LET'S GET
LCBO
TOGETHER

Annual Report 2014–15

Table of Contents

Letter of Transmittal

The Honourable Charles Sousa, Minister of Finance

Dear Minister,

I have the honour to present you with the 2014–15 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

Edward Waitzer,
Chair

For a more detailed discussion of fiscal 2014–15, please see the LCBO's Year In Review section on www.lcbo.com under "About LCBO."

Highlights

DIVIDEND TRANSFER TO THE GOVERNMENT

$1.805 billion

REVENUES

$5.214 billion

NET EARNINGS

$1.818 billion

TOTAL FUNDRAISING

$9.5 million

TOTAL ONTARIO WINE SALES INCREASE

6.8%

ONTARIO CRAFT BEER SALES INCREASE

36%

NEW STORES, EXPANSIONS AND RELOCATIONS

23

TOTAL NUMBER OF STORES

651

TOTAL NUMBER OF CHALLENGES FOR ALL REASONS

13.5 million

TOTAL REFUSALS FOR ALL REASONS

439,000

QUALITY ASSURANCE LABORATORY TESTS

509,970

NUMBER OF COUNTRIES WE SELL PRODUCTS FROM

86

NUMBER OF BEVERAGE ALCOHOL CONTAINERS RETURNED THROUGH ONTARIO DEPOSIT RETURN PROGRAM (ODRP) SINCE 2007

2.3 billion

let's get together

For the first time in more than a decade the LCBO introduced a new brand vision: Let's Get Together.

Though the LCBO's previous brand, *Discover the World*, had served the organization well, it was time for a refresh. Research told us that customers view the LCBO as an efficient and mindful server, and that they are pleased with our ability to serve them responsibly. But they also said that we could do more to further develop our social side and play a larger role in bringing people together.

This feedback is consistent with trends in corporate branding today. In general, brands are less formal and more human, with brand language adopting more casual, friendly, candid and charming elements. Owing to the rapid rise and increasing use of social media, consumers do not want to be told what they should buy, but prefer to engage in a conversation with the brands they love. As a result, there is less emphasis on product promotion and more attention on helping customers understand how products fit into their lives.

The LCBO's new brand, *Let's Get Together*, empowers our customers. It assumes a persona of the generous and responsible host, along with such traits as welcoming, responsible, outgoing, creative and connected. It's a personality type that provides inspiring solutions that enrich social occasions, delivered with the utmost care and regard for the safety and well-being of all.

Let's Get Together is now prominently displayed on all our newspaper inserts and advertising, and is the centerpiece of our new content-enriched website, where customers can find delicious recipes to share with friends, as well as ideas for perfect drink pairings. The name *Let's Get Together* was also chosen for the LCBO's November/December holiday promotional period, further familiarizing customers and our employees with our new brand during a time of year most look forward to "getting together" with friends and family. In addition, the centre aisle of our stores — historically called the power aisle — is being redesigned to make it more engaging for customers. The centre aisle of the store is appropriately being renamed the *engagement* aisle.

With the introduction of a more social expression of the brand, it also made sense to make refinements to the LCBO logo reflecting this change. Compared to the previous logo, the letters are now cleaner, fuller and more contemporary, and further stand out due to the removal of the illustration of grapes, wheat and hops. The stylized letter "B" helps capture the new tagline and meaning with the roundness of the letter form and sense of fun in the flourish that joins the two arcs of the "B" together.

A similar shift in branding also occurred at VINTAGES, our premium wine and spirits business. It also replaced its brand tagline, *Discover our Latest*, and transitioned to the all-new *Share the Passion*. While the VINTAGES brand is known to elevate the entire LCBO brand, an opportunity was seen to broaden its appeal to a wider customer base. We also use a new tagline with the VINTAGES logo that invites customers to *Uncork something great*.

VINTAGES customers are worldly and passionate. By evolving the brand, we continue to meet the needs of current customers while making VINTAGES more inclusive of everyone. With *Share the Passion*, the essence of the brand – quality – remains. But the personality evolves from an "approachable expert" to a "trusted advisor and wine companion."

Our government is committed to building a strong Ontario through priority investments that create jobs, expand opportunity and secure prosperity for all Ontarians. We remain on track to balance the budget by 2017–18 while continuing to invest in key public services, including health care and education.

The LCBO helps keep Ontario communities safe and pay for programs that make this province an even better place to live and work.

In fiscal 2014–15, the LCBO continued to improve its financial results, transferring $1.805 billion to the government, an increase of $65 million over the previous year. This is another record and marks the LCBO's 21st consecutive year of dividend growth for the province. Management is to be commended for showing sound expense management and growing sales responsibly.

Equally evident was the LCBO's commitment to social responsibility through its *Check 25* and *Challenge & Refusal* programs, which help keep alcohol out of the hands of those who are underage and appear intoxicated. During the year, more than 13.5 million people were challenged, with more than 439,000 refused service, the vast majority for reasons of age. Integral to the LCBO's social responsibility effort is *Deflate the Elephant*, the anti-drinking and driving advertising campaign that promotes responsible hosting and helps keep roads safe for everyone. In addition, the LCBO partnered with such organizations as FASworld Canada and Parent Action on Drugs to promote the responsible consumption of beverage alcohol products.

The LCBO continues to improve the store shopping experience for consumers. Its store investment program added 23 new, relocated or expanded stores during the year. Another 18 stores are scheduled for the coming year. The addition of stores to the network generates additional revenue while better serving the needs of Ontario's growing population. Further, the number of *Our Wine Country* boutiques, which offer the best selection of Ontario wine and promote the domestic industry to consumers, rose to 20 locations.

Notwithstanding the LCBO's solid track record, our government unveiled a plan to unlock value in certain provincial assets, including the LCBO, subsequent to the end of the fiscal year. The plan, with an initial focus on expanding beer sales to grocery stores, will provide consumers with more convenience, improved choice and better customer service while maintaining Ontario's strong commitment to social responsibility.

Ontarians can be assured that the sale of beer is restricted to set hours and a designated section of each grocery store, and that all staff selling beer in grocery stores will be properly certified and fully-trained to ensure social responsibility standards are maintained.

In addition, the LCBO will pilot the sale of 12-packs of beer at 10 locations; create destination stores for wines from certain countries (starting with Greece and Portugal); and build an e-commerce site that will sell products from its stores, other provinces and the world.

Although the beverage alcohol market is changing the role of the LCBO remains clear. Under the leadership of the Board of Directors, the LCBO will continue to be transparent and accountable to the people of Ontario. At the same time, it will grow its business in a responsible manner, provide the helpful and knowledgeable service customers have come to expect, and continue contributing revenues that fund the social and government services Ontarians value.

The Honourable Charles Sousa,
Minister of Finance

The past year was a success by any measure.

Another record dividend to the Ontario government, a new sales milestone (and growth above the provincial retail average) – the list goes on. I encourage you to read about our performance in the pages of this annual report.

But the report does not tell the whole story. In my message last year, I welcomed the Premier's decision to establish an Advisory Council on Government Assets with a focus on maximizing the value of the LCBO and protecting the public interest. These goals are central to our mission. The review has proven to be a major and ongoing undertaking. I want to thank the senior management team (and especially Bob Peter and the Finance and Corporate Affairs groups) for providing their support to the Council and its outside consultants while remaining focused and dedicated to our ongoing business throughout the process.

The LCBO will fully support the Council's key recommendations. Advanced e-commerce offerings, new store formats and specialty boutiques showcasing local craft beers, wines and spirits, as well as other customer-focused measures that are already underway, add up to exciting times for the LCBO. While the LCBO will face additional competition from the grocery sector, the LCBO has a culture of continuous improvement and will remain focused on how best to serve Ontarians. In addition to finding more operational efficiencies and new ways to enhance the customer experience, we will evolve and adapt to a changing market structure.

The LCBO has responded effectively to many challenges in the past, and I see no reason for that to change. We are able to call upon the ideals of service that matter to our employees and give meaning to their work. Customers know and trust our brand and all that it stands for, enjoy the shopping experience we provide and appreciate our commitment to social responsibility and to the people of Ontario.

It is worth noting that our employees' community commitment extends far beyond responsible beverage alcohol retailing. During the year, with the generous support of our customers, we raised a record $9.5 million for worthy causes, including the United Way, MADD Canada, regional children's hospitals, and a host of other charities that our staff passionately support.

With respect to the Board, we have welcomed Noble Chummar and Stacey Mowbray, both accomplished individuals with diverse business backgrounds. In addition, I want to thank former Board members Walter Sendzik and Harvey Strosberg for their many years of dedicated service.

While annual reports are inherently about past accomplishments, I encourage you to think about the future as you read this report. All our work relates directly to ensuring the LCBO delivers results for our customers, suppliers and Ontario. That remains our "north star" as we face the challenges and opportunities of a changing beverage alcohol marketplace.

Edward Waitzer,
Chair

The LCBO posted another record year in 2014–15. The organization delivered another set of excellent results, helped by continued expense management and strong sales in all channels.

We achieved three notable sales milestones that I would like to highlight. First, a record dividend of $1.805 billion – the first time the LCBO delivered a dividend above $1.8 billion. Second, we surpassed $5 billion in total sales for the first time – 4.3 per cent above last year. Finally, we exceeded $1 billion in sales during the all-important November/December holiday period, which was another first for us.

By transferring $65 million more to the Ontario government than we did last year, we will make an even greater funding contribution for important services, such as educating children and caring for seniors.

Though the retail climate was somewhat more favourable due to the dip in gasoline prices, consumers remain guarded with their spending. In driving responsible sales, we cannot underestimate the influence of our informative marketing programs, widened product selection, or the tireless efforts of our knowledgeable and customer-focused frontline employees.

Our retail staff are also charged with one of the most important responsibilities – preventing the sale of beverage alcohol to minors and those who are intoxicated. This is more than a task – it directly relates to our social responsibility roots. Last year, the total number of challenges surpassed 13.5 million, with more than 439,000 refusals. About 88 per cent of refusals were for reasons of age.

Store expansion continued at a brisk pace. Another milestone we achieved during the year was the opening of the 650th store in the town of Courtice, near Oshawa. We added 23 new or relocated stores, ending the year with 651 locations. The expanded network contributes to profitability and provides customers with greater access to our products and improved services, such as walk-in beer cold rooms, VINTAGES corners, and opportunities for customers to try before they buy.

We continue to make sound investments in our Logistics facilities, notably the Durham Retail Service Centre, which marked its 30th anniversary of deliveries. We made further progress with the re-engineering and automation of Durham's manual palletization lanes, and are on track to install an additional six automatic palletizers by August 2015. At our London facility, we are undertaking an expansion that will see its capacity rise to 125,000 cases a day from 70,000 in anticipation of higher volumes in the future.

On the digital marketing front, we re-launched our public website, lcbo.com, making this channel more consumer-friendly and integrating it with our social media channels. The new design is inviting and easier to browse, and contains significantly more content, in terms of both articles and videos, helping our customers plan their perfect social gatherings.

Not coincidentally, the website revamp coincided with changes to our brand and logo. For the first time in more than a decade, the LCBO unveiled a new brand positioning – *Let's Get Together* – which replaced the previous *Discover the World*. This change was driven by new research that showed customers want to see the LCBO do more to express its social side, and I think *Let's Get Together* captures this perfectly. At the same time, it made sense to tweak our logo, bringing it up-to-date by removing the background illustration and refining the lettering. These changes combined make for a powerful and engaging identity for the LCBO.

These enhancements position us well for the coming expansion of our e-commerce offering, which we expect to launch in 2016. The project includes products from our general list, VINTAGES *Essentials*, wines from other Canadian provinces and around the world. Eventually, we envision the creation of a "global marketplace," in which we allow case ordering of the widest selection of beverage alcohol products.

The marketplace framework for beverage alcohol sales in Ontario continues to evolve, with some of the biggest changes coming since the days of the LCBO's inception in 1927. But this organization has a history of evolving with the times.

Competition is not entirely new to the LCBO. We compete with Winery Retail Stores and the Beer Store in beverage alcohol sales, and virtually every retailer for share of wallet. With respect to beer, which will soon be sold in select grocery stores, such initiatives as expanding our selection of premium, imported and Ontario craft beer products, offering customers mix-and-match six-packs, expanding our beer cold rooms, recurring product promotions, and specially-trained "beer ambassador" staff members, have enabled us to increase our market share (by volume) to 25 per cent today from about 17 per cent a decade ago.

No one understands the implication of increased competition and potential pressure on sales more than we do. But we are up for the challenge. The LCBO will continue to raise its game, particularly where customer engagement is concerned, continuing to meet our obligations to the government through higher dividend transfers, as well as to our customers through offering a superior shopping experience.

