin Share by Category



Sales growth among premium products continued to exceed that of lower-priced products in 2014, providing support to absolute margin improvement in the spirits and wine categories. Unlike spirits and wine, the mark-up applied to beer is on a volume basis so similar-sized beer products generate the same margin, regardless of their price.

Lower-priced Versus Premium Product Volume Sales Growth



Volume sales of premium spirits, with prices of at least $30 for a 750 mL bottle, improved 5.0 per cent year-over-year compared to a 1.4 per cent decrease in sales of similar-sized, lower-priced spirits products. Premium wines, retailing for $15 or more for a 750 mL bottle, experienced growth of 8.2 per cent, while lower-priced wine products were essentially flat, down 0.4 per cent compared to 2013.

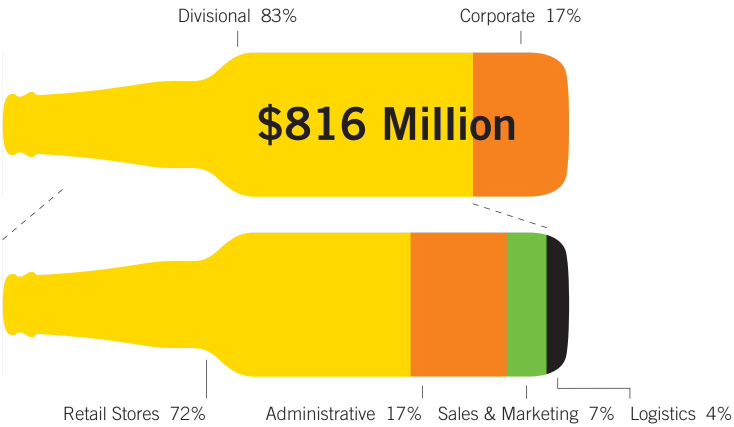

New Arrivals
Every 2 weeks,
LCBO
MARIO
LCBO
SHARON
VINTAGES
TWIN PEAKS
Chile & Argentina

Selling, General and Administrative Expenses

In this section, expenses refer to all selling, general and administrative (SG&A) expenses as per the audited Statement of Income and Comprehensive Income.

LCBO total expenses were just over plan in 2014 despite the addition of $9 million in unplanned expenses related to the new LCBO-OPSEU Collective Agreement ratified during the year. At $816 million, expenses increased 4.6 per cent or $36 million compared to 2013.

Total Expenses



Divisional Expenses

Divisional expenses, representing approximately 83 per cent of total expenses or $675 million, were $33 million or 5.1 per cent higher than in 2013. Retail stores accounted for 85 per cent of the increased spending, owing primarily to retail network expansion of new and relocated stores.

The ratified Collective Agreement contributed to increased divisional spending in 2014. A total cost of $8.5 million was related to lump sum payments of $400 per casual employee and $800 per full-time employee for bargaining unit personnel paid in June 2013 and charged again in March 2014 as an accounting accrual to recognize the obligation for fiscal 2015 (actual payment effective April 1, 2014). The Agreement further added net new costs of $0.5 million during the year relating to a variety of other items such as benefits.

On the management side, salary bands remained frozen for the fourth straight year since the Government of Ontario first announced a public sector wage freeze in March 2010.

Effective expense management and cost efficiencies meant all other divisions spent below or very close to planned levels during the year.

Divisional Expenses	2014	vs. 2013	vs. Plan
Retail Stores	$ 488,864,000	6.1%	0.6%
Administrative	$ 111,509,000	4.7%	-1.7%
Sales & Marketing	$ 45,624,000	-3.0%	-4.3%
Logistics*	$ 29,198,000	4.4%	3.9%
Total	$ 675,195,000	5.1%	0.0%

* As per IFRS accounting rules, direct labour costs in Logistics have been included in cost of goods sold since April 1, 2010. In 2014, direct labour costs were approximately $33 million, up $1 million from the preceding year.

Corporate expenses, representing 17 per cent of the $816 million expense total, exceeded the previous year's amount by 2.2 per cent and matched plan at $141 million. Depreciation, the largest component of corporate expenses at 39 per cent, was 7.4 per cent over last year's figure and 3.9 per cent more than plan. Increased debit/credit charges, gift card program expenses and environmental initiatives – costs related to the Ontario Deposit Return Program and payments to Stewardship Ontario – also contributed to the variance compared to the previous year.

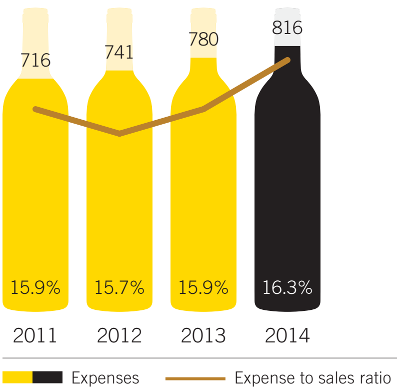
Corporate Expenses	2014	vs. 2013	vs. Plan
Depreciation	$ 54,897,000	7.4%	3.9%
Environmental Initiatives	$ 37,109,000	2.8%	-3.9%
Debit Credit Charges	$ 34,823,000	7.6%	2.5%
Other Expenses	$ 14,106,000	-23.2%	-8.6%
Total	$ 140,936,000	2.2%	0.1%

Expense to sales ratio

The ratio of expense to sales was 16.3 per cent in 2014, 40 basis points more than the prior year and 10 basis points more than plan.

Ratio performance was affected by costs related to the Collective Agreement ratification as well as contingency planning for possible labour action. In addition, the metric was impacted by retail network expansion. New and relocated stores take time to realize sales potential even as higher expense levels are immediately incurred.

Expense Trend ($ millions)

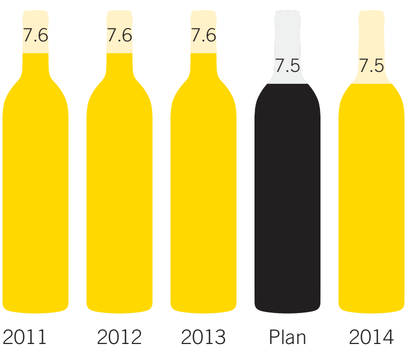


Inventory

In 2014, total inventory turns decreased from the previous year's metric of 7.6 to 7.5, matching plan.

As with expenses, inventory was impacted by potential labour action contingency planning and store network expansion. Inventory was accumulated as a contingency against a potential labour disruption at the beginning of the year, but effective management maintained turns at plan level. With regards to the addition of new locations, while it takes time for optimal sales levels to be reached at new locations, stores need to be immediately stocked and ready-for-business and this affects turn performance in the short-term.

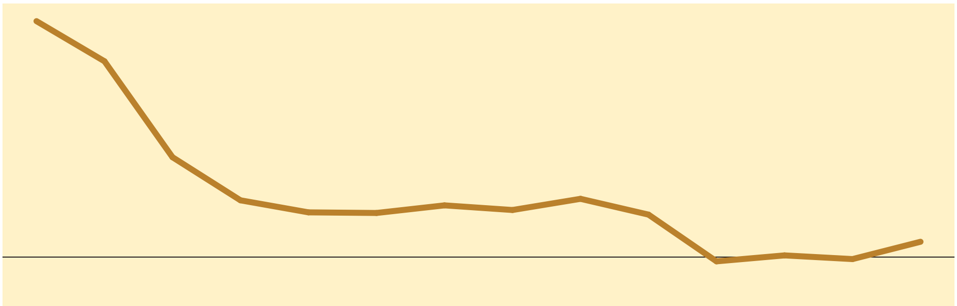
Total Inventory Turns



All categories experienced softer turns during the year. Spirits turns declined to 8.8 from 9.0 last year while wine turns eased to 6.4 from 6.6 in 2013. VINTAGES saw its turns decrease slightly to 3.1. Beer turns moved from 16.5 in 2013 to 15.6 during 2014.

Average net inventory investment during 2014 was $7 million. Since 2001, LCBO net investment in inventory has fallen by over $100 million.

Rolling Net Inventory Investment ($ millions)



Financial and Operating Ratios

	2014	Plan	2013	2012	2011
Net income as a percentage of revenues	34.9%	34.7%	35.0%	35.2%	34.7%
Gross margin as a percentage of revenues	50.2%	50.2%	50.3%	50.2%	50.0%
Selling, general and administrative expenses as percentage of revenues	16.3%	16.2%	15.9%	15.7%	15.9%

In 2014, net income was 34.9 per cent of revenues, exceeding plan of 34.7 per cent, but lower than last year's 35.0 per cent.

Gross margin as a percentage of revenues was 10 basis points lower than the previous year, matching target at 50.2 per cent.

Selling, general and administrative expenses were 16.3 per cent of revenues, 10 basis points higher than plan and 40 basis points higher than last year's ratio.

Productivity Ratios

In order to monitor expenses and identify areas of focus, the LCBO establishes productivity ratio targets each year. The store expenses-to-sales ratio, for example, shows the total amount of store expenses as a percentage of the store's net sales.

Retail productivity highlights

	2014	Plan	2013	2012	2011
Store expenses as a percentage of sales	11.0%	10.8%	10.6%	10.4%	10.5%
Store expense per unit sold	$ 1.16	$ 1.14	$ 1.10	$ 1.06	$ 1.05
Store salary per unit sold	$ 0.77	$ 0.75	$ 0.74	$ 0.72	$ 0.72
Unit sales per hour paid	41.8	42.9	43.1	43.3	42.0
Sales per transaction	$ 35.04	$ 34.54	$ 34.39	$ 33.66	$ 32.91
Sales per square foot	$ 1,783	$ 1,765	$ 1,809	$ 1,850	$ 1,832

While one-time expenses related to the Collective Agreement affected retail productivity ratio results, expansion of the store network through the addition of new stores, relocations and selling space continued to impact ratio performance during 2014. Increases to salary and rent-related expenses, in particular, influenced the results as the effects of such expenses are immediate, while sales growth takes time to develop. As these stores become more efficient and gain sales within their particular market, overall ratio performance is expected to improve.

In 2014, store expenses as a percentage of sales were 11.0 per cent, 20 basis points over plan and 40 basis points more than last year.

Average store expense per unit sold was $1.16, six cents higher than the previous year and two cents above target. Store salaries are responsible for $0.77, up from $0.74 last year and two cents higher than plan.

During 2014, customers spent on average $0.65 more per transaction than they did a year earlier. The $35.04 per customer sale reflects a new all-time high and outpaced the expected sales per transaction by $0.50.

Additional selling space in larger newly-opened stores, either replacing previous stores that were overcapacity and could not accommodate the product assortment for the market, or new larger stores built to accommodate larger product assortment (including premium VINTAGES products) contributed to a decline in sales per square foot. This was expected and reflected in the plan. The ratio declined to $1,783 per square foot in 2014, $26 lower than last year and $18 more than target.

