RETAIL EXPANSION *pays* DIVIDENDS

ANNUAL REPORT 2012–13

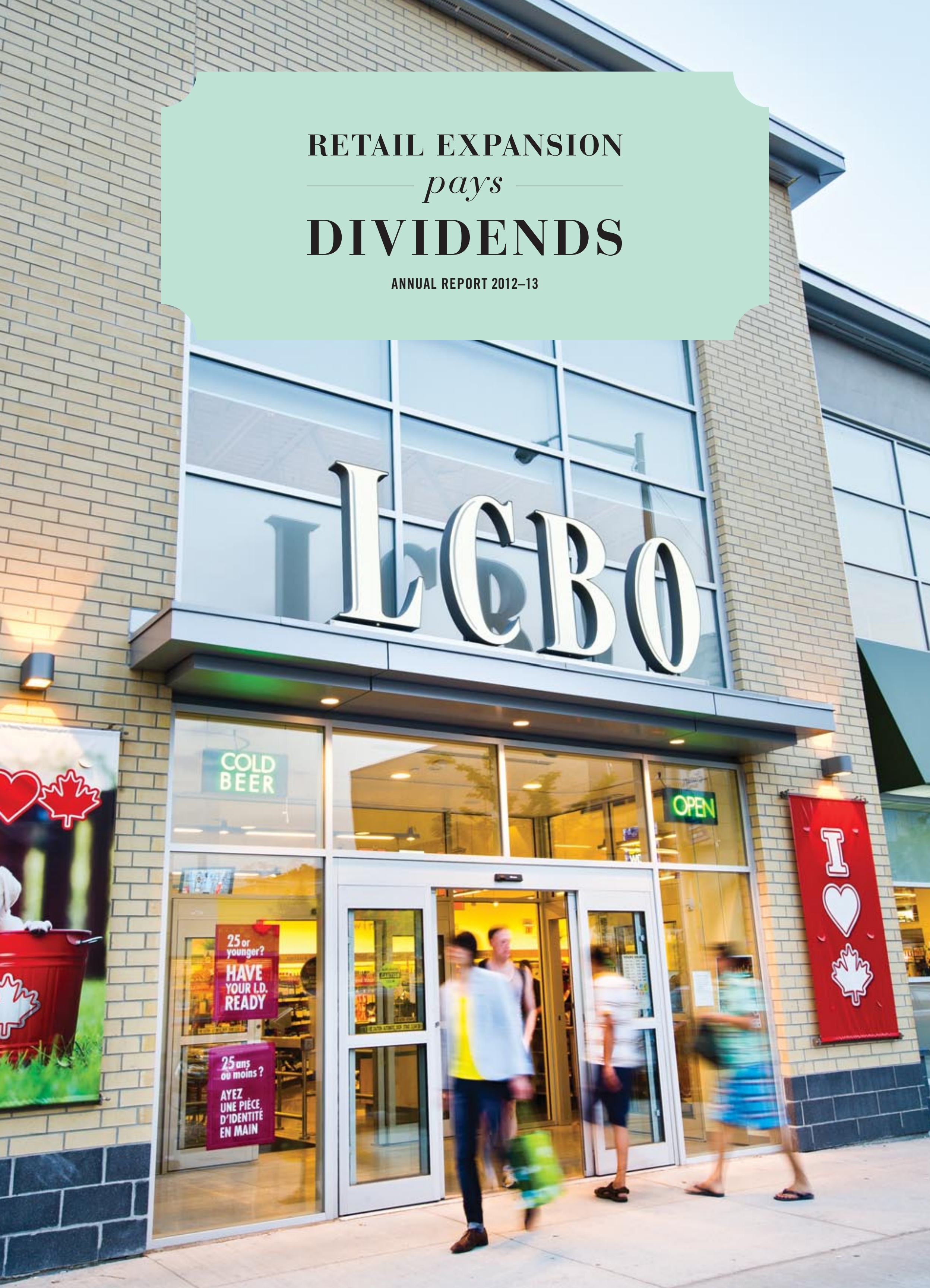


TABLE OF CONTENTS

LETTER OF TRANSMITTAL

The Honourable Charles Sousa
Minister of Finance

Dear Minister,
I have the honour to present you with the 2012–13 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

Philip J. Olsson,
Chair

2012–13 HIGHLIGHTS

$1.70 BILLION

DIVIDEND TRANSFER TO GOVERNMENT

$4.89 BILLION

REVENUES

$1.71 BILLION

NET INCOME

126.5
MILLION

TOTAL TRANSACTIONS

33%

ONTARIO CRAFT BEER SALES INCREASE

516,871

QUALITY ASSURANCE LAB TESTS

80%

CUSTOMER SATISFACTION

1.6
BILLION

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

85

NUMBER OF COUNTRIES WE BUY PRODUCTS FROM

$6.6
MILLION

TOTAL FUNDRAISING

93%

COMBINED (ODRP AND BLUE BOX) BEVERAGE ALCOHOL CONTAINER DIVERSION RATE

7.8
MILLION

TOTAL CHALLENGES FOR ALL REASONS

5.4%

TOTAL ONTARIO WINE SALES INCREASE

30

NEW STORES, EXPANSIONS AND RELOCATIONS

322,000

TOTAL REFUSALS FOR ALL REASONS

Retail expansion
PAYS DIVIDENDS

THE LCBO EMBARKED ON THE LARGEST STORE EXPANSION PROGRAM IN ITS 86-YEAR HISTORY IN FISCAL 2012–13.

For this year, and many more to come, this program will pay dividends in several ways, including a positive financial return to the province of Ontario, improved customer service, and more sales opportunities for our suppliers.

Endorsed by the Ministry of Finance, this unprecedented store expansion program saw a total of 30 stores constructed, relocated or expanded during the year – twice the historical rate of expansion. Many new stores are either in urban areas experiencing population growth or communities that are growing rapidly. New, upgraded and relocated stores lead to improved sales, and contribute to the annual dividend the LCBO pays to the government to fund schools, hospitals and social services. There are also a number of economic spin-off benefits, such as increased employment opportunities in construction and businesses that supply goods and services to the stores. In fiscal 2013–14, the second year of the network investment program, about 30–35 new stores, relocations and major expansions to the network are targeted for completion.

2012–13 NETWORK EXPANSION

LCBO ended 2012–13 with 634 stores across Ontario. A total of $56 million was invested in the store network for renovations, maintenance and repairs to our existing stores, as well as the construction, expansion and relocation of stores in the following communities: Baysville, Brockville, Burlington, Cobourg, Fergus, Gloucester, Goderich, Guelph, Hamilton, Kingsville, Markham, Mississauga, Ottawa (4), Owen Sound, Port Perry, Renfrew, Sarnia, Scarborough, Stratford, Toronto (4), Uxbridge, Washago, Whitby, and Windsor. The construction activity resulted in the addition of 139,000 square feet of selling space, as well as 15 VINTAGES sections, and increased space for Ontario VQA wines and Ontario craft beers. Renovations were completed at 11 additional stores.

RETURN ON INVESTMENT

New and upgraded stores have proven to be sound investments. In the last five years, more than 80 per cent of such projects have exceeded their performance targets, typically recovering the initial investments in less than 1.5 years, which is considered to be a very quick return in the retail sector. Sales growth at new, relocated and expanded stores measured close to 37 per cent in 2012–13 compared to just under two per cent for stores that remained in the same location and format. It is estimated that new and relocated stores opened in 2012–13 increased sales by $30 million that year and will add an average of $1.8 million in sales revenues in each subsequent year.

634

STORES ACROSS ONTARIO

139,000

SQUARE FEET
ADDED SELLING SPACE

15

MORE VINTAGES SECTIONS

DETAILED SITE SELECTION PROCESS

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

NEW FORMATS PLANNED FOR 2013–14

To increase customer convenience and promote Ontario wines and craft beers, while remaining true to its social responsibility mandate, LCBO plans to pilot two new store formats in 2013–14: LCBO Express Stores and Our Wine Country destination boutiques.

Express Stores will be located inside large grocery retailers and carry a range of products within 2,000 to 3,000 square feet of selling space. Our Wine Country destination boutiques will be inside select, full-size LCBO stores, and offer customers an expanded selection of Ontario VQA wines, including more wines from smaller producers.

The announcement of these new formats by the Minister of Finance in December 2012 represents a further endorsement of the current marketplace framework, and continued confidence in the LCBO's ability to evolve, serve the public, and promote sales of domestic products.

LCBO is focused on keeping its stores fresh and inviting, and investing in operationally-efficient formats to provide customers a positive shopping experience every visit.

30
STORES

30 STORES CONSTRUCTED, RELOCATED OR EXPANDED DURING THE YEAR – TWICE THE HISTORICAL RATE OF EXPANSION

$56
MILLION

A TOTAL OF $56 MILLION WAS INVESTED IN THE STORE NETWORK FOR RENOVATIONS, MAINTENANCE AND REPAIRS TO OUR EXISTING STORES, AS WELL AS THE CONSTRUCTION, EXPANSION AND RELOCATION OF STORES

VINTAGES Alcove:

Showcases VINTAGES products and new releases in an area with unique finishes and lighting to attract customers looking for something different.

Double-Sided Fixtures:

Located in stores where city requirements require visibility into the store, this special two-sided, open-back fixture showcases products from inside and outside the store.

37%

SALES GROWTH AT NEW, RELOCATED AND EXPANDED STORES MEASURED CLOSE TO 37 PER CENT IN 2012–13.

$30

MILLION

IT IS ESTIMATED THAT NEW AND RELOCATED STORES OPENED IN 2012–13 INCREASED SALES BY $30 MILLION IN THAT YEAR

Cold Rooms:

Walk-in cold rooms feature chilled beer and cooler products.

Dairy Doors:

Additional chilled products, such as wine, are accessible prior to entering the cold room through dairy doors.


sting Bar
FIRE

Message
FROM THE MINISTER

Our government is focused on creating jobs and supporting economic growth across Ontario. We will also continue to protect key public services like health care and education while working to balance the budget by 2017–18.

The LCBO helps fund these priorities for the people of this province and for future generations.

The LCBO managed its business soundly and prudently in 2012–13, transferring a dividend of $1.7 billion to Ontario. It was the 19th year in a row that the agency increased its dividend, exceeding the previous year's payment by about $70 million.

We endorse the LCBO's continued measures to responsibly grow its business, provide good customer service and support the province's wine, beer and spirit industries.

Work is well underway on the LCBO's accelerated store expansion program, with 30 new and expanded stores opening in 2012–13 and another 30 to 35 targeted for the following year. In addition to creating jobs and boosting revenue, the expansion is better aligning the LCBO's store network with Ontario's population growth.

By the end of 2013, the first *Our Wine Country* LCBO destination boutiques will have already opened in LCBO stores, making it easier for people to discover and support local, 100 per cent Ontario wines.

The LCBO continues to be socially responsible to help keep alcohol out of the hands of minors and those that appear intoxicated through the *Check 25* and *Challenge & Refusal* programs. The *Deflate the Elephant* advertising campaign helped to deter drinking and driving and promote responsible hosting. And the LCBO has helped divert more than 1.6 billion containers away from landfills over the past six years through the government's Ontario Deposit Return Program. The LCBO also continues to support the municipal Blue Box system for any residual LCBO waste that can be recycled, resulting in a combined waste diversion rate of 93 per cent.

Supporting Ontario's vintners, brewers and distillers is a priority that is shared by the government and the LCBO. The *goLocal* promotion, a key part of the LCBO's strategic plan, has encouraged more consumers to try local products while creating and maintaining jobs in Ontario.

I commend the LCBO for continuing to provide good customer service, promote social responsibility and maximize efficiencies to fund the public services on which the people of this province rely.

The Honourable **Charles Sousa**, Minister of Finance

Message FROM THE CHAIR

THE LCBO IS WORKING HARD TO SERVE ONTARIANS BETTER.

Opening more stores and updating older outlets are part of the growth strategy that includes broadening our product offerings, promoting local Ontario beverage alcohol producers, evolving our marketing techniques, and modernizing the supply chain to support growing demand and network expansion. With more locations, we must work harder to ensure we continue to carry the quality products and provide the excellent customer service our stores are consistently known for across the province.

Underlying these efforts – but always foremost on our minds – is upholding LCBO's founding principle of responsible retailing.

LCBO is a pioneer in the area of social responsibility, which was the reason for its creation in 1927. And our employees take pride in their efforts to keep beverage alcohol out of the hands of minors and those appearing intoxicated, as evidenced in 2012–13: 7.8 million challenges, a 23 per cent increase.

Growing the business, while ensuring beverage alcohol is sold responsibly, is a dual goal of the LCBO, and one we continually show can be achieved. We balance excellence in the customer experience and operational efficiency with socially-responsible service to deliver record sales and profits. In 2012–13, we transferred another increased dividend to the government totaling $1.7 billion, an increase of 4.3 per cent from the previous year. Our profits help fund schools, hospitals and investment in job creation and growth, all of which are important to the people of Ontario.

We are committed to transparent and open communication with our owner, the Ontario government, and this helps our understanding of the government's priorities and goals, ability to manage risk, and respond appropriately to policy issues. It remains a priority for the Board throughout the year to ensure LCBO's operations help advance government priorities.

I am also pleased to highlight a record $2.8 million was raised for the 2012 corporate United Way campaign, a cause I have strongly supported for years, which is an increase of $300,000 from the previous year.

Overall, we raised a new record total of $6.6 million for a variety of charitable organizations through initiatives driven by LCBO employees and our longstanding donation box program. I am grateful to our customers, employees, and suppliers for their generosity and support of a multitude of fundraising events that took place in LCBO stores across Ontario.

While the retail environment remains challenging, the Board strongly believes in the strategic plan being implemented by management. The Board will continue to support management to ensure the LCBO meets the needs of the government and the people of Ontario.

Philip J. Olsson, Chair

Philip J. Olsson, Chair // Bob Peter, President & CEO

Message
FROM THE PRESIDENT & CEO

FROM 2006–07 TO 2012–13, LCBO ADDED MORE THAN 100 NEW AND REPLACEMENT STORES, ENDING THE FISCAL YEAR WITH 634 LOCATIONS.

Since inception, the LCBO has paid dividends to Ontarians in every sense of the word – payments to the provincial government that fund important social services, preventing the sale of beverage alcohol to minors and those who appear intoxicated, providing service, and generating economic activity in the communities in which we operate.

Consider the benefits of LCBO store expansion in recent years. From 2006–07 to 2012–13, LCBO added more than 100 new and replacement stores, ending the fiscal year with 634 locations. These stores increased customer service, contributed to net income growth, and spurred economic growth in their communities. Indeed, our analysis indicates that the stores built in this period have economic spin-off benefits of $150 million, while adding more than 900 jobs directly and indirectly to the Ontario economy.

Retail expansion was a key factor in our 19th increased dividend transfer to the government – $1.70 billion – in 2012–13. That is up from $1.28 billion in 2006–07, an increase of 32.8 per cent, an aggregate of $10.3 billion to help fund health care, education and other key priorities.

This year we managed to achieve our net sales and dividend targets, and also maintain at least 80 per cent satisfaction in our annual customer tracking study, in a volatile retail environment. Sales growth remains relatively strong overall, staying about two per cent above the provincial retail marketplace, driven by our store network upgrades and expansion projects, as well as successful marketing campaigns and our continued ability to increase net income and net sales, while containing expenses through operational efficiency.

As well, tight inventory control and improved product turns have allowed LCBO to bring average net working capital for inventory to zero, which means we essentially sell our products before having to pay for them.

Turning to Logistics, we continue to optimize the space, capacity and productivity at our retail service centres, particularly in Durham, London and Ottawa, where the implementation of new initiatives and technologies is lowering operating costs, improving efficiency, and making the facilities even safer for our warehouse employees.

Paying dividends did not stop there.

19th
YEAR
INCREASED DIVIDEND TRANSFER TO THE GOVERNMENT

32.8%
DIVIDEND TRANSFER INCREASE TO GOVERNMENT SINCE 2006–07

900+
JOBS ADDED TO THE ONTARIO ECONOMY

We also enhanced our *Check 25* program, LCBO's policy that requires staff to ask customers that look 25 or younger to show valid photo I.D. The new policy is that customers aged 25 or younger have their I.D. ready to show our staff, and is supported with new signs outside and inside the stores and audio announcements at the busiest times. Before the enhancements, our integrity shopping results, compiled by an independent firm that tests staff compliance with *Check 25*, registered a compliance rate of 91 per cent. The rate rose to 94 per cent after the enhancements were instituted, bringing us closer to our goal of 100 per cent compliance.

We met our goal of migrating wine bottles to lightweight glass. Starting January 1, 2013, almost all wine products costing less than $15 were required to be in bottles weighing 420 grams or less. This standard applies to both LCBO and VINTAGES products. Lightweight bottles are good for the environment (reduces carbon footprint of our products), good for customers (less weight to carry on transit or walking), and good for employees (supports safer lifting).

With a new three-year strategic plan being implemented this coming year, you can expect to see changes to our branding, the way we market to customers, logistical improvements to increase efficiency even further, and continued investments in store expansion. These and other initiatives will ensure the LCBO continues to pay dividends of every kind, while upholding its social responsibility promise to the public.