Bob Peter,
President & CEO

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 the three-year strategic plan and monitor management's success in meeting the objectives and goals set out in this plan
- submit annual financial plans and strategic/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 LCBO 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 reviewing and advising on possible changes to the Board's corporate governance practices and framework 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 committed to transparency and accountable to its stakeholders in a number of ways:

→ our annual report is tabled in the provincial legislature and is made available to all Ontarians online (http://www.lcbo.com/content/lcbo/en/corporate-pages/about/annual-report.html)
→ our annual business plan is posted on the LCBO website (http://www.lcbo.com/content/lcbo/en/corporate-pages/about/business-plan.html)
→ the memorandum of understanding between the LCBO Chair and the Minister of Finance can be read online (http://www.lcbo.com/content/lcbo/en/corporate-pages/about/memorandum-of-understanding.html)
→ information concerning the operations, governance and policies of the LCBO is available online at lcbo.com, on the LCBO's customer service website hellolcbo.com and on www.doingbusinesswithlcbo.com
→ we promote and practice routine disclosure and active dissemination of information as well as respecting timelines when providing public access to records under the *Freedom of Information and Protection of Privacy Act*
→ travel expenses for Board members and senior management are reviewed by the Office of the Integrity Commissioner and posted online on lcbo.com (http://www.lcbo.com/webapp/wcs/stores/servlet/OverViewView?catalogId=10001&langId=-1&storeId=10151)

- → Board members are appointed by Order-in-Council (for more information see the Public Appointments Secretariat website: https://www.pas.gov.on.ca/scripts/en/home.asp)
- → LCBO employee conduct is governed by a Code of Business Conduct (http://www.lcbo.com/content/dam/lcbo/corporate-pages/about/pdf/Code%20of%20Business%20Conduct%20E.pdf)
- → LCBO financial statements are audited annually by the Office of the Auditor General of Ontario and are included in the LCBO annual report
- → LCBO has also been the subject of external reviews, a number of which are publicly available, such as the review of LCBO new product procurement by the Office of the Auditor General of Ontario and the agency review by the Standing Committee on Government Agencies of the Legislative Assembly

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*[1]

Patrick Ford, *acting senior vice president, Human Resources*[2]

Hugh Kelly, *senior vice president, Information Technology*[3]

Michael Eubanks, *senior vice president, Information Technology and chief information officer*[4]

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*

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

Ian Loadman, *acting director, Corporate Affairs*[5]

Bill Kennedy, *executive director, Corporate Communications*

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

Shelley Sutton, *director, Strategic Planning & Enterprise Risk Management*

Lisa MacGregor, *director, supply chain*

---

1. *Resigned January 2015*
2. *Effective December 2014*
3. *Retired May 2014*
4. *Effective July 2014*
5. *Effective December 2014*

Board Members

EDWARD J. WAITZER

Appointed chair of the Board on August 28, 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.

PENNY LIPSETT

Appointed May 30, 2007. Term renewed in 2010, 2013 and on February 1, 2015, for a two-year term. Vice chair and chair, Governance and Compensation Committee.

Ms Lipsett was 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 ran her own consulting practice with a focus on investor and government relations starting in 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.

NOBLE CHUMMAR

Appointed July 23, 2014, for a two-year term. Member, Governance and Compensation Committee.

Mr. Chummar is a partner with Cassels Brock & Blackwell LLP, a leading Canadian law firm with offices in Toronto and Vancouver, and is a member of the firm's Business Law and Government Relations groups. He advises clients on public policy matters from a wide range of industry sectors, including energy, government, education, pharmaceutical, hospitals, insurance, mining, transportation, banking, retail and real estate development.

Mr. Chummar serves on a number of private and public sector boards, and has served two terms at the College of Physicians and Surgeons, the regulatory body that governs doctors in the Province of Ontario. He was also a strategic advisor to the chair of the Toronto 2015 Pan Am/Parapan Am Games, and a past president of the Empire Club of Canada.

He has been decorated with the Government of Canada's 125th Anniversary of the Confederation of Canada medal, the Queen's Diamond Jubilee medal and by decree of the President of France, has been given the rank of Knight in the National Order of Merit (Chevalier, Ordre National du Mérite).

Mr. Chummar graduated from law school at the London School of Economics and also received his Masters of Law from Osgoode Hall Law School. He is a graduate of the corporate directors' program at the Rotman School of Management at the University of Toronto and holds the ICD.D designation granted by the Institute of Corporate Directors.

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.

STACEY MOWBRAY

Appointed October 22, 2014 for a two-year term. Member, Governance and Compensation Committee.

Ms Mowbray is the president of Weight Watchers Canada, a global consumer brand that is a leader in the health and wellness segment. This appointment follows a six-year tenure as CEO and president of Second Cup Ltd., a publicly-traded Canadian company in the specialty coffee business.

Prior to Second Cup, Ms. Mowbray had roles with Molson Canada as CMO and Cara Operations, where she was the president of Milestone's and, prior to that, the SVP of branding and marketing.

Earlier in her career, Ms. Mowbray held the position of VP of marketing for Pepsi Canada and held several sales and marketing positions at Weston Bakeries. She is a director of the board and vice chair of the Governance Committee for Trillium Health Partners, one of Canada's largest regional hospitals.

Ms Mowbray has been recognized for her contributions, having been named a 2012 Women of Diversity Champion, Women's Executive Network's Top 100 women in 2011 and Wilfrid Laurier's Top 100 Alumni as well as Laurier's inaugural CEO in residence.

LAUREL MURRAY

Appointed August 8, 2005. Term renewed in 2008, 2011, 2012 and August 13, 2014, for a one-year term. Chair, Audit Committee.

Ms Murray has a Bachelor of Commerce from Carleton University and is a Chartered Professional Accountant (CPA, CA) with 25 years of experience in the public and private sectors. She is also the Audit Committee chair for the Office of the Privacy Commissioner of Canada, and a recent past member of the Audit Committee for the Office of the Commissioner of Official Languages of Canada and the Senior Advisory Council for Shared Services Canada.

In 2000, Ms Murray established and became 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 recently released 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 and prior to that, she was a manager with KPMG.

Ms Murray is a member of the Institute of Corporate Directors and, in 2014, she was selected for Women on Board, a Catalyst initiative that promotes the appointment of women to corporate boards.

SUSAN PIGOTT

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

Ms Pigott is a trained nurse and social worker who has enjoyed a 35-year long career in health and social services, mostly in Toronto but also in Australia for two years and in Papua New Guinea for one year. Trained as a nurse at the Wellesley Hospital in Toronto, she also has a B.A. from the University of Western Ontario as well as an M.S.W from the University of Toronto.

Working for 10 years as a frontline nurse in emergency medicine and mental health, Ms Pigott subsequently held senior positions in a variety of social service organizations including Family Service Toronto, United Way of Greater Toronto and St. Christopher House. In 2013 she stepped down from her position as vice president of Communication and Community Engagement at the Centre for Addiction and Mental Health. Since then she has held a number of short term contracts, including Executive in Residence at Ashoka Canada for 12 months. Currently, Ms Pigott is working on a contract for MaRSDD related to communication and community outreach. She has also accepted a three-year political appointment as the chair of the Ontario Government's Mental Health and Addictions Leadership Advisory Council, as well as a one-year assignment as a member of Citizenship and Immigration Canada's new Advisory Committee on Social Innovation.

Ms Pigott has been active in a number of public policy initiatives, including the Ontario Citizens Assembly on Electoral Reform where she was the lead for Citizen Engagement and she co-chaired the Taskforce on Modernizing Income Security for Working Age Adults. She was also a member of the Drummond Commission on the Reform of Ontario Public Services.

She has been an active volunteer serving as a Board member for many organizations, including the following: Toronto Community Foundation, Social Enterprise Innovation and Development, Tides Foundation, Sickkids, and Soulpepper Theatre. In addition to the LCBO, she is a Board member of Artscape and The Change Foundation, and is on the advisory committee of Social Capital Partners.

PAUL SPARKES

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

Mr. Sparkes is an accomplished business executive with more than 25 years of experience in the public and private sectors.

For a decade, he was a leader in the broadcast and new media industry for Canada's premiere media company where he served as CTVglobemedia's executive vice president, Corporate Affairs. He also held senior positions in the public service, including the Government of Canada as director of operations to then-Prime Minister Jean Chretien, and the Government of Newfoundland and Labrador as a senior aide to two premiers: Clyde Wells and Brian Tobin.

Mr. Sparkes currently works with private companies in the media and investment industries. Most recently, he was co-founder of Difference Capital Financial Inc. and presently serves on a number of private and public boards including Thunderbird films, and Blue Drop Performance Learning, and is the chair and founding member of the Smiling Land Foundation.

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 more than 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.

MICHAEL STROPLE

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

Mr. Strople is the president of Allstream, 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 development 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, where he was elected chair in February 2015. 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.

REMUNERATION

Board members receive a per diem remuneration for all Board-related business, such as attending regularly scheduled meetings, serving on either the Audit Committee or the Governance and Compensation Committee, and representing the LCBO. The table below lists the total remuneration each Board member received for the 2014 calendar year.

Board Member	Remuneration
Edward Waitzer *(chair)*	$ 48,370
Noble Chummar	$ 1,600
Cheryl Hooper	$ 4,930
Penny Lipsett	$ 3,750
Stacey Mowbray[1]	–
Laurel Murray	$ 5,250
Susan Pigott	$ 3,300
Paul Sparkes	$ 2,700
Ramesh Srinivasan	$ 3,000
Michael Strople	$ 2,700
Pamela Livingstone[2]	$ 500
Walter Sendzik[3]	$ 2,640
Harvey Strosberg[4]	$ 1,500

1. *First per diem received in January 2015.*
2. *Did not seek re-appointment.*
3. *Did not seek re-appointment.*
4. *Did not seek re-appointment.*

Management Discussion & Analysis of Operations

The LCBO is a government business enterprise. In the fiscal year ended March 31, 2015 (hereafter referred to as 2015) it operated a network of 651 retail stores and special-order services as well as supporting 212 agency stores across the Province of Ontario, and offering more than 23,000 spirits, wine and beer products to consumers and licensed establishments. The LCBO estimates 1.2 billion litres of beverage alcohol products were sold in Ontario during 2015, 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 totaled $5.2 billion, 1.3 per cent better than plan and $217 million or 4.3 per cent more than the previous year
- Net income exceeded plan by 2.3 per cent and increased by $74 million or 4.2 per cent over the previous year
- Dividend to the provincial government was $1.805 billion, 1.7 per cent more than plan and a 3.7 per cent or $65 million increase over 2014
- The LCBO retail store network added 12 new locations during the year, growing to a total of 651 stores
- Management salary bands were frozen for the fifth straight year

	2015	vs. 2014	vs. Plan
Dividend to Government of Ontario	$ 1,805,000,000	3.7%	1.7%
Revenues	$ 5,215,976,000	4.3%	1.3%
Net income	$ 1,818,415,000	4.2%	2.3%
Number of LCBO stores	651	12	(1)

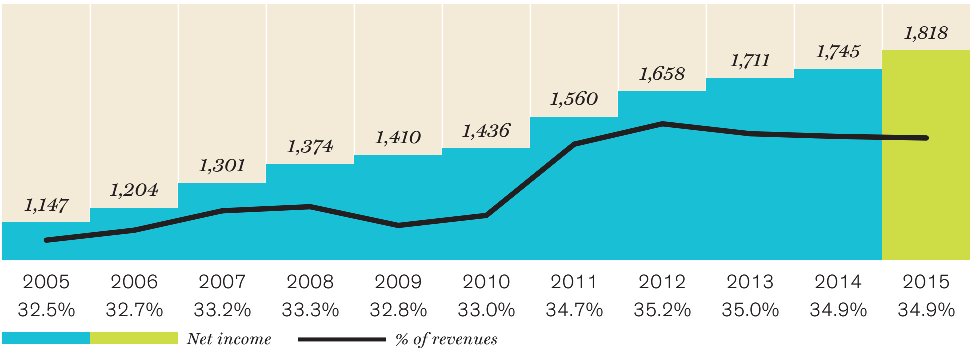
Source: 2014–15 Audited Financial Statements and LCBO Annual Financial Plan

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.*

NET INCOME

In 2015, net income represented 34.9 per cent of revenues, equal to the previous year.

Net income** (\$ millions) **and as a percentage of revenues



Over the past 10 years, net income has risen by \$671 million, or 59 per cent, as a result of sales growth, improved margins and expense control.

DIVIDEND

In addition to taxes, the LCBO transferred \$1.805 billion in dividends to the Government of Ontario in 2015. Compared to 2014, the amount rose by \$65 million and marked the 21st straight year of increased transfers.

***Dividend** (\$ millions)*

The dividend has grown by 62 per cent since 2005, reflecting an additional \$690 million. Cumulatively, the Government of Ontario has received \$15 billion in dividend transfers from the LCBO during the past decade.

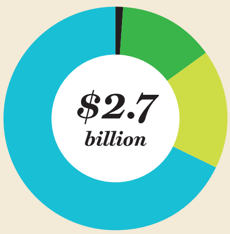
PAYMENTS TO GOVERNMENT

In 2015, the LCBO paid close to $2.7 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 $823 million in the form of excise, duty and sales taxes. Realty and leased property taxes paid to Ontario municipalities by the LCBO totaled $28 million.

	2015
Total payments	$ 2,655,980,470
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 $280 million, is later transferred back to the Government of Ontario.

LCBO payments to government



Government of Ontario – Dividend	*68%*
Government of Canada – HST	*17%*
Government of Canada – Excise & Duty	*14%*
Ontario Municipalities	*1%*

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 (TBS), 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.