Logistics productivity highlights

	2014	Plan	2013	2012	2011
Warehouse cost per case	$ 1.29	$ 1.24	$ 1.26	$ 1.25	$ 1.24
Warehouse salary cost per case	$ 1.06	$ 1.02	$ 1.04	$ 1.03	$ 1.02
Logistics cases per hour paid	79	77	75	73	73

Logistics productivity ratios related to cost were driven higher by expenses resulting from the Collective Agreement ratification. Total warehouse cost per case, including freight, was $1.29 during the year compared to $1.26 last year and over target by five cents per case. Salaries made up the largest portion of the total cost per case at $1.06 for the year, two cents per case higher than last year and four cents over plan.

Logistics cases per hour paid benefited from capital improvements, improving significantly in 2014 to 79, four cases more than last year and two cases better than plan.

CAPITAL EXPENDITURES

The LCBO remained committed to investing in its retail stores during 2014. The organization allocated 71 per cent of its capital expenditures towards retail network enhancement and expansion. Total capital expenditures declined 2.5 per cent compared to the previous year.

($ thousands)	2014	2013	2012	2011
Retail	$ 56,520	$ 56,597	$ 49,148	$ 36,185
Retail Store Development and Real Estate	$ 181	$ 410	$ 552	$ 629
Information Technology	$ 8,293	$ 9,002	$ 8,145	$ 10,916
Logistics	$ 5,381	$ 8,792	$ 8,186	$ 5,130
Marketing and Customer Insights	$ 1,745	$ 1,601	$ 266	$ 180
Other administrative divisions	$ 7,123	$ 4,914	$ 2,962	$ 425
Total capital expenditures	$ 79,242	$ 81,317	$ 69,259	$ 53,465


MARTELL
FINE COGNAC
V·S
VINI
Vietti
PENLEY ESTATE
PHOENIX

ENTERPRISE RISK MANAGEMENT

The LCBO has implemented an Enterprise Risk Management (ERM) program consisting of a risk framework, an ERM assessment process, continuous monitoring of key risks and semi-annual reporting to the Audit Committee of the Board of Directors. In fiscal 2014, 23 risks that could negatively impact the LCBO's performance were identified and ranked. In addition, responsibility for developing and implementing risk mitigation strategies was assigned to senior management.

The top three risks considered key by the LCBO are:

1. Government policy and legislative change
2. Long-term economic pressure – cost control versus customer service
3. Talent/succession management and compensation competitiveness

Government Policy and Legislative Change

The LCBO must anticipate and respond quickly to changes in legislation and regulation, interprovincial and international trade agreements, public service directives and standards, and changes to the beverage alcohol structure, carefully balancing its roles as a public agency and a customer-focused retailer. To mitigate these challenges, the LCBO remains focused on providing excellence in socially responsible retailing, customer service and operational efficiency. The LCBO provides input and advises government on the potential impacts on LCBO's financial performance and operations of any policy and legislative changes.

Long-term Economic Pressure – Cost Control vs. Customer Service

Economic factors such as unemployment levels, household debt, commodity price changes, and fluctuations in interest rates, exchange rates and inflation all impact consumer spending patterns. Given its discretionary nature, consumer spending on beverage alcohol is vulnerable to changes in the economy. Economic uncertainty, coupled with continued pressure to maximize revenues while reducing costs, could negatively impact LCBO's long-term business objectives and undermine customer service levels. Management regularly monitors global and domestic economic conditions and estimates their impact on LCBO's operations, factoring in these estimates into its strategic, business and financial plans with a view to achieving excellence in customer experience as well as operational efficiency.

Talent/Succession Management and Compensation Competitiveness

The significant number of management staff reaching retirement eligibility within the near term gives rise to a number of risks including the loss of corporate knowledge and history, lack of continuity for key program areas and potential losses of management skills needed to effectively implement corporate programs. In addition, attracting, retaining and engaging top talent for key positions is becoming increasingly challenging, particularly given LCBO salary levels and government compensation constraints. This is particularly the case for management in our larger stores where bargaining unit wage increases have intensified the degree of wage compression between management and bargaining unit staff. To manage these risks, the LCBO has implemented succession planning initiatives across divisions including a mentoring program for newly-appointed store managers and a corporate succession plan that facilitates knowledge transfer from near retiring senior-level managers.

LOOKING AHEAD

LCBO revenues are planned to reach $5.1 billion in fiscal 2015, surpassing the $5 billion threshold for the first time ever. The achievement will represent 3.0 per cent or $150 million increase over 2014.

Gross margin expectations are similar to that for revenues with a 3.1 per cent planned increase equating to gross margin of $2.6 billion in 2015. As a percentage of revenues, margin is expected to be 50.2 per cent.

At $846 million, expenses are planned to be 3.4 per cent higher in 2015. The continuing expansion of the store network and growing non-divisional expenses will contribute to this growth.

Net income is expected to advance by $33 million in the coming year, representing 1.9 per cent growth on the $1.7 billion achieved in 2014. This will support the 21st consecutive increase in the dividend transferred to the Government of Ontario by the LCBO. The total dividend forecast for 2015 is $1.78 billion, $40 million more than the amount transferred in 2014, reflecting a 2.3 per cent increase.

Sale of Head Office Land[11]

In 2012, the Government of Ontario announced plans to sell the LCBO's Head Office facility in downtown Toronto. As a multi-year phased project, the sale involves the offices and adjoining lands, the attached warehouse facility as well as the adjacent retail store. A Request for Proposal for the initial phase is expected to be issued in fiscal 2015.

In 2014, costs associated with the project totaled $659,849. Since the initial announcement, project-related costs of $1.15 million have been incurred. In 2015, project costs are planned to be an additional $1.5 million.

It is uncertain at this point how this transaction will precisely affect the finances of the LCBO on an ongoing basis. At the very least, it is expected that operating costs will increase somewhat to cover the additional ongoing lease costs associated with the move to rental property.

Logistics Productivity Improvement[12]

The Logisitics division will continue to undertake productivity improvement and cost savings measures in fiscal 2015. An automated palletization system was introduced in the Durham warehouse during fiscal 2014, increasing the number of cases palletized from 250 per hour in the pre-existing manual system to 1,250 per hour. Use of the automated system will be expanded during fiscal 2015. The benefit of this project is expected to be savings of $5 million per year for the LCBO as well gains in productivity metrics.

11 For more information please refer to the Notes to Financial Statements (24. Other Matters) on page 105

12 More details on Logistics Productivity Upgrades on page 29 of the Annual Report

Responsibility for Financial Reporting

The preparation, presentation and integrity of the financial statements are the responsibility of management. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the estimates, judgments and assumptions necessary to prepare the financial statements in accordance with Canadian generally accepted accounting principles, which complies with International Financial Reporting Standards. The accompanying financial statements of the Liquor Control Board of Ontario ("LCBO") have been prepared in accordance with International Financial Reporting Standards and include amounts that are based on management's best estimates and judgment.

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

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, composed of four Members who are not employees/officers of the LCBO, generally meets periodically with management, the internal auditors and the Office of the Auditor General of Ontario to satisfy itself that each group has properly discharged its respective responsibility. Also, the Office of the Auditor General of Ontario meets with the Audit Committee without management present.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with International Financial Reporting Standards. The Independent Auditor's Report outlines the scope of the Auditor's examination and opinion.

On behalf of management:

N. Robert Peter, President & Chief Executive Officer

Rob Dutton, Senior Vice President, Finance & Administration, and Chief Financial Officer
June 26, 2014

Independent Auditor's Report

To the Liquor Control Board of Ontario and to the Minister of Finance

I have audited the accompanying financial statements of the Liquor Control Board of Ontario, which comprise the statement of financial position as at March 31, 2014, and the statement of income and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Liquor Control Board of Ontario as at March 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Bonnie Lysyk, MBA, CPA, CA, LPA, Auditor General of Ontario
Toronto, Ontario
June 26, 2014

Statement of Income and Comprehensive Income

(thousands of Canadian dollars)

Years ended March 31,	Note	2014	2013
Revenue	16	4,999,339	4,893,768
Cost of Sales	6	(2,491,511)	(2,433,615)
Gross margin		2,507,828	2,460,153
Other income		55,701	33,712
Selling, general and administrative expenses	17	(816,131)	(780,418)
Income from operations		1,747,398	1,713,447
Finance income	19	1,993	1,344
Finance costs	11, 19	(4,708)	(3,824)
Net income		1,744,683	1,710,967
Other comprehensive income:			
Actuarial gains on non-pension employee benefits	11	911	3,055
Total other comprehensive income		911	3,055
Total comprehensive income		1,745,594	1,714,022

See accompanying notes to the financial statements.

Statement of Financial Position

(thousands of Canadian dollars)

	Note	March 31 2014	March 31 2013
ASSETS			
Current Assets			
Cash and cash equivalents	4	286,377	317,423
Trade and other receivables	5	42,831	41,521
Inventories	6	386,745	378,937
Prepaid expenses		10,556	13,069
Total Current Assets		726,509	750,950
Property, plant and equipment and intangible assets	7	364,435	340,210
Total Assets		1,090,944	1,091,160
LIABILITIES & EQUITY			
Current Liabilities			
Trade and other payables	8	549,255	561,119
Provisions	10	19,037	18,628
Current portion of non-pension employee benefits	11	11,700	10,202
Total Current Liabilities		579,992	589,949
Non-pension employee benefits	11	111,769	107,622
Total Liabilities		691,761	697,571
Equity			
Retained earnings		400,948	396,265
Accumulated other comprehensive income/(loss)		(1,765)	(2,676)
Total Equity		399,183	393,589
Total Liabilities and Equity		1,090,944	1,091,160

See accompanying notes to the financial statements.