Bob Peter, President & CEO

Corporate STRUCTURE

MISSION STATEMENT

WE ARE A SOCIALLY RESPONSIBLE, PERFORMANCE-DRIVEN, INNOVATIVE AND PROFITABLE RETAILER, ENGAGING OUR CUSTOMERS IN A DISCOVERY EXPERIENCE OF THE WORLD 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. The chair of the Board of Directors is responsible for providing strategic leadership to its members and to the president & CEO and making sure 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. Among its most important responsibilities are to:

- ensure that policies and processes are in place to maintain the integrity of the LCBO's internal controls
- establish by-laws governing the operations of the LCBO
- approve both the three-year strategic plan and annual business plans and monitor management's success in meeting the objectives set out in these plans
- submit annual financial plans and business plans to the Minister of Finance
- ensure the LCBO has an appropriate communications policy
- ensure the LCBO operates in a fair, ethical and impartial manner and 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; presently this includes an audit committee and a governance and compensation committee.

ETHICS AND BUSINESS CONDUCT

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

HEALTH AND SAFETY

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

BOARD COMMITTEES

Audit Committee

The audit committee is responsible for the reliability and accuracy of the LCBO's financial statements, for advising and instructing the LCBO's Internal Audit Services Department and for assisting in coordinating and improving LCBO's internal control and risk management functions.

Governance and Compensation Committee

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

MANAGEMENT COMMITTEES

Store Planning and Development Committee

This is a management committee that reviews real estate and leasing transactions and makes recommendations to the Board for final approval.

Listings Appeals Committee

This committee reviews supplier and agent appeals of business unit decisions concerning product listings.

Management Positions Evaluation Committee

This committee evaluates and rates management positions in the organization for purposes of determining appropriate pay classifications.

ACCOUNTABILITY

The LCBO is accountable to its stakeholders in a number of ways:

- its annual report is required to be tabled in the provincial legislature and is made available to all Ontarians in print, or online at www.lcbo.com
- annual audits of LCBO financial statements are required by the *Liquor Control Act* and conducted by the Office of the Auditor General of Ontario
- public access to various records under the *Freedom of Information and Protection of Privacy Act*
- Board members must be appointed by Order-in-Council
- various statutory reporting requirements under the *Liquor Control Act* require the corporation to provide reports to the Minister of Finance and the Treasurer of Ontario
- the corporation is required to comply with applicable Management Board directives.

SENIOR MANAGEMENT TEAM

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

Bob Peter, president & chief executive officer

George Soleas, executive vice president[1]

Nancy Cardinal, senior vice president, Sales & Marketing[2]

Bob Clevely, senior vice president, Retail Operations

Bob Downey, senior vice president, Sales & Marketing[3]

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

Gayle Fisher, senior vice president, Human Resources[4]

Murray Kane, senior vice president, Human Resources[5]

Hugh Kelly, senior vice president, Information Technology

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

Jackie Bonic, vice president, Store Development and Real Estate

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

Patrick Ford, executive director, Corporate Affairs[6]

Bill Kennedy, executive director, Corporate Communications

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

Shelley Sutton, director, Strategic Planning & Enterprise Risk Management[7]

1. Effective February 2013
2. Effective March 2013
3. Retired March 2013
4. Effective July 2012
5. Retired July 2012
6. Effective October 2012
7. Effective October 2012

Board MEMBERS

Philip J. Olsson // Penny Lipsett

PHILIP J. OLSSON

Appointed to the Board as vice chair in June, 2004; became acting chair and CEO on February 6, 2006, and non-executive chair (pursuant to amendments to the *Liquor Control Act*) on March 7, 2007. Term renewed in 2010 and March 5, 2012 for a further two-year term.

Mr. Olsson is a partner in K J Harrison & Partners Inc., a privately-held investment firm for private individuals. He is also chairman of Connaught Oil & Gas Limited, a private energy exploration and production firm. He has had a career of more than 30 years in finance as an investor and investment and commercial banker, including managing director, Private Equity, at Altamira Investment Services Inc., where he restructured and oversaw Altamira's private equity functions. Prior to that, he was managing director of Royal Bank Equity Partners Limited, the Royal Bank Financial Group's merchant banking unit and, before that, was vice chairman of RBC Dominion Securities, Canada's largest investment bank. Mr. Olsson holds BA and MBA degrees from Vanderbilt University, Nashville, Tennessee, and studied monetary economics as a postgraduate at the London School of Economics. He holds a CBV designation from the Canadian Institute of Chartered Business Valuators. He has long been active in community and civic affairs on behalf of such organizations as the United Way, the Shaw Festival, Trout Unlimited and the Atlantic Salmon Federation.

PENNY LIPSETT

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

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

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

Pamela Livingstone // Laurel Murray // Susan Pigott // Walter Sendzik

PAMELA LIVINGSTONE

Appointed June 8, 2009. Term renewed June 7, 2012 for a two-year term. Member, Audit Committee.

Ms. Livingstone began her retail career at Sears Canada as a merchandise flow analyst in 1995. She progressively moved to positions of increasing responsibility, becoming a buyer of home products in 2000. Ms. Livingstone then moved onto becoming a national operations manager in 2007 where she was responsible for all inventory flow and processes for the company's multi-channel, home décor business. During her tenure at Sears, she acquired strengths in negotiating, leadership, process management, as well as coaching, mentoring and staff training. After 14 years, Ms. Livingstone took a position as a planning manager for the Home Outfitters, a division of the Hudson Bay Company, where she applied her knowledge of inventory flow management and budget building. In the fall of 2011, she joined Big Lots as a merchandise planning manager and has been instrumental in helping the company develop business plans to introduce the Big Lots chain into Canada.

Ms. Livingstone earned a master's degree in public administration at Queen's University and an honours BA at Wilfrid Laurier University. She also worked as an English teacher in Osaka, Japan for two years.

LAUREL MURRAY

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

Ms. Murray is a chartered accountant (CA) and chartered professional accountant (CPA) with more than 25 years of senior management experience in the private and public sectors. Since 2000, Ms. Murray has overseen her own management consulting practice. During the past 25 years, she has helped a number of private companies as well as federal and provincial agencies and ministries improve the way they manage risks, measure performance and improve accountability. Ms. Murray is a proponent of good governance and oversight. She is also the chair of the Audit Committee of the Office of the Privacy Commissioner of Canada and a member of the Audit Committee of the Office of the Commissioner of Official Languages. She was also the lead in developing the federal government's *Guidebook for Departmental Audit Committees* as well as the federal *Guidelines for Crown Corporations and Other Public Enterprises*. Ms. Murray's professional expertise includes: financial management, accounting and auditing; strategic planning and reporting; performance measurement; integrated risk management; and project management. She graduated with honours from Carleton University in 1986 with a bachelor of commerce degree. She received her chartered accountant designation from the Canadian Institute of Chartered Accountants in 1989 and her chartered professional accountant designation in 2012. An active mother, wife and volunteer, Ms. Murray balances work and family, while helping those in need in her community.

SUSAN PIGOTT

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

Ms. Pigott is the vice president, Communications and Community Engagement at the Centre for Addiction and Mental Health (CAMH) in Toronto.* She trained as a nurse at the Wellesley Hospital School of Nursing in Toronto and then worked as a registered nurse for 10 years in Toronto, Australia and Papua New Guinea.

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

An active volunteer, Ms. Pigott has served on several boards, including the Community Social Planning Council, the Hospital for Sick Children and Soulpepper Theatre Company. Currently, she is a board member of the Greater Toronto CivicAction Alliance, the Change Foundation and Workman Arts.

WALTER SENDZIK

Appointed June 4, 2008. Term renewed in 2011 for another three-year term. Member, Audit Committee.

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

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

*Departed CAMH in June 2013.

Paul Sparkes // Ramesh Srinivasan // Harvey T. Strosberg

PAUL SPARKES

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

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

RAMESH SRINIVASAN

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

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

His professional certifications include: Certified Foodservice Manager; Certified Specialist of Wine; and Certified Hospitality Educator. He holds the Diploma in Wines and Spirits from the Wine & Spirit Education Trust Diploma from the U.K. 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.

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

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

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

REMUNERATION

Board members receive a per diem remuneration for attending regularly scheduled meetings and for serving on either the Audit Committee or the Governance and Compensation Committee. The table below lists the total remuneration each Board member received for the 2012 calendar year.

Board Member	Remuneration
Philip J. Olsson (chair)	$ 16,535
Penny Lipsett	$ 2,960
Pamela Livingstone	$ 1,970
Laurel Murray	$ 3,500
Susan Pigott	$ 1,050
Walter Sendzik	$ 2,720
Paul Sparkes	$ 3,050
Harvey Strosberg	$ 920
Ramesh Srinivasan	$ 2,950
Geoffrey R. Larmer[1]	$ 2,330
Steve Diamond[2]	$ 525

1 Term ended in May 2012 and did not seek re-appointment.
2 Resigned in December 2011.

Support
FOR THE DOMESTIC INDUSTRY

WINE

The LCBO has a proud tradition of collaborating with local producers to promote their products. It began decades ago with the Niagara wine industry, expanded to other wine regions, to the burgeoning craft brewers, and continues with the nascent craft distilling movement today. Promoting the local industry helps their businesses and, in turn, supports the Ontario economy.

A key strategic objective of the LCBO remains the growth of Ontario wine sales. In 2012–13, total Ontario wine sales rose 5.4 per cent, outpacing the growth of imported wine, which was 5.0 per cent. VQA table wine sales rose 5.1 per cent, while non-VQA table wine, which includes International Canadian Blends, rose 6.9 per cent.

Ontario VQA table wine sales through LCBO's Wines category rose 4.8 per cent, and Ontario VQA VINTAGES wine sales rose 7.0 per cent. The LCBO listed 74 new Ontario wines (60 new VQA wines and 14 new ICB wines), or 31 per cent of the total number of new wine listings. Over 200 VQA products are released through VINTAGES each year.

Promotion of Ontario wine starts with a dedicated team across LCBO and VINTAGES that includes a category manager, product manager and category administrator. On the retail floor, we have trained more than 300 WOW (World of Ontario Wines) leaders, who take pride in sharing their knowledge and recommending Ontario wines to customers.

Working with the Ontario wine industry, we developed several initiatives to showcase the province as a quality producer, including our flagship fall promotion. In 2012–13, the annual event successfully introduced a new tagline, People Are Talking, along with a fresh marketing approach that reinforced the quality and growing global interest in VQA wines. Total sales of Ontario wines rose 5.6 per cent in the period compared to the year before.

Other initiatives throughout the year include:

- the placement of Ontario wines at the entrance of each store and displaying Ontario wines on higher-quality wood fixtures to set them apart from other regions
- the Ontario Wines Superstar program, which dedicates shelf space and promotional material every month to two LCBO VQA wines and one VQA VINTAGES product
- monthly promotions, such as Local Find and Local Talent at VINTAGES
- Wines to Watch, a craft winery incubator program that gives the smallest Ontario wineries dedicated shelf space in 60 high-volume stores with LCBO marketing and promotional support
- a bi-monthly "goLOCAL" promotion featuring four VQA wines in a prominent locations and supported by free-standing inserts
- Ontario Wines Direct Delivery program enables small VQA wineries to offer their products in as little as one store

To further showcase Ontario wines, the government announced a pilot of Our Wine Country destination boutiques. The boutiques will be incorporated inside full-size LCBO stores and offer an expanded selection of VQA wines (including a selection from smaller producers) within a new design concept that will draw customers to that area of the store. The first boutiques are scheduled to open in the late summer of 2013.

5.4%	74	33%
TOTAL ONTARIO WINE SALES INCREASE	NEWLY LISTED ONTARIO WINES	ONTARIO CRAFT BEER SALES INCREASE

CRAFT BEER

The LCBO and Ontario Craft Brewers (OCB) industry association have each benefitted and grown from a formal relationship that dates back more than 10 years. In 2012–13, Ontario craft beer sales led all beer segments again, with sales growth of 33 per cent. And it is expected that this trend will remain positive for some time to come.

The following are key initiatives LCBO has in place to help promote Ontario craft beer:

- merchandising in a prominent position on shelf and grouping all formats (single cans, bottles, multipacks) of Ontario craft beer together, which differs from how other beer is merchandised
- product display programs, such as a dedicated shelf extender and end aisles in 51 stores, draw added attention to OCB products
- special on-shelf displays showcase Ontario's smallest craft breweries on rotation
- Ontario craft beer "display walls" in flagship stores
- an annual summer beer promotion, which includes a focus on Ontario craft brewing
- a mini Ontario craft beer promotion coinciding with the fall Ontario wine thematic
- seminars to assist breweries in conducting business with the LCBO
- many newer stores are equipped with a larger selling area for beer and walk-in cold rooms
- the Local Fridge program features the flagship brands of Ontario craft breweries in the refrigerated space of the LCBO in their community
- beer ambassadors in 150 stores, who are well-versed in all beer products, especially the offerings of our OCB partners

CRAFT SPIRITS

Following a similar movement in the United States, there is a small but emerging trend of craft distillers in Ontario. This industry is still in its infancy but represents a key area of future growth. In the last year, the LCBO has offered products from several Ontario craft distilleries. We look forward to bringing more Ontario craft spirits to market in future years.

Logistics

PRODUCTIVITY UPGRADES

Transporting product from the supplier to the shelf is the job of LCBO's Logistics division, which continues a multi-year effort to upgrade its facilities across the province to ensure maximum operating efficiency. A great deal was accomplished during 2012–13 that will have lasting benefits for the organization. Not only will the initiatives that were completed, furthered or begun during the year help improve the organization's efficiency, but also its profitability, customer service and, ultimately, financial return to the province and people of Ontario.

Though building brand new warehouse space is a relatively simple way to increase distribution capabilities for any retailer, it's also a costly and inefficient choice for an organization of our size. The LCBO operates five distribution facilities serving a network of more than 1,000 outlets – including LCBO stores, Agency stores, and The Beer Store – in Ontario. Optimizing the space, capacity and productivity at our existing retail service centres is the most efficient and economic option, which allows for lower operating costs and reduced capital outlay.

Many of the initiatives, which include ergonomic technologies that reduce the need for lifting, also benefit the health and safety of our employees. LCBO's Logistics division can be particularly proud of its record in this area, having reduced lost-time injuries by 65 per cent over the last three years.

DURHAM RETAIL SERVICE CENTRE

In anticipation of redevelopment of LCBO's head office lands, which contain the Toronto Warehouse, it was announced that the VINTAGES release operation, housed on the second floor of the head office building, would be consolidated with the Durham facility. As a result, Durham's infrastructure and systems are being modified to accommodate the move during 2013–14. An example is the replacement of the warehouse's 22 conveyors with zero-compression conveyors, which allowed us to adopt the international industry standard in packaging requirements, known as the Edge Crush Test (ECT). Separately, work progressed on Durham's autopalletization project, which will be rolled out to 16 of the facility's 28 manual palletization stations by the end of 2014. The upgrade will result in several benefits, including fewer injuries, reduced operating costs, the creation of a more stable and denser pallet of goods for transport, improved traceability of outbound product, and lower breakage costs.

LONDON RETAIL SERVICE CENTRE

The facility has seen its processing capacity double as a result of the addition of 10 manual palletization lanes and a new pick module. In 2012–13, the focus was on the inbound area of the centre, with work completed on two destuffing platforms connected to an automatic palletizer. With the installation of the new technology, a 40-foot container could be emptied at a rate of 1,200 cases an hour compared to just 350 cases an hour under the previous system. The risk of employee injuries and product breakage, because of the ergonomic technology, is significantly reduced using the destuffing mechanisms as products are automatically conveyed, autopalletized, and strapped for warehousing. London also saw an increase in warehouse capacity of 100,000 cases through the addition of pallet-racking systems that allow product to be stacked four pallets high, which utilizes the facility's vertical space.

OTTAWA RETAIL SERVICE CENTRE

A major reconfiguration requiring detailed engineering and customization of the Ottawa facility was completed in 2012–13. The project involved the consolidation of a third-party storage facility in Brockville used primarily for overflow inventory; the integration of an adjacent Retail depot space that increased storage capacity by about 124,000 cases, or 40 per cent; the segregation of the shipping and receiving functions; the installation of five receiving docks in the former depot area; and the incorporation of midnight receiving to increase dock availability and reduce congestion during the day. For years to come, Ottawa will benefit from the installation of ergonomic technology and mechanization to improve traffic flow inside the warehouse, increase pick efficiency and productivity, improve throughput capacity and enhance the facility's safety and security.


ESTATES CHARDONNAY
PO#102-164866
J. LOHR ESTATES
EMPTY
CARTONS
ONLY

Creating A CULTURE OF ENGAGEMENT

These are challenging times for all employers. The economy is beyond our control, but creating a culture of engagement among our employees is not. Our two-pronged strategy to achieve organizational excellence includes hiring the best talent and retaining employees with a strong desire to contribute to our organization's success.

Recognizing the need to give employees a voice, the LCBO conducted an employee engagement survey. It was different from previous employee satisfaction and opinion surveys because it was based on a research-based model of employee engagement. With a response rate of 69 per cent, the survey showed 47 per cent of employees are engaged, setting a benchmark for future employee engagement surveys. Results of the survey indicate that the LCBO's greatest strengths are corporate social responsibility, co-workers, and benefits. The top three areas of opportunity are career advancement, managing performance and recognition.

To ensure all departments act on the survey results, division heads, directors and managers were given the opportunity to deliver survey findings directly to employees. Following these presentations, 45 employee focus groups were conducted across the entire organization to capture the voice of employees in more detail than the survey could provide. Focus group findings were condensed and shared with division heads in order to integrate actions into divisional business plans to improve engagement. LCBO preserved the anonymity of employees throughout to foster candid and honest discussions. Three working groups were created to address the organization's top three priorities – communication, recognition and recruitment – and they will continue to meet regularly in the coming year to ensure plans are being put into action.