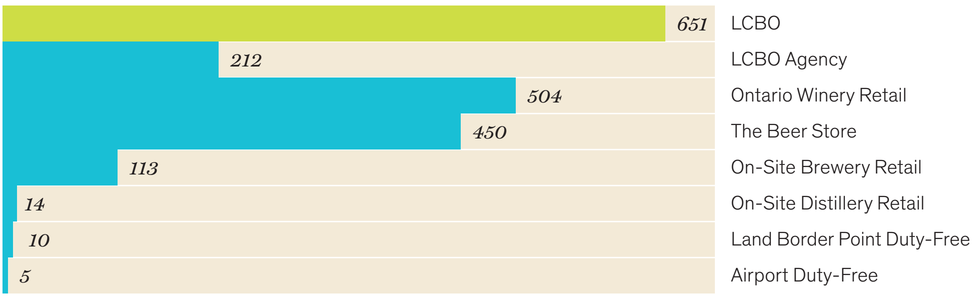
Number of Outlets

As of March 31, 2015, there were 1,959 retail outlets selling alcoholic beverages in Ontario. Since 2011, the number of outlets has increased by 161 locations, or nine per cent.

Number of outlets	2015	2014	2013	2012	2011
LCBO	651	639	634	623	617
LCBO Agency	212	217	219	214	217
Ontario Winery Retail	504	491	479	472	464
The Beer Store	450	447	446	442	440
On-Site Brewery Retail	113	73	52	45	43
On-Site Distillery Retail	14	12	7	5	3
Land Border Point Duty-Free	10	10	10	10	10
Airport Duty-Free	5	5	4	4	4
Total	1,959	1,894	1,851	1,815	1,798

Note: When the LCBO's 651 locations are combined with Ontario's 212 LCBO agency stores, the total market share as a percentage of the total number of outlets is 44 per cent.

Ontario's alcohol marketplace by number of outlets



Market Share

Ontario's total beverage alcohol marketplace, which includes LCBO, the Beer Store, Ontario winery retail stores, as well as other legal (e.g. ferment on premise), homemade and illegal[2] channels, amounted to an estimated 1.2 billion litres sold during 2015. The LCBO's overall market share by volume increased to 37.5 per cent from 36.3 per cent in 2015.[3]

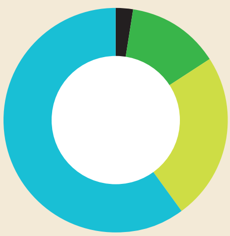
Wine[4]

During 2015, wine sales in the province grew by 8.7 million litres or 5.1 per cent to 181 million litres. Ontario wine accounted for nearly 60 per cent of the favourable variance, with volume sales up 7.6 per cent year-over-year. As a result, wine produced in Ontario increased its share of the total provincial wine market by a full percentage point to 39.8 per cent. Imported wines, representing 60.2 per cent of all wine sold in the province, experienced a volume sales increase of 3.4 per cent compared to the previous year.

LCBO sales of Ontario wine registered strong growth in 2015 and led all other channels. Ontario wine sales at the LCBO represented 24.1 per cent of the total wine market, a 90 basis point improvement from a year earlier, as sales increased by 9.3 per cent. By comparison, Ontario winery retail stores maintained a 13.3 per cent share on 5.4 per cent volume sale growth and likewise sales through the direct delivery channel – Ontario winery sales directly to licensed establishments – remained at 2.4 per cent share on a sales increase of 4.1 per cent.

Since 2006, the LCBO share of Ontario wine sold in the province has grown 330 basis points to 60.6 per cent while winery retail store (WRS) share has declined 300 basis points to 33.5 per cent over the 10-year period. Direct delivery (DD) sales account for the remaining 5.9 per cent of Ontario wine sales, down 30 basis points.

2015 wine market – volume



	2015	2014
LCBO Imported	*60.2%*	*61.1%*
LCBO Ontario	*24.1%*	*23.2%*
WRS	*13.3%*	*13.3%*
DD	*2.4%*	*2.4%*

↑ *Ontario wines represent* ***40%*** *of provincial wine volume sales*

2 *Illegal channel sales consist of LCBO estimates for smuggling and illegal wine manufacturing.*
3 *See Ontario Sales Channel Summary for further detail.*
4 *Wine products include cider and wine coolers.*

Beer

Beer volume sales in Ontario increased 0.2 per cent, or 1.9 million, to 781 million litres during 2015. The Beer Store (TBS) accounts for approximately 75 per cent of provincial beer sales, but experienced a 0.8 per cent decline in litres sold during the year. At the LCBO, beer volume sales increased 3.4 per cent compared to the previous year and expanded market share by 80 basis points to 24.9 per cent.

Retail network expansion and growing consumer preference for imported beers and premium craft beers, particularly those produced locally in Ontario, have supported sales growth in this category at the LCBO. In 2015, Ontario craft beers sold at the LCBO registered sales growth of almost 36 per cent compared to a year earlier, the leading performance amongst all beer segments. The LCBO has increased its share of the provincial beer market by 750 basis points over the past ten years.

2015 beer market – volume

	2015	2014
TBS Domestic	*67.2%*	*68.1%*
LCBO Domestic	*14.7%*	*14.3%*
LCBO Imported	*10.2%*	*9.8%*
TBS Imported	*7.9%*	*7.8%*

↑

LCBO accounts for

25%

of all beer sold in Ontario

EXTERNAL ENVIRONMENT

Between April 2014 and March 2015, improved economic conditions underpinned LCBO financial performance as Ontario registered a lower rate of unemployment and higher levels of consumer confidence. Provincial retail sales during the year were stronger than originally anticipated and likewise LCBO sales outpaced our original plan.

Ontario registered real GDP growth of over two per cent during the year as net trade improved supported by increased demand from the United States and a more favourable exchange rate for Ontario's exporting firms. The provincial labour market added approximately 37,000 jobs during the year and the unemployment rate averaged 7.1 per cent, 40 basis points better than the previous year.

As a result of these improving conditions, and also buoyed by lower gasoline prices, the Conference Board of Canada's index of consumer confidence increased nine points from the previous year, averaging 103 (2014=100). Retail sales in Ontario increased 5.2 per cent over the 12 months ended March 2015. When the higher sales of motor vehicles and the decreased cost of transactions at gas stations are excluded, provincial retail advanced a solid 4.6 per cent.

Ongoing investment in new retail locations boosted year-over-year sales performance at the LCBO during 2015. The FIFA World Cup (June 12 to July 13, 2014), World Pride Toronto (June 20 to June 29, 2014) and the 2015 IIHF World Junior Championship co-hosted in Toronto (December 26, 2014 to January 5, 2015) also supported sales growth during the year. Despite one less selling day, sales in 2015 also benefitted from an Easter holiday (there was none in the previous fiscal year).

NET SALES[5]

LCBO net sales reached $5.2 billion in 2015, $216 million or 4.3 per cent greater than the previous year.

Channel Sales

The LCBO sells beverage alcohol to its customers through a variety of sales channels. The largest portion of sales is to home consumers through the retail channel, representing 80.3 per cent of total LCBO sales. During 2015, sales through this channel increased 4.3 per cent to almost $4.2 billion.

Channel	Share	2015	vs. 2014
Retail	80.3%	$ 4,186,263,000	4.3%
Licensee	9.6%	$ 501,648,000	4.2%
TBS	6.3%	$ 326,658,000	4.7%
Agency	2.0%	$ 105,855,000	2.6%
Direct Delivery	1.2%	$ 61,760,000	9.5%
Duty-free	0.5%	$ 27,278,000	4.9%
Other	0.1%	$ 6,514,000	21.3%
Total	100%	$ 5,215,976,000	4.3%

Beverage alcohol purchased by licensed establishments such as bars and restaurants makes up the second largest LCBO sales channel. Retaining a 9.6 per cent share of total LCBO sales during 2015, sales through the licensee channel increased 4.2 per cent during the year to $502 million.

LCBO sales to the Beer Store, the third-largest LCBO sales channel, increased 4.7 per cent to $327 million in 2015. As a percentage of overall LCBO sales, this channel maintained its 6.3 per cent share.

Sales to agency stores, an extension of the LCBO retail channel through independent local retailers serving smaller communities around Ontario, increased 2.6 per cent to $106 million during the year. This channel accounted for a 2.0 per cent share of total LCBO sales, 10 basis points lower than last year.

Sales through the direct delivery channel, based on remittances by Ontario wineries to the LCBO, registered sales growth of 9.5 per cent in 2015. At $62 million, this channel increased its share of total LCBO sales by ten basis points to 1.2 per cent.

Duty-free operators at airports and land-border points, accounting for 0.5 per cent of LCBO sales in 2015, experienced sales growth of 4.9 per cent at $27 million.

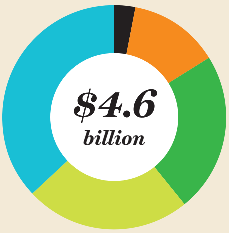
5 *Net sales are equal to gross sales less discounts and taxes. Net sales are used to calculate retail and logistics productivity ratios.*

Regional Sales[6]

The LCBO's four geographically-based retail regions each achieved sales gains over the previous year. Ongoing store network investment activity – including new stores, relocations and expansions – contributed significantly to growth. The GTA Service Centre, providing service to licensee and agency store customers throughout the province, is located geographically within central Ontario, but is considered a fifth LCBO retail region.

	2015		vs. 2014	
Region	Store count	Sales	Store count	Sales
Central	149	$ 1,693,518,905	+8	4.5%
Western	169	$ 1,130,900,001	+1	4.1%
Eastern	172	$ 1,069,898,024	+2	3.8%
Northern	160	$ 620,142,178	+1	2.8%
GTA Service Centre	1	$ 116,102,171		11.0%
Total	651	$ 4,630,561,279	+12	4.2%

LCBO sales by region



Central	*37%*
Western	*24%*
Eastern	*23%*
Northern	*13%*
GTA Service Centre	*3%*

The Central Region accounted for the largest share of LCBO store sales at nearly $1.7 billion, or 37 per cent of the total. This region contributed $73 million to overall net sales improvement in 2015. This performance was bolstered by 12 new store investment projects in the region, eight of which were brand new locations.

Sales in the Western Region reached $1.1 billion, or 24 per cent of the total, up $45 million from the previous year. The Western Region result was supported by six store projects, including one new location. The Eastern Region accounts for a 23 per cent share of total sales and experienced a sales increase of $39 million in 2015, supported by investment in three locations (two new[7]).

Northern Region stores registered a $17 million increase in sales during the year to $620 million (13 per cent of the total). The region had one new store open in 2015.

6 *Regional sales represent sales at store and depot locations only; therefore totals do not reconcile to the total LCBO Channel sales presented on page 27.*

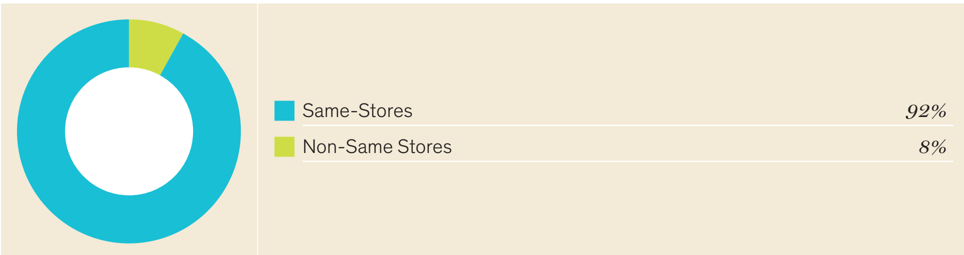
7 *One of the two stores counted as new in Eastern Region was a relocated store that was temporarily closed for up to a year before re-opening.*

Same Versus Non-Same Store Sales

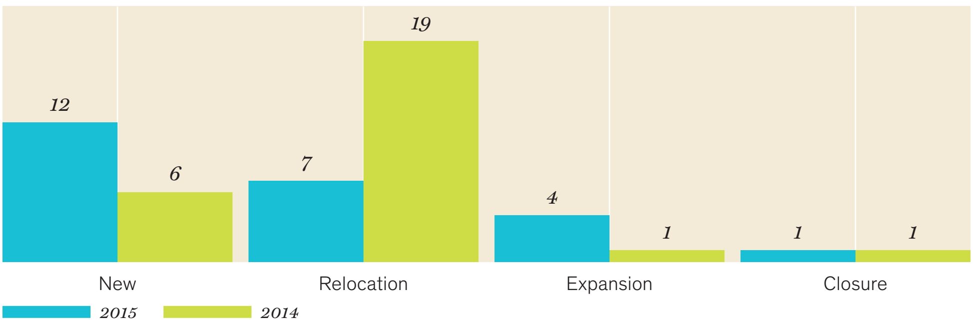
The retail industry utilizes same store-sales growth as a metric to measure performance at all company stores that have not changed location or physical size (materially) over the past year or longer. This measurement excludes any “non-same” stores that were added, moved, substantially renovated or closed during the year. To calculate annual sales growth, same-stores must have been in the same location for two full years.

In 2015, sales at LCBO same-stores rose 2.0 per cent compared to the previous year, representing $4.1 billion in retail sales. Non-same stores, which included 12 new stores, seven relocations, four expansions and one location closure, achieved sales of $366 million during the year.