Approved By:

Chair

Board Member, Chair, Audit Committee

Statement of Changes in Equity

(thousands of Canadian dollars)

	Retained Earnings	Accumulated other comprehensive income	Total Equity
Balance at April 1, 2013	396,265	(2,676)	393,589
Net income	1,744,683	–	1,744,683
Other comprehensive income	–	911	911
Dividends paid to province	(1,740,000)	–	(1,740,000)
Balance at March 31, 2014	400,948	(1,765)	399,183
Balance at April 1, 2012	385,298	(5,731)	379,567
Net income	1,710,967	–	1,710,967
Other comprehensive income	–	3,055	3,055
Dividends paid to province	(1,700,000)	–	(1,700,000)
Balance at March 31, 2013	396,265	(2,676)	393,589

Statement of Cash Flows

(thousands of Canadian dollars)

Years ended March 31,	2014	2013
Operating activities:		
Net income	1,744,683	1,710,967
Depreciation and amortization	54,897	51,126
Gain on sale of property, plant and equipment and intangible assets	(1,602)	(95)
	53,295	51,031
Change in non-cash balances related to operations:		
Trade and other receivables	(1,310)	(9,498)
Inventories	(7,808)	(21,993)
Prepaids	2,513	17,201
Trade and other payables	(11,864)	89,680
Provisions	409	978
Non-pension employee benefit expenses, net of payments	6,556	9,284
	(11,504)	85,652
Net cash provided by operating activities	1,786,474	1,847,650
Investing activities:		
Purchase of property, plant and equipment and intangible assets	(79,242)	(81,317)
Proceeds from sale of property, plant and equipment	1,722	1,698
Net cash used in investing activities	(77,520)	(79,619)
Financing activities:		
Dividend paid to the Province of Ontario	(1,740,000)	(1,700,000)
Net cash used in financing activities	(1,740,000)	(1,700,000)
Increase (decrease) in cash	(31,046)	68,031
Cash and cash equivalents, beginning of year	317,423	249,392
Cash and cash equivalents, end of year	286,377	317,423

For the years ended March 31, 2014 and 2013

1. GENERAL INFORMATION

The Liquor Control Board of Ontario ("LCBO") is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. LCBO is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario ("Province").

As an Ontario Crown Corporation, LCBO is exempt from income taxes. LCBO transfers most of its earnings to the Province's Consolidated Revenue Fund in the form of a dividend.

LCBO's head office is located at 55 Lake Shore Blvd East, Toronto, Ontario, Canada, M5E 1A4.

2. BASIS OF PREPARATION

a. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The financial statements are presented in Canadian dollars ("C$"), LCBO's functional currency.

The audited financial statements were approved by the Board of Directors and authorized for issue on June 26, 2014.

b. Basis of presentation

These financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value through profit and loss ("FVTPL").

Use of estimates and judgments

LCBO makes judgments and assumptions concerning the future that impact the application of policies and reported amounts. Judgment is used mainly in determining whether a balance or transaction should be recognized in the financial statements. Estimates and assumptions are used mainly in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated. The resulting accounting estimates calculated using these judgments and assumptions will, by definition, seldom equal the related actual future results as they are based on historical experience and expectations of future events.

The judgments and key sources of estimation uncertainty that have a significant effect on the amounts recognized in the financial statements are discussed below.

i. Non-pension employee benefits

The present value of the non-pension employee benefits obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the expense for the non-pension employee benefits include the discount rate. Any changes in these assumptions will impact the carrying amount of non-pension employee benefits obligations.

LCBO determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate, LCBO uses the interest rates of high-quality corporate bonds that are denominated in the Canadian dollars in which the benefits will be paid. Other key assumptions for employee benefit obligations are based in part on current market conditions. Additional disclosures are presented in Note 11.

ii. Depreciation and amortization

LCBO exercises judgment to determine useful lives of intangibles, and each significant component of property, plant and equipment. The assets are depreciated or amortized over their estimated useful lives. Additional disclosures are presented in Note 7.

iii. Impairment of property, plant and equipment and intangible assets

LCBO has determined each store as a separate cash-generating unit ("CGU"). Where there are indicators for impairment, LCBO performs an impairment test.

Intangible assets and property, plant and equipment are subject to impairment reviews based on whether current circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount for CGUs are based on a calculation of expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance. Additional disclosures are presented in Note 7.

iv. Allowance for impairment

LCBO makes an assessment of whether trade and other receivables are collectible from customers. Accordingly, LCBO establishes an allowance for estimated losses arising from non-payment, taking into consideration customer credit worthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected. Additional disclosures are presented in Note 5.

v. Inventories

LCBO makes estimates on the warehouse handling costs that directly relate to bringing inventories to their selling location and condition. Accordingly, LCBO includes the direct warehouse handling costs within inventories and they are expensed to cost of sales in the period the inventories are sold. Additional disclosures are presented in Note 6.

vi. Leases

LCBO leases certain retail stores and other assets. Determining whether a lease arrangement is classified as finance or operating requires judgment with respect to the fair value of the leased asset, the economic life of the lease, and the discount rate of the lease.

vii. Provisions

Provisions have been made for certain employee benefits, sales returns and store closing costs. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Additional disclosures are presented in Note 10.

viii. Ontario Deposit Return Program unredeemed container deposit income

LCBO has determined that not all deposits paid by customers for the Ontario Deposit Return Program ("ODRP") containers will be redeemed. Estimates have been made for the redemption rate on ODRP containers based on past history and industry trends. The estimated unredeemed ODRP containers deposits are treated as other income. Any difference between the expected and actual ODRP redemption will be accounted for in the year when such determination is made. Additional disclosures are presented in Note 22.

ix. Unredeemed Gift cards

LCBO has determined that not all gift cards purchased will be redeemed in full by customers. Estimates have been made for the redemption rate on gift cards based on past history and industry trends and are included in revenues.

(thousands of Canadian dollars)

c. New standards & interpretations not yet adopted

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and amendments that have not been applied in preparing our March 31, 2014 financial statements as their effective dates fall in periods beginning subsequent to the current financial reporting period.

Proposed standards and amendments	Description	Previous standard	Effective for LCBO reporting periods beginning on	Estimated impact
IAS 32 – Financial Instruments: Presentation	Amended in December 2011 to clarify existing requirements for offsetting financial instruments.	IAS 32 – Financial Instruments: Presentation	April 1, 2014	No anticipated impact
IFRIC 21 – Levies	Issued in May 2013, the interpretation provides guidance regarding when to recognize a liability to pay a levy that is accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.	N/A	April 1, 2014	No anticipated impact
IFRS 9 – Financial Instruments	Initially issued in November 2009 to address the classification and measurement of financial assets. Additional guidance issued in October 2010 on the classification and measurement of financial liabilities.	IAS 39 – Financial Instruments: Recognition and Measurement	April 1, 2015	LCBO is assessing the potential impact
IAS 19 – Employee Benefits	Amended in November 2013 to clarify how contributions from employees or third parties to defined benefit plans reduce service cost or affect remeasurements of the net defined benefit liability or asset.	IAS 19 – Employee Benefits	April 1, 2015	LCBO is assessing the potential impact

LCBO continues to evaluate the potential impact of standards and amendments effective in future periods on both quantitative and qualitative disclosure.

3. SIGNIFICANT ACCOUNTING POLICIES

a. Cash & Cash Equivalents

Cash and cash equivalents comprise of cash and highly liquid investments with original maturity dates of 90 days or less from the date of acquisition.

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

b. Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost less an allowance for impairment, if any.

Account receivables are net of an allowance for impairment where there is objective evidence that LCBO will not be able to collect all amounts due according to the original terms of the receivables. The loss is recognized as a selling, general and administrative expense in the Statement of income and comprehensive income. The resulting disclosures are presented in Note 5.

c. Inventories

LCBO values inventories at the lower of cost and net realizable value with cost being determined by the weighted average cost method. Cost includes the cost of purchase net of vendor allowances and includes other direct costs, such as transportation and direct warehouse handling costs that are incurred to bring inventories to their present location and condition. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred. LCBO estimates net realizable value as the amount that inventories are expected to be sold at, less the estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable. The resulting disclosures are presented in Note 6.

d. Property, plant and equipment

Major capital expenditures with a future useful life beyond the current year are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition, construction or development of the asset.

Depreciation is recognized in the Statement of income and comprehensive income over the expected useful lives of each major component of property, plant and equipment, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The estimated useful lives for property, plant and equipment are as follows:

— Buildings	5–40 years
— Leasehold Improvements	5–20 years
— Furniture and Equipment	5–20 years
— Computer Equipment	3–4 years

Land assets are carried at cost, less any recognized impairment losses and are not depreciated.

Property, plant and equipment under construction and not available for use, are carried at cost, less any recognized impairment loss. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

The cost of subsequently replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits related to the part will flow to LCBO, and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in the Statement of income and comprehensive income as incurred.

The resulting disclosures are presented in Note 7.

e. Intangible assets

i. Acquired intangible assets

Acquired intangible assets, such as software, are measured initially at cost and are amortized on a straight-line basis over their estimated useful lives.

The estimated useful lives for intangible assets are as follows:

- Computer software 3–4 years

The resulting disclosures are presented in Note 7.

ii. Internally generated intangible assets – research & development costs

Research costs are expensed as incurred.

Development expenditures incurred are capitalized only if all the following criteria are met:

- an asset is created that can be identified (such as software or new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Software under development and not available for use, are carried at cost, less any recognized impairment loss. When completed and ready for intended use these assets are amortized on the same basis as other acquired intangible assets. The resulting disclosures are presented in Note 7.

f. Impairment of property, plant and equipment and intangible assets

Annually LCBO reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication of an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, LCBO estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. For property, plant and equipment and intangible assets, the CGU is deemed to be each retail store. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. Any impairment charge is recognized in the Statement of income and comprehensive income in the year in which it occurs. The resulting disclosures are presented in Note 7.

g. Trade and other payables

Trade and other payables are classified as other financial liabilities and are generally short term in nature and due within one year of the Statement of financial position date. Trade payables are non interest-bearing and are stated at amortized cost. The resulting disclosures are presented in Note 8.

h. Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation. The resulting disclosures are presented in Note 10.

i. Financial instruments

Financial assets and financial liabilities are recognized when LCBO becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value.

LCBO's financial assets and liabilities are generally classified and measured as follows:

Financial Asset / Financial Liability	Category	Measurement
Cash and cash equivalents	Loans and receivables or available for sale	Fair value which approximates amortized cost due to the short-term nature of the instruments
Trade and other receivables	Loans and receivables	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Derivatives and embedded derivatives[1]	Fair value through profit and loss ("FVTPL")	Fair value through profit and loss ("FVTPL")

i. Financial assets

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' ("FVTPL"), 'available-for-sale' ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1 Derivatives are included in Trade and other payables in the Statement of financial position. The resulting disclosures are presented in Note 14.

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or designated as such upon initial recognition. Financial assets are classified as held for trading if acquired principally for the purpose of selling in the near future or it has been part of an identified portfolio of financial instruments that LCBO manages together and has a recent actual pattern of short-term profit-making. Derivatives are also categorized as held for trading.

Financial assets classified as FVTPL are measured at fair value, with changes in fair value recorded in the Statement of income and comprehensive income in the period in which they arise.

Available for sale ("AFS")

Financial instruments classified as AFS financial assets are measured at fair value with changes in fair value recognized in other comprehensive income ("OCI") until realized through disposal or impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

ii. Financial liabilities

Financial liabilities are classified as 'other financial liabilities', which are subsequently measured at amortized cost using the effective interest method.

iii. Derivatives

A derivative financial instrument is a fixed price commitment to buy or sell a financial instrument at a future date. Derivative financial instruments are classified as FVTPL. Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at fair value, with changes recognized in the Statement of income and comprehensive income. The resulting disclosures are presented in Note 14.

iv. Embedded derivatives

An embedded derivative is a feature within a contract, where the cash flows associated with that feature behave in a similar fashion to a stand-alone derivative. LCBO enters into inventory purchase contracts in currencies other than the Canadian dollar or that of the supplier's home or local currency, in which an embedded derivative may exist.