Communication: Employees are eager to understand the "why" behind both large and small decisions. As a first step, a new communication channel called "Ask Bob" was created, which allows employees to pose questions to members of senior management that are answered through written responses in the employee newsletter, or video segments posted on the Intranet portal. Employees indicated the desire for regular, specific, timely and balanced feedback from their leaders. Internal and external programs that focus on managing performance and communication were reviewed and a new program is being piloted to help leaders engage staff in constructive conversations that focus on solutions instead of problems.

Recruitment: Employees wish to acquire new knowledge and skills that align with career opportunities. Different initiatives are under review to enhance the LCBO's internal and external recruitment process.

Recognition: Employees strongly desire personal and face-to-face recognition and acknowledgement from their managers, and we placed a renewed emphasis on informal recognition in all of our leadership plans. A formal employee recognition process is under development.

Based on the areas our employees tell us we are doing well and we can do better, LCBO is encouraged by the results and response to action plans. The dedication of our employees will provide a strong foundation as we strive to create a culture of engagement.

Corporate
SOCIAL RESPONSIBILITY

THE LCBO'S SOCIAL RESPONSIBILITY MANDATE HAS FOUR PILLARS:

- RESPONSIBLE RETAILING AND CONSUMPTION
- PRODUCT QUALITY AND SAFETY
- ENVIRONMENTAL SUSTAINABILITY
- COMMUNITY INVOLVEMENT AND FUNDRAISING

Created in 2008–09, LCBO's Corporate Social Responsibility Council and its four working groups include diverse employee representation from across the organization. Our many accomplishments in 2012–13 speak to the passion of our employees at every level for corporate social responsibility and good corporate citizenship.

RESPONSIBLE RETAILING

7.8 Million Challenges in 2012–13

Frontline staff continued to demonstrate their vigilance in preventing sales to minors and those who appear intoxicated by challenging in excess of 7.8 million people who appeared underage, intoxicated, or were suspected of purchasing for a minor or intoxicated person. Staff members are professional in upholding this responsibility, which is one of the most important and difficult aspects of the job, every day. More than 322,000 were refused service; 84 per cent of refusals were for reasons of age. Our *Check 25* program was enhanced with new exterior and in-store signage and audio announcements advising customers 19–25 to have their I.D. ready. A refresh of the *Challenge & Refusal: It's not Personal. It's the Law* training program reinforced responsible service practices and added content related to security enhanced I.D.

Alcohol Education and Awareness

LCBO's *Deflate the Elephant* social responsibility campaign (TV, online, social media) introduced "Elephant Rides" in partnership with taxi companies in Toronto, Hamilton and Ottawa, to encourage people to plan ahead and not drink and drive. In addition, a free smart phone app provides a one-stop resource to help a host plan a party, as well as convince a guest who has been drinking not to drive.

MADD Canada's 2012–13 school assembly program, *Long Weekend*, reached more than half a million students at 900 Ontario high schools. The program informs and empowers students to prevent impaired driving and help them make responsible decisions. It was presented free-of-charge to schools thanks to a prompted donation campaign at LCBO checkouts in December 2011, which raised $1.27 million by our generous customers and employees. The record $1.5 million raised in support of MADD Canada in December 2012 will further enhance alcohol education programming during the 2013–14 school year.


25 or younger?
HAVE YOUR I.D. READY
25 ans ou moins ?
AYEZ UNE PIÈCE D'IDENTITÉ EN MAIN
HAVE YOUR I.D. READY
LCBO
mike's
HARD CRANBERRY LEMONADE
black
TEQUILA MARGARITA
24 hour

7.8
MILLION

CHALLENGES IN 2012–13

322,000

TOTAL REFUSALS FOR ALL REASONS

84%

REFUSALS FOR REASONS OF AGE

Other Initiatives and Partnerships

Parent Action on Drugs: Development of a new *Parent Action Pack* commenced during the year that will provide facts, statistics and strategies to parents to keep the discussion about alcohol with their teenagers going and take action when necessary.

Best Start Resource Centre: New initiatives included LCBO support for the development and production of Ontario's first aboriginal resource about alcohol and pregnancy and a first alcohol and breastfeeding resource. A multilingual series related to alcohol and pregnancy and alcohol and breastfeeding was also developed and released.

Canada's Low-Risk Drinking Guidelines: LCBO produced and distributed 950,000 brochures, including half a million in the summer 2012 issue of *Food & Drink*, containing low-risk drinking guidelines developed by an expert scientific advisory committee and endorsed by Canadian health ministers.

LCBO also partnered with ConnexOntario to support the development of bilingual information cards to promote awareness of the free, confidential Ontario Drug and Alcohol Helpline.

PRODUCT QUALITY AND SAFETY

Before a product is put on the shelf and offered for sale, it must be tasted, tested and certified. That is the job of the LCBO's Quality Assurance (QA) laboratory, which conducts more than 500,000 laboratory tests and tastes more than 7,000 products each year. These tests confirm that the products are safe to consume, authentic and meet the standards set out in Canada's *Food and Drugs Act* and *Consumer Packaging and Labelling Act* and their related regulations. Our world-renowned laboratory meets high standards set by the Geneva-based International Organization for Standardization and is registered under ISO 9001, as well as under ISO/IEC 17025, a designation specific to chemistry laboratories.

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

23,340
TOTAL LAB SAMPLES

516,871
TOTAL LAB TESTS

11.4%
PERCENTAGE REJECTED BY LABORATORY

In 2012, the federal government announced a new *Safe Food for Canadians Act*. The Act aims to improve food safety oversight through tougher prohibitions, penalties and fines for activities that put health and safety at risk; enhance control over imports; introduce a more consistent inspection approach across all food commodities; and strengthen food traceability. To prepare for the Act's implementation, QA developed a Food Safety Plan, which combines LCBO's comprehensive food safety programs into one. Through our leadership on the National Quality Assurance Committee of the Canadian Association of Liquor Jurisdictions, QA also consulted with the Canadian Food Inspection Agency and Health Canada on the requirements of the Act as they pertain to beverage alcohol. In addition, our Customs department has been actively involved with the LCBO buying team to assign new tracking codes to all beverage alcohol products imported into Ontario. We are confident that these measures will ensure the LCBO is fully compliant with all the new requirements of the Act when it comes into force.

The QA group also developed sweetness descriptors for wines, which were introduced in 2012, based on an algorithm. This system replaced the previous numeric sugar code system. Through extensive sensory evaluation, analytical testing and consumer research, these sweetness descriptors are assigned to red and white table wines. Based on a laboratory analysis, we can now describe the taste sensation that consumers will perceive in a wine as well as list the actual sugar content.

In addition, the investigated-complaint response time by the QA department was 16 days, a 12 per cent improvement over last year.

Quality Assurance by the numbers:

- total lab samples: 23,340
- total lab tests: 516,871
- percentage rejected by laboratory: 11.4 per cent
- total units returned/customer complaints: 86,385
- number of customer complaints requiring investigation: 136

ENVIRONMENTAL SUSTAINABILITY

Full details about LCBO's initiatives to reduce its carbon footprint can be found in our latest Sustainability Report (http://www.lcbo.com/enviro). The following are some of the highlights of the report.

LCBO has an environmental committee that consists of a cross-functional team of employees who help to implement the organization's environmental strategy, review best practices and develop new ideas. LCBO's environmental strategy has five key goals:

- reducing package waste generated by LCBO sales
- increasing the amount of material diverted from landfill to recycling and reuse
- improving all aspects of environmental management
- reducing consumption of energy and utilities at LCBO facilities
- promoting reuse and conservation

Ontario Deposit Return Program (ODRP)

The sale of wine, beer and spirits results in about 400 million waste containers annually. To help protect the environment, the Ontario Deposit Return Program, also known as *Bag It Back* (www.bagitback.ca), was introduced to recycle these containers and keep them out of landfill sites. Since the program's inception in 2007, more than 1.6 billion containers have been returned, equivalent to 651,556 tonnes of glass, plastic and metal containers. LCBO also supports municipal Blue Box programs for marketing and promotional materials we produce, as well as containers that don't make it into the ODRP system. In 2012–13, we achieved a waste diversion rate of 93 per cent for the containers LCBO sells when the ODRP and municipal Blue Box program are combined.

Leadership in Lightweight Glass

LCBO is proud to be a leader in a strategy to migrate mainstream wine bottles to lightweight glass. Starting January 1, 2013, almost all wine products under $15 are required to be in 420 gram bottles, which we determined in consultation with trade groups was the reasonable maximum weight for wine bottles. Lightweight glass reduces carbon emissions and is good for the environment, but the lighter bottles and cases are also safer for our employees and customers to handle. Fully implemented, this program will result in a seven million kilogram annual waste reduction and a 20 per cent reduction in greenhouse gas generation.

Green Construction and Retrofits

New stores are built using LCBO green building specifications, which are based on the eight LEED-designated (Leadership in Energy and Environmental Design) stores in the network so far. Because of such features as automation systems, free cooling cold rooms, energy-efficient lighting and increased insulation, new-construction stores are 25–30 per cent more energy efficient than LCBO stores built five years ago. We also retrofit older stores with green technologies in certain cases.

THANKS TO THE GENEROSITY OF OUR CUSTOMERS AND EMPLOYEES,
WE RAISED A NEW RECORD TOTAL OF $6.6 MILLION FOR WORTHY CAUSES IN 2012–13.

Despite the significant expansion of the store network currently underway, we are on pace to exceed our target of a 10 per cent utilities reduction (electricity, natural gas) over five years. Utilities consumption across LCBO's facilities is tracked and analyzed to help guide our efficiency improvements, innovations in building design, and reducing the organization's energy consumption.

Sustainable Shipping

Logistics is pursuing a freight strategy aimed at reducing shipping costs, maximizing efficiency and reducing our carbon footprint. The shipping of beverage alcohol products requires great care because, as a consumable product, light, vibration and temperature fluctuations can affect product integrity. Instead of using heating units to keep temperatures constant inside containers during shipping, which requires electric or diesel generators, Logistics will be testing the use of thermal blankets placed over pallets or affixed to the interiors of shipping containers to maintain stable temperatures. Unlike fuelled generators, a thermal blanket results in zero carbon emissions.

In addition, the entire freight network is being analyzed in terms of using more ocean and rail transport and relying less on trucking product, which is the most costly and least energy-efficient mode of transport.

COMMUNITY INVOLVEMENT AND FUNDRAISING

Thanks to the generosity of our customers and employees, we raised a new record total of $6.6 million for worthy causes in 2012–13. Also setting a new record was our annual United Way Centraide campaign, which raised $2.84 million. These funds are raised through customer donations, employee donations and pledges and fundraising events. United Way Centraide uses the funds to help people move from poverty to possibility, build healthy people and strong communities and help kids realize their full potential.

Another key fundraising initiative is LCBO's in-store Donation Box Program, which runs year-round. As part of this, each December, the *Giving Back In Our Community* campaign raises critical funds for MADD Canada and four children's hospitals serving Ontario. This resulted in the collection of nearly $3 million – another new record. Beyond corporate fundraising efforts, it's common for LCBO employees to rally together to help their communities when tragedy strikes. Such was the case in the summer of 2012, when two districts collected donations from customers at the checkout to support Elliot Lake, where a mall collapse took two lives and shattered the surrounding community. The LCBO campaign collected more than $13,000 for the United Way and Elliot Lake Relief Fund.

Wines

PRODUCT TRENDS

SUMMARY

Net sales ➢ $1.303 billion
Performance to last year ➢ +$58.2 million or +4.7 per cent
Performance to plan ➢ +$4.1 million or +0.3 per cent
Margin dollars ➢ $678.9 million
Performance to last year ➢ +$31.6 million or +4.9 per cent
Performance to plan ➢ +$1.6 million or +0.2 per cent
Total inventory turns performance ➢ 6.56 from 6.52 the previous year

Wines had a strong year overall and exceeded planned sales, with New World, European and Ontario segments all performing well.

New World wines posted a solid year, with California (26.5 per cent), New Zealand (22.5 per cent) and Chile (12.7 per cent, excluding reds) exhibiting the strongest growth. While round and fruity red blends proved increasingly popular, the trend towards white wine was even stronger. Sales of New World white wine grew 7.4 per cent, led by crisp, aromatic varieties such as Sauvignon Blanc (7.9 per cent), Pinot Grigio (17.3 per cent) and Moscato (74.9 per cent), which pair well with a wide variety of foods.

European wines finished 4.6 per cent over last year, which was above plan. Italy, which accounted for 54 per cent of sales, grew four per cent. The Barbaresco/Barolo/Brunello subset was particularly strong, gaining 48 per cent. Italian whites remain dominated by Pinot Grigio, which rose five per cent and accounted for 60 per cent of all Italian white wine sales. France makes up 27 per cent of sales and, after several years of sales declines, posted a rebound of 3.3 per cent. The increase was partially due to growth in premium subsets, such as the Bordeaux blend (16.5 per cent) and Chablis (33 per cent). Excellent results were also seen from Spain and Portugal (Iberia), which are known to offer consumers exceptional quality wines at a reasonable price.

Ontario wines exceeded sales plan by 1.2 per cent, with total sales for the category up 5.4 per cent from the year before. In contrast to the trend toward whites seen in imported wines, VQA saw a pronounced shift toward reds. Red wines accounted for 58 per cent of VQA growth and significantly outpaced white wine growth, with reds up 9.7 per cent and whites up 2.3 per cent. Sales growth of reds was driven by red blends, which accounted for about a quarter of the growth, followed by Cab-Merlot and Baco Noir. A driver for premium Ontario wines has been easy-drinking red and white blends priced between $12 and $15; white blends in this price band grew 27.6 per cent, and red blends grew 25.2 per cent.

In 2013–14, New World wines are expected to grow 2.3 per cent, with continued strength from California (red blends, Pingo Grigio and Moscato), New Zealand (whites) and Chile (whites, especially Sauvignon Blanc). European wines are expected to grow three per cent; while Italy is seen growing more modestly, a planned French wine promotion in 2014 should result in double-digit sales growth. We are also planning to add more premium products to the Spain and Portugal portfolios. For Ontario, total sales growth is seen at 4.1 per cent, consistent with our corporate objective of growing sales of Ontario wine at a faster rate than imported wines.

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

Spirits & ready-to-drink

PRODUCT TRENDS

SUMMARY

Net sales ➢ $1.944 billion
Performance to last year ➢ +$45.4 million or +2.4 per cent
Performance to plan ➢ -$10.8 million or -0.6 per cent
Margin dollars ➢ $1.135 billion
Performance to last year ➢ +$26.1 million or +2.4 per cent
Performance to plan ➢ -$4.0 million or -0.4 per cent
Total inventory turns performance ➢ 9.05 from 8.81 the previous year

Sales edged closer to the $2 billion level as customers showed an increased willingness to experiment and try new flavoured spirits.

Flavoured vodkas, rums and spiced rums and whiskies accounted for almost six per cent (or $103 million) of total spirits sales, but 43 per cent of annual incremental sales value. Of the new products launched last year in spirits, just over 22 per cent were flavoured. The introduction of new dessert flavours, such as cake and whipped cream, contributed to a 10 per cent increase in flavoured vodka sales. Likewise, spiced rum, which grew 14.6 per cent, has gained seven share points in the last three years and now accounts for 21.4 per cent of total rum sales.

Imported whisky, up six per cent, fueled whisky growth. Irish whiskey and bourbon were hot topics in the media, which led to greater consumer interest. American whiskey gained 10.3 per cent while Irish whiskey rose 19.3 per cent over last year. The Whisky Shop program, which features mostly imported products, grew by an impressive 41.8 per cent as customers enjoyed buying rare products to add to collections or impress guests. Scotch sales rose 2.2 per cent.

Tequila had another exceptional year, growing to $41.7 million, or 9.3 per cent over last year. Growth continued to be driven by premium, 100 per cent agave products.

In 2013–14, the hot categories in spirits are expected to be American and Irish whiskey, gin, rum, scotch and tequila. Total category sales are expected to grow by 2.7 per cent to almost two billion dollars.

The demand for imported whisky is expected to continue and grow by 4.1 per cent, led by Irish whiskey (19 per cent), American whiskey (8.1 per cent), and scotch (3.7 per cent).

Tequila will continue to attract more consumers of fine spirits, with higher-quality, sipping-style offerings. The business is expected to grow by 7.9 per cent.

Gin is expected to continue its revival and grow by 5.4 per cent as consumers become more aware of the unique botanical infusions that add depth to cocktails. Spiced rums will drive further rum growth by 2.8 per cent.

Chris Robertson, director, Spirits

Beer & cider

PRODUCT TRENDS

SUMMARY

Net Sales ➢ $956.2 million
Performance to last year ➢ +$47.4 million or +5.2 per cent
Performance to plan ➢ +$25.4 million or +2.7 per cent
Margin dollars ➢ $374.4 million
Performance to last year ➢ +$17.8 million or +5.0 per cent
Performance to plan ➢ +$6.2 million or +1.7 per cent
Total inventory turns performance ➢ 16.91 from 17.87 the previous year

Strong sales in the spring, summer and holiday periods, as well as growth of Ontario craft beer and cider, resulted in another great year for the category.

Though overall beer sales in Ontario remained flat, LCBO saw solid increases in both domestic beer (4.7 per cent) and imported beer (3.0 per cent). Ontario craft beer, which represents 5.7 per cent of sales, continued to see excellent growth, with sales rising 33 per cent. Craft beer growth was helped by seasonal products and new breweries entering the marketplace (such as Spearhead and Kensington). Cider sales were exceptionally strong, rising 63.5 per cent, boosted by the availability of new products (such as Somersby and Alexander Keith's), which accounted for 34 per cent of sales.