Same versus non-same store sales share in 2015



Store investment activity (number of projects)



Category Sales[8]

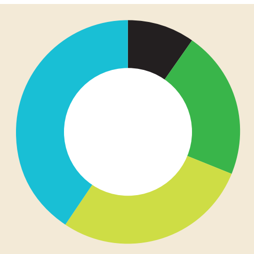
Spirits continued to account for the largest portion of LCBO product sales in 2015 at $2.0 billion, or 40.8 per cent, of total sales. Despite a 2.4 per cent increase in sales, the category's representative share declined for the sixth consecutive year. Compared to the annual plan, spirits sales essentially matched expectation, up 0.1 per cent.

Wine (excluding VINTAGES) remained the second-largest category at 28.1 per cent of total net sales, with sales reaching almost $1.4 billion. Wines increased 4.0 per cent versus 2014 and surpassed plan by 0.9 per cent.

VINTAGES, with sales of $475 million in 2015, expanded its share of total net sales to 9.6 per cent. VINTAGES led all categories in sales growth, improving 7.9 per cent from last year and 5.8 per cent better than plan.

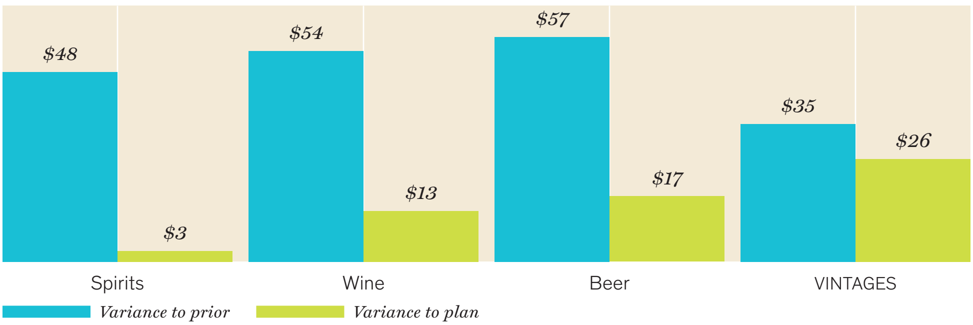
Beer sales were solid during the year, increasing 5.7 per cent versus the previous year and reaching nearly $1.1 billion. Exceeding its plan by 1.6 per cent, this category increased its share of overall sales by 40 basis points to 21.5 per cent.

Sales share by category



	2015	2014
Spirits	*40.8%*	*41.5%*
Wine	*28.1%*	*28.1%*
Beer	*21.5%*	*21.1%*
VINTAGES	*9.6%*	*9.3%*

Category sales performance *($ Millions)*



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

OPERATING RESULTS

In 2015, 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 totaled $2.6 billion in 2015, representing an improvement of 4.7 per cent compared to 2014 and 1.5 per cent more than plan. As a percentage of revenues, gross margin increased 10 basis points to 50.3 per cent.

The major categories generated the following gross margin from every $1 in sales:

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

Spirits accounted for 46.4 per cent, or almost $1.2 billion, of total gross margin in 2015. Despite rising 2.7 per cent versus the previous year and 0.3 per cent over plan, spirits margin experienced a 50 basis point decline in share compared to 2014 and was 30 basis points below plan.

Wine maintained its 28.4 per cent share of total LCBO gross margin during 2015, matching plan. This category posted margin growth of 4.0 per cent over the previous year to $724 million, 0.9 per cent more than plan.

Gross margin from beer totaled $416 million in 2015, 5.7 per cent higher year-over-year and 0.7 per cent greater than plan. At 16.3 per cent of total margin, beer's share grew 20 basis points from last year, but trailed plan by 10 basis points.

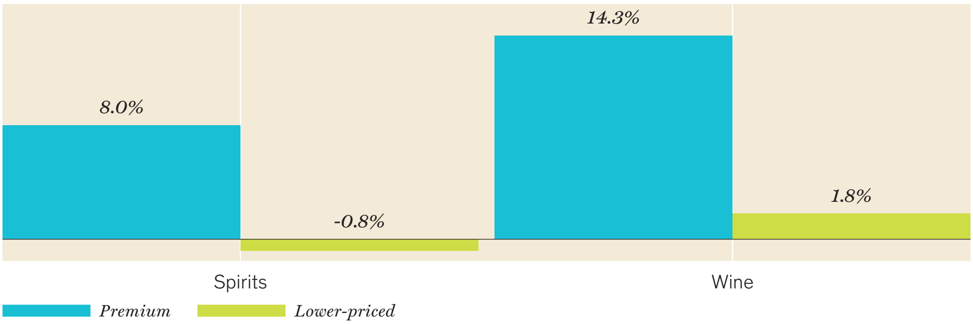
VINTAGES gross margin, at $228 million, increased 8.3 per cent and outpaced plan by 6.1 per cent. As a result, margin share for VINTAGES increased 30 basis points to 8.9 per cent, 40 basis points over plan.

Margin share by category

	2015	2014
Spirits	*46.4%*	*46.9%*
Wine	*28.4%*	*28.4%*
Beer	*16.3%*	*16.1%*
VINTAGES	*8.9%*	*8.6%*

Sales growth of premium spirits and wines continues to exceed growth rates for lower-priced products in these categories. This trend has supported absolute margin improvement at the LCBO. However, 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



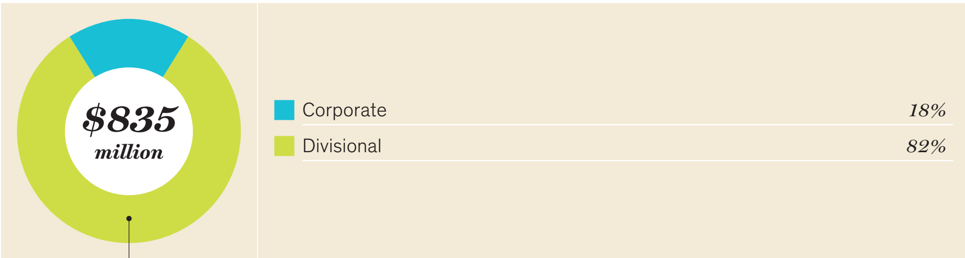
Premium spirits, with prices of at least $30 for a 750 mL bottle, registered volume sales growth of 8.0 per cent year-over-year in 2015 compared to a 0.8 per cent decrease in sales of similar-sized, lower-priced spirits products. Volume sales of premium wines, retailing for $15 or more for a 750 mL bottle, likewise increased at a higher rate than lower-priced wine products at 14.3 per cent versus 1.8 per cent respectively compared to 2014.

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.

In 2015, LCBO managed to keep total expenses one per cent below plan. Divisional expenses drove much of the approximately $9 million favourable variance, led by lower-than-planned retail store salaries and benefits, rent and property taxes, and stock shortages.

Total expenses



Divisional expenses

The $835 million operating expenses total for 2015 reflected an increase of $19 million, or 2.4 per cent, from the previous year. Divisional expenses represented 82 per cent of the total and accounted for just over half of the overall increase. Non-controllable retail store expenses, particularly rent and property taxes, drove the year-over-year unfavourable variance, as retail stores contributed to two-thirds of the total divisional expense increase. Stores' controllable expense variance, however, was softened by the absence of bargaining unit bonuses, unlike the prior year[9].

9 *In 2014, the ratification of the Collective Agreement resulted in $8.5 million in costs related to lump sum payments of $400 per casual employee and $800 per full-time employee for bargaining unit personnel. This was paid out in June 2013 and again in March 2014 as an accounting accrual to recognize the obligation for fiscal 2015 (actual payment effective April 1, 2014).*

Accounting for nearly a quarter of total divisional expenses combined, Administrative and Sales and Marketing expenses each came in below plan, growing a respective 1.6 per cent and 0.6 per cent relative to last year. Logistics, representing the smallest share of total divisional expenses, experienced a 4.5 per cent increase in expenses compared to 2014, 1.1 per cent more than plan.

Divisional Expenses		2015	vs. 2014	vs. Plan
Retail Stores	$	495,429,000	1.3%	-1.5%
Administrative	$	113,254,000	1.6%	-0.2%
Sales & Marketing	$	45,887,000	0.6%	-1.5%
Logistics*	$	30,500,000	4.5%	1.1%
Total	$	685,070,000	1.5%	-1.2%

** As per IFRS, direct labour costs in Logistics have been included in cost of goods sold since April 1, 2010. In 2015, direct labour costs were approximately $31 million, down $1.4 million from the preceding year.*

Corporate expenses, accounting for the remaining 18 per cent of total operating expenses, were up 6.7 per cent. Depreciation, the single largest corporate expense component, accounted for the majority of the higher expense. Relative to last year and plan, depreciation increased 12.3 per cent and 7.7 per cent, respectively.

Expenses related to environmental initiatives exceeded plan and last year. Credit/debit card charges came in near expectation, 0.8 per cent below plan, rising 7.5 per cent compared to the previous year. Employee benefit obligation and Head Office redevelopment costs both came under plan and were lower than in 2014.

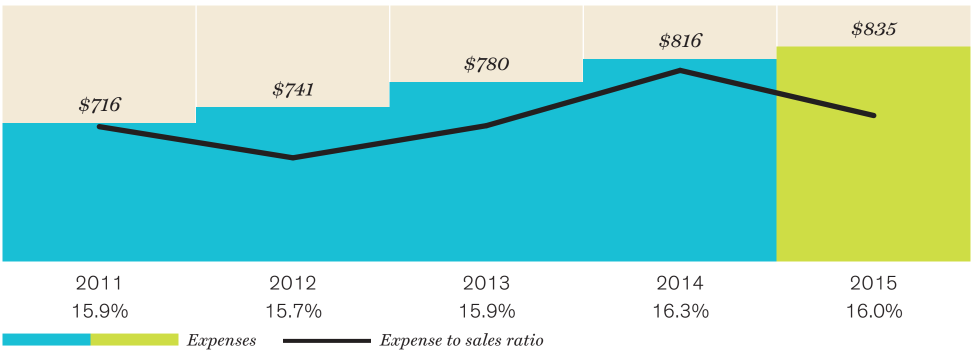
Corporate Expenses		2015	vs. 2014	vs. Plan
Depreciation	$	61,664,000	12.3%	7.7%
Environmental Initiatives	$	39,959,000	7.7%	2.7%
Debit Credit Charges	$	37,437,000	7.5%	-0.8%
Other Expenses	$	11,271,000	-20.1%	-33.1%
Total	$	150,331,000	6.7%	-0.3%

Expense to sales ratio

The ratio of expense to sales was 16.0 per cent in 2015, 30 basis points less than the prior year and 40 basis points better than plan.

In 2014, the ratio spiked due to additional expenses from costs related to the Collective Agreement ratification and contingency planning for possible labour action. In 2015, the absence of these costs coupled with strong net sales growth allowed the ratio to return closer to prior trend. Higher non-controllable divisional and corporate expenses, however, still impacted our ratios.

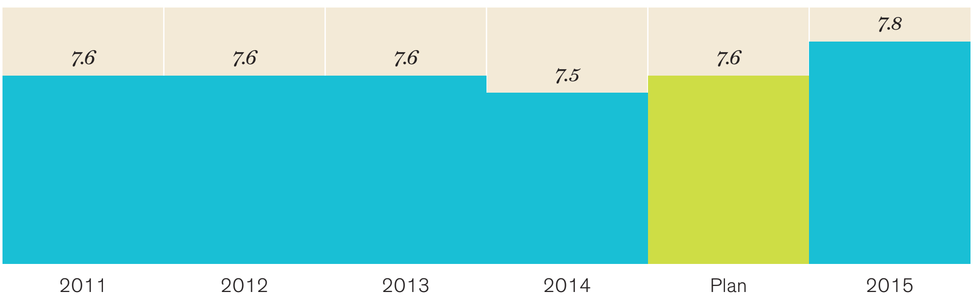
Expense trend *($ millions)*



Inventory

In 2015, total inventory turns outpaced the previous year's result of 7.5. At 7.8, turns also outperformed the planned target of 7.6. Full efficiency realization from the movement of VINTAGES to the Durham facility, coupled with reduced in-stock positions, triggered the turns increase for 2015.

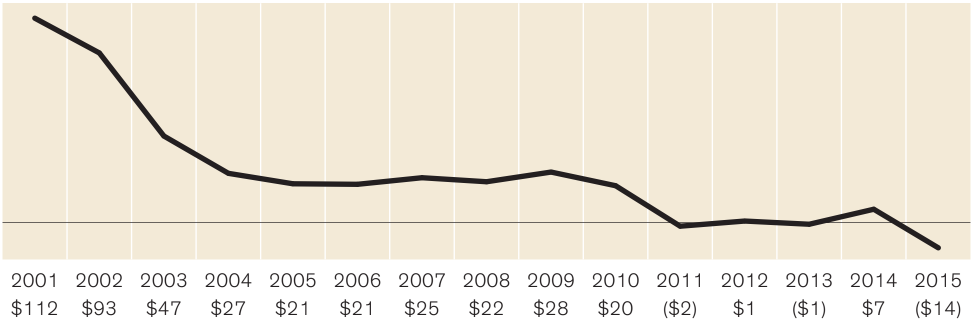
Total inventory turns



All categories registered improved inventory turns during the year. Spirits turns increased to 8.9 from 8.8 last year while Wines turns rose to 6.8 from 6.4. VINTAGES turns increased to 3.4 from 3.1. Beer turns moved from 15.6 in 2014 to 16.8 during 2015.