These embedded derivatives are accounted for as separate instruments and accounted for independently from the host contract and are measured at fair value at the end of the reporting period using forward exchange market rates. Embedded derivatives are included within trade and other payables in the Statement of financial position, any changes in their fair values are recognized in the Statement of income and comprehensive income. The resulting disclosures are presented in Note 14.

j. Revenue recognition

Revenue consists of the fair value of consideration received or receivable for the sale of goods in the ordinary course of LCBO's activities less any sales taxes. Sales taxes on the sale of goods are recorded as a liability in the period the sales taxes are deemed to be owed and are excluded from revenues. Revenue is recognized when the significant risks and rewards of ownership of the goods have transferred to the buyer and the amount of revenue can be measured reliably. Revenue is recorded net of returns, discounts, applicable taxes and container deposits, in the Statement of income and comprehensive income.

Revenue generated from gift cards is recognized when gift cards are redeemed. LCBO also recognizes revenue from unredeemed gift cards if the likelihood of gift card redemption by the customer is considered to be remote.

i. Air Miles®[2]

Income from the Air Miles®[2] "program" is recognized in the period in which it is earned, in accordance with the terms of the contract. The program is split into two distinct components: (1) Base and (2) Bonus. The associated costs of the Base are accounted for as a reduction to revenues in the Statement of income and comprehensive income. The associated income net of costs of the Bonus is accounted for as a reduction to cost of sales in the Statement of income and comprehensive income.

k. Other income

i. Services rendered

Income from services rendered is recognized when the services are provided and the income can be measured reliably. Such services consist principally of border point levies and fees generated from special occasion permits such as those required by an individual or organization, who plan to serve alcohol at an event or location other than a private place.

ii. Unredeemed ODRP container deposits

LCBO recognizes income from estimated unredeemed ODRP container deposits as not all customers return the container for their deposit. LCBO determines its ODRP container redemption rate based on historical redemption data and research of industry experience and estimates the unredeemed ODRP container deposit income. The resulting income is recognized based on historical redemption patterns, commencing when the container deposits are collected. The resulting disclosures are presented in Note 22.

2 AIR MILES® is a trademark of AIR MILES International Trading B.V. Used under license by LoyaltyOne, Inc.

l. Vendor allowances

LCBO receives allowances from certain suppliers whose product it purchases for resale. The allowances are received for a variety of promotional activities, including allowances received for in store promotion of the supplier's product, advertising the launch of a new product and labeling and shelf space provided on limited time product offers. LCBO recognizes consideration received from vendors as a reduction in the price of the vendors' products and reflects it as a reduction to cost of sales when recognized in the Statement of income and comprehensive income. Certain exceptions apply where the cash consideration received is a direct reimbursement of specific, incremental and identifiable costs incurred by LCBO for assets or services delivered to the vendor or reimbursement of selling costs incurred to promote the vendor's product. The consideration is reflected as a reduction in selling, general and administrative expenses.

m. Employee benefits

i. Short-term employee benefits

Short-term employee benefit obligations are expensed as the related service is provided. LCBO recognizes a liability and an expense for short-term benefits such as performance pay, unused vacation entitlements and other employee benefits if LCBO has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reasonably. The resulting disclosures are presented in Note 18.

ii. Pension Benefit Costs

LCBO provides defined 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). The Province, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU Pension Fund, determines LCBO's annual contribution to the funds. As the sponsors are responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of LCBO.

LCBO's contributions to both plans are accounted for on a defined contribution basis with LCBO's contribution charged to the Statement of income and comprehensive income in the period the contributions become payable. The resulting disclosures are presented in Note 11.

iii. Non-pension employee benefits

Employee benefits other than those provided by the Province include accrued contractual severance payments ("CSC"), executive compensation time banking ("ECTB"), unfunded workers compensation obligation ("WCB") and benefits extended to employees on long-term income protection ("LTIP"). These plans provide benefits to employees when they are no longer providing active service. Other non-pension employee benefit obligations of the LCBO include accumulating non-vesting sick leave ("NVSL") and Service Awards. LCBO accrues these employee benefits over the periods in which the employees earn the benefits or upon absence. The cost of other post-retirement, non-pension employee benefits is paid by the Province and is not included in the Statement of income and comprehensive income.

The cost of the CSC, ECTB, LTIP, NVSL and Service Awards was actuarially determined by using the Projected Unit Credit Method and management's best estimate. The WCB liability was determined using the average awards method consistent with the Workplace Safety and Insurance Board ("WSIB"). The annual benefit cost is the sum of the service cost, net interest and remeasurements of the net defined benefit liability.

LCBO recognizes all actuarial gains and losses due to remeasurements of the net defined benefit liability arising from the CSC and ECTB benefits immediately in other comprehensive income, and reports them in accumulated other comprehensive income in the Statement of financial position, as these benefits are accrued over employee's years of service. Any actuarial gains and losses due to remeasurements of the net defined benefit liability arising from the LTIP, WCB, NVSL and Service Awards benefits are recognized in the Statement of income and comprehensive income in the period in which they arise, since LTIP, WCB, NVSL and Service Awards benefits are defined as Other Long-Term Employee Benefits and a simplified accounting methodology for these benefits does not recognize remeasurements in Other comprehensive income. The resulting disclosures are presented in Note 11.

n. Finance income

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in the Statement of income and comprehensive income, using the effective interest method. The resulting disclosures are presented in Note 19.

o. Finance costs

Finance costs consist of interest expense on the non-pension employee benefits obligation and financing charges on capital leases. The resulting disclosures are presented in Notes 11 and 19.

p. Leasing

Operating lease payments, including scheduled escalations, are recognized as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability and amortized over the lease term. The aggregate benefit of incentives is recognized as a reduction of selling, general and administrative expenses on a straight-line basis. The resulting disclosures are presented in Note 9.

(thousands of Canadian dollars)

q. Foreign currencies

Transactions in currencies other than LCBO's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, items denominated in foreign currencies, comprised of US bank accounts and liabilities, are translated at the prevailing rates. Exchange gains and losses are recognized immediately in the Statement of income and comprehensive income.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include both cash on hand and in transit, and short term investments (such as term deposits and bankers' acceptance), as follows:

	March 31, 2014	March 31, 2013
Cash on hand and in transit	74,362	98,752
Term deposits	60,000	–
Bankers' acceptances	152,015	218,671
	286,377	317,423

5. TRADE AND OTHER RECEIVABLES

	March 31, 2014	March 31, 2013
Trade and other receivables	43,120	41,962
Allowance for impairment	(289)	(441)
	42,831	41,521

Trade and other receivables arise primarily from sales billed to independent businesses, agents and other debtors. As at March 31, 2014, approximately 62 per cent (2013 – 69 per cent) of LCBO's trade accounts receivable is due from one customer. Almost all of LCBO's receivables are due within 30 days. The carrying amount of trade and other receivables is reduced through the use of an allowance for impairment at levels LCBO considered adequate to absorb credit losses. Subsequent recoveries of receivables previously provisioned are credited to the Statement of income and comprehensive income.

6. INVENTORIES

All inventories are held for sale. The cost of inventories sold and recognized as a cost of sales during the year ended March 31, 2014 was $2,492 million (2013 – $2,434 million). There were no significant write-downs or reversal of previous write-downs to net realizable value during the year ended March 31, 2014 (2013 – nil).

(thousands of Canadian dollars)

7. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

Net book value of property, plant & equipment and intangible assets	March 31, 2014	March 31, 2013
Land	12,596	12,647
Buildings	104,698	105,016
Furniture and equipment	31,911	27,661
Leasehold improvements	156,296	132,374
Computer equipment	23,129	15,533
Computer software	19,543	17,676
Construction/software in progress	16,262	29,303
	364,435	340,210

a. Property, plant & equipment and intangible assets

Property, plant & equipment and intangible assets continuity for the year ended March 31, 2014

	Land	Buildings
Cost		
Balance at April 1, 2013	12,647	384,716
Additions	–	9,650
Transfers among categories	–	–
Net Additions	–	9,650
Disposals/Retirements	(51)	(1,083)
Balance at March 31, 2014	12,596	393,283
Accumulated depreciation and impairment		
Balance at April 1, 2013	–	279,700
Depreciation for the year	–	9,630
Impairment losses	–	–
Transfers among categories	–	–
Disposals/Retirements	–	(745)
Balance at March 31, 2014	–	288,585
Net book value at March 31, 2014	12,596	104,698

(thousands of Canadian dollars)

Furniture and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
108,989	381,009	41,295	65,462	29,303	1,023,421
11,753	46,984	13,698	10,198	76,861	169,144
–	–	–	–	(89,902)	(89,902)
11,753	46,984	13,698	10,198	(13,041)	79,242
(1,487)	–	(2,892)	(165)	–	(5,678)
119,255	427,993	52,101	75,495	16,262	1,096,985
81,328	248,635	25,762	47,786	–	683,211
7,407	23,062	6,467	8,331	–	54,897
–	–	–	–	–	–
–	–	–	–	–	–
(1,391)	–	(3,257)	(165)	–	(5,558)
87,344	271,697	28,972	55,952	–	732,550
31,911	156,296	23,129	19,543	16,262	364,435

(thousands of Canadian dollars)

Property, plant & equipment and intangible assets continuity for the year ended March 31, 2013

	Land	Buildings
Cost		
Balance at April 1, 2012	12,816	378,336
Additions	–	9,426
Transfers among categories	–	–
Net Additions	–	9,426
Disposals/Retirements	(169)	(3,046)
Balance at March 31, 2013	12,647	384,716
Accumulated depreciation and impairment		
Balance at April 1, 2012	–	272,047
Depreciation for the year	–	9,441
Impairment losses	–	–
Transfers among categories	–	–
Disposals/Retirements	–	(1,788)
Balance at March 31, 2013	–	279,700
Net book value at March 31, 2013	12,647	105,016

(thousands of Canadian dollars)

Furniture and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
99,191	338,518	37,397	58,582	23,726	948,566
11,033	42,884	5,517	6,880	81,117	156,857
–	–	–	–	(75,540)	(75,540)
11,033	42,884	5,517	6,880	5,577	81,317
(1,235)	(393)	(1,619)	–	–	(6,462)
108,989	381,009	41,295	65,462	29,303	1,023,421
75,546	227,872	25,237	36,242	–	636,944
6,922	21,092	5,506	8,165	–	51,126
–	–	–	–	–	–
–	–	(3,379)	3,379	–	–
(1,140)	(329)	(1,602)	–	–	(4,859)
81,328	248,635	25,762	47,786	–	683,211
27,661	132,374	15,533	17,676	29,303	340,210