With customers showing increased interest, sophistication and education in the category, as well as a willingness to explore and experiment in new flavours and styles, sales are forecast to rise 3.7 per cent in 2013–14. LCBO will add new cider offerings, particularly flavoured cider and local craft cider; introduce products from new Ontario craft breweries; and provide innovative and seasonal releases from existing Ontario craft breweries, as well as new offerings from craft breweries in the U.S. and Europe. The craft brewing trend remains firmly in place and is expected to stay that way for several years to come.

Single-serve cans remain a popular purchase, representing 40.8 per cent of total beer volume sales. However, volume growth continued to moderate at 4.6 per cent.

In the coming year, Ontario craft beer is expected to grow 21.6 per cent and cider is expected to grow 24.2 per cent. The next best area of planned growth is beer from other parts of Canada, which is expected to grow 7.6 per cent.

Tim Doiron, Beer Ambassador (Oshawa)

Vintages

PRODUCT TRENDS

SUMMARY

Net sales ➢ $434.2 million
Performance to last year ➢ +$14.6 million or +3.5 per cent
Performance to plan ➢ -$26.8 million or -5.8 per cent
Margin dollars ➢ $209.1 million
Performance to last year ➢ $5.5 million or 2.7 per cent
Performance to plan ➢ -$11.8 million or -5.3 per cent
Total inventory turns performance ➢ 3.22 from 3.23 the previous year

Challenging economic conditions in Ontario, combined with a higher retail pricing strategy, led to a reduction in inventory turns and undermined sales plans for VINTAGES, LCBO's premium wine and spirits segment.

The majority of VINTAGES year-over-year sales growth was driven by its successful retail programs. While the *Front Line Release* program generated $242.8 million (57 per cent) of sales, the greatest growth came from the *Essentials* program, which rose seven per cent to $164.8 million. Products from the United States topped all countries in sales, with California, featured in a major promotion at the end of the year, leading the way. California reds stood out, including Cabernet Sauvignon, Zinfandel and blends, growing by 5.1 per cent to $66.3 million, while California whites edged up one per cent to $19.6 million.

Beyond the United States, key areas of growth included New Zealand whites, up 10.3 per cent to $25.7 million; Spanish and Portuguese red wines, up 12 per cent to $17.7 million; and French reds, up 9.4 per cent to $52.5 million, with the regions of Burgundy, Southern France and Bordeaux ranking the most popular with customers.

For VINTAGES Ontario VQA wines, the greatest contribution to sales growth was in the $15–$20 price band, which grew at 16 per cent and contributed $1.2 million to sales growth. Consumers are showing an increased willingness to pay premium prices for great quality Ontario wines, which explains why the $25–30 price band exhibited the greatest percentage growth during the year. In terms of grape varieties, established categories, such as Chardonnay and Pinot Noir, continue to grow in Ontario. But there has been significant growth in three varietals Ontario is renowned for: Riesling (11 per cent), Baco Noir (14 per cent), and Cabernet Franc (15.5 per cent), which contributed nearly 40 per cent of the total VQA growth.

In 2013–14, the Ontario VINTAGES segment is expected to grow 8.8 per cent – 12 per cent *Front Line* and 5.3 per cent *Essentials*. Overall, VINTAGES net sales are expected to increase 3.9 per cent to $451.2 million and margin dollars are forecast to increase 4.3 per cent to $218.0 million. Growth will continue to be driven by our retail programs, with the VINTAGES bi-monthly release program growing by 7.5 per cent and the *Essentials* program forecast to grow 1.6 per cent. Consistent with VINTAGES' reputation for premium products, the focus will remain on products priced above $20.

Kathy Cannon, director, VINTAGES

$1.8
MILLION

EACH NEW STORE IS ESTIMATED TO ADD AN AVERAGE OF $1.8 MILLION IN ANNUAL REVENUES TO THE PROVINCE

The LCBO is a government operational enterprise. In the fiscal year ended March 31, 2013 (hereafter referred to as 2013), it operated a network of 634 retail stores and special-order services, offering more than 24,000 spirits, wine and beer products to consumers and licensed establishments throughout the province of Ontario. The LCBO estimates more than 1.2 billion litres of beverage alcohol products were sold in Ontario during 2013, with an estimated retail value of more than $10 billion. The LCBO accounts for more than one-third of these volume sales and half of the retail value sales.

HIGHLIGHTS[1]

REVENUES OF $4.9 BILLION MET PLAN AND EXCEEDED THE PREVIOUS YEAR'S TOTAL BY 3.9 PER CENT

NET INCOME WAS $52.7 MILLION OR 3.2 PER CENT HIGHER THAN IN THE PREVIOUS YEAR AND 0.3 PER CENT OVER PLAN

DIVIDEND TO THE PROVINCIAL GOVERNMENT ACHIEVED PLAN AT $1.7 BILLION, REFLECTING A 4.3 PER CENT IMPROVEMENT OVER THE PREVIOUS YEAR

THE LCBO RETAIL STORE NETWORK INCREASED BY 11 LOCATIONS DURING THE YEAR TO 634 STORES

	2013	vs. 2012	vs. Plan
Dividend to government	$1,700,000,000	4.3%	0.0%
Revenues	$4,893,768,000	3.9%	0.0%
Net income	$1,710,967,000	3.2%	0.3%
Number of LCBO stores	634	1.8%	-0.2%

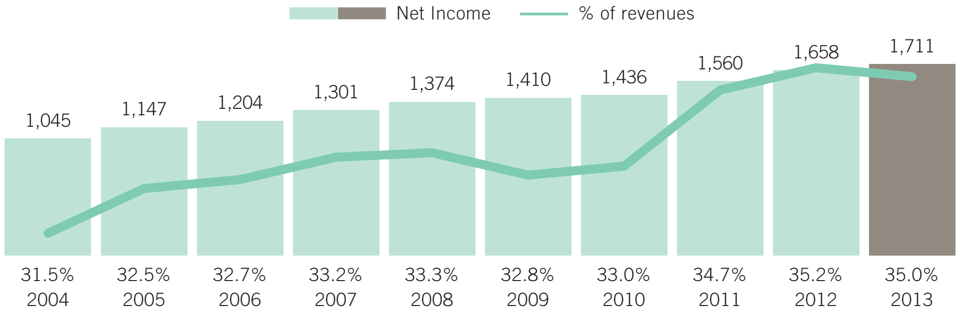
Sources: 2012–13 Audited Financial Statements and LCBO Annual Financial Plan.

1 Numbers for fiscal years 2013, 2012 and 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 2013, net income represented 35 per cent of revenues, down 20 basis points from the previous year.

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

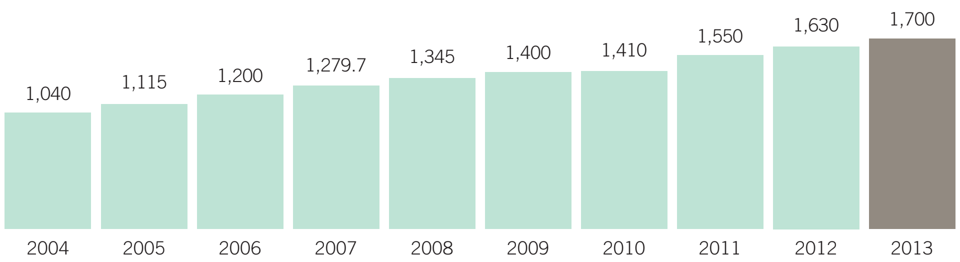


Over the past 10 years, net income has increased by $666 million or 64 per cent as a result of sales growth, improved margins and good expense control.

DIVIDEND

Excluding all taxes, the LCBO transferred $1.7 billion in dividends to the Ontario government in 2013. Compared to 2012, the amount rose by $70 million and marked the 19th straight year of increased transfers, the last 18 of which have been record years.

Dividend ($ millions)



The 2013 dividend has grown by almost three-quarters of what it totalled 10 years ago, reflecting an additional $660 million. Cumulatively, the Government of Ontario has received almost $14 billion in dividend transfers from the LCBO in the past decade alone.

PAYMENTS TO GOVERNMENT

In 2013, the LCBO paid $2.5 billion to all levels of government. The dividend, which excludes 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 $791 million in the form of excise, duty and sales taxes. Realty and leased property taxes comprised the nearly $23 million the LCBO paid to Ontario municipalities.

	2013
Total payments	$2,513,994,015
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, is later transferred back to the Government of Ontario.

LCBO payments to government

LCBO IN THE SHARED MARKETPLACE

The LCBO operates in a shared marketplace along with other retailers of beverage alcohol in the province of Ontario, including The Beer Store (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 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, 2013, there were 1,851 outlets selling alcoholic beverages in Ontario.

Number of outlets	2013	2012	2011	2010	2009
LCBO	634	623	617	611	607
LCBO Agency	219	214	217	216	216
Ontario Winery Retail	479	472	464	448	439
The Beer Store	446	442	440	440	437
On-site Brewery Retail	52	45	43	44	41
Land Border Point Duty-free	10	10	10	10	10
On-site Distillery Retail	7	5	3	3	3
Airport Duty-free	4	4	4	4	4
Total	1,851	1,815	1,798	1,776	1,757

Note: When the LCBO's 634 locations are combined with Ontario's 219 LCBO agency stores, the total market share as a percentage of the total number of outlets is approximately 46.1 per cent.

Market Share

The total Ontario beverage alcohol marketplace, which includes LCBO, TBS, WRS, 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 2013. The LCBO's market share by volume increased to 35.7 per cent from 34.7 per cent in 2012.[3]

Wine

Wine sales in Ontario grew by nearly eight million litres or 4.8 per cent in 2013. Ontario wines accounted for half of the increase, up 6.3 per cent from the previous year and representing 38.6 per cent of all wine sold in the province.

Growth was healthy in each of the three channels distributing Ontario wine products in 2013. Ontario wine sold through the LCBO (23.0 per cent share) and at Ontario winery retail stores (13.2 per cent share) each grew by just over six per cent in 2013, expanding respective market share by 30 and 20 basis points and capturing market share from imported wine. Sales through Direct Delivery – whereby products are delivered directly by Ontario wineries to licensees and duty-free operators – grew 7.2 per cent during the year, allowing the channel to maintain its market share at 2.4 per cent of provincial wine volume sales.

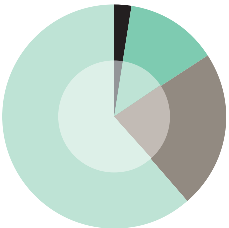
Over the past 10 years, the LCBO share of Ontario wine sales has grown 170 basis points to 59.6 per cent while WRS share has declined 240 basis points to 34.1 per cent; Direct Delivery sales account for the remaining 6.4 per cent of Ontario wine sales, up 0.8 per cent since 2004.

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


ONTARIO CRAFT BREWERS
KING
PILSNER
Hockley
Neustadt
WATERLOO
IN THE SP
STEAM WHISTLE
BREWED BY A CONNOISSEUR, NOT AN ACCOUNTANT
9 x 341 ml Beer/Bière
5% alc./vol.
DUGGAN'S BREWERY

Sales volume of imported wine increased 3.9 per cent in 2013 compared to the previous year, but declined 50 basis points in terms of market share to 61.4 per cent.

2013 Wine Market – Volume



	2013	2012
LCBO Imported	61.4%	61.9%
LCBO Ontario	23.0%	22.7%
WRS	13.2%	13.0%
DD	2.4%	2.4%

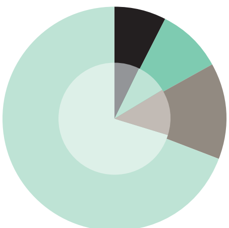
2013: Outer ring // 2012: Inner ring

ONTARIO WINES REPRESENT
39%
OF PROVINCIAL WINE VOLUME SALES

Beer

Provincial beer litre sales declined by seven million litres or 0.9 per cent compared to 2012. TBS, with 76.8 per cent of the market volume by the end of 2013, experienced a 1.7 per cent decline in sales. The LCBO, excluding wholesale sales to TBS, had total volume growth of 1.8 per cent during the year and increased market share by 60 basis points to 23.2 per cent versus 22.6 per cent last year.

2013 Beer Market – Volume



	2013	2012
TBS Domestic	69.4%	70.3%
LCBO Domestic	13.8%	13.5%
LCBO Imported	9.4%	9.1%
TBS Imported	7.4%	7.1%

2013: Outer ring // 2012: Inner ring

LCBO ACCOUNTS FOR
23%
OF BEER SOLD IN ONTARIO

EXTERNAL ENVIRONMENT

Between April 2012 and March 2013, economic conditions in Ontario were subdued.

Economic growth was modest. The province posted real GDP growth of nearly 1.5 per cent during the fiscal year, constrained primarily by a strong Canadian dollar, an uneven recovery pace in the United States – further hindered by “fiscal cliff” concerns at the end of 2012 – and a recession in Europe.

The provincial labour market was static. Ontario added over 55,000 jobs during the fiscal year, but with 80,000 more workers in the labour force, the unemployment rate averaged 7.8 per cent, essentially unchanged from a year earlier.

Retail spending in the province was soft. Sentiment among consumers was tepid in fiscal 2013 with the Conference Board of Canada’s index of consumer confidence averaging less than 70 (2002=100). This, coupled with sharply increased cross-border travel encouraged by new duty-free exemption limits effective June 2012, limited Ontario retail sector sales growth to a modest 0.8 per cent.

Despite these factors, the LCBO achieved planned revenues and exceeded those of the previous year by 3.9 per cent. Growth was driven by investment in new and relocated stores, effective marketing promotions and successful product launches. An additional Easter holiday also benefitted sales, offsetting three fewer selling days.

NET SALES[4]

Net sales at the LCBO reached $4.9 billion in 2013, advancing $182 million or 3.9 per cent over the previous year.

Channel Sales

The LCBO sells beverage alcohol through a variety of sales channels. The retail channel consists of sales to home consumers and accounts for 80.1 per cent of total sales at the LCBO. During 2013, this channel's share expanded 20 basis points as sales increased by 4.1 per cent to $3.9 billion.

Sales to agency stores, essentially an extension of the LCBO retail channel through independent local retailers serving smaller communities around Ontario, rose 3.0 per cent to $102.2 million during the year. This channel maintained its 2.1 per cent share of total LCBO sales.

LCBO sales by channel

Sales to licensed establishments such as bars and restaurants experienced a 20 basis point reduction in share to 9.6 per cent despite a 1.9 per cent increase in sales to $471 million. Licensee sales were 2.0 per cent below plan owing to the delay of the NHL season and changing consumer behaviour in the face of tight economic conditions.

LCBO sales to TBS totaled $315 million in 2013, a 3.6 per cent increase or $11 million more than in 2012. As a percentage of overall LCBO sales, this channel maintained its 6.4 per cent share.

Duty-free operators at airports and land-border points, representing 0.6 per cent of LCBO sales, registered an increase for the second consecutive year, with sales reaching $26.9 million, 3.3 per cent higher than in 2012. A spirits mark-up reduction[5] during the third quarter of 2012 supported this growth.

4 Net sales, used for internal reporting purposes, are equal to gross sales less discounts and taxes. Net sales are used to calculate retail and logistics productivity ratios.

5 Effective October 4, 2011, the mark-up on spirits products sold to duty-free operators was reduced from 50 to 30 per cent.

Direct Delivery sales, based on remittances by wineries to the LCBO, posted the highest overall growth in 2013, rising 8.2 per cent over the prior year to $54.6 million. This channel accounts for 1.1 per cent of total LCBO sales.

Regional Sales

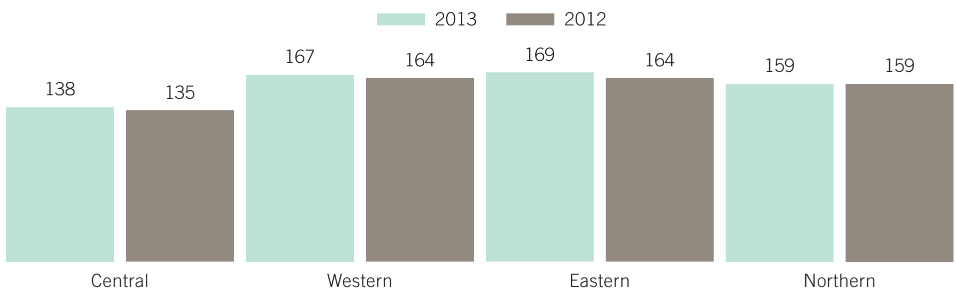
The LCBO's four geographically-based retail regions each achieved positive sales gains over the previous year. Store network investment activity – new stores, relocations and expansions – contributed significantly to this result.

Region	Store count	2013	vs. 2012
Central	138	$1,584,493,801	3.5%
Western	167	$1,060,833,663	3.5%
Eastern	169	$1,003,143,247	4.2%
Northern	159	$596,764,149	3.9%
Other*	1	$103,014,872	4.7%
Total	634	$4,348,249,732	3.7%

*Other represents the GTA Licensee Service Centre depot located in Mississauga.

LCBO sales by region

Number of locations



The Central Region accounts for the largest share of LCBO sales totalling almost $1.6 billion. In 2013, this region contributed $53 million to net sales improvement. This performance was supported in part by eight new store projects.