Average net inventory investment during 2015 was negative $14 million. Since 2001, LCBO net investment in inventory has fallen by over $125 million.

Rolling net inventory investment *($ millions)*



Financial and Operating Ratios

	2015	Plan	2014	2013	2012	2011
Net income as a percentage of revenues	34.9%	34.5%	34.9%	35.0%	35.2%	34.7%
Gross margin as a percentage of revenues	50.3%	50.2%	50.2%	50.3%	50.2%	50.0%
Selling, general and administrative expenses as percentage of revenues	16.0%	16.4%	16.3%	15.9%	15.7%	15.9%

In 2015, net income was 34.9 per cent of revenues, exceeding plan of 34.5 per cent, but unchanged compared to last year.

Gross margin as a percentage of revenues was 10 basis points better than target and the previous year, at 50.3 per cent.

Selling, general and administrative expenses were 16.0 per cent of revenues, 40 basis points lower than plan and 30 basis points below last year's ratio.

Productivity Ratios

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

	2015	Plan	2014	2013	2012	2011
Store expenses as a percentage of sales	10.7%	11.0%	11.0%	10.6%	10.4%	10.5%
Store expense per unit sold	$ 1.13	$ 1.19	$ 1.16	$ 1.10	$ 1.06	$ 1.05
Store salary per unit sold	$ 0.73	$ 0.77	$ 0.77	$ 0.74	$ 0.72	$ 0.72
Unit sales per hour paid	42.7	41.6	41.8	43.1	43.3	42.0
Sales per transaction	$ 35.38	$ 35.66	$ 35.04	$ 34.39	$ 33.66	$ 32.91
Sales per square foot	$ 1,745	$ 1,728	$ 1,783	$ 1,809	$ 1,850	$ 1,818

Retail productivity was mostly favourable to plan and last year during 2015. Productivity metrics rebounded from the effects of last year's one-time expenses related to the Collective Agreement. However, expansion of the store network through the addition of new stores, relocations and selling space continued to put pressure on ratio performance during the year. While sales growth at new stores expands over time, the effect of expense growth related to wages and rent, in particular, are immediate. As these stores become more efficient and gain sales within their particular market, overall ratio performance is expected to improve.

In 2015, store expenses as a percentage of sales were 10.7 per cent, 30 basis points below plan and last year.

Average store expense per unit sold during the year was $1.13, three cents lower than in 2014 and six cents below target. Store salaries are responsible for $0.73 of the store expense per unit, which was lower than last year and plan, each at $0.77 per unit sold.

During 2015, customers spent on average $0.34 more per transaction than they did a year earlier. While the $35.38 per customer sale was a record high for the LCBO, it trailed the expected sales per transaction by $0.28.

A decline in sales per square foot was expected and reflected in the plan. Additional selling space in larger newly-opened stores contributed to a decline. At $1,745 per square foot in 2015, the metric decreased $38 compared to the previous year, but exceeded plan by $17.

Logistics productivity highlights

	2015	Plan	2014	2013	2012	2011
Warehouse cost per case	$ 1.26	$ 1.25	$ 1.29	$ 1.26	$ 1.26	$ 1.24
Warehouse salary cost per case	$ 1.02	$ 1.02	$ 1.06	$ 1.04	$ 1.03	$ 1.03
Logistics cases per hour paid	79	75	79	78	76	75

In 2014, Logistics productivity ratios related to cost were driven higher by expenses resulting from the Collective Agreement ratification. In 2015, productivity measures largely improved. Total warehouse cost per case was $1.26 during the year compared to $1.29 last year, though over target by one cent per case. Salaries made up the largest portion of the total cost per case at $1.02 for the year, four cents per case better than last year and equal to plan.

Logistics cases per hour paid remained steady at 79, surpassing target by four cases.

CAPITAL EXPENDITURES

The largest portion of LCBO capital expenditures during 2015 continued to be related to investments in the enhancement and expansion of the retail network. Meanwhile, spending was increased at Logistics facilities to increase automation within the distribution system, driving overall operational efficiencies. Total capital expenditures rose 8.5 per cent compared to 2014.

($ thousands)	2015	2014	2013	2012	2011
Retail	$ 58,049	$ 56,701	$ 57,007	$ 49,700	$ 36,814
Information Technology	$ 7,615	$ 8,293	$ 9,002	$ 8,145	$ 10,916
Logistics	$ 11,461	$ 5,381	$ 8,792	$ 8,186	$ 5,130
Marketing and Customer Insights	$ 309	$ 1,745	$ 1,601	$ 266	$ 180
Other administrative divisions	$ 8,537	$ 7,122	$ 4,915	$ 2,962	$ 425
Total capital expenditures	$ 85,970	$ 79,242	$ 81,317	$ 69,259	$ 53,465

ENTERPRISE RISK MANAGEMENT

The LCBO has 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 2015, 23 risks that could negatively impact the LCBO's performance were identified and ranked. Ownership for mitigating specific risks is assigned to specific members of our senior management.

The top three risks considered to be 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 competiveness

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 as well as changes to the competitive landscape recommended by the Premier's Advisory Council on Government Assets[10], may impact LCBO's long-term business objectives and 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.

10 For more information please refer to the Notes to Financial Statements (Note 25. Other Matters) on page 74.

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

In fiscal 2016, LCBO revenues are planned to reach $5.4 billion, a new all-time high. This will represent a 4.0 per cent or $210 million increase over 2015. The changes recommended by the Premier's Advisory Council on Government Assets are not expected to have any material impact on revenues during the year.

Gross margin expectations are in line with revenue growth, with a 3.9 per cent planned increase to $2.7 billion in 2016. As a percentage of revenues, margin is expected to be 50.3 per cent.

Expenses are planned to be 3.4 per cent higher in 2016 at $886 million. The continuing expansion of the store network and growing non-divisional expenses will contribute to this increase.

Net income is expected to reach $1.876 billion in the coming year, representing growth of 3.2 per cent, or $58 million more than in 2015. This will support the 22nd consecutive increase in the dividend transferred to the Government of Ontario by the LCBO. The total dividend forecast for 2016 is $1.865 billion, $60 million more than the amount transferred in 2015, reflecting a 3.3 per cent increase.

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 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 three 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 25, 2015

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, 2015, 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, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Toronto, Ontario
June 25, 2015

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

Statement of Income and Comprehensive Income

(thousands of Canadian dollars)

Years ended March 31,	*Note*	2015	2014
Revenue	*17*	5,215,976	4,999,339
Cost of sales	*6*	(2,590,418)	(2,491,511)
Gross margin		2,625,558	2,507,828
Other income		31,430	55,701
Selling, general and administrative expenses	*18*	(835,401)	(816,131)
Income from operations		1,821,587	1,747,398
Finance income	*20*	1,709	1,993
Finance costs	*12, 20*	(4,881)	(4,708)
Net income		1,818,415	1,744,683
Other comprehensive income (loss):			
Actuarial (losses)/gains on non-pension employee benefits	*12*	(1,040)	911
Total other comprehensive income (loss)		(1,040)	911
Total comprehensive income		1,817,375	1,745,594

See accompanying notes to the financial statements.

Statement of Financial Position

(thousands of Canadian dollars)

	Note	March 31 2015	March 31 2014
ASSETS			
Current Assets			
Cash and cash equivalents	4	257,192	286,377
Trade and other receivables	5	44,863	42,831
Inventories	6	414,218	386,745
Prepaid expenses		9,497	10,556
Assets held for sale	7	9,284	–
Total Current Assets		735,054	726,509
Property, plant and equipment and intangible assets	8	378,195	364,435
Total Assets		1,113,249	1,090,944
LIABILITIES & EQUITY			
Current Liabilities			
Trade and other payables	9	554,617	549,255
Provisions	11	18,738	19,037
Current portion of non-pension employee benefits	12	12,254	11,700
Total Current Liabilities		585,609	579,992
Non-pension employee benefits	12	116,082	111,769
Total Liabilities		701,691	691,761
Equity			
Retained earnings		414,363	400,948
Accumulated other comprehensive loss		(2,805)	(1,765)
Total Equity		411,558	399,183
Total Liabilities and Equity		1,113,249	1,090,944

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 (loss)	Total Equity
Balance at April 1, 2014	400,948	(1,765)	399,183
Net income	1,818,415	–	1,818,415
Other comprehensive loss	–	(1,040)	(1,040)
Dividends paid to province	(1,805,000)	–	(1,805,000)
Balance at March 31, 2015	414,363	(2,805)	411,558
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

Statement of Cash Flows

(thousands of Canadian dollars)

Years ended March 31,	2015	2014
Operating activities:		
Net income	1,818,415	1,744,683
Depreciation and amortization	61,664	54,897
Gain on sale of property, plant and equipment and intangible assets	(627)	(1,602)
Non-pension employee benefit expenses	16,366	19,724
Non-pension employee benefit payments	(12,539)	(13,168)
	64,864	59,851
Change in non-cash balances related to operations:		
Trade and other receivables	(2,032)	(1,310)
Inventories	(27,473)	(7,808)
Prepaids	1,059	2,513
Trade and other payables	5,362	(11,864)
Provisions	(299)	409
	(23,383)	(18,060)
Net cash provided by operating activities	1,859,896	1,786,474
Investing activities:		
Purchase of property, plant and equipment and intangible assets	(85,970)	(79,242)
Proceeds from sale of property, plant and equipment	1,889	1,722
Net cash used in investing activities	(84,081)	(77,520)
Financing activities:		
Dividend paid to the Province of Ontario	(1,805,000)	(1,740,000)
Net cash used in financing activities	(1,805,000)	(1,740,000)
Increase (decrease) in cash	(29,185)	(31,046)
Cash and cash equivalents, beginning of year	286,377	317,423
Cash and cash equivalents, end of year	257,192	286,377

(thousands of Canadian dollars)

For the years ended March 31, 2015 and 2014

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 25, 2015.

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 or 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 obligation 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.

(thousands of Canadian dollars)

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 12.

ii. Depreciation and amortization

LCBO estimates the 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 8.

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 8.

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 a significant number of retail store locations as part of its operations as well as other assets. In determining the classification of a lease as either a finance or an operating lease, judgment is required in assessing whether substantially all of the risks and rewards incidental to ownership are transferred. LCBO analyzes each lease independently, considering various factors such as whether there is a bargain purchase option included in the lease, the economic life of the asset when compared to the term of the lease, and the minimum lease payments when compared to the fair value of the leased asset.

(thousands of Canadian dollars)

In respect of finance leases, judgment is required in determining the appropriate discount rate implicit in the lease to discount minimum lease payments. For leases where it is not practical to determine the implicit discount rate, LCBO estimates an appropriate discount rate based on the Ontario government borrowing rate.

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 11.

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. The estimated unredeemed ODRP containers deposits are treated as other income. Additional disclosures are presented in Note 23.

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.

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, 2015 financial statements as their effective dates fall in periods beginning subsequent to the current financial reporting period.

Proposed standards and amendments	**Description**	**LCBO Effective Date**	**Estimated impact**
Amendments to 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.	April 1, 2015	No anticipated impact
	Amended in September 2014 to clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.	April 1, 2016	

(thousands of Canadian dollars)

c. New standards & interpretations not yet adopted *(continue)*

Proposed standards and amendments	Description	LCBO Effective Date	Estimated impact
IFRS 15 – Revenue from Contracts with Customers	Previous standard(s): → IAS 11 – Construction Contracts; → IAS 18 – Revenue; → IFRIC 13 – Customer Loyalty Programmes; → IFRIC 15 – Agreements for the Construction of Real Estate; → IFRIC 18 – Transfer of Assets from Customers; → SIC-31 – Revenue – Barter Transactions Involving Advertising Services IFRS 15 sets out the requirements for recognizing revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments).	April 1, 2017	LCBO is assessing the potential impact
IFRS 9 – Financial Instruments	Previous standard(s): → IAS 39 – Financial Instruments: Recognition and Measurement Finalized version issued in July 2014 incorporating the classification and measurement, impairment and hedge accounting phases to replace IAS 39 'Financial Instruments: Recognition and Measurement'. This version adds a new expected loss impairment model and limited amendments to classification and measurement for financial assets.	April 1, 2018	LCBO is assessing the potential impact

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.

(thousands of Canadian dollars)

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. Assets classified as held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, and it should be expected to qualify for recognition as a completed sale within one year from the date of classification. Assets classified as held for sale are measured at the lower of the carrying amount or fair value less costs to sell. An asset that is classified as held for sale is no longer depreciated. The resulting disclosures are presented in Note 7.

e. 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.

(thousands of Canadian dollars)

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	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 8.

f. 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 8.

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 8.

g. 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

(thousands of Canadian dollars)

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 8.

h. 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 9.

i. 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 11.

j. 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. Their measurement in subsequent periods and the recognition of changes in fair value depend on the category in which they are classified.