(thousands of Canadian dollars)

8. TRADE AND OTHER PAYABLES

	March 31, 2014	March 31, 2013
Trade payables	266,618	281,454
Accruals and other payables	282,637	279,665
	549,255	561,119

9. OPERATING LEASE ARRANGEMENT

LCBO enters into operating leases in the ordinary course of business, primarily for retail stores. Operating lease payments in 2014 were $71.8 million (2013 – $64.5 million). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	March 31, 2014
Not later than one year	75,801
Later than one year and not later than five years	289,326
Later than five years	498,502
	863,629

10. PROVISIONS

The following table represents the changes to LCBO's provisions:

Provisions continuity for the year end March 31, 2014

	Short term employee benefits	Other	Total
Balance at April 1, 2013	17,910	718	18,628
Charges recognized during the year	18,370	667	19,037
Utilization of provision	(17,910)	(718)	(18,628)
Balance at March 31, 2014	18,370	667	19,037

Provisions continuity for the year end March 31, 2013

	Short term employee benefits	Other	Total
Balance at April 1, 2012	17,305	345	17,650
Charges recognized during the year	17,910	718	18,628
Utilization of provision	(17,305)	(345)	(17,650)
Balance at March 31, 2013	17,910	718	18,628

(thousands of Canadian dollars)

Disclosed as:	March 31, 2014	March 31, 2013
Current	19,037	18,628
Non-current	–	–
	19,037	18,628

The employee benefits provision includes vacation entitlements earned by employees and performance bonus payments expected to be paid in the following year.

Other provisions include store closure provisions, which arise when LCBO agrees to restore a leased property to a specified condition at the completion of the lease period. These lease retirement provisions relate primarily to leases which expire over the next year. Other provisions also include a sales returns allowance for future returns on goods sold in the current period. The estimate has been made on the basis of historical sales returns trends.

11. EMPLOYEE BENEFITS

a. Pension plan

For the year ended March 31, 2014, the expense was $27.1 million (2013 – $26.5 million) and is included in selling, general and administrative expenses in the Statement of income and comprehensive income.

b. Non-pension employee benefits

The non-pension employee benefits obligation ("benefit obligation") include accruals for contractual severance payments ("CSC"), executive compensation time banking ("ECTB"), long-term income protection ("LTIP") and unfunded workers compensation obligation ("WCB").

As noted in the March 31, 2013 statements, an immaterial existing obligation for the accumulating non-vesting sick leave plan ("NVSL"), as well as in-year service awards were identified, yet the precise quantification was not yet fully determined, and therefore was not recorded in the 2013 statements. We have now determined the April 1, 2013 opening obligation for the plan was $12.9 million. An obligation for service awards was determined and at April 1, 2013 the obligation was $0.5 million. These plans are considered other long term employee benefits, as are LTIP and WCB, therefore all experience gains and losses in these plans are recognized in the Statement of income and other comprehensive income in the year they arise. The obligation for NVSL and service awards were not material and have been recognized in full on the statement of income and other comprehensive income in 2014.

LCBO measures its benefit obligation for accounting purposes as at March 31st of each year. The annual actuarial valuation for the benefit obligation was performed as at March 31, 2014.

The weighted average duration of the plans obligations are 7.9 years (2013 – 7.3 years).

(thousands of Canadian dollars)

i. Statement of financial position

The non-pension employee benefits recognized in the Statement of financial position is as follows:

	March 31, 2014	March 31, 2013
Current	11,700	10,202
Non-current	111,769	107,622
Total non-pension employee benefit obligation	123,469	117,824

ii. Statement of income and comprehensive income

The non-pension employee benefit costs recognized in the Statement of income and comprehensive income is as follows:

	March 31, 2014	March 31, 2013
Current service cost	12,660	9,008
Past service cost – NVSL and service awards	13,440	–
Actuarial (gains)/losses on non-vesting benefits	(11,078)	10,115
Total costs included in expenses	15,022	19,123
Interest costs	4,702	3,824
Total costs included in finance costs	4,702	3,824
Total non-pension employee benefit expenses	19,724	22,947

iii. Other comprehensive income

The non-pension employee benefits recognized in the other comprehensive income are as follows:

	March 31, 2014	March 31, 2013
Opening cumulative actuarial losses recognized	(2,676)	(5,731)
Net actuarial gains recognized	911	3,055
Closing cumulative actuarial losses recognized	(1,765)	(2,676)

(thousands of Canadian dollars)

iv. Movement in the obligation

The movements in the non-pension employee benefit obligation are as follows:

	March 31, 2014	March 31, 2013
Opening benefit obligation	117,824	111,595
Prior obligation – NVSL and Service Awards	13,440	–
Current service cost	12,660	9,008
Interest on obligation	4,702	3,824
Actuarial losses from changes in demographic assumptions	337	4
Actuarial (gains)/losses from changes in financial assumptions	(2,616)	1,277
Actuarial (gains)/losses from other	(9,710)	5,779
Benefits paid	(13,168)	(13,663)
Closing benefit obligation	123,469	117,824

v. Significant assumptions

The significant assumptions used are as follows:

	CSC, ECTB, NVSL & Service Awards		**WCB**		**LTIP**	
	2014	2013	2014	2013	2014	2013
Discount rate to determine the benefit obligation	3.80%	3.50%	3.80%	3.50%	3.80%	3.50%
Discount rate to determine the benefit cost	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Salary rate increase	1.00% for 1 year and 3.00% thereafter	1.00% for 2 years and 3.00% thereafter	n/a	n/a	2.00%	2.00%
Benefit index	n/a	n/a	2.5%	2.5%	n/a	n/a
Health cost rate increase	n/a	n/a	7.20% per annum reducing to 4.50% in 2023	7.50% per annum reducing to 4.50% in 2023	7.20% per annum reducing to 4.50% in 2023	7.50% per annum reducing to 4.50% in 2023

(thousands of Canadian dollars)

vi. Sensitivity analysis

The sensitivity of the non-pension employee benefit obligation to changes in assumptions is set out below.

	Impact on total non-pension employee benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	(4,005)	4,274
Health care trend rate	0.50%	2,254	(2,038)

12. CONTINGENT LIABILITIES

LCBO is involved in various legal actions arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time; however, the ultimate disposition is not expected to have a material effect on the financial statements. Accordingly, no provision for these actions is reflected in the financial statements. Settlements, if any, concerning these contingent liabilities will be accounted for in the period in which the settlement occurs.

13. FINANCIAL RISK MANAGEMENT

The nature of LCBO's operations means that it is exposed to a variety of financial risks, which includes market risk (primarily currency risk), credit risk and liquidity risk. LCBO's risk management approach is to minimize the potential adverse effects from these risks on its financial performance. Financial risk management is carried out by LCBO in accordance with its investment and foreign exchange risk management policy. LCBO identifies, evaluates and mitigates financial risks.

a. Credit Risk

Credit risk arises from cash and cash equivalents, derivative financial instruments, and outstanding accounts receivable. LCBO minimizes credit risk associated with the various instruments as follows:

- Derivative financial instruments and cash and cash equivalents are placed only with major Canadian chartered banks and Canadian subsidiaries of major banks. At March 31, 2014, all derivative instruments and cash and cash equivalents were held with major chartered banks and Canadian subsidiaries of major foreign banks.
- Trade and others receivables arise primarily from sales invoiced to independent businesses, agents and other debtors. LCBO does not consider its exposure to credit risk associated with trade and other receivables to be material. As at March 31, 2014, approximately 62 per cent (2013 – 69 per cent) of LCBO's receivable is due from one customer whose account is in good standing.
- Where there is objective evidence that the total balance of an accounts receivable is unlikely to be recovered, an allowance for impairment is made to reduce the carrying amount of the accounts receivable to the recoverable amount. See Note 5 for additional disclosures.

b. Liquidity Risk

Liquidity risk is the risk that LCBO may not have cash available to satisfy financial liabilities as they fall due. LCBO seeks to limit its liquidity risk by actively monitoring and managing its available cash reserves to ensure that it is able to satisfy financial liabilities as they fall due. Cash that is surplus to working capital requirements is managed by LCBO and invested in federal/provincial treasury bills, bankers' acceptances and bank term deposits, choosing maturities which are aligned with expected cash needs.

c. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk. Currently, LCBO is exposed only to currency risk.

d. Currency Risk

LCBO is exposed to currency risk with respect to future inventory purchases denominated in currencies other than the Canadian dollar, primarily US dollars and Euros. LCBO seeks to limit its exposure to currency risk by entering into Canadian dollar contracts on a majority of its inventory purchases. LCBO also limits its exposure to movements in exchange rates by acquiring foreign exchange contracts, which are commitments to purchase foreign currencies at a specified date in the future at a fixed rate.

- In LCBO's assessment, a significant strengthening or weakening of the Canadian dollar against the US dollar or Euro, with all other variables held constant, would not have a significant impact on net income.
- The overall effects of changes in exchange rates was a foreign exchange loss of $0.6 million in 2014 (2013 – $3.4 million gain).

14. FINANCIAL INSTRUMENTS

a. Foreign Exchange Contracts

LCBO uses foreign exchange contracts to manage foreign exchange risk on the purchase of inventory in a currency other than the Canadian dollar. These derivative financial instruments are measured at fair value. As at March 31, 2014, LCBO has no foreign exchange contracts that require separate accounting and disclosure (2013 – $3.4 million).

b. Embedded Derivative

Embedded derivatives arise from the purchase of inventory in a currency other than Canadian dollar or that of the supplier's domestic or local currency. For the year ended March 31, 2014, LCBO reviewed these contracts and determined that it does not have significant embedded derivatives or gains or losses resulting from these derivatives that require separate accounting and disclosure (2013 – $nil).

(thousands of Canadian dollars)

15. CAPITAL MANAGEMENT

LCBO is a corporation without share capital and has no long-term debt. Its definition of capital is cash and cash equivalents and retained earnings. LCBO's main objectives when managing its capital are:

- to ensure sufficient liquidity in support of its financial obligations to achieve its business plans;
- to maintain healthy liquidity reserves and access to capital as outlined in its investment and foreign exchange policies;
- to ensure that cash management decisions are based upon the preservation of capital as a primary objective; and
- to safeguard LCBO's ability to remain as a self-sufficient going concern entity in order to provide continuous dividends to the Province.

As at March 31, 2014 LCBO met these objectives.

In managing cash and cash equivalents, LCBO maintains balances that are:

- sufficient to meet its accounts payable obligations due within the next 45–60 days;
- sufficient to meet the timing of dividend transfers; and
- sufficient to meet approved capital expenditures throughout the current period.

LCBO is not subject to any externally imposed capital requirements.