The Eastern and Western Regions each represented $1 billion in LCBO net sales and posted respective net sales increases of $40 million and $36 million during the year. Each region benefitted from nine new, relocated or expanded locations.

Stores in the Northern Region saw their sales rise by $22 million in 2013. There were three relocations in this region during 2013.

Same Versus Non-same Store Sales

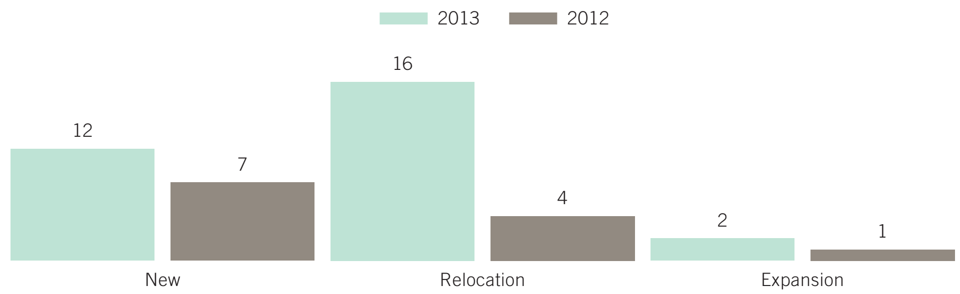
Same store sales growth is a commonly used metric in the retail industry and encompasses sales at all stores that have been in the same location and format for one full year, thus excluding all stores that were added, moved, substantially renovated and closed during the year (i.e., non-same). To calculate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

In 2013, same stores registered a 1.6 per cent increase in sales over 2012 and represented $3.9 billion in retail sales. These net sales results were 0.4 per cent below plan. Non-same stores, which included 12 new stores, 16 relocations and two expansions, experienced sales growth of 37.4 per cent. Combined net sales at these locations were $338 million and met plan.

Same versus non-same store sales growth in 2013

Same versus non-same store sales share in 2013

Store investment activity (number of projects)




VINTAGES
Australia

Category Sales[6]

Spirits accounted for the largest portion of LCBO sales at $1.9 billion or 41.9 per cent of the total in 2013. This category's share declined 50 basis points as sales improved 2.4 per cent compared to 2012, coming in 0.6 per cent below plan.

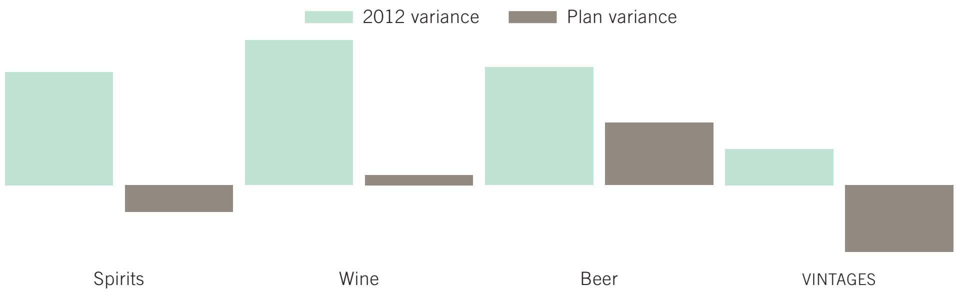
Wine (excluding VINTAGES) remains the second-largest category for sales at $1.3 billion, representing 28.1 per cent of net sales, 30 basis points higher than last year. Wines increased 4.7 per cent versus the prior year and exceeded plan by 0.3 per cent.

Beer sales led growth, up 5.2 per cent over 2012 and 2.7 per cent better than plan to $961 million. This category increased its share of sales by 30 basis points to 20.7 per cent.

VINTAGES share of total net sales slipped by 10 basis points to 9.3 per cent with $434 million in sales. Sales results for the category advanced 3.5 per cent from last year, but fell short of plan by 5.8 per cent.

Sales share by category

Category sales performance



OPERATING RESULTS

In 2013, 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

6 Analysis of category sales examines performance by LCBO buyer group only and excludes Private Ordering and other sales.

Margins

Total LCBO gross margin reached $2.5 billion in 2013, representing an increase of 4.0 per cent compared to the previous year and 0.1 per cent over plan. As a percentage of revenues, gross margin improved 10 basis points to 50.3 per cent.

From every $1 in sales, the major categories generated the following margins in 2013:

Spirits	$0.58
Wine	$0.52
VINTAGES	$0.48
Beer	$0.39

Spirits accounted for 47.3 per cent or $1.1 billion of margin. Compared to 2012, the spirits margin share declined by 50 basis points but matched plan. Spirits margin performance was impacted by pricing structure decisions. The mark-up on spirits sold at land-based duty-free stores and LCBO stores was reduced effective October 10, 2011. At the LCBO, the 1.3 percentage point reduction resulted in an estimated loss in margin totalling $3.9 million in fiscal 2013. The mark-up at duty-free locations was reduced from 50 per cent to 30 per cent of landed cost, leading to an estimated loss of $1.7 million during the year. Additionally, the continuance of the volume levy reduction applied to spirits restrained margin by an additional $7 million in 2013.

Wine experienced a 20 basis point increase in margin share during 2013 to 28.3 per cent of total LCBO margin. This category grew margin by 4.9 per cent over 2012 to $679 million, 0.2 per cent more than plan.

Margins from beer totalled $377 million in 2013. At 15.7 per cent of total margin, beer surpassed plan and last year category share respectively by 30 and 20 basis points.

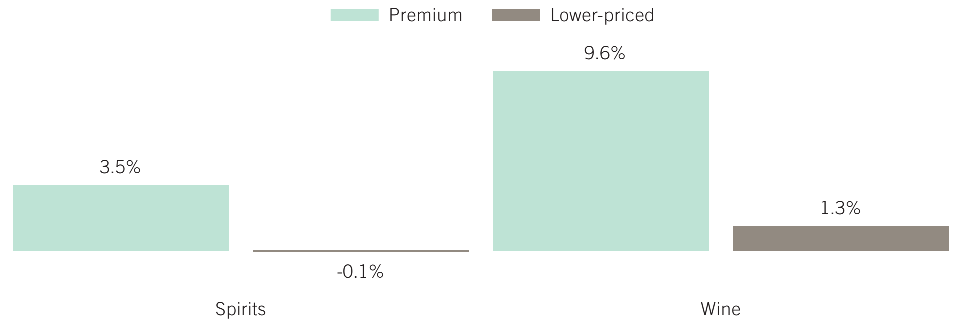
VINTAGES margin share performance reflected the category's lower sales result, slipping 10 basis points from 2012 to 8.7 per cent. Margin, at $209 million, was 50 basis points lower than plan.

Margin share by category

Spirits	47%
Wine	28%
Beer	16%
VINTAGES	9%

The trend of premium product sales growth exceeding that of lower-priced products continued in 2013, supporting absolute margin improvement.

Lower-priced versus premium product volume sales growth



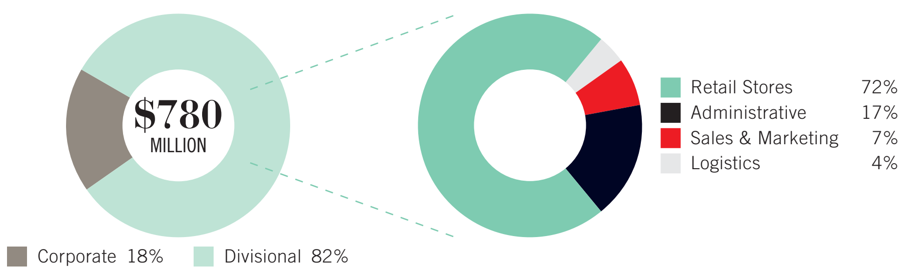
Volume sales of premium spirits, with prices of at least $30 for a 750 mL bottle, rose 3.5 per cent year-over-year compared to essentially flat sales growth of similar-sized, lower-priced spirits products, down 0.1 per cent. Premium wines, retailing for $15 or more for a 750 mL bottle, experienced a 9.6 per cent lift in volume, while lower-priced wine products grew at a 1.3 per cent pace. 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.

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 other comprehensive income.

LCBO held total expenses below plan by $1.3 million in 2013. At $780 million, expenses were 5.3 per cent more compared to the previous year.

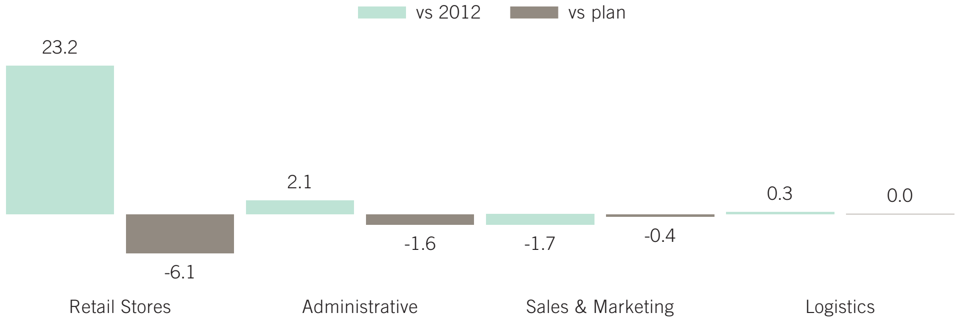
Total expenses **Divisional expenses**



Divisional expenses, representing approximately 82 per cent of total expenses, were 3.9 per cent or $24 million higher than in 2012. Retail stores accounted for 96 per cent of the increased spending in 2013, owing primarily to retail network expansion through new and relocated stores.

Effective expense management and cost efficiencies meant all divisions spent below or at planned levels during the year.

Expense variance ($millions)



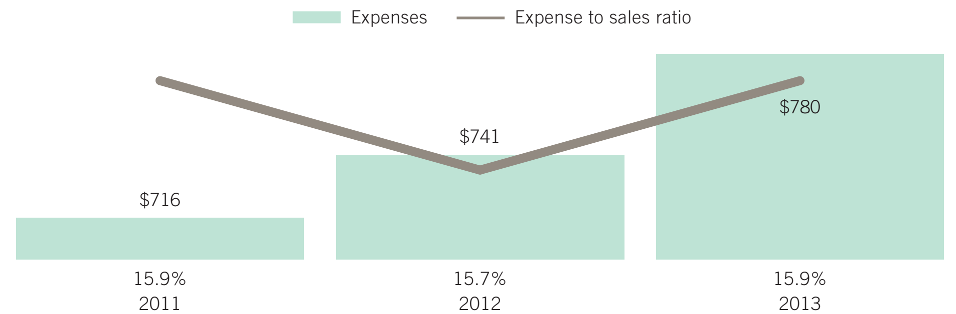
Corporate expenses, representing 18 per cent of the $780 million expense total, exceeded the 2012 amount by 12.6 per cent and plan by 5.2 per cent. This variance was primarily attributable to actuarial charges for employee benefits obligations, which came in $11 million more than last year and almost $10 million over plan[7]. Excluding these charges, corporate expenses would have been 2.4 per cent under plan and 3.6 per cent more than 2012.

Increased debit/credit charges and expenses related to the gift card program also contributed significantly to the variance compared to the previous year. Environmental initiatives – costs related to the Ontario Deposit Return Program – and new charges incurred for LCBO head office redevelopment also pushed expenses higher. Depreciation, the largest component of corporate expenses at almost 37 per cent, was 0.5 per cent over last year's figure, but 7.7 per cent less than plan.

Expense to Sales Ratio

In 2013, the ratio of expenses to sales was 15.9 per cent, 10 basis points better than plan but 20 basis points more than the prior year.

Expense trend ($ millions)



7 For further details on employee benefits obligation expense, please refer to Note 11 on pages 89 to 91.


CHILE
SANTA CAROLINA
CHILE
CAUTION
NO RIDING

Inventory

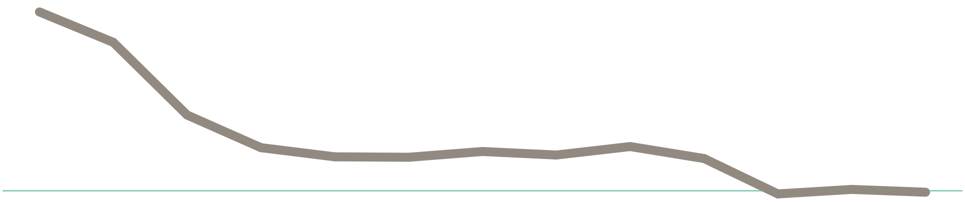
Total inventory turns remained at the same level as in the past two years at 7.6, but were slightly better than planned turns of 7.5.

By category, there were improvements in Spirits and Wine turns during 2013, with respective increases of 8.8 to 9.1 and 6.5 to 6.6. VINTAGES held firm at 3.2 turns. Beer turns, on the other hand, were down from 17.3 a year earlier to 16.5.

Retail and warehouse inventory turns were the same as last year, at 13.2 and 13.3 respectively. While retail turns were slightly below plan of 13.3, warehouse turns exceeded the target of 13.0.

Average net inventory investment during 2013 was negative $887,000[8]; $1.8 million lower than the previous year's average. Since 2001, LCBO net investment in inventory has fallen by over $110 million.

Net inventory investment ($ millions)



2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
$112	$93	$47	$27	$21	$21	$25	$22	$28	$20	$(2)	$1	$(1)

Financial and Operating Ratios

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

In 2013, net income was 35.0 per cent of revenues, exceeding plan of 34.9 per cent, but lower than 35.2 per cent last year.

Gross margin as a percentage of revenues was 50.3 per cent for the year, improving from target and the previous year's ratio of 50.2 per cent.

Selling, general and administrative expenses came in at 15.9 per cent of revenues, 20 basis points higher than last year's ratio, but 10 basis points better than plan.

8 A negative value for net inventory investment means that product was sold to consumers before the supplier was paid.

Productivity Ratios

To help track expenses and to identify areas of focus, the LCBO sets targets for many productivity ratios each year. For example, the store expenses-to-sales ratio shows what percentage of net sales is needed to pay retail expenses such as salaries, store rents and other expenses.

Retail productivity highlights

	2013	Plan	2012	2011
Store expenses as a percentage of sales	10.6%	10.7%	10.4%	10.5%
Store expenses per unit sold	$1.10	$1.08	$1.06	$1.05
Store salary per unit sold	$0.74	$0.73	$0.72	$0.72
Unit sales per hour	43.1	45.1	43.3	42.0
Sales per customer	$34.39	$34.23	$33.66	$32.91
Sales per square foot	$1,809	$1,805	$1,850	$1,832

Expansion of the store network through the addition of new stores, relocations and selling space had a significant impact on retail productivity performance during the year. Increases to salary and rent-related expenses in particular affected the results as the impact of such expenses are immediate, while sales growth develops over time. As these stores become more efficient and grow sales within their particular market, the overall ratio performance is expected to improve.

In 2013, store expenses as a percentage of sales were 10.6 per cent, 10 basis points better than plan and 20 basis points more than last year.

For every unit sold during the year, the average expense per store was $1.10, four cents higher than the previous year and two cents above target. Store salaries are responsible for $0.74, up from $0.72 last year and one cent higher than plan.

During 2013, customers spent on average $0.73 more per transaction than they did in 2012. The $34.39 per customer sale reflects an all-time high and surpassed per transaction expectations for the year by $0.16.

The additional selling space in newly-opened stores was a leading contributor to a decline in sales per square foot. This was expected, however, and reflected in the plan. The ratio declined to $1,809 per square foot in 2013, $41 lower than last year and $4 better than target.

Logistics productivity highlights

	2013	Plan	2012	2011
Warehouse cost per case	$1.26	$1.29	$1.25	$1.24
Warehouse salary cost per case	$1.03	$1.07	$1.03	$1.02
Distribution cases per hour	75	71	73	73

Logistics productivity ratios outperformed plan in 2013. An increased focus on health and safety resulted in a marked improvement in throughput as well as reducing labour and WSIB costs during the year. In addition, capital improvements made in 2012 contributed to gains in productivity.

Total warehouse cost per case, including freight, was $1.26 during the year compared to $1.25 last year, beating target by $0.03 per case. Salaries made up the largest portion of the total cost per case at $1.03 for the year, matching last year but four cents lower than plan.

Distribution cases per paid hour improved in 2013 to 75, two cases more than last year and four cases more than plan.

CAPITAL EXPENDITURES

The LCBO remained committed to investing in its retail stores during 2013. The organization allocated 70 per cent of its capital towards retail network enhancement and expansion. Total capital expenditures rose 17.4 per cent compared to the previous year.

($ thousands)	2013	2012	2011
Retail	$56,597	$49,148	$36,185
Retail Store Development and Real Estate	$410	$552	$629
Information Technology	$9,002	$8,145	$10,916
Logistics	$8,792	$8,186	$5,130
Marketing and Customer Insights	$1,601	$266	$180
Other administrative divisions	$4,915	$2,961	$424
Total capital expenditures	$81,317	$69,259	$53,465

ENTERPRISE RISK MANAGEMENT

The LCBO has implemented an Enterprise Risk Management (ERM) program consisting of a risk framework, an annual ERM assessment, continuous monitoring of key risks and semi-annual reporting to the Audit Committee of the Board of Directors. In 2013, 26 risks that could negatively impact the LCBO's performance were identified and ranked. In addition, responsibility for developing and implementing risk mitigation strategies was assigned to senior management.

Three risks considered key by the LCBO are:

1. Government policy and legislative change
2. Talent/ succession management and compensation competiveness
3. Economic volatility

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 moves to liberalize the existing sales channels, carefully balancing its roles as a crown 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.