The LCBO has classified its financial instruments 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 or loss ("FVTPL")	Fair value through profit or loss ("FVTPL")

1 Derivatives are included in Trade and other payables in the Statement of financial position. The resulting disclosures are presented in Note 15.

(thousands of Canadian dollars)

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

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

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

Level 3: inputs for the asset or liability that are not based on observable market inputs (unobservable inputs).

At the end of each reporting period, the LCBO determines whether there is any indication that a financial asset may be impaired. It does so for all financial assets except for those recognized at fair value through profit or loss. A financial asset or group of financial assets is impaired when there is objective evidence of impairment. In instances of impairment, the recognized impairment loss is the difference between the carrying amount of the asset and the present value of estimated future cash flows.

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

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.

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.

(thousands of Canadian dollars)

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 15.

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 15.

k. 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.

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

(thousands of Canadian dollars)

l. 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 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 23.

m. 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.

n. 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 19.

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.

(thousands of Canadian dollars)

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 12.

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 12.

o. 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 20.

p. 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 12 and 20.

(thousands of Canadian dollars)

q. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the leasee. LCBO has very few finance leases which are immaterial. All other leases are classified as operating leases.

Operating lease payments, including scheduled escalations, are recognized as an expense on a straight-line basis over the term of the lease. 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 10.

r. 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, 2015	March 31, 2014
Cash on hand and in transit	63,305	74,362
Term deposits	–	60,000
Bankers' acceptances	193,887	152,015
	257,192	286,377

5. TRADE AND OTHER RECEIVABLES

	March 31, 2015	March 31, 2014
Trade and other receivables	45,172	43,120
Allowance for impairment	(309)	(289)
	44,863	42,831

(thousands of Canadian dollars)

Trade and other receivables arise primarily from sales billed to independent businesses, agents and other debtors. As at March 31, 2015, approximately 66 per cent (2014 – 62 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

The cost of inventories sold and recognized as cost of sales during the year ended March 31, 2015 was $2,590 million (2014 – $2,492 million). There were no significant write-downs or reversal of previous write-downs to net realizable value during the year ended March 31, 2015 (2014 – nil).

7. ASSETS CLASSIFIED AS HELD FOR SALE

Land and buildings are transferred to assets classified as held for sale from property, plant and equipment when they meet the criteria to be assets classified as held for sale as per LCBO's accounting policy.

In February 2012 the Minister of Finance announced the Province's intention to sell the LCBO's Head Office facility, warehouse facility, retail store and adjacent lands located in downtown Toronto.

A Request for Proposal ("RFP") in connection with the disposition of the LCBO Head Office Lands and for the provision of new LCBO Head Office and retail facility was issued by Infrastructure Ontario ("IO"), on behalf of LCBO. The land sale is expected to close in fiscal year 2015/2016.

As of March 31, 2015, the LCBO reclassified $9.3 million (2014 – nil) net book value as assets held for sale from property, plant and equipment on the Statement of financial position.

8. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

Net book value of property, plant & equipment and intangible assets	March 31, 2015	March 31, 2014
Land	10,437	12,596
Buildings	95,081	104,698
Furniture and equipment	41,416	31,911
Leasehold improvements	162,931	156,296
Computer equipment	21,916	23,129
Computer software	19,115	19,543
Software/construction in progress	27,299	16,262
	378,195	364,435

(thousands of Canadian dollars)

The following table presents the changes in the cost and accumulated depreciation and impairment on the LCBO's property, plant and equipment and intangible assets:

Property, plant & equipment and intangible assets continuity for the year ended March 31, 2015

	Land	Buildings
Cost		
Balance at April 1, 2014	12,596	393,283
Additions	–	8,466
Transfers to assets held for sale	(1,991)	(46,890)
Net Additions	(1,991)	(38,424)
Disposals/Retirements	(168)	(3,257)
Balance at March 31, 2015	10,437	351,602
Accumulated depreciation and impairment		
Balance at April 1, 2014	–	288,585
Depreciation for the year	–	9,889
Impairment losses	–	–
Transfers to assets held for sale	–	(39,597)
Disposals/Retirements	–	(2,356)
Balance at March 31, 2015	–	256,521
Net book value at March 31, 2015	10,437	95,081

(thousands of Canadian dollars)

Furniture and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
125,560	427,993	52,101	75,495	16,262	1,103,290
17,127	32,728	7,552	9,060	11,037	85,970
–	–	–	–	–	(48,881)
17,127	32,728	7,552	9,060	11,037	37,089
(1,163)	–	(5,320)	(102)	–	(10,010)
141,524	460,721	54,333	84,453	27,299	1,130,369
93,649	271,697	28,972	55,952	–	738,855
7,527	26,093	8,732	9,423	–	61,664
–	–	–	–	–	–
–	–	–	–	–	(39,597)
(1,068)	–	(5,287)	(37)	–	(8,748)
100,108	297,790	32,417	65,338	–	752,174
41,416	162,931	21,916	19,115	27,299	378,195

(thousands of Canadian dollars)

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
115,294	381,009	41,295	65,462	29,303	1,029,726
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)
125,560	427,993	52,101	75,495	16,262	1,103,290
87,633	248,635	25,762	47,786	–	689,516
7,407	23,062	6,467	8,331	–	54,897
–	–	–	–	–	–
–	–	–	–	–	–
(1,391)	–	(3,257)	(165)	–	(5,558)
93,649	271,697	28,972	55,952	–	738,855
31,911	156,296	23,129	19,543	16,262	364,435

(thousands of Canadian dollars)

9. TRADE AND OTHER PAYABLES

	March 31, 2015	March 31, 2014
Trade payables	273,514	266,618
Accruals and other payables	281,103	282,637
	554,617	549,255

10. OPERATING LEASE ARRANGEMENT

LCBO enters into operating leases in the ordinary course of business, primarily for retail stores. The leases have varying terms, escalation clauses and renewal rights.

Operating lease payments in 2015 were $77.5 million (2014 – $71.8 million). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	March 31, 2015
Not later than one year	83,228
Later than one year and not later than five years	308,069
Later than five years	513,266
	904,563

11. PROVISIONS

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

Provisions continuity for the year end March 31, 2015

	Short term employee benefits	Other	Total
Balance at April 1, 2014	18,370	667	19,037
Charges recognized during the year	17,927	811	18,738
Utilization of provision	(18,370)	(667)	(19,037)
Balance at March 31, 2015	17,927	811	18,738

(thousands of Canadian dollars)

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

Disclosed as:	March 31, 2015	March 31, 2014
Current	18,738	19,037
Non-current	–	–
	18,738	19,037

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.

12. EMPLOYEE BENEFITS

a. Pension plan

For the year ended March 31, 2015, the expense was $27.3 million (2014 – $27.1 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"), benefits extended to employees on long-term income protection ("LTIP"), unfunded workers compensation obligation ("WCB"), non-vesting sick leave plan ("NVSL") and service awards.

LCBO measures its benefit obligation for accounting purposes as at March 31st of each year.

As of March 31, 2015, the weighted average duration of the plans obligations are 7.4 years (2014 – 7.9 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, 2015	March 31, 2014
Current	12,254	11,700
Non-current	116,082	111,769
Total non-pension employee benefit obligation	128,336	123,469

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, 2015	March 31, 2014
Current service cost	10,357	12,660
Past service cost – NVSL and Service Awards	–	13,440
Actuarial losses/(gains) on non-vesting benefits	1,247	(11,078)
Total costs included in expenses	11,604	15,022
Interest costs	4,762	4,702
Total costs included in finance costs	4,762	4,702
Total non-pension employee benefit expenses	16,366	19,724

iii. Other comprehensive income

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

	March 31, 2015	March 31, 2014
Opening cumulative actuarial losses recognized	(1,765)	(2,676)
Net actuarial (losses)/gains recognized	(1,040)	911
Closing cumulative actuarial losses recognized	(2,805)	(1,765)

(thousands of Canadian dollars)

iv. Movement in the obligation

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

	March 31, 2015	March 31, 2014
Opening benefit obligation	123,469	117,824
Prior obligation – NVSL and Service Awards	–	13,440
Current service cost	10,357	12,660
Interest on obligation	4,762	4,702
Actuarial losses from changes in demographic assumptions	215	337
Actuarial losses/(gains) from changes in financial assumptions	6,748	(2,616)
Actuarial gains from other	(4,676)	(9,710)
Benefits paid	(12,539)	(13,168)
Closing benefit obligation	128,336	123,469

v. Significant assumptions

The significant assumptions used are as follows:

	CSC, ECTB, NVSL & Service Awards		**WCB**		**LTIP**	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Discount rate to determine the benefit obligation	3.00%	3.80%	3.00%	3.80%	3.00%	3.80%
Discount rate to determine the benefit cost	3.80%	3.50%	3.80%	3.50%	3.80%	3.50%
Salary rate increase	3% per annum	1.00% for 1 year 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	6.90% (7.5% per annum in 2013 reducing to 4.5% in 2023)	7.20% (7.5% per annum in 2013 reducing to 4.50% in 2023)	6.90% (7.5% per annum in 2013 reducing to 4.5% in 2023)	7.20% (7.5% per annum in 2013 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	
Assumption	0.5% increase in assumption	0.5% decrease in assumption
Discount rate	(4,511)	4,862
Health care trend rate	965	(882)
Salary Scale	3,042	(2,882)
Benefit Indexation	136	(125)

13. CONTINGENT LIABILITIES

LCBO is involved in various legal actions arising out of the ordinary course and conduct of business. In view of the inherent difficulty of predicting the outcome on such matters, LCBO cannot state what the eventual outcome on such matters will be. However, based upon legal assessment and information presently available, LCBO does not believe that liabilities, if any, arising from pending litigation will have a material effect on the financial statements, with the exception of the following items.

In January 2015, LCBO was served with a proposed class proceeding seeking damages in the amount of $1.4 billion against LCBO, Brewers Retail Inc. ("BRI") and BRI's three corporate owners. The claim is commenced by an individual and a corporation who intend to represent a class composed of those individuals and businesses who purchased beer in Ontario since June 1, 2000 under the Framework for Improved Cooperation & Planning between Brewers Retail Inc. and the Government of Ontario (through the LCBO), dated June 1, 2000. The statement of claim alleges conspiracies regarding beer market allocation, pricing and licensee fees. The claim is being defended vigorously. At this point in time it is not possible to estimate the amounts, if any, that LCBO may have to make in the future regarding the claim.

In May 2013, during collective bargaining, OPSEU filed an Application with the Human Rights Tribunal against LCBO and Ministry of Finance alleging systemic gender discrimination. In essence, the claim alleges that by not compensating Casual Customer Service Representatives ("CSR's") at the same amount as Permanent Full Time CSR's, LCBO is discriminating on the basis of sex, which imposes significant disadvantages on workers in the predominantly female job classification of Casual CSR. LCBO's Permanent Full Time CSR's job classification is also predominantly female dominated. This Human Rights Tribunal application addresses matters related to the revised Pay Equity Plan required for OPSEU Employees, that LCBO and OPSEU are in the process of developing. The revised Pay Equity Plan may have a financial liability attached to it. LCBO is vigorously defending the Human

(thousands of Canadian dollars)

Rights application, which proceeding is scheduled to commence in July 2015. At this point in time it is not possible to reasonably estimate the amounts, if any, that LCBO may have to make in the future regarding the Human Rights complaint, or the value of the liability, if any, that may be arise from the updated Pay Equity Plan.

14. 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, 2015, 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, 2015, approximately 66 per cent (2014 – 62 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.

(thousands of Canadian dollars)

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 gain of $3.6M in 2015 (2014 – $0.6 million loss).

15. 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, 2015, LCBO has twenty five foreign exchange contracts totaling $6.2 million (2014 – nil). The fair value is determined by the foreign exchange spot rate at the end of the reporting period.

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, 2015, 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 (2014 – nil).

16. 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, 2015 LCBO met these objectives.

(thousands of Canadian dollars)

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.

17. REVENUE

Virtually all revenue is from the sale of goods.

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

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

	March 31, 2015	March 31, 2014
Employee costs (Note 19)	440,864	446,244
Occupancy costs	169,109	157,429
Depreciation and amortization	61,664	54,897
Debit/credit charges	37,437	34,823
Environmental initiatives	39,959	37,109
Other	86,368	85,629
	835,401	816,131

19. EMPLOYEE COSTS

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

	March 31, 2015	March 31, 2014
Salaries and wages	355,670	356,136
Short-term employee benefits	85,194	90,108
	440,864	446,244

(thousands of Canadian dollars)

20. FINANCE INCOME AND FINANCE COSTS

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

	March 31, 2015	March 31, 2014
Finance income		
Interest earned	1,709	1,993
Total finance income	1,709	1,993
Finance costs		
Interest on non-pension employee benefits	4,762	4,702
Financing charges on capital leases	119	6
Total finance costs	4,881	4,708

21. 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, 2015	March 31, 2014
Salaries and short-term employee benefits	4,282	4,077
Post employment benefits	260	247
Other long term benefits	73	69
Termination benefits	26	112
	4,641	4,505

22. 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, 2015, LCBO contributed $1.9 million (2014 – $1.7 million) and these expenditures are included in selling, general and administrative expenses in the Statement of income and comprehensive income.