16. REVENUE

Virtually all revenue is from the sale of goods.

17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

The components of selling, general and administration expenses include the following:

	March 31, 2014	March 31, 2013
Employee costs (Note 18)	446,244	435,413
Occupancy costs	157,429	141,210
Depreciation and amortization	54,897	51,126
Debit/credit charges	34,823	32,375
Environmental initiatives	37,109	36,091
Other	85,629	84,203
	816,131	780,418

(thousands of Canadian dollars)

18. EMPLOYEE COSTS

Employee costs for LCBO for the year ended amounts to the following:

	March 31, 2014	March 31, 2013
Salaries & wages	356,136	340,800
Short-term employee benefits	90,108	94,613
	446,244	435,413

19. FINANCE INCOME AND FINANCE COSTS

Finance income and costs recognized by LCBO for the year ended amounts to the following:

	March 31, 2014	March 31, 2013
Finance income		
Interest earned	1,993	1,344
Total finance income	1,993	1,344
Finance costs		
Interest on non-pension employee benefits	4,702	3,824
Financing charges on capital leases	6	–
Total finance costs	4,708	3,824

20. RELATED PARTIES

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of LCBO. Key management personnel include members of the Board of Directors, President and Chief Executive Officer, Chief Financial Officer and the top senior officers. The Board members receive a per diem remuneration for attending regularly scheduled meetings and for serving on either the Audit Committee or the Governance and Compensation Committee.

Key management personnel compensation, including director's fees comprise of:

	March 31, 2014	March 31, 2013
Salaries and short-term employee benefits	4,077	3,839
Post employment benefits	247	237
Other long term benefits	69	68
Termination benefits	112	–
	4,505	4,144

21. WASTE DIVERSION

LCBO is responsible under the *Waste Diversion Act*, 2002 to pay municipalities through Stewardship Ontario, an industry funded waste diversion organization for costs associated with container waste and non-container waste recycled through municipal Blue Box systems. For the year ended March 31, 2014, LCBO contributed $1.7 million (2013 – $1.5 million) and these expenditures are included in selling, general and administrative expenses in the Statement of income and comprehensive income.

22. ONTARIO DEPOSIT RETURN PROGRAM

On November 6, 2006, the Province entered into an agreement with Brewers Retail Inc. for management of a province-wide container deposit return program ("the program") on wine, liquor and non-common beer containers sold through LCBO and Winery, on-site Microbrewery and Distillery Retail Stores. Brewers Retail Inc. was appointed the exclusive service provider for a period of five years effective February 5, 2007. Effective, February 6, 2012, the Province entered into another agreement with Brewers Retail Inc. for management of the program, thereby extending the program for another period of five years.

Under the program, LCBO collects a deposit of 10 or 20 cents on wine, liquor and most beer containers. LCBO reimburses Brewers Retail Inc. for deposits it pays to customers who return containers to locations it operates, plus a service fee.

For the year ended March 31, 2014, LCBO collected $61.4 million (2013 – $60.6 million) of deposits on containers and was invoiced $48.1 million (2013 – $48.0 million) for refunds to the customers. The net amounts are included in trade and other payables in the Statement of financial position.

In connection with the program, expenditures related to service fees paid to Brewers Retail Inc. for the year ended March 31, 2014, amounted to $35.4 million (2013 – $34.6 million), inclusive of $4.1 million (2013 – $4.0 million) of harmonized sales tax which is unrecoverable by LCBO, but is recoverable by the Province. These expenditures are included in selling, general and administrative expenses in the Statement of income and comprehensive income.

LCBO's experience indicates that not all container deposits are redeemed. Based upon its redemption data and research of industry experience, part of the container deposits collected would not be redeemed. During the initial three years of the program, a conservative redemption rate was used for determining revenue on unredeemed container deposits based on the limited historical information available. Since inception of the program in 2007, LCBO has now established an estimated program to-date redemption rate of 80 per cent and determined that the likelihood of redemption from the initial three years of the program to be remote. For the year ended March 31, 2014, unredeemed container deposits recorded as part of other income was $23.5 million (2013 – $12.2 million) which includes the release of the cumulative unredeemed container deposits in the initial three years of the program. The remaining reserve for unredeemed container deposits reflects the ODRP program to-date redemption rate.

23. THE BEER STORE (TBS) COMMON PRODUCT DEPOSIT RETURN PROGRAM

LCBO participates in a separate deposit-refund system, TBS common product program, managed and administered by Brewers Retail Inc. for containers that are not within the scope of the Ontario Deposit Return Program. The TBS program is not mandated by government regulations; however, the TBS program is a requirement in dealing with Brewers Retail Inc. Under the TBS common product program, products must be available in both the LCBO and TBS or have industry standard bottles (ISB).

LCBO purchases TBS common products from various suppliers including domestic from TBS, and included in the payment to these suppliers is the product cost and the container deposit. The LCBO then sells the TBS common products to customers including sales of imported beer to TBS, and the container deposit is collected back from customers.

TBS common product program deposits paid and collected are offset and included in trade and other receivables in the Statement of financial position.

For the year ended March 31, 2014, $2.0 million (2013 – $2.1 million) is included in trade and other receivables related to the TBS common product deposits.

24. OTHER MATTERS

The Minister of Finance announced in February 2012 the Province's intention to sell the LCBO's Head Office facility located in downtown Toronto. The sale will be conducted as a multi-year phased project involving the offices and adjoining lands, the attached warehouse facility as well as the adjacent retail store. As of March 31, 2014, the Head Office facility has not been classified as 'held for sale' as an active programme to locate a buyer has not been completed. The planning for the various phases is currently underway and a Request for Proposal ("RFP") for the initial phase is expected to be released in mid 2014. As of March 31, 2014, the LCBO has expensed $1.15M on the Head Office Development project, of which $660K were incurred in fiscal 2013–14.

In April 2014, the Province established an advisory panel to review the assets of Hydro One, Ontario Power Generation and the LCBO and find ways to maximize their asset value. The panel is expected to report back to the Province by the end of 2014.

Financial Overview

KEY OPERATIONAL INDICATORS

Fiscal year	2014	2013	2012	2011	2010
LCBO stores*	639	634	623	617	611
Full-time equivalent employees	6,348	6,212	6,067	6,003	5,785
Product listings	24,580	24,012	22,296	21,694	18,790

* LCBO store count includes four licensee depot locations

FINANCIAL INDICATORS ($ THOUSANDS)

Fiscal year	2014	2013	2012	2011
Total revenues*	5,057,033	4,928,824	4,750,617	4,526,079
Growth over previous year	2.6%	3.8%	5.0%	4.2%
Total expenses**	820,839	784,242	745,693	720,611
As a percentage of total revenues	16.2%	15.9%	15.7%	15.9%
Net income	1,744,683	1,710,967	1,658,234	1,559,984
As a percentage of total revenues	34.5%	34.7%	34.9%	34.5%

* Total revenues represent revenues plus other income plus finance income.

** Total expenses represents selling, general and administrative (SG&A) expenses plus finance cost.

BREAKDOWN OF SELLING, ADMINISTRATIVE & GENERAL EXPENSES ($ THOUSANDS)

Fiscal year	2014	2013	2012	2011
Employee costs	446,244	435,413	409,740	395,906
Occupancy costs	157,429	141,210	131,921	126,452
Depreciation	54,897	51,126	50,870	52,166
Other expenses	157,561	152,669	148,457	141,716
Total SG&A expenses	816,131	780,418	740,988	716,240

REVENUE PAYMENTS ($ THOUSANDS)

Treasurer of Ontario	2014	2013	2012	2011	2010
Remitted by the Liquor Control Board:					
on account of profits	1,740,000	1,700,000	1,630,000	1,550,000	1,410,000
Remitted by the Liquor Control Board:					
Ontario retail sales tax on sales of liquor[1]	–	–	–	101,725	404,823
Remitted by the Alcohol and Gaming Commission:					
on account of licence fees and permits (replaced by Tax)[2]	9,030	8,853	9,090	180,710	460,236
Remitted by the Ministry of Revenue:					
Beer and wine tax (replacing Fees)[2]	556,000	560,000	561,000	397,000	–
Remitted by others:					
Ontario retail sales tax on sales through The Beer Store and Ontario winery retail stores[1]	–	–	–	59,284	212,803
Ontario retail sales tax on sales through agency stores[1]	–	–	–	3,417	12,503
Total	2,305,030	2,268,853	2,200,090	2,292,137	2,500,364

1 Ontario Retail Sales Tax is no longer collected as of July 1, 2010

2 Beer and wine tax, administered by the Ministry of Revenue, replaces beer and wine fees previously paid to the Alcohol and Gaming Commission of Ontario by breweries, microbreweries and wineries. The listed figure of $556 million is an interim number.

REVENUE PAYMENTS ($ THOUSANDS) (continued)

Receiver General for Canada	2014	2013	2012	2011	2010
Remitted by the Liquor Control Board:					
Excise taxes and customs duties	362,936	361,019	351,865	344,804	346,072
Goods and Services Tax (GST) / Harmonized Sales Tax (HST)[3]	437,246	430,220	415,194	301,352	107,680
Remitted by others:					
Excise taxes, GST/HST and other duties/taxes[3]	475,263	479,846	477,962	484,420	348,275
GST/HST remitted on sales through agency stores[3]	14,926	14,780	14,352	11,764	5,210
Total	1,290,371	1,285,865	1,259,374	1,142,340	807,237
Ontario Municipalities	2014	2013	2012	2011	2010
Remitted by the Liquor Control Board:					
Realty taxes[4]	26,191	22,755	21,039	19,712	18,256
Total revenue payments	3,621,592	3,577,473	3,480,503	3,454,189	3,325,857

3 Harmonized Sales Tax replaced the Goods and Services Tax as of July 1, 2010. From 2012 onward, excise and HST for breweries are based on estimates.

4 Includes property taxes on leased properties.

ONTARIO SALES CHANNEL SUMMARY (THOUSANDS OF LITRES)

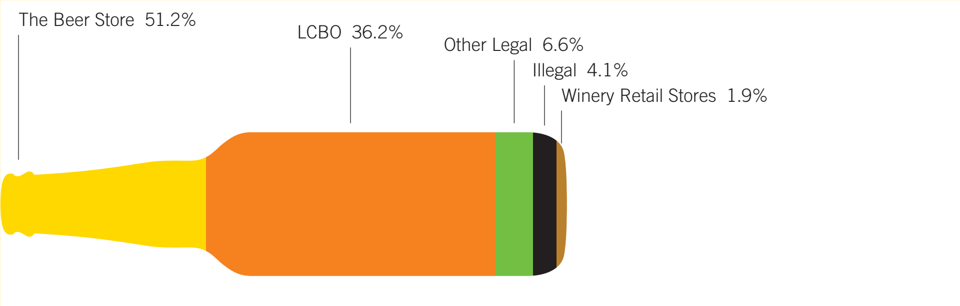
	2014	Growth	2013	2012	2011	2010
LCBO	424,890	1.1%	420,447	410,045	397,613	384,297
The Beer Store	601,075	-3.6%	623,227	637,025	639,035	653,004
Winery retail stores	22,649	3.1%	21,963	20,633	20,445	20,627
Other channels:						
Other Legal	58,330	8.0%	54,010	55,414	54,302	56,931
Homemade	18,603	18.1%	15,755	17,537	16,669	16,277
Illegal	48,542	9.7%	44,236	40,924	37,474	38,787
Total Ontario	1,174,089	-0.5%	1,179,638	1,181,577	1,165,538	1,169,922

Note: All figures above are shown in litres. Sales volumes reported under the Other Channels category are estimates. LCBO and TBS figures exclude reciprocal sales. Previous years may be restated based on new information received.