Talent/succession Management and Compensation Competiveness

The significant number of management staff reaching retirement eligibility within the next five years 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 continue to present a challenge, particularly given LCBO salary levels and government compensation constraints. This is particularly the case for management in our larger stores where bargaining unit compensation increases over the past four years have gotten closer, and sometimes exceeded, compensation paid to management. 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 retiring senior-level managers.

Long-term Economic Volatility – 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 volatility, coupled with continued pressure to maximize revenues while reducing costs, could negatively impact LCBO's long-term business objectives and undermine customer service levels. Management regularly monitors global and domestic economic conditions and estimates their impact on LCBO's operations, factoring in these estimates into its strategic and financial plans with a view to achieving excellence in customer experience as well as operational efficiency.

LOOKING AHEAD

LCBO revenues are planned to surpass $5.0 billion for the first time ever in fiscal 2014. The achievement will represent a 3.1 per cent increase over 2013.

Gross margin expectations mirror that for revenues; a 3.0 per cent planned rise in gross margin equates to $2.5 billion in 2014. As a percentage of revenues, margin is expected to be 50.2 per cent.

Additional net income of $41 million is expected for the coming year, representing 2.4 per cent growth on the $1.7 billion achieved in 2013. This will allow for the 20th consecutive increase in the dividend transferred to the Government of Ontario by the LCBO. The total dividend forecast for 2014 is $1.74 billion, $40 million more than the amount transferred this year, reflecting a 2.4 per cent increase.

80%

IN THE LAST FIVE YEARS, MORE THAN 80 PER CENT OF STORE CAPITAL PROJECTS HAVE EXCEEDED THEIR PERFORMANCE TARGETS

NON-IFRS FINANCIAL MEASURES

The Board reports its financial results in accordance with International Financial Reporting Standards ("IFRS"). However, the Board used other non-IFRS financial measures to assist the management in evaluating the Board's operating performance against its expectations and other companies in the retail industry, as well as, identifying underlying trends. Non-IFRS financial measures include same store sales, which is the metric used by management, and most commonly used in the retail industry, to compare retail sales growth in a more consistent manner across the industry. Same store sales encompass sales at all stores that have been in the same location and format for one full year, thus excluding all stores that were added, moved, substantially renovated and closed during the year (i.e. non-same). For the year ended March 31, 2013, there were no changes to the Board's non-IFRS financial measures.

CRITICAL ACCOUNTING ESTIMATES

Non-pension employee benefits

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

The Board determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate, the Board 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

The significant assumptions used are as follows:

	CSC & ECTB*		WCB**		LTIP***	
	2013	2012	2013	2012	2013	2012
Discount rate to determine the benefit obligation	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Discount rate to determine the benefit cost	3.50%	4.50%	3.50%	4.50%	3.50%	4.50%
Salary rate increase	1.00% for 2 years and 3.00% thereafter	3.00%	4.00%	4.00%	2.00%	2.50%
Health cost rate increase	n/a	n/a	7.50% per annum reducing to 4.50% in 2023	6.50%	7.50% per annum reducing to 4.50% in 2023	8.00%

* contractual severance payments & executive compensation time banking
** unfunded workers compensation obligation
*** long-term income protection

Sensitivity analysis

An increase of 0.5 per cent in the *discount rate to determine the benefit obligation* would decrease the benefit obligation by $4.2 million. A decrease of 0.5 per cent in the *discount rate to determine the benefit obligation* would increase the benefit obligations by $4.5 million.

An increase of 0.5 per cent in the *discount rate to determine the benefit cost* would decrease the benefit cost by $2.1 million. A decrease of 0.5 per cent in the *discount rate to determine the benefit cost* would increase the benefit cost by $2.3 million.

An increase of 1 per cent in the *health cost rate increase* would increase the benefit obligations by $ 1.3 million. A decrease of 1 per cent in the *health cost rate increase* would decrease the benefit obligations by $1.2 million.

NEW ACCOUNTING PRONOUNCEMENTS

Employee Benefits

The International Accounting Standards Board (the "IASB") has issued an amendment to IAS 19, "Employee Benefits" ("IAS 19"), which will revise the presentation of changes in assets and liabilities arising from defined benefit plans, enhance the disclosures for defined benefit plans and clarify the classification of employee benefits benefit plans. The IAS19 amendment is effective for annual periods beginning on or after January 1, 2013. The Board is assessing the potential impact of this amendment but does not expect the implementation to have a significant impact on the Board's disclosures.

Financial Instruments

In 2011, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures" and IAS 32, "Financial Instruments: Presentation." These amendments are effective for annual periods beginning on or after January 1, 2013 and January 1, 2014, respectively. The Board does not expect the implementation to have a significant impact on the Board's disclosures.

In 2010, the IASB issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 and must be applied retrospectively. The Board is assessing the potential impact of this standard, but does not expect the implementation to have a significant impact on the Board's disclosure.

Fair Value Measurement

The IASB has issued IFRS 13, "Fair Value Measurement" ("IFRS 13"), which defines fair value, sets out in a single IFRS a framework for measuring fair value and provides specific disclosures for fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The Board is assessing the potential impact of this standard, but does not expect the implementation to have a significant impact on the Board's disclosure.

Presentation of Financial Statements

The IASB issued amendments to IAS 1, "Presentation of Financial Statements" which requires items within OCI that will be reclassified to profit and loss to be grouped separately from those that will not. The IAS1 amendment is effective for annual periods beginning on or after January 1, 2013.The Board is assessing the potential impact of this standard, but does not expect the implementation to have a significant impact on the Board's disclosure.

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, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, composed of five 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:

Per **N. Robert Peter**, President & Chief Executive Officer

Rob Dutton, Senior Vice President, Finance & Administration, and Chief Financial Officer
June 27, 2013

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, 2013, 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, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Gary Peall, CPA, CA, LPA, Acting Auditor General
Toronto, Ontario
June 27, 2013

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(thousands of Canadian dollars)

Years ended March 31,	Note	2013	2012
Revenue	16	4,893,768	4,711,550
Cost of Sales	7	(2,433,615)	(2,346,690)
Gross margin		2,460,153	2,364,860
Other income		33,712	37,276
Selling, general and administrative expenses	17	(780,418)	(740,988)
Income from operations		1,713,447	1,661,148
Finance income	19	1,344	1,791
Finance costs	11, 19	(3,824)	(4,705)
Net income		1,710,967	1,658,234
Other comprehensive income (loss):			
Actuarial gains/(losses) on non-pension employee benefits	11	3,055	(4,030)
Total other comprehensive income (loss)		3,055	(4,030)
Total comprehensive income		1,714,022	1,654,204

See accompanying notes to the financial statements.

STATEMENT OF FINANCIAL POSITION

(thousands of Canadian dollars)

	Note	March 31 2013	March 31 2012
ASSETS			
Current Assets			
Cash and cash equivalents	4	317,423	249,392
Trade and other receivables	5	41,521	32,023
Inventories		378,937	356,944
Prepaid expenses		13,069	30,270
Total current assets		750,950	668,629
Property, plant and equipment and intangible assets	7	340,210	311,622
Total Assets		1,091,160	980,251
LIABILITIES & EQUITY			
Current Liabilities			
Trade and other payables	8	561,119	471,439
Provisions	10	18,628	17,650
Current portion of non-pension employee benefits	11	10,202	12,017
Total current liabilities		589,949	501,106
Non-pension employee benefits	11	107,622	99,578
Total Liabilities		697,571	600,684
Equity			
Retained earnings		396,265	385,298
Accumulated other comprehensive income		(2,676)	(5,731)
Total Equity		393,589	379,567
Total Liabilities and Equity		1,091,160	980,251

See accompanying notes to the financial statements.

Approved By:

Chair

Board Member, Chair, Audit Committee

STATEMENT OF CHANGES IN EQUITY

(thousands of Canadian dollars)

	Retained Earnings	Accumulated other comprehensive income	Total Equity
Balance at April 1, 2012	385,298	(5,731)	379,567
Net income	1,710,967	–	1,710,967
Other comprehensive income (loss)	–	3,055	3,055
Dividends paid to province	(1,700,000)	–	(1,700,000)
Balance at March 31, 2013	396,265	(2,676)	393,589
Balance at April 1, 2011	357,064	(1,701)	355,363
Net income	1,658,234	–	1,658,234
Other comprehensive income (loss)	–	(4,030)	(4,030)
Dividends paid to province	(1,630,000)	–	(1,630,000)
Balance at March 31, 2012	385,298	(5,731)	379,567

STATEMENT OF CASH FLOWS

(thousands of Canadian dollars)

Years ended March 31,	2013	2012
Operating activities:		
Net income	1,710,967	1,658,234
Depreciation and amortization	51,126	50,870
Gain on sale of property, plant and equipment and intangible assets	(95)	(649)
	51,031	50,221
Change in non-cash balances related to operations:		
Trade and other receivables	(9,498)	(4,714)
Inventories	(21,993)	15,327
Prepaids	17,201	(3,307)
Trade and other payables	89,680	6,032
Provisions	978	709
Non-pension employee benefit expenses, net of payments	9,284	860
	85,652	14,907
Net cash provided by operating activities	1,847,650	1,723,362
Investing activities:		
Purchase of property, plant and equipment and intangible assets	(81,317)	(69,259)
Proceeds from sale of property, plant and equipment	1,698	3,229
Net cash used in investing activities	(79,619)	(66,030)
Financing activities:		
Dividend paid to the Province of Ontario	(1,700,000)	(1,630,000)
Net cash used in financing activities	(1,700,000)	(1,630,000)
Increase in cash	68,031	27,332
Cash and cash equivalents, beginning of year	249,392	222,060
Cash and cash equivalents, end of year	317,423	249,392

(thousands of Canadian dollars)

For the years ended March 31, 2013 and 2012

1. GENERAL INFORMATION

The Liquor Control Board of Ontario ("the Board") is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The Board 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, the Board is exempt from income taxes. The Board transfers most of its earnings to the Province's Consolidated Revenue Fund in the form of a dividend.

The Board'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$"), the Board's functional currency.

The audited financial statements were approved by the Board of Directors and authorized for issue on June 27, 2013.

b. Basis of presentation

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

Use of estimates and judgments

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

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

i. Non-pension employee benefits

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

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

ii. Depreciation and amortization

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

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

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

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

iv. Allowance for impairment

The Board makes an assessment of whether trade and other receivables are collectible from customers. Accordingly, the Board 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

The Board makes estimates on the warehouse handling costs that directly relate to bringing inventories to their selling location and condition. Accordingly, the Board 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

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

vii. Provisions

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

viii. Ontario Deposit Return Program unredeemed container deposit income

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

ix. Unredeemed gift cards

The Board has judged that not all gift cards will be redeemed 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 and 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, 2013 financial statements as their effective dates fall in periods beginning subsequent to the current financial reporting period.

(thousands of Canadian dollars)

Proposed standards and amendments	Description	Previous standard	Effective for LCBO reporting periods beginning on
IFRS 9 – Financial Instruments	Initially issued in November 2009 to address the classification and measurement of financial assets. Additional guidance issued in October 2010 on the classification and measurement of financial liabilities.	IAS 39 – Financial Instruments: Recognition and Measurement	April 1, 2015
IFRS 7 – Financial Instruments: Disclosures; IAS 32 – Financial Instruments: Presentation	Amended in December 2011 to clarify existing requirements for offsetting financial instruments, and to require new disclosures on the effect of offsetting arrangements on an entity's financial position.	IFRS 7 – Financial Instruments: Disclosures; IAS 32 – Financial Instruments: Presentation	IFRS 7 – April 1, 2013; IAS 32 – April 1, 2014
IFRS 13 – Fair Value Measurement	In May 2011, the IASB issued IFRS 13, which sets out a single framework for measuring fair value and disclosure requirements surrounding the inputs and assumptions used in determining fair value.	Various – no direct replacement	April 1, 2013
IAS 1 – Presentation of Financial Statements	In June 2011, the IASB issued an amendment to IAS 1 which adds a requirement to present items in OCI grouped on the basis of whether or not they may subsequently be reclassified to profit and loss.	IAS 1 – Presentation of Financial Statements	April 1, 2013
IAS 19 – Employee Benefits	In June 2011, the IASB issued an amendment to IAS 19 which will revise the presentation of changes in assets and liabilities arising from defined benefit plans, enhance the disclosures for defined benefit plans and clarify the classification of employee benefits.	IAS 19 – Employee Benefits	April 1, 2013

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

3. SIGNIFICANT ACCOUNTING POLICIES

a. Cash and 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.

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

b. Trade and other receivables

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

Account receivables are net of an allowance for impairment where there is objective evidence that the Board 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. In accordance with the Board's purchase order agreement, the Board may offset any amounts that are payable by a supplier against amounts that are payable to a supplier. The resulting disclosures are presented in Note 5.

c. Inventories

The Board 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. The Board estimates net realizable value as the amount that inventories are expected to be sold at, less the estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable. The resulting disclosures are presented in Note 6.

d. Property, plant and equipment

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

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

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

➢ Buildings	5–40 years
➢ Leasehold Improvements	5–20 years
➢ Furniture and Equipment	5–20 years
➢ Computer Equipment	3 years or 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 the Board, and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in the Statement of income and comprehensive income as incurred.

The resulting disclosures are presented in Note 7.

e. Intangible assets

i. Acquired intangible assets

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

The estimated useful lives for intangible assets are as follows:

- Computer software — 3 years or 4 years

The resulting disclosures are presented in Note 7.

ii. Internally generated intangible assets – research & development costs

Research costs are expensed as incurred.

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

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

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

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

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

g. Trade and other payables

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

h. Provisions

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

i. Financial instruments

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

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

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

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

1 Derivatives are included in Trade and other payables in the Statement of financial position.

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 the Board manages together and has a recent actual pattern of short-term profit-making. Derivatives are also categorized as held for trading.

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

Available for sale ("AFS")

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

Loans and receivables

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

ii. Financial liabilities

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

iii. Derivatives

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

iv. Embedded derivatives

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

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

j. Revenue recognition

Revenue consists of the fair value of consideration received or receivable for the sale of goods in the ordinary course of the Board'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. The Board 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® "program" is recognized in the period in which it is earned, in accordance with the terms of the contract. The program is split into two distinct components: (1) base and (2) bonus. The associated costs of the base are accounted for as a reduction to revenues in the Statement of income and comprehensive income. The associated income net of costs of the Bonus is accounted for as a reduction to cost of sales in the Statement of income and comprehensive income.

k. Other income

i. Services rendered

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

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

ii. Unredeemed ODRP container deposits

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

l. Vendor allowances

The Board 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. The Board 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 the Board for assets or services delivered to the vendor or reimbursement of selling costs incurred to promote the vendor's product. The consideration is reflected as a reduction in selling, general and administrative expenses.

m. Employee benefits

i. Short-term employee benefits

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

ii. Pension Benefit Costs

The Board 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 the Board'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 the Board.

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

iii. Non-pension employee benefits

Employee benefits other than those provided by the province include accrued contractual severance payments ("CSC"), executive compensation time banking ("ECTB"), unfunded workers compensation obligation ("WCB") and benefits extended to employees on long-term income protection ("LTIP"). These plans provide benefits to employees when they are no longer providing active service. The Board accrues these employee benefits over the periods in which the employees earn the benefits or upon disability. 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 and LTIP 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.

The Board 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 and WCB benefits are recognized in the Statement of income and comprehensive income in the period in which they arise, since LTIP and WCB benefits are defined as Other Long-Term Employee Benefits and a simplified accounting methodology for these benefits does not recognize remeasurements in other comprehensive income. The resulting disclosures are presented in Note 11.

n. Finance income

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

o. Finance costs

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

p. Leasing

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

(thousands of Canadian dollars)

q. Foreign currencies

Transactions in currencies other than the Board'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 are retranslated at the rates prevailing at that date. 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, 2013	March 31, 2012
Cash on hand and in transit	98,752	88,062
Term deposits	–	17,995
Bankers' acceptances	218,671	143,335
	317,423	249,392

5. TRADE AND OTHER RECEIVABLES

	March 31, 2013	March 31, 2012
Trade and other receivables	41,962	32,290
Allowance for impairment	(441)	(267)
	41,521	32,023

Trade and other receivables arise primarily from sales billed to independent businesses, agents and other debtors. As at March 31, 2013, approximately 69 per cent (2012 – 68 per cent) of the Board's accounts receivable is due from one customer. Almost all of the Board'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 the Board considered adequate to absorb credit losses. Subsequent recoveries of receivables previously provisioned are credited to the Statement of income and comprehensive income.

6. INVENTORIES

All inventories are held for sale. The cost of inventories sold and recognized as a cost of sales during the year ended March 31, 2013 was $2,434 million (2012 – $2,347 million). There were no significant write-downs or reversal of previous write-downs to net realizable value during the year ended March 31, 2013 (2012 – nil).