(thousands of Canadian dollars)

23. 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, 2015, LCBO collected $63.3 million (2014 – $61.4 million) of deposits on containers and was invoiced $50.2 million (2014 – $48.1 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, 2015, amounted to $38.0 million (2014 – $35.4 million), inclusive of $4.4 million (2014 – $4.1 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, part of the container deposits collected would not be redeemed. Based on historical redemption patterns, for the year ended March 31, 2015, LCBO estimated an 80 per cent redemption rate for the program. Accordingly, for the year ended March 31, 2015, LCBO applied $12.6 million (2014 – $23.5 million) of unredeemed deposits as an increase to other income.

24. 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, 2015, $2.2 million (2014 – $2.0 million) is included in trade and other receivables related to the TBS common product deposits.

(thousands of Canadian dollars)

25. OTHER MATTERS

In April 2014, the Province established an Advisory Council on Government Assets to review Hydro One, Ontario Power Generation and the LCBO and find ways to maximize their asset value. In November 2014, the panel presented an Initial Report to Government entitled "Retain and Gain: Making Ontario's Assets Work Better for Taxpayers and Consumers".

The initial report contained an overall assessment of the beverage alcohol and electricity sectors in Ontario and insight into the future direction for these sectors.

Following the submission of the Initial report, the Province expanded the mandate and requested the Advisory Council to move into a second phase of the beverage alcohol review. The Council's report "Striking the Right Balance: Modernizing Beer Retailing and Distribution in Ontario" was issued on April 16, 2015. As part of the 2015 Ontario Budget, the Province will be acting on the Council's recommendations including opening sales of beer to up to 450 grocery stores over a 10 year period. The Council will examine wine and spirit retailing and work with the LCBO on enhancing our pricing and mark-up strategies in the future.

Financial Overview

KEY OPERATIONAL INDICATORS

Fiscal year	2015	2014	2013	2012	2011
LCBO stores*	651	639	634	623	617
Full-time equivalent employees	6,469	6,348	6,212	6,067	6,003
Product listings	23,557	24,580	24,012	22,296	21,694

** LCBO store count includes four licensee depot locations.*

FINANCIAL INDICATORS *($ thousands)*

Fiscal year	2015	2014	2013	2012	2011
Total revenues*	5,249,115	5,057,033	4,928,824	4,750,617	4,526,079
Growth over previous year	3.8%	2.6%	3.8%	5.0%	4.2%
Total expenses**	840,282	820,839	784,242	745,693	720,611
As a percentage of total revenues	16.0%	16.2%	15.9%	15.7%	15.9%
Net income	1,818,415	1,744,683	1,710,967	1,658,234	1,559,984
As a percentage of total revenues	34.6%	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	2015	2014	2013	2012	2011
Employee costs	440,864	446,244	435,413	409,740	395,906
Occupancy costs	169,109	157,429	141,210	131,921	126,452
Depreciation	61,664	54,897	51,126	50,870	52,166
Other expenses	163,764	157,561	152,669	148,457	141,716
Total SG&A expenses	835,401	816,131	780,418	740,988	716,240

REVENUE PAYMENTS *($ thousands)*

Treasurer of Ontario	2015	2014	2013	2012	2011
Remitted by the Liquor Control Board:					
on account of profits	1,805,000	1,740,000	1,700,000	1,630,000	1,550,000
Remitted by the Liquor Control Board:					
Ontario retail sales tax on sales of liquor[1]	–	–	–	–	101,725
Remitted by the Alcohol and Gaming Commission:					
on account of licence fees and permits (replaced by Tax)[2]	8,891	9,030	8,853	9,090	180,710
Remitted by the Ministry of Revenue:					
Beer and wine tax (replacing Fees)[2]	566,000	557,000	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
Ontario retail sales tax on sales through agency stores[1]	–	–	–	–	3,417
Total	2,379,891	2,306,030	2,268,853	2,200,090	2,292,137

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 $566 million is an interim number.*

REVENUE PAYMENTS *($ thousands) (continue)*

Receiver General for Canada	2015	2014	2013	2012	2011
Remitted by the Liquor Control Board:					
Excise taxes and customs duties	368,605	362,936	361,019	351,865	344,804
Goods and Services Tax (GST) / Harmonized Sales Tax (HST)[3]	453,933	437,246	430,220	415,194	301,352
Remitted by others:					
Excise taxes, GST/HST and other duties/taxes[3]	479,075	475,263	479,846	477,962	484,420
GST/HST remitted on sales through agency stores[3]	15,374	14,926	14,780	14,352	11,764
Total	1,316,987	1,290,371	1,285,865	1,259,374	1,142,340

Ontario Municipalities	2015	2014	2013	2012	2011
Remitted by the Liquor Control Board:					
Realty taxes[4]	28,443	26,191	22,755	21,039	19,712
Total revenue payments	3,725,321	3,622,592	3,577,473	3,480,503	3,454,189

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)*

	2015	Growth	2014	2013	2012	2011
LCBO	439,698	3.5%	424,890	420,447	410,045	397,613
The Beer Store	586,697	-2.4%	601,075	623,227	637,025	639,035
Winery retail stores	24,089	5.3%	22,867	21,963	20,661	20,444
Other channels:						
Other Legal	55,441	-1.8%	56,480	54,017	55,414	54,223
Homemade	18,087	1.2%	17,868	15,887	17,537	16,669
Illegal	48,308	3.2%	46,830	42,368	41,128	37,474
Total Ontario	1,172,320	0.2%	1,170,011	1,177,910	1,181,808	1,165,457

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

	2015	Change	2014	2013	2012	2011
LCBO	37.5%	1.2%	36.3%	35.7%	34.7%	34.1%
The Beer Store	50.0%	-1.3%	51.4%	52.9%	53.9%	54.8%
Other Legal	6.3%	-0.1%	6.4%	5.9%	6.2%	6.1%
Illegal	4.1%	0.1%	4.0%	3.6%	3.5%	3.2%
Winery Retail Stores	2.1%	0.1%	2.0%	1.9%	1.7%	1.8%

2015 share of Ontario beverage alcohol market by volume sold

VOLUME SALES *(thousands of litres)*

LCBO sales	2015	Growth	2014	2013	2012	2011
Domestic Spirits	31,012	-0.5%	31,179	32,300	32,722	32,870
Imported Spirits	27,055	2.3%	26,436	26,210	25,958	24,921
Total Spirits	58,067	0.8%	57,615	58,510	58,680	57,791
Domestic Wine	48,308	9.0%	44,312	42,629	40,240	38,753
Imported Wine	108,135	3.2%	104,771	101,676	97,968	95,364
Total Wine	156,443	4.9%	149,084	144,306	138,207	134,116
Domestic Beer	115,038	2.9%	111,801	111,703	110,577	106,842
Imported Beer	140,477	3.5%	135,687	135,169	131,268	130,617
Total Beer	255,514	3.2%	247,488	246,872	241,845	237,458
Domestic Spirit Coolers	23,599	-5.2%	24,897	25,918	25,188	21,506
Imported Spirit Coolers	7,431	46.6%	5,070	4,529	4,416	5,944
Domestic Wine Coolers	443	180.6%	158	236	–	–
Imported Wine Coolers	439	58.6%	277	157	–	138
Domestic Beer Coolers	131	2.4%	128	136	630	653
Imported Beer Coolers	1,545	-10.6%	1,728	899	4	14
Total Coolers	33,588	4.1%	32,258	31,874	30,238	28,254
Total Domestic	218,531	2.9%	212,475	212,921	209,357	200,623
Total Imported	285,082	4.1%	273,970	268,640	259,613	256,996
Total LCBO	503,613	3.5%	486,445	481,562	468,970	457,619

Other sales	2015	Growth	2014	2013	2012	2011
Ontario winery stores	24,089	5.3%	22,867	21,963	20,661	20,444
The Beer Store & brewer on-site stores	592,818	-2.1%	605,819	627,933	641,216	643,227

Note: The fiscal year 2015 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, 75,967,005 were to TBS. Prior year figures are restated annually to reflect changes in product hierarchy.

SHARE OF LCBO VOLUME SALES *(thousands of litres)*

	2015		2014	
	Litres sold	% of total	Litres sold	% of total
Spirits	58,067	11%	57,615	12%
Wine	156,443	31%	149,084	30%
Beer	255,514	51%	247,488	51%
Coolers	33,588	7%	32,258	7%

2015 share of LCBO volume sales

Beer	*51%*
Wine	*31%*
Spirits	*11%*
Coolers	*7%*

VALUE SALES *($ thousands)*

LCBO sales	2015	Growth	2014	2013	2012	2011
Domestic Spirits	912,830	0.3%	909,848	923,795	921,343	903,994
Imported Spirits	956,188	4.9%	911,102	875,010	835,363	783,209
Total Spirits	1,869,019	2.6%	1,820,951	1,798,806	1,756,706	1,687,203
Domestic Wine	505,113	8.4%	466,130	447,392	422,705	401,176
Imported Wine	1,566,310	4.8%	1,495,128	1,449,807	1,379,131	1,299,903
Total Wine	2,071,424	5.6%	1,961,258	1,897,199	1,801,836	1,701,079
Domestic Beer	471,001	6.3%	443,267	429,811	410,819	388,336
Imported Beer	617,020	3.6%	595,612	589,635	569,905	551,174
Total Beer	1,088,020	4.7%	1,038,879	1,019,446	980,724	939,510
Domestic Spirit Coolers	130,110	-5.2%	137,181	142,945	140,790	121,251
Imported Spirit Coolers	43,765	39.8%	31,303	28,762	28,702	37,694
Domestic Wine Coolers	2,784	189.0%	963	1,487	–	–
Imported Wine Coolers	2,768	63.8%	1,690	964	–	925
Domestic Beer Coolers	755	7.0%	706	699	2,864	3,017
Imported Beer Coolers	8,102	-3.2%	8,366	4,099	24	74
Total Coolers	188,283	4.5%	180,209	178,956	172,380	162,960
Total Domestic	2,022,593	3.3%	1,958,096	1,946,129	1,898,522	1,817,774
Total Imported	3,194,153	5.0%	3,043,201	2,948,278	2,813,124	2,672,978
Non-Liquor and Other	(2,657)	-24.6%	(3,522)	(1,953)	(1,157)	1,559
Total LCBO	5,214,089	4.3%	4,997,774	4,892,454	4,710,489	4,492,311

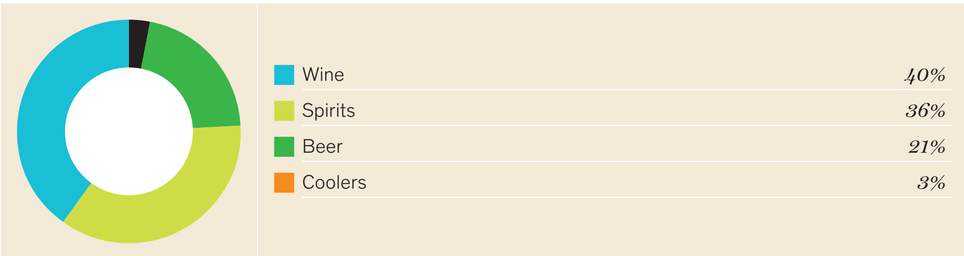
Other sales	2015	Growth	2014	2013	2012	2011
Ontario winery stores	276,475	7.8%	256,425	248,055	232,063	223,486
The Beer Store & brewer on-site stores	2,287,357	0.8%	2,270,299	2,307,715	2,300,452	2,254,056

Note: The fiscal year 2015 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, $326,658,372 were to TBS. Prior year figures are restated annually to reflect changes in product hierarchy.