SHARE OF ONTARIO BEVERAGE ALCOHOL MARKET BY VOLUME SOLD

	2014	Change	2013	2012	2011	2010
LCBO	36.2%	0.5%	35.6%	34.7%	34.1%	32.8%
The Beer Store	51.2%	-1.6%	52.8%	53.9%	54.8%	55.8%
Other Legal	6.6%	0.6%	5.9%	6.2%	6.1%	6.3%
Illegal	4.1%	0.4%	3.7%	3.5%	3.2%	3.3%
Winery Retail Stores	1.9%	0.1%	1.9%	1.7%	1.8%	1.8%

2014 share of Ontario beverage alcohol market by volume sold



VOLUME SALES (THOUSANDS OF LITRES)

LCBO sales	2014	Growth	2013	2012	2011	2010
Domestic Spirits	31,549	-2.3%	32,300	32,722	32,870	33,449
Imported Spirits	26,066	-0.6%	26,210	25,958	24,921	23,612
Total Spirits	57,615	-1.5%	58,510	58,680	57,791	57,062
Domestic Wine	44,312	3.9%	42,629	40,240	38,753	37,448
Imported Wine	104,772	3.0%	101,676	97,968	95,364	92,062
Total Wine	149,084	3.3%	144,306	138,207	134,116	129,510
Domestic Beer	111,801	0.1%	111,703	110,577	106,842	97,981
Imported Beer	135,687	0.4%	135,169	131,268	130,617	132,980
Total Beer	247,488	0.2%	246,872	241,845	237,458	230,961
Domestic Spirit Coolers	24,897	-3.9%	25,918	25,188	21,506	22,522
Imported Spirit Coolers	5,070	12.0%	4,529	4,416	5,944	5,194
Domestic Wine Coolers	158	0.0%	236	–	–	–
Imported Wine Coolers	277	0.0%	157	–	138	146
Domestic Beer Coolers	128	-6.0%	136	630	653	691
Imported Beer Coolers	1,728	92.3%	899	4	14	16
Total Coolers	32,258	1.2%	31,874	30,238	28,254	28,569
Total Domestic	212,845	0.0%	212,921	209,357	200,623	192,091
Total Imported	273,600	1.8%	268,640	259,613	256,996	254,011
Total LCBO	486,445	1.0%	481,562	468,970	457,619	446,102

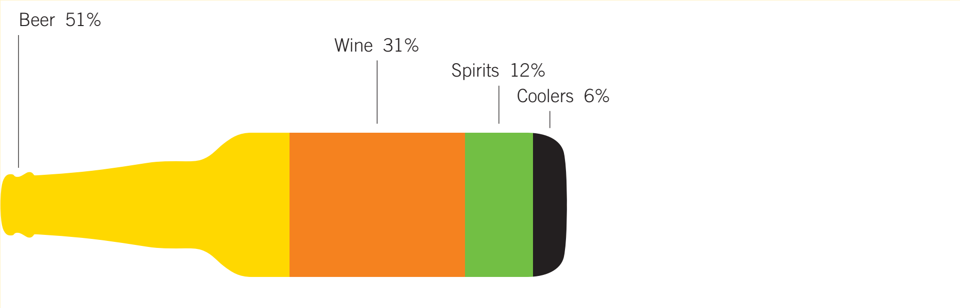
Other sales	2014	Growth	2013	2012	2011	2010
Ontario winery stores	22,649	3.1%	21,963	20,661	20,444	20,630
The Beer Store & brewer on-site stores	605,819	-3.5%	627,933	641,216	643,227	657,940

Note: The FY2014 sales figures for Ontario winery stores, The Beer Store (TBS) and brewer on-site stores are unaudited and may understate total sales due to various wineries and brewers not reporting by the time of publication. LCBO beer sales figures include LCBO sales to TBS; of LCBO's total beer sales in litres, 72,076,244 were to TBS. Prior year figures are restated annually to reflect changes in product hierarchy.

SHARE OF LCBO VOLUME SALES (THOUSANDS OF LITRES)

	2014		2013	
	Litres sold	% of total	Litres sold	% of total
Spirits	57,615	12%	58,510	12%
Wine	149,084	30%	144,306	30%
Beer	247,488	51%	246,872	51%
Coolers	32,258	7%	31,874	7%
	486,445	100%	481,562	100%

2014 share of LCBO volume sales



VALUE SALES ($ THOUSANDS)

LCBO sales	2014	Growth	2013	2012	2011	2010
Domestic Spirits	921,816	-0.2%	923,795	921,343	903,994	883,328
Imported Spirits	899,134	2.8%	875,010	835,363	783,209	728,795
Total Spirits	1,820,951	1.2%	1,798,806	1,756,706	1,687,203	1,612,123
Domestic Wine	466,130	4.2%	447,392	422,705	401,176	374,445
Imported Wine	1,495,128	3.1%	1,449,807	1,379,131	1,299,903	1,213,069
Total Wine	1,961,258	3.4%	1,897,199	1,801,836	1,701,079	1,587,513
Domestic Beer	443,267	3.1%	429,811	410,819	388,336	341,927
Imported Beer	595,612	1.0%	589,635	569,905	551,174	548,106
Total Beer	1,038,879	1.9%	1,019,446	980,724	939,510	890,034
Domestic Spirit Coolers	137,181	-4.0%	142,945	140,790	121,251	124,438
Imported Spirit Coolers	31,303	8.8%	28,762	28,702	37,694	32,801
Domestic Wine Coolers	963	0.0%	1,487	–	–	–
Imported Wine Coolers	1,690	0.0%	964	–	925	950
Domestic Beer Coolers	706	1.0%	699	2,864	3,017	2,997
Imported Beer Coolers	8,366	104.1%	4,099	24	74	85
Total Coolers	180,209	0.7%	178,956	172,380	162,960	161,271
Total Domestic	1,970,064	1.2%	1,946,129	1,898,522	1,817,774	1,727,135
Total Imported	3,031,233	2.8%	2,948,278	2,813,124	2,672,978	2,523,806
Non-Liquor and Other	(3,522)	80.4%	(1,953)	(1,157)	1,559	6,059
Total LCBO	4,997,774	2.2%	4,892,454	4,710,489	4,492,311	4,257,000

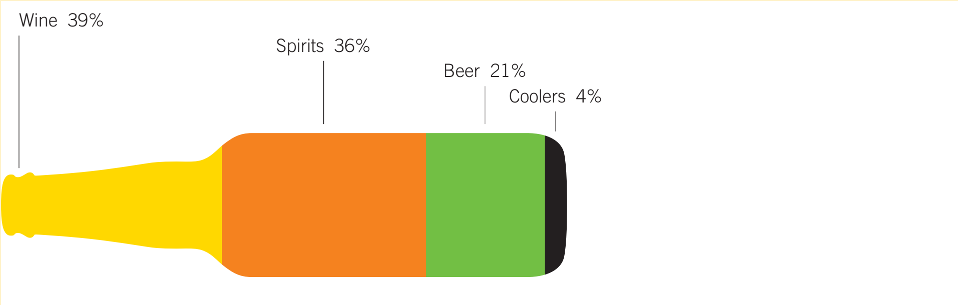
Other sales	2014	Growth	2013	2012	2011	2010
Ontario winery stores	253,437	2.2%	248,046	232,063	223,486	215,014
The Beer Store & brewer on-site stores	2,270,299	-1.6%	2,307,715	2,300,452	2,254,056	2,230,877

Note: The FY2014 sales figures for Ontario winery stores, The Beer Store (TBS) and brewer on-site stores are unaudited and may understate total sales due to various wineries or brewers not reporting by the time of publication. LCBO beer sales figures include LCBO sales to TBS; of LCBO's total beer sales, $312,059,906 were to TBS. Prior year figures are restated annually to reflect changes in product hierarchy.

SHARE OF LCBO VALUE SALES ($ THOUSANDS)

	Net sales ($)	% of total	Net sales ($)	% of total
Spirits	1,820,951	36%	1,798,806	37%
Wine	1,961,258	39%	1,897,199	39%
Beer	1,038,879	21%	1,019,446	21%
Coolers	180,209	4%	178,956	3%

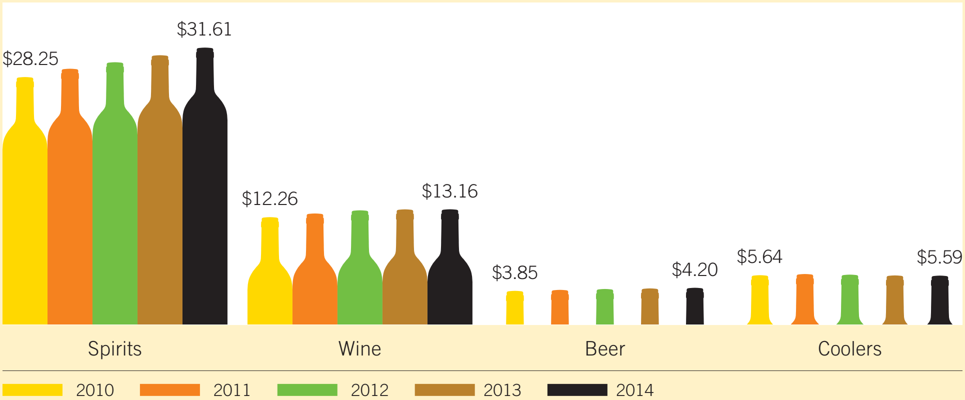
2014 share of LCBO value sales



AVERAGE NET SALES PER LITRE (EXCLUDES SALES TAX)

	2014	Growth	2013	2012	2011	2010
Spirits	$ 31.61	2.8%	$ 30.74	$ 29.94	$ 29.20	$ 28.25
Wine	$ 13.16	0.1%	$ 13.15	$ 13.04	$ 12.68	$ 12.26
Beer	$ 4.20	1.7%	$ 4.13	$ 4.06	$ 3.96	$ 3.85
Coolers	$ 5.59	-0.5%	$ 5.61	$ 5.70	$ 5.77	$ 5.64

Average net sales per litre 2014



AVERAGE TRANSACTION PER CUSTOMER (VALUES IN THOUSANDS)

	2014	Growth	2013	2012	2011	2010
Net sales	$ 4,997,774	2.2%	$ 4,892,454	$ 4,710,489	$ 4,492,311	$ 4,257,000
Customer transactions	126,840	0.3%	126,460	124,530	121,436	117,009
Average transaction value per customer	$ 39.40	1.8%	$ 38.69	$ 37.83	$ 36.99	$ 36.38

PRODUCT LISTINGS

Fiscal year	2014	2013	2012	2011	2010
Domestic					
Spirits	458	425	386	380	420
Wine	565	560	556	545	515
Beer	626	546	525	498	458
Imported					
Spirits	797	705	658	612	685
Wine	1,167	1,156	1,095	1,002	980
Beer	393	347	351	344	369
Total regular listings	4,006	3,739	3,571	3,381	3,427
VINTAGES wines and spirits	5,949	6,408	6,087	6,178	5,256
Duty-free listings	264	263	239	224	211
Consignment warehouse and private ordering	14,361	13,602	12,399	11,911	9,896
Total product listings	24,580	24,012	22,296	21,694	18,790

Note: Product listing figures for consignment and private ordering are estimated based on invoices produced by Specialty Services. The total does not include products delisted during the fiscal year.