(thousands of Canadian dollars)

7. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

Net book value of property, plant & equipment and intangible assets	March 31, 2013	March 31, 2012
Land	12,647	12,816
Buildings	105,016	106,289
Furniture and equipment	27,661	23,645
Leasehold improvements	132,374	110,646
Computer equipment	15,533	12,160
Computer software	17,676	22,340
Construction/software in progress	29,303	23,726
	340,210	311,622

a. Property, plant & equipment and intangible assets

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

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

(thousands of Canadian dollars)

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

(thousands of Canadian dollars)

Property, plant & equipment and intangible assets continuity for the year ended March 31, 2012

	Land	Buildings
Cost		
Balance at April 1, 2011	12,816	369,889
Additions	–	10,670
Transfers among categories	–	–
Net additions	–	10,670
Disposals/Retirements	–	(2,223)
Balance at March 31, 2012	12,816	378,336
Accumulated depreciation and impairment		
Balance at April 1, 2011	–	264,195
Depreciation for the year	–	9,487
Impairment losses	–	–
Transfers among categories	–	–
Disposals/Retirements	–	(1,635)
Balance at March 31, 2012	–	272,047
Net book value at March 31, 2012	12,816	106,289

(thousands of Canadian dollars)

Furniture and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
93,692	321,804	56,766	93,877	9,150	957,994
11,706	18,506	8,035	5,766	68,218	122,901
–	–	–	–	(53,642)	(53,642)
11,706	18,506	8,035	5,766	14,576	69,259
(6,207)	(1,792)	(27,404)	(41,061)	–	(78,687)
99,191	338,518	37,397	58,582	23,726	948,566
72,652	210,363	45,968	69,003	–	662,181
7,895	19,296	6,220	8,807	–	51,705
(835)	–	–	–	–	(835)
–	–	–	–	–	–
(4,166)	(1,787)	(26,951)	(41,568)	–	(76,107)
75,546	227,872	25,237	36,242	–	636,944
23,645	110,646	12,160	22,340	23,726	311,622

(thousands of Canadian dollars)

8. TRADE AND OTHER PAYABLES

	March 31, 2013	March 31, 2012
Trade payables	281,454	234,631
Accruals and other payables	279,665	236,808
	561,119	471,439

9. OPERATING LEASE ARRANGEMENT

The Board enters into operating leases in the ordinary course of business, primarily for retail stores. Operating lease payments in 2013 were $64.5 million (2012 – $59.3 million). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	March 31, 2013
Not later than one year	71,455
Later than one year and not later than five years	270,223
Later than five years	487,197
	828,875

10. PROVISIONS

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

Provisions continuity for the year ended March 31, 2013

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

Provisions continuity for the year ended March 31, 2012

	Short term employee benefits	Other	Total
Balance at April 1, 2011	16,581	360	16,941
Charges recognized during the year	17,305	345	17,650
Utilization of provision	(16,581)	(360)	(16,941)
Balance at March 31, 2012	17,305	345	17,650

(thousands of Canadian dollars)

Disclosed as:	March 31, 2013	March 31, 2012
Current	18,628	17,650
Non-current	–	–
	18,628	17,650

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

11. EMPLOYEE BENEFITS

a. Pension plan

For the year ended March 31, 2013, the expense was $26.5 million (2012 – $24.7 million) and is included in selling, general and administrative expenses in the Statement of income and comprehensive income.

b. Non-pension employee benefits

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

The Board measures its benefit obligation for accounting purposes as at March 31st of each year. The annual actuarial valuation for the benefit obligation was performed as at March 31, 2013.

i. Statement of financial position

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

	March 31, 2013	March 31, 2012
Current	10,202	12,017
Non-current	107,622	99,578
Total non-pension employee benefit obligation	117,824	111,595

(thousands of Canadian dollars)

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, 2013	March 31, 2012
Current service cost	9,008	7,073
Actuarial losses on non-vesting benefits	10,115	498
Total costs included in expenses	19,123	7,571
Interest costs	3,824	4,705
Total costs included in finance costs	3,824	4,705
Total non-pension employee benefit expenses	22,947	12,276

iii. Other comprehensive income

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

	March 31, 2013	March 31, 2012
Opening cumulative actuarial losses recognized	(5,731)	(1,701)
Net actuarial gains/(losses) recognized	3,055	(4,030)
Closing cumulative actuarial losses recognized	(2,676)	(5,731)

iv. Movement in the obligation

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

	March 31, 2013	March 31, 2012
Opening benefit obligation	111,595	106,705
Current service cost	9,008	7,073
Interest on obligation	3,824	4,705
Actuarial losses	7,060	4,528
Benefits paid	(13,663)	(11,416)
Closing benefit obligation	117,824	111,595

(thousands of Canadian dollars)

v. Significant assumptions

The significant assumptions used are as follows:

	CSC & ECTB*		WCB**		LTIP***	
	2013	2012	2013	2012	2013	2012
Discount rate to determine the benefit obligation	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Discount rate to determine the benefit cost	3.50%	4.50%	3.50%	4.50%	3.50%	4.50%
Salary rate increase	1.00% for 2 years and 3.00% thereafter	3.00%	4.00%	4.00%	2.00%	2.50%
Health cost rate increase	n/a	n/a	7.50% per annum reducing to 4.50% in 2023	6.50%	7.50% per annum reducing to 4.50% in 2023	8.00%

* contractual severance payments & executive compensation time banking
** unfunded workers compensation obligation
*** long-term income protection

vi. Non vesting sick leave

The LCBO's actuary has recently identified an employee benefit obligation for accumulating non-vesting sick leave. The amount is not material and has not been provided for in these financial statements as the precise quantification of the obligation is not yet fully determined. LCBO is working with the actuary to quantify this obligation and, once known, the associated amount will be recorded in our financial statements.

12. CONTINGENT LIABILITIES

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

13. FINANCIAL RISK MANAGEMENT

The nature of the Board'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. The Board'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 the Board in accordance with its investment and foreign exchange risk management policy. The Board identifies, evaluates and mitigates financial risks.

a. Credit Risk

Credit risk arises from cash and cash equivalents, derivative financial instruments, and outstanding accounts receivable. The Board 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, 2013, 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. The Board does not consider its exposure to credit risk associated with trade and other receivables to be material. As at March 31, 2013, approximately 69 per cent (2012 – 68 per cent) of the Board'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 the Board may not have cash available to satisfy financial liabilities as they fall due. The Board 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 the Board 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, the Board is exposed only to currency risk.

d. Currency Risk

The Board is exposed to currency risk with respect to future inventory purchases denominated in currencies other than the Canadian dollar, primarily US dollars and Euros. The Board seeks to limit its exposure to currency risk by entering into Canadian dollar contracts on a majority of its inventory purchases. The Board 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 the Board'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 effect of changes in exchange rates was a foreign exchange gain of $ 3.4 million in 2013 (2012 – $3.1 million).

14. FINANCIAL INSTRUMENTS

a. Foreign Exchange Contracts

The Board 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, 2013, the Board has five foreign exchange contracts with notional values totaling $3.4 million (2012 – $nil).

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, 2013, the Board 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 (2012 – $nil).

(thousands of Canadian dollars)

15. CAPITAL MANAGEMENT

The Board is a corporation without share capital and has no long-term debt. Its definition of capital is cash and cash equivalents and retained earnings. The Board'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 the Board's ability to remain as a self-sufficient going concern entity in order to provide continuous dividends to the province.

As at March 31, 2013 the Board met these objectives.

In managing cash and cash equivalents, the Board 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.

The Board is not subject to any externally imposed capital requirements.

16. REVENUE

Virtually all revenue is from the sale of goods.

17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

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

	March 31, 2013	March 31, 2012
Employee costs (Note 18)	435,413	409,740
Occupancy costs	141,210	131,921
Depreciation and amortization	51,126	50,870
Debit/credit charges	32,375	30,106
Environmental initiatives	36,091	35,876
Other	84,203	82,475
	780,418	740,988

(thousands of Canadian dollars)

18. EMPLOYEE COSTS

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

	March 31, 2013	March 31, 2012
Salaries & wages	340,800	329,172
Short-term employee benefits	94,613	80,568
	435,413	409,740

19. FINANCE INCOME AND FINANCE COSTS

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

	March 31, 2013	March 31, 2012
Finance income		
Interest earned	1,344	1,791
Total finance income	1,344	1,791
Finance costs		
Interest on non-pension employee benefits	3,824	4,705
Total finance costs	3,824	4,705

20. RELATED PARTIES

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Board. 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, 2013	March 31, 2012
Salaries and short-term employee benefits	3,839	3,846
Post-employment benefits	237	234
Other long-term benefits	68	61
Termination benefits	–	332
	4,144	4,473

21. WASTE DIVERSION

The Board 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, 2013, the Board contributed $1.5 million (2012 – $1.7 million) and these expenditures are included in selling, general and administrative expenses in the Statement of income and comprehensive income.

22. ONTARIO DEPOSIT RETURN PROGRAM

On November 6, 2006, the province entered into an agreement with Brewers Retail Inc. for management of a province-wide container deposit return program ("the program") on wine, liquor and non-common beer containers sold through the Board 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, the Board collects a deposit of 10 or 20 cents on wine, liquor and most beer containers. The Board 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, 2013, the Board collected $60.6 million (2012 – $58.9 million) of deposits on containers and was invoiced $48.0 million (2012 – $47.2 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, 2013, amounted to $34.6 million (2012 – $34.2 million), inclusive of $4.0 million (2012 – $3.9 million) of harmonized sales tax which is unrecoverable by the Board, but is recoverable by the Province. These expenditures are included in selling, general and administrative expenses in the Statement of income and comprehensive income.

The Board's experience indicates that not all container deposits are redeemed. Based upon its redemption data and research of industry experience, part of the container deposits collected would not be redeemed. Based on historical redemption patterns, for the year ended March 31, 2013, the Board estimated an 80 per cent redemption rate for the program. Accordingly, for the year ended March 31, 2013, the Board applied $12.2 million (2012 – $11.7 million) of unredeemed deposits as an increase to other income.

23. THE BEER STORE DEPOSIT RETURN PROGRAM (TBS)

The Board participates in a separate deposit-refund system ("TBS program") that is 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 program, the Board purchases certain beer products from Brewers Retail Inc. whereby a deposit is paid to Brewers Retail Inc. for the containers. Subsequently, upon the eventual sale of the products, the Board collects any previous deposits paid directly from the customer. The Board has determined that it acts as an "agent" in the TBS program transaction, and the TBS 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, 2013, $2.1 million (2012 – $2.0 million) is included in trade and other receivables related to the TBS program deposits.

24. OTHER MATTERS

The Minister of Finance announced in February 2012 the province's intention to sell the LCBO's Head Office facility located in downtown Toronto. The sale will be conducted as a multi-year phased project involving the Offices and adjoining lands, the attached warehouse facility as well as the adjacent retail store. The planning for the various phases is currently underway.


COCKTAILS • COOLERS
FOOD & DRINK
Tasting Bar
SUPERSTARS
Organic
Alizé
PINOT GRIGIO

KEY OPERATIONAL INDICATORS

Fiscal year	2013	2012	2011	2010	2009
LCBO stores*	634	623	617	611	607
Full-time equivalent employees	6,212	6,067	6,003	5,785	5,759
Product listings	24,012	22,296	21,694	18,790	22,391

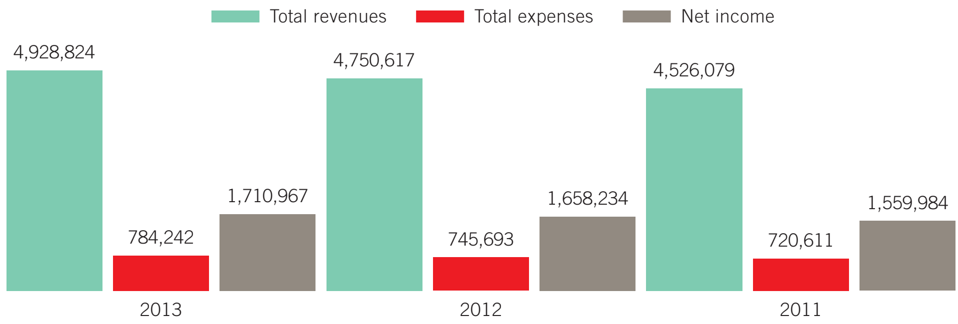
* LCBO store count includes four licensee depot locations

FINANCIAL INDICATORS ($ thousands)

Fiscal year	2013	2012	2011
Total revenues*	4,928,824	4,750,617	4,526,079
Growth over previous year	3.8%	5.0%	4.2%
Total expenses**	784,242	745,693	720,611
As a percentage of total revenues	15.9%	15.7%	15.9%
Net income	1,710,967	1,658,234	1,559,984
As a percentage of total revenues	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.

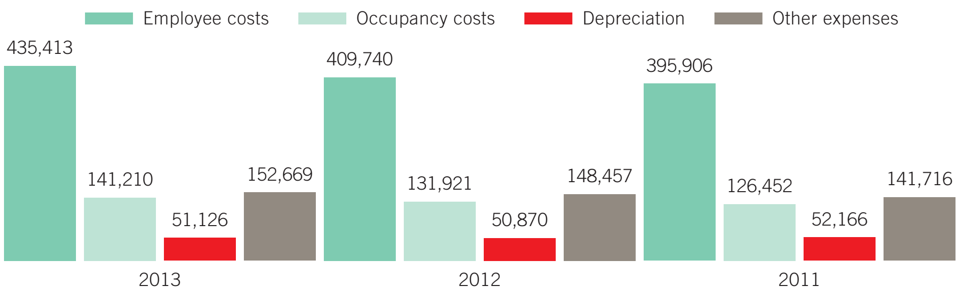
Financial indicators ($ thousands)



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

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

Selling, administrative & general expenses ($ thousands)



REVENUE PAYMENTS ($ thousands)

Treasurer of Ontario

	2013	2012	2011	2010	2009
Remitted by the Liquor Control Board: on account of profits	1,700,000	1,630,000	1,550,000	1,410,000	1,400,000
Remitted by the Liquor Control Board: Ontario retail sales tax on sales of liquor[1]	–	–	101,725	404,823	398,057
Remitted by the Alcohol and Gaming Commission: on account of licence fees and permits (replaced by Tax)[2]	8,853	9,090	180,710	460,236	468,024
Remitted by the Ministry of Revenue: Beer and wine tax (replacing Fees)[2]	569,000	561,000	397,000	–	–
Remitted by others:					
Ontario retail sales tax on sales through The Beer Store and Ontario winery retail stores[1]	–	–	59,284	212,803	213,691
Ontario retail sales tax on sales through agency stores[1]	–	–	3,417	12,503	12,066
Total	2,277,853	2,200,090	2,292,137	2,500,364	2,491,838

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 $569 million is an interim number.

REVENUE PAYMENTS ($ thousands) *(continued)*

Receiver General for Canada

	2013	2012	2011	2010	2009
Remitted by the Liquor Control Board:					
Excise taxes and customs duties	361,019	351,865	344,804	346,072	346,477
Goods and Services Tax (GST) / Harmonized Sales Tax (HST)[3]	430,220	415,194	301,352	107,680	104,372
Remitted by others:					
Excise taxes, GST/HST and other duties/taxes[3]	479,846	477,962	484,420	348,275	344,870
GST/HST remitted on sales through agency stores[3]	14,780	14,352	11,764	5,210	5,027
Total	1,285,865	1,259,374	1,142,340	807,237	800,746

Ontario Municipalities

	2013	2012	2011	2010	2009
Remitted by the Liquor Control Board:					
Realty taxes[4]	22,755	21,039	19,712	18,256	16,606
Total revenue payments	3,586,473	3,480,503	3,454,189	3,325,857	3,309,190

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)

	2013	Growth	2012	2011	2010	2009
LCBO	420,447	2.5%	410,045	397,613	384,297	374,249
The Beer Store	623,227	-2.2%	637,025	639,035	653,004	668,694
Ontario winery retail stores	21,959	6.4%	20,633	20,445	20,627	20,525
Other channels:						
Other Legal	54,013	-2.5%	55,414	54,302	56,931	52,267
Homemade	15,755	-10.2%	17,537	16,669	16,277	14,186
Illegal	42,487	3.8%	40,924	37,474	38,787	34,110
Total Ontario	1,177,888	-0.3%	1,181,577	1,165,538	1,169,922	1,164,031

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

	2013	Change	2012	2011	2010	2009
LCBO	35.7%	1.0%	34.7%	34.1%	32.8%	32.2%
The Beer Store	52.9%	-1.0%	53.9%	54.8%	55.8%	57.4%
Other Legal	5.9%	-0.3%	6.2%	6.1%	6.3%	5.7%
Illegal	3.6%	0.1%	3.5%	3.2%	3.3%	2.9%
Ontario winery retail stores	1.9%	0.1%	1.7%	1.8%	1.8%	1.8%

2013 share of Ontario beverage alcohol market by volume sold

VOLUME SALES (thousands of litres)

LCBO Sales

	2013	Growth	2012	2011	2010	2009
Domestic Spirits	33,184	1.4%	32,722	32,870	33,449	33,715
Imported Spirits	26,304	1.3%	25,958	24,921	23,612	23,715
Total Spirits	59,488	1.4%	58,680	57,791	57,062	57,430
Domestic Wine	42,818	6.4%	40,240	38,753	37,448	36,362
Imported Wine	101,663	3.8%	97,968	95,364	92,062	89,211
Total Wine	144,481	4.5%	138,207	134,116	129,510	125,573
Domestic Beer	111,703	1.0%	110,577	106,842	97,981	92,531
Imported Beer	135,169	3.0%	131,268	130,617	132,980	130,084
Total Beer	246,872	2.1%	241,845	237,458	230,961	222,615
Domestic Spirit Coolers	25,080	-0.4%	25,188	21,506	22,522	22,604
Imported Spirit Coolers	4,449	0.7%	4,416	5,944	5,194	6,232
Domestic Wine Coolers	–	0.0%	–	–	–	–
Imported Wine Coolers	157	0.0%	–	138	146	197
Domestic Beer Coolers	648	2.7%	630	653	691	627
Imported Beer Coolers	388	8723.9%	4	14	16	110
Total Coolers	30,721	1.6%	30,238	28,254	28,569	29,770
Total Domestic	213,432	1.9%	209,357	200,623	192,091	185,838
Total Imported	268,129	3.3%	259,613	256,996	254,011	249,549
Total LCBO	481,562	2.7%	468,970	457,619	446,102	435,388

Other Sales

	2013	Growth	2012	2011	2010	2009
Ontario winery retail stores	21,959	6.4%	20,635	20,444	20,630	20,528
The Beer Store & brewer on-site stores	627,933	-2.1%	641,216	643,227	657,940	672,330

Note: The FY2013 sales figures for Ontario winery stores, The Beer Store (TBS) and brewer on-site stores are unaudited and may understate total sales due to various wineries and brewers not reporting by the time of publication. LCBO beer sales figures include LCBO sales to TBS; of LCBO's total beer sales in litres, 72,518,711 were to TBS. Prior year figures are restated annually to reflect changes in product hierarchy.