SHARE OF LCBO VALUE SALES *($ thousands)*

	2015		2014	
	Net sales *($)*	% of total	Net sales *($)*	% of total
Spirits	1,869,019	36%	1,820,951	36%
Wine	2,071,424	40%	1,961,258	39%
Beer	1,088,020	21%	1,038,879	21%
Coolers	188,283	3%	180,209	4%

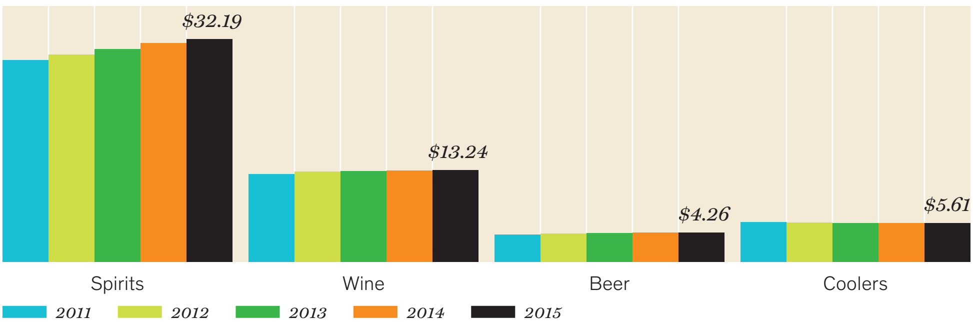
2015 share of LCBO value sales



AVERAGE NET SALES PER LITRE *(excludes sales tax)*

	2015	Growth	2014	2013	2012	2011
Spirits	$32.19	1.8%	$31.61	$30.74	$29.94	$29.20
Wine	$13.24	0.6%	$13.16	$13.15	$13.04	$12.68
Beer	$4.26	1.4%	$4.20	$4.13	$4.06	$3.96
Coolers	$5.61	0.3%	$5.59	$5.61	$5.70	$5.77

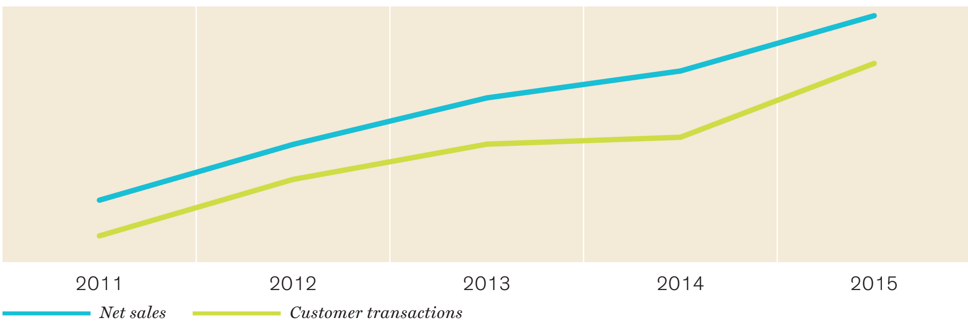
Average net sales per litre



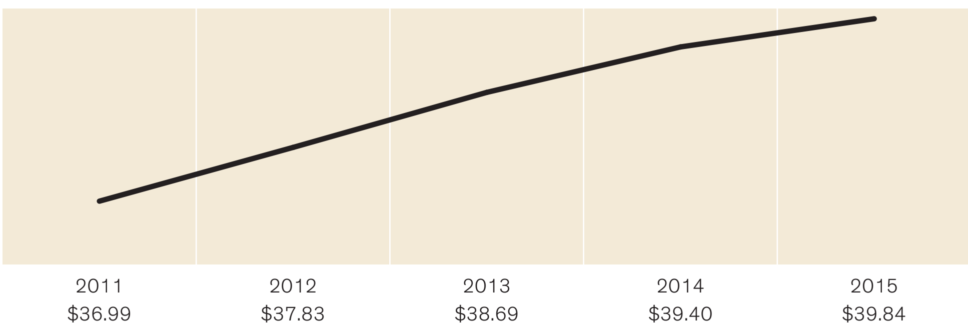
AVERAGE TRANSACTION PER CUSTOMER *(values in thousands)*

	2015	Growth	2014	2013	2012	2011
Net sales	$ 5,214,089	4.3%	$ 4,997,774	$ 4,892,454	$ 4,710,489	$ 4,492,311
Customer transactions	130,885	3.2%	126,840	126,460	124,530	121,436
Average transaction value per customer	$ 39.84	1.1%	$ 39.40	$ 38.69	$ 37.83	$ 36.99

Revenues & customer transactions



Average transaction value per customer



PRODUCT LISTINGS

Fiscal year	2015	2014	2013	2012	2011
Domestic					
Spirits	469	458	425	386	380
Wine	574	565	560	556	545
Beer	573	626	546	525	498
Imported					
Spirits	762	797	705	658	612
Wine	1,170	1,167	1,156	1,095	1,002
Beer	390	393	347	351	344
Total regular listings	3,938	4,006	3,739	3,571	3,381
VINTAGES wines and spirits	5,468	5,949	6,408	6,087	6,178
Duty-free listings	252	264	263	239	224
Consignment warehouse and private ordering	13,899	14,361	13,602	12,399	11,911
Total product listings	23,557	24,580	24,012	22,296	21,694

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%	45%	44%
LCBO Mark-up	52%	44%	19%
Federal taxes & HST*	25%	12%	37%
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)*

	2015	2014	2013	2012	2011
Canadian Spirits					
Spirit Coolers	26.6%	28.5%	28.3%	28.6%	25.1%
Canadian Whisky	14.7%	15.6%	15.5%	15.7%	16.3%
Canadian Vodka	9.1%	9.4%	9.6%	9.7%	10.0%
Canadian Rum	7.6%	8.0%	8.2%	8.4%	8.8%
Canadian Liqueur	2.2%	2.4%	2.2%	2.2%	2.3%
Canadian Dry Gin	0.5%	0.5%	0.6%	0.6%	0.6%
Other	0.7%	0.2%	1.4%	0.6%	1.0%
Imported Spirits					
Vodka	8.2%	8.4%	8.1%	8.0%	7.9%
Spirit Coolers	7.2%	5.8%	4.8%	5.0%	7.0%
Scotch	4.2%	4.3%	4.2%	4.3%	4.4%
Miscellaneous Liquors	3.9%	3.9%	3.8%	4.0%	4.0%
Liqueur	3.1%	2.9%	3.0%	2.9%	3.1%
French Brandy	1.8%	1.8%	1.8%	1.8%	1.9%
Other	10.1%	8.3%	8.7%	8.2%	7.8%
Total Spirits	88,772	87,305	88,752	88,033	85,002
Canadian Wines					
White Table	14.6%	14.5%	14.6%	14.4%	14.2%
Red Table	9.7%	9.3%	9.0%	8.9%	8.9%
Fortified	1.2%	1.2%	1.2%	1.3%	1.3%
Rose Table	0.9%	0.9%	0.9%	1.0%	1.0%
7% Sparkling	0.8%	0.8%	0.9%	0.9%	1.0%
Wine Coolers	0.0%	0.0%	0.0%	0.0%	0.0%
Other	2.6%	2.0%	2.0%	1.7%	1.5%
Imported Wines					
Red Table	36.4%	37.1%	38.0%	39.4%	40.0%
White Table	20.9%	21.5%	22.3%	22.6%	22.3%
Sparkling	2.5%	2.4%	2.5%	2.4%	2.4%
Rose Table	1.4%	1.4%	0.8%	0.9%	0.9%
Fortified	1.0%	1.0%	1.1%	1.2%	1.2%
Wine Coolers	0.3%	0.2%	0.1%	0.1%	0.1%
Other	8.1%	7.8%	6.7%	5.3%	5.3%
Total Wine	146,403	139,540	135,079	129,281	125,890

LCBO VOLUME SALES SHARE BY CATEGORY *(thousands of litres) (continue)*

	2015	2014	2013	2012	2011
Canadian Beer					
Ontario Beer	45.0%	45.2%	45.4%	46.3%	45.6%
Other Canadian Beer	3.3%	3.0%	3.4%	3.1%	2.7%
Imported Beer					
Other Imported Beer	42.9%	43.7%	43.3%	42.6%	44.1%
U.S. Beer	8.7%	8.0%	7.8%	8.0%	7.5%
Sake	0.1%	0.1%	0.1%	0.1%	0.1%
Total Beer	233,598	226,677	224,475	219,697	216,935
Total	468,773	453,522	448,306	437,011	427,827

LCBO VALUE SALES SHARE BY CATEGORY *($ thousands)*

	2015	2014	2013	2012	2011
Canadian Spirits					
Canadian Whisky	19.2%	20.2%	20.2%	20.5%	20.9%
Canadian Vodka	12.0%	12.2%	12.5%	12.6%	12.6%
Canadian Rum	10.0%	10.4%	10.7%	10.9%	11.2%
Spirit Coolers	6.4%	6.9%	7.0%	7.3%	6.5%
Canadian Liqueur	2.5%	2.7%	2.4%	2.4%	2.5%
Canadian Dry Gin	0.7%	0.7%	0.7%	0.7%	0.8%
Other	0.4%	0.3%	0.7%	0.8%	1.2%
Imported Spirits					
Vodka	11.5%	11.7%	11.6%	11.3%	11.0%
Scotch	8.4%	8.3%	8.1%	8.0%	8.0%
Miscellaneous Liquors	5.2%	5.2%	5.0%	5.3%	5.4%
Liqueur	4.4%	4.2%	4.3%	4.3%	4.5%
French Brandy	3.5%	3.4%	3.4%	3.4%	3.4%
Spirit Coolers	1.9%	1.6%	1.4%	1.5%	2.0%
Other	13.8%	12.2%	12.0%	10.9%	10.1%
Total Spirits	$ 2,035,369	$ 1,983,273	$ 1,965,498	$ 1,920,886	$ 1,841,573
Canadian Wines					
White Table	11.2%	11.1%	11.2%	11.0%	11.0%
Red Table	8.0%	7.7%	7.4%	7.4%	7.5%
Fortified	1.0%	1.1%	1.1%	1.1%	1.2%
Rose Table	0.7%	0.7%	0.7%	0.7%	0.8%
7% Sparkling	0.5%	0.5%	0.5%	0.6%	0.6%
Wine Coolers	0.0%	0.0%	0.0%	0.0%	0.0%
Other	1.8%	1.5%	1.6%	1.5%	1.4%
Imported Wines					
Red Table	44.1%	44.5%	44.9%	45.5%	45.7%
White Table	21.9%	22.3%	22.6%	22.5%	22.2%
Sparkling	4.5%	4.4%	4.5%	4.4%	4.3%
Rose Table	1.3%	1.3%	0.8%	0.8%	0.9%
Fortified	1.2%	1.2%	1.2%	1.4%	1.5%
Wine Coolers	0.1%	0.1%	0.1%	0.1%	0.1%
Other	3.7%	3.6%	3.5%	3.0%	3.0%
Total Wine	$ 1,900,542	$ 1,802,878	$ 1,745,646	$ 1,659,521	$ 1,570,720

LCBO VALUE SALES SHARE BY CATEGORY *($ thousands) (continue)*

	2015	2014	2013	2012	2011
Canadian Beer					
Ontario Beer	43.0%	42.4%	41.9%	41.9%	41.8%
Other Canadian Beer	3.5%	3.2%	3.7%	3.4%	3.1%
Imported Beer					
Other Imported Beer	44.6%	46.2%	46.5%	46.5%	47.7%
U.S. Beer	8.4%	7.8%	7.6%	7.8%	7.2%
Sake	0.4%	0.4%	0.4%	0.4%	0.3%
Total Beer	$ 991,143	$ 948,990	$ 926,334	$ 891,591	$ 908,348
Total	$ 4,927,055	$ 4,735,141	$ 4,637,479	$ 4,471,999	$ 4,320,641

LCBO SALES BY COUNTRY OF ORIGIN

Spirits

Country	Net Sales ($)	Litres
Canada	$1,042,502,033	54,587,876
Ontario	$631,590,252	40,603,815
United Kingdom	$243,185,962	6,836,727
United States	$200,235,520	11,141,796
France	$134,367,107	2,887,201
Ireland	$74,958,938	2,304,099
Sweden	$65,649,407	2,257,251
Mexico	$59,156,490	1,514,689
Italy	$35,864,660	1,194,483
Germany	$27,223,243	828,777
Poland	$25,150,848	722,194
Other	$127,075,264	4,496,496
Total	$2,035,369,472	88,771,589

LCBO SALES BY COUNTRY OF ORIGIN *(continue)*

Wine

Country	Net Sales ($)	Litres
Canada	$444,732,249	44,057,312
Ontario	$438,075,839	43,619,411
Italy	$324,594,982	22,985,417
United States	$311,512,631	19,421,395
France	$194,538,831	9,858,138
Australia	$180,551,765	12,039,612
Chile	$99,621,743	8,924,868
Argentina	$76,637,334	5,985,924
New Zealand	$59,035,972	2,819,040
Spain	$54,458,950	3,189,799
South Africa	$40,923,057	3,240,507
Other	$120,810,877	14,594,956
Total	$1,907,418,391	147,116,968

LCBO SALES BY COUNTRY OF ORIGIN *(continue)*

Beer

Country	Net Sales ($)	Litres
Canada	$464,176,756	113,345,469
Ontario	$426,536,956	105,006,157
Netherlands	$104,088,684	24,011,016
United States	$88,490,461	21,310,843
Mexico	$80,384,751	17,517,996
Belgium	$59,654,190	12,045,088
Germany	$46,302,413	12,364,442
United Kingdom	$34,332,340	6,875,045
Ireland	$18,379,920	3,484,334
Poland	$18,002,694	5,020,289
Denmark	$15,782,490	3,943,702
Other	$57,455,894	13,408,756
Total	$987,050,593	233,326,979

In fiscal 2015, excluding sales through private ordering, the LCBO sold products from 86 different countries.

Credits

The LCBO wishes to thank the members of the Audit Committee of the Board for their assistance in preparing this document. This report is also available at www.lcbo.com, under About LCBO. Produced by LCBO Corporate Communications. Design by ANITA CHEN DESIGN. Photography by AS1 Photography. Financial information prepared by LCBO Financial Planning & Analysis Group and the Controller's Office. French translation by LCBO French Language Services.

Ce rapport est également publié en français sous le titre : Rapport annuel de la LCBO 2014-2015.

This annual report is printed on 30 per cent post-consumer waste and Forest Stewardship Council (FSC) certified paper. Printed by the LCBO's Print Digital Copy Centre.

LET'S GET LCBO TOGETHER

www.lcbo.com | *www.vintages.com*