REVENUE DISTRIBUTION BY PRODUCT TYPE

	Domestic Spirits	100% Ontario Wine	Ontario Beer
Supplier	23%	44%	46%
LCBO Mark-up	52%	44%	19%
Federal taxes & HST*	25%	12%	35%
Deposit**			

*Note: HST is collected by the federal government and a portion is later distributed back to the province of Ontario.

**Note: Deposit collected on the sale of wine, spirits and beer is recorded as a liability, not revenue.

LCBO VOLUME SALES SHARE BY CATEGORY (THOUSANDS OF LITRES)

	2014	2013	2012	2011	2010
Canadian Spirits					
Spirit Coolers	28.5%	28.3%	28.6%	25.1%	26.4%
Canadian Whisky	15.6%	15.5%	15.7%	16.3%	16.8%
Canadian Vodka	9.4%	9.6%	9.7%	10.0%	10.1%
Canadian Rum	8.0%	8.2%	8.4%	8.8%	8.9%
Canadian Liqueur	2.4%	2.2%	2.2%	2.3%	2.3%
Canadian Dry Gin	0.5%	0.6%	0.6%	0.6%	0.7%
Other	0.2%	1.4%	0.6%	1.0%	1.0%
Imported Spirits					
Vodka	8.4%	8.1%	8.0%	7.9%	7.4%
Spirit Coolers	5.8%	4.8%	5.0%	7.0%	6.1%
Scotch	4.3%	4.2%	4.3%	4.4%	4.3%
Miscellaneous Liquors	3.9%	3.8%	4.0%	4.0%	4.0%
Liqueur	2.9%	3.0%	2.9%	3.1%	3.2%
French Brandy	1.8%	1.8%	1.8%	1.9%	2.0%
Other	8.3%	8.7%	8.2%	7.8%	6.8%
Total Spirits	87,305	88,752	88,033	85,002	84,521
Canadian Wines					
White Table	14.5%	14.6%	14.4%	14.2%	14.2%
Red Table	9.3%	9.0%	8.9%	8.9%	9.1%
Fortified	1.2%	1.2%	1.3%	1.3%	1.4%
Rose Table	0.9%	0.9%	1.0%	1.0%	1.0%
7% Sparkling	0.8%	0.9%	0.9%	1.0%	1.1%
Wine Coolers	0.0%	0.0%	0.0%	0.0%	0.0%
Other	2.0%	2.0%	1.7%	1.5%	1.1%
Imported Wines					
Red Table	37.1%	38.0%	39.4%	40.0%	40.3%
White Table	21.5%	22.3%	22.6%	22.3%	22.1%
Sparkling	2.4%	2.5%	2.4%	2.4%	2.2%
Rose Table	1.4%	0.8%	0.9%	0.9%	0.8%
Fortified	1.0%	1.1%	1.2%	1.2%	1.3%
Wine Coolers	0.2%	0.1%	0.1%	0.1%	0.1%
Other	7.8%	6.7%	5.3%	5.3%	5.5%
Total Wine	139,540	135,079	129,281	125,890	122,041

LCBO VOLUME SALES SHARE BY CATEGORY (THOUSANDS OF LITRES) (continued)

	2014	2013	2012	2011	2010
Canadian Beer					
Ontario Beer	45.2%	45.4%	46.3%	45.6%	42.9%
Other Canadian Beer	3.0%	3.4%	3.1%	2.7%	2.6%
Imported Beer					
Other Imported Beer	43.7%	43.3%	42.6%	44.1%	46.3%
U.S. Beer	8.0%	7.8%	8.0%	7.5%	8.1%
Sake	0.1%	0.1%	0.1%	0.1%	0.1%
Total Beer	226,677	224,475	219,697	216,935	211,505
Total	453,522	448,306	437,011	427,827	418,067

LCBO VALUE SALES SHARE BY CATEGORY ($ THOUSANDS)

	2014	2013	2012	2011	2010
Canadian Spirits					
Canadian Whisky	20.2%	20.2%	20.5%	20.9%	21.5%
Canadian Vodka	12.2%	12.5%	12.6%	12.6%	12.7%
Canadian Rum	10.4%	10.7%	10.9%	11.2%	11.2%
Spirit Coolers	6.9%	7.0%	7.3%	6.5%	7.0%
Canadian Liqueur	2.7%	2.4%	2.4%	2.5%	2.6%
Canadian Dry Gin	0.7%	0.7%	0.7%	0.8%	0.9%
Other	0.3%	0.7%	0.8%	1.2%	1.3%
Imported Spirits					
Vodka	11.7%	11.6%	11.3%	11.0%	10.3%
Scotch	8.3%	8.1%	8.0%	8.0%	7.8%
Miscellaneous Liquors	5.2%	5.0%	5.3%	5.4%	5.5%
Liqueur	4.2%	4.3%	4.3%	4.5%	4.6%
French Brandy	3.4%	3.4%	3.4%	3.4%	3.4%
Spirit Coolers	1.6%	1.4%	1.5%	2.0%	1.9%
Other	12.2%	12.0%	10.9%	10.1%	9.4%
Total Spirits	$1,983,273	$1,965,498	$1,920,886	$1,841,573	$1,764,434
Canadian Wines					
White Table	11.1%	11.2%	11.0%	11.0%	10.9%
Red Table	7.7%	7.4%	7.4%	7.5%	7.6%
Fortified	1.1%	1.1%	1.1%	1.2%	1.2%
Rose Table	0.7%	0.7%	0.7%	0.8%	0.8%
7% Sparkling	0.5%	0.5%	0.6%	0.6%	0.6%
Wine Coolers	0.0%	0.0%	0.0%	0.0%	0.0%
Other	1.5%	1.6%	1.5%	1.4%	1.2%
Imported Wines					
Red Table	44.5%	44.9%	45.5%	45.7%	45.8%
White Table	22.3%	22.6%	22.5%	22.2%	22.0%
Sparkling	4.4%	4.5%	4.4%	4.3%	4.1%
Rose Table	1.3%	0.8%	0.8%	0.9%	0.7%
Fortified	1.2%	1.2%	1.4%	1.5%	1.6%
Wine Coolers	0.1%	0.1%	0.1%	0.1%	0.1%
Other	3.6%	3.5%	3.0%	3.0%	3.3%
Total Wine	$1,802,878	$1,745,646	$1,659,521	$1,570,720	$1,472,171

LCBO VALUE SALES SHARE BY CATEGORY ($ THOUSANDS) (continued)

	2014	2013	2012	2011	2010
Canadian Beer					
Ontario Beer	42.4%	41.9%	41.9%	41.8%	38.3%
Other Canadian Beer	3.2%	3.7%	3.4%	3.1%	3.0%
Imported Beer					
Other Imported Beer	46.2%	46.5%	46.5%	47.7%	50.4%
U.S. Beer	7.8%	7.6%	7.8%	7.2%	8.1%
Sake	0.4%	0.4%	0.4%	0.3%	0.3%
Total Beer	$ 948,990	$ 926,334	$ 891,591	$ 908,348	$ 816,217
Total	$4,735,141	$4,637,479	$4,471,999	$4,320,641	$4,052,822

LCBO SALES BY COUNTRY OF ORIGIN

Spirits

Country	Net Sales ($)	Litres
Canada	$ 1,058,540,504	56,422,381
Ontario	$ 629,076,455	41,575,554
United Kingdom	$ 233,736,904	6,866,449
United States	$ 170,835,185	8,437,836
France	$ 126,827,174	2,792,715
Ireland	$ 70,066,864	2,179,344
Sweden	$ 63,268,704	2,200,080
Mexico	$ 56,015,661	1,470,967
Italy	$ 35,160,529	1,190,803
Germany	$ 27,243,888	861,455
Poland	$ 23,239,369	685,085
Other	$ 118,338,707	4,198,208
Total	$ 1,983,273,475	87,305,321

Wine

Country	Net Sales ($)	Litres
Canada	$ 409,872,835	40,277,213
Ontario	$ 404,211,217	39,915,477
Italy	$ 314,150,252	22,635,498
United States	$ 275,807,103	17,639,853
France	$ 197,054,326	10,389,093
Australia	$ 188,044,373	12,436,702
Chile	$ 92,975,233	8,352,737
Argentina	$ 78,632,517	6,280,361
New Zealand	$ 52,727,797	2,521,100
Spain	$ 48,276,691	2,934,362
South Africa	$ 39,493,184	3,154,325
Other	$ 110,577,482	13,330,044
Total	$ 1,807,611,793	139,951,288

LCBO SALES BY COUNTRY OF ORIGIN (continued)

Beer

Country		Net Sales ($)	Litres
Canada	$	435,597,675	109,763,778
Ontario	$	402,305,541	102,424,381
Netherlands	$	110,256,431	24,284,822
Mexico	$	82,444,346	18,393,902
United States	$	79,744,645	19,266,228
Belgium	$	52,738,629	10,697,852
Germany	$	44,487,819	12,108,390
United Kingdom	$	34,109,781	6,915,799
Ireland	$	19,363,574	3,663,823
Poland	$	16,837,843	4,658,021
Denmark	$	15,039,233	3,753,857
Other	$	54,598,976	12,916,574
Total	$	945,218,952	226,423,045

In fiscal 2014, excluding sales through private ordering, the LCBO sold products from 86 different countries.

Credits

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20 Years of Growing Dividends for Ontario

LCBO