SHARE OF LCBO VOLUME SALES (thousands of litres)

	2013 Litres sold	2013 % of total	2012 Litres sold	2012 % of total
Spirits	59,488	13%	58,680	13%
Wine	144,481	30%	138,207	29%
Beer	246,872	51%	241,845	52%
Coolers	30,721	6%	30,238	6%

2013 share of LCBO volume sales

VALUE SALES ($ thousands)

LCBO Sales

	2013	Growth	2012	2011	2010	2009
Domestic Spirits	928,982	0.8%	921,343	903,994	883,328	885,716
Imported Spirits	873,288	4.5%	835,363	783,209	728,795	726,000
Total Spirits	1,802,270	2.6%	1,756,706	1,687,203	1,612,123	1,611,716
Domestic Wine	448,034	6.0%	422,705	401,176	374,445	358,580
Imported Wine	1,449,568	5.1%	1,379,131	1,299,903	1,213,069	1,225,382
Total Wine	1,897,602	5.3%	1,801,836	1,701,079	1,587,513	1,583,961
Domestic Beer	429,811	4.6%	410,819	388,336	341,927	322,484
Imported Beer	589,635	3.5%	569,905	551,174	548,106	528,002
Total Beer	1,019,446	3.9%	980,724	939,510	890,034	850,487
Domestic Spirit Coolers	138,599	-1.6%	140,790	121,251	124,438	124,858
Imported Spirit Coolers	30,728	7.1%	28,702	37,694	32,801	38,548
Domestic Wine Coolers	–	0.0%	–	–	–	–
Imported Wine Coolers	964	0.0%	–	925	950	1,267
Domestic Beer Coolers	3,078	7.5%	2,864	3,017	2,997	2,826
Imported Beer Coolers	1,720	7150.6%	24	74	85	470
Total Coolers	175,089	1.6%	172,380	162,960	161,271	167,969
Total Domestic	1,948,504	2.6%	1,898,522	1,817,774	1,727,135	1,694,464
Total Imported	2,945,903	4.7%	2,813,124	2,672,978	2,523,806	2,519,670
Non-Liquor and Other	(1,953)	68.9%	(1,157)	1,559	6,059	6,598
Total LCBO	4,892,454	3.9%	4,710,489	4,492,311	4,257,000	4,220,732

Other Sales

	2013	Growth	2012	2011	2010	2009
Ontario winery retail stores	248,604	7.4%	231,534	223,486	215,014	210,271
The Beer Store & brewer on-site stores	2,307,715	0.3%	2,300,452	2,254,056	2,230,877	2,254,746

Note: The FY2013 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, $315,231,624 were to TBS. Prior year figures are restated annually to reflect changes in product hierarchy.

SHARE OF LCBO VALUE SALES ($ thousands)

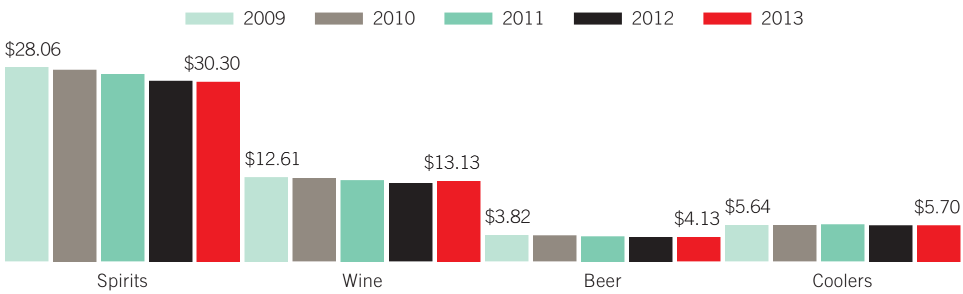
	2013 Net sales ($)	2013 % of total	2012 Net sales ($)	2012 % of total
Spirits	1,802,270	37%	1,756,706	37%
Wine	1,897,602	39%	1,801,836	38%
Beer	1,019,446	21%	980,724	21%
Coolers	175,089	4%	172,380	4%

2013 share of LCBO value sales

AVERAGE NET SALES PER LITRE (excludes sales tax)

	2013	Growth	2012	2011	2010	2009
Spirits	$30.30	1.2%	$29.94	$29.20	$28.25	$28.06
Wine	$13.13	0.7%	$13.04	$12.68	$12.26	$12.61
Beer	$4.13	1.8%	$4.06	$3.96	$3.85	$3.82
Coolers	$5.70	0.0%	$5.70	$5.77	$5.64	$5.64

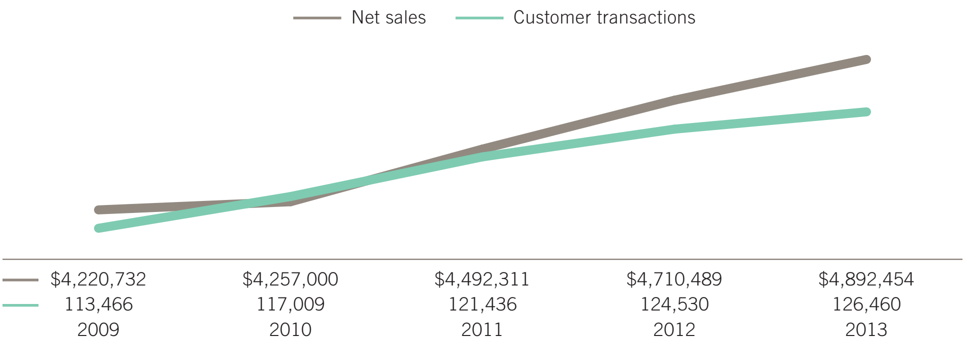
Average net sales per litre



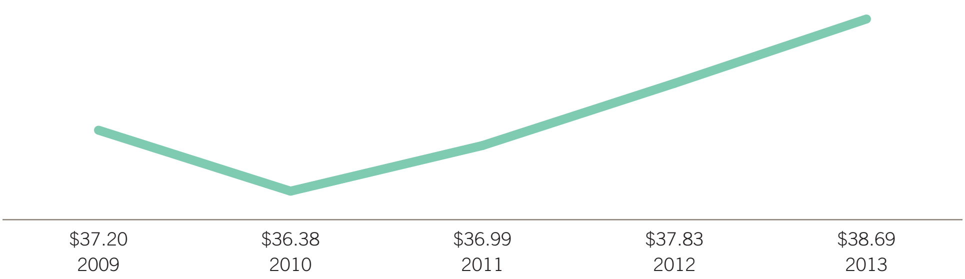
AVERAGE TRANSACTION PER CUSTOMER (values in thousands)

	2013	Growth	2012	2011	2010	2009
Net sales	$4,892,454	3.9%	$4,710,489	$4,492,311	$4,257,000	$4,220,732
Customer transactions	126,460	1.6%	124,530	121,436	117,009	113,466
Average transaction value per customer	$38.69	2.3%	$37.83	$36.99	$36.38	$37.20

Revenues & customer transactions



Average transaction value per customer



PRODUCT LISTINGS

Fiscal year	2013	2012	2011	2010	2009
Domestic					
Spirits	425	386	380	420	524
Wine	560	556	545	515	515
Beer	546	525	498	458	470
Imported					
Spirits	705	658	612	685	695
Wine	1,156	1,095	1,002	980	1,122
Beer	347	351	344	369	384
Total regular listings	3,739	3,571	3,381	3,427	3,710
VINTAGES wines and spirits	6,408	6,087	6,178	5,256	6,688
Duty-free listings	263	239	224	211	200
Consignment Warehouse and Private Ordering	13,602	12,399	11,911	9,896	11,793
Total product listings	24,012	22,296	21,694	18,790	22,391

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

REVENUE DISTRIBUTION BY PRODUCT TYPE

	Domestic Spirits	100% Ontario Wine	Ontario Beer
Supplier	23%	44%	47%
LCBO Mark-up	52%	44%	19%
Federal taxes & HST*	25%	12%	35%
Deposit**			

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

	2013	2012	2011	2010	2009
Canadian Spirits					
Spirit Coolers	28.3%	28.6%	25.1%	26.4%	26.3%
Canadian Whisky	15.5%	15.7%	16.3%	16.8%	16.7%
Canadian Vodka	9.6%	9.7%	10.0%	10.1%	9.9%
Canadian Rum	8.2%	8.4%	8.8%	8.9%	8.8%
Canadian Liqueur	2.2%	2.2%	2.3%	2.3%	2.4%
Canadian Dry Gin	0.6%	0.6%	0.6%	0.7%	0.7%
Other	1.4%	0.6%	1.0%	1.0%	0.8%
Imported Spirits					
Vodka	8.1%	8.0%	7.9%	7.4%	7.0%
Spirit Coolers	4.8%	5.0%	7.0%	6.1%	7.2%
Scotch	4.2%	4.3%	4.4%	4.3%	4.4%
Miscellaneous Liquors	3.8%	4.0%	4.0%	4.0%	4.0%
Liqueur	3.0%	2.9%	3.1%	3.2%	3.2%
French Brandy	1.8%	1.8%	1.9%	2.0%	2.0%
Other	8.7%	8.2%	7.8%	6.8%	6.8%
Total Spirits	88,752	88,033	85,002	84,521	86,048
Canadian Wines					
White Table	14.6%	14.4%	14.2%	14.2%	14.2%
Red Table	9.0%	8.9%	8.9%	9.1%	9.3%
Rose Table	0.9%	1.0%	1.0%	1.0%	1.0%
7% Sparkling	0.9%	0.9%	1.0%	1.1%	1.1%
Fortified	1.2%	1.3%	1.3%	1.4%	1.5%
Wine Coolers	0.0%	0.0%	0.0%	0.0%	0.0%
Other	2.0%	1.7%	1.5%	1.1%	0.8%

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

	2013	2012	2011	2010	2009
Imported Wines					
White Table	22.3%	22.6%	22.3%	22.1%	22.2%
Red Table	38.0%	39.4%	40.0%	40.3%	40.2%
Rose Table	0.8%	0.9%	0.9%	0.8%	0.7%
Sparkling	2.5%	2.4%	2.4%	2.2%	2.2%
Fortified	1.1%	1.2%	1.2%	1.3%	1.4%
Wine Coolers	0.1%	0.1%	0.1%	0.1%	0.2%
Other	6.7%	5.3%	5.3%	5.5%	5.4%
Total Wine	135,079	129,281	125,890	122,041	117,940
Canadian Beer					
Ontario Beer	45.4%	46.3%	45.6%	42.9%	42.1%
Other Canadian Beer	3.4%	3.1%	2.7%	2.6%	2.6%
Imported Beer					
Other Imported Beer	43.3%	42.6%	44.1%	46.3%	46.9%
U.S. Beer	7.8%	8.0%	7.5%	8.1%	8.4%
Sake	0.1%	0.1%	0.1%	0.1%	0.1%
Total Beer	224,475	219,697	216,935	211,505	203,005
Total	448,306	437,011	427,827	418,067	406,993

LCBO VALUE SALES SHARE BY CATEGORY ($ thousands)

	2013	2012	2011	2010	2009
Canadian Spirits					
Canadian Whisky	20.2%	20.5%	20.9%	21.5%	21.6%
Canadian Vodka	12.5%	12.6%	12.6%	12.7%	12.6%
Canadian Rum	10.7%	10.9%	11.2%	11.2%	11.1%
Spirit Coolers	7.0%	7.3%	6.5%	7.0%	7.1%
Canadian Liqueur	2.4%	2.4%	2.5%	2.6%	2.7%
Canadian Dry Gin	0.7%	0.7%	0.8%	0.9%	0.9%
Other	0.7%	0.8%	1.2%	1.3%	1.2%
Imported Spirits					
Vodka	11.6%	11.3%	11.0%	10.3%	9.7%
Scotch	8.1%	8.0%	8.0%	7.8%	7.8%
Miscellaneous Liquors	5.0%	5.3%	5.4%	5.5%	5.7%
Liqueur	4.3%	4.3%	4.5%	4.6%	4.8%
French Brandy	3.4%	3.4%	3.4%	3.4%	3.5%
Spirit Coolers	1.4%	1.5%	2.0%	1.9%	2.2%
Other	12.0%	10.9%	10.1%	9.4%	9.3%
Total Spirits	$1,965,498	$1,920,886	$1,841,573	$1,764,434	$1,770,955
Canadian Wines					
White Table	11.2%	11.0%	11.0%	10.9%	10.5%
Red Table	7.4%	7.4%	7.5%	7.6%	7.4%
Rose Table	0.7%	0.7%	0.8%	0.8%	0.7%
7% Sparkling	0.5%	0.6%	0.6%	0.6%	0.7%
Fortified	1.1%	1.1%	1.2%	1.2%	1.2%
Wine Coolers	0.0%	0.0%	0.0%	0.0%	0.0%
Other	1.6%	1.5%	1.4%	1.2%	1.1%

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

	2013	2012	2011	2010	2009
Imported Wines					
White Table	22.6%	22.5%	22.2%	22.0%	22.0%
Red Table	44.9%	45.5%	45.7%	45.8%	46.8%
Rose Table	0.8%	0.8%	0.9%	0.7%	0.7%
Sparkling	4.5%	4.4%	4.3%	4.1%	4.1%
Fortified	1.2%	1.4%	1.5%	1.6%	1.7%
Wine Coolers	0.1%	0.1%	0.1%	0.1%	0.1%
Other	3.5%	3.0%	3.0%	3.3%	3.1%
Total Wine	$1,745,646	$1,659,521	$1,570,720	$1,472,171	$1,460,221
Canadian Beer					
Ontario Beer	41.9%	41.9%	41.8%	38.3%	37.8%
Other Canadian Beer	3.7%	3.4%	3.1%	3.0%	3.0%
Imported Beer					
Other Imported Beer	46.5%	46.5%	47.7%	50.4%	51.7%
U.S. Beer	7.6%	7.8%	7.2%	8.1%	7.2%
Sake	0.4%	0.4%	0.3%	0.3%	0.3%
Total Beer	$926,334	$891,591	$908,348	$816,217	$776,011
Total	$4,637,479	$4,471,999	$4,320,641	$4,052,822	$4,007,187

LCBO SALES BY COUNTRY OF ORIGIN

Spirits

Country	Net Sales	Litres
CANADA	$1,067,069,000	58,233,152
ONTARIO	$637,940,366	42,923,476
UNITED KINGDOM	$227,153,237	7,010,719
UNITED STATES	$164,764,069	7,904,619
FRANCE	$121,202,060	2,768,574
IRELAND	$68,389,383	2,149,816
SWEDEN	$61,041,870	2,150,941
MEXICO	$55,227,090	1,549,041
ITALY	$37,593,993	1,294,076
GERMANY	$26,933,191	888,835
POLAND	$22,693,063	670,734
OTHER	$113,431,433	4,131,202
Total	$1,965,498,389	88,751,709 litres

LCBO SALES BY COUNTRY OF ORIGIN *(continued)*

Wine

Country	Net Sales	Litres
CANADA	$392,562,329	38,720,626
ONTARIO	$386,294,195	38,319,238
ITALY	$307,924,127	22,495,878
UNITED STATES	$248,866,905	16,534,300
AUSTRALIA	$202,992,461	13,374,334
FRANCE	$194,751,101	10,608,353
CHILE	$92,275,497	8,189,335
ARGENTINA	$81,303,325	6,702,278
NEW ZEALAND	$46,354,915	2,229,489
SPAIN	$44,710,170	2,800,099
SOUTH AFRICA	$42,087,016	3,403,269
OTHER	$95,480,726	10,267,113
Total	$1,749,308,572	135,325,074 litres

LCBO SALES BY COUNTRY OF ORIGIN *(continued)*

Beer

Country	Net Sales	Litres
CANADA	$422,145,170	109,448,039
ONTARIO	$388,119,221	101,831,023
NETHERLANDS	$113,353,128	24,648,524
MEXICO	$87,539,183	19,372,901
UNITED STATES	$71,877,812	17,928,585
BELGIUM	$53,374,440	10,993,320
GERMANY	$41,108,400	11,081,828
UNITED KINGDOM	$32,770,829	6,617,237
IRELAND	$18,228,339	3,499,643
POLAND	$15,953,926	4,366,046
DENMARK	$15,356,478	3,872,740
OTHER	$50,963,951	12,400,396
Total	$922,671,657	224,229,258 litres

In fiscal 2013, excluding sales through Private Ordering, the LCBO sold products from 85 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 Treasury and Finance, 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 2012-2013.

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.

634

STORES ACROSS ONTARIO

139,000

SQUARE FEET
ADDED SELLING SPACE

85

NUMBER OF COUNTRIES
WE BUY PRODUCTS FROM