

NEWFOUNDLAND  
AND LABRADOR  
LIQUOR  
CORPORATION

LIQUOR STORE

2006  
annual report



# Newfoundland and Labrador Liquor Corporation

## Vision

To provide excellent management of the beverage alcohol industry in Newfoundland and Labrador.

## Mission

To provide excellent management of the importation, distribution and sale of quality beverage alcohol. The Corporation will maximize revenues within a framework of social responsibility and will focus on customers, build partnerships and provide a quality workplace for employees.

## Lines of Business

With a workforce of approximately 500 employees the Newfoundland and Labrador Liquor Corporation ("NLC" or "Corporation") manages its retail business through the operation of

- Twenty five retail stores throughout the province
- Three distribution centres in St. John's, Clarenville and Deer Lake
- A head office on Kenmount Road in St. John's

The NLC Board appoints private retail agency stores based on a clearly defined set of criteria. As of March 31, 2006 there were a total of 112 agency outlets in the province of Newfoundland and Labrador.

The NLC operates a bottling plant facility from its Kenmount Road location in St. John's. In fiscal 2005-06 this facility produced approximately 214 thousand cases of spirits.

These products are sold both in the province and exported for sale to other provinces across Canada and in the north eastern United States.

The NLC issues licenses to restaurants, bars and other groups in connection with special events authorizing them to sell alcoholic beverage products. These licenses totaled 1,809 as at March 31, 2006.

Licenses are also issued by the NLC to brewer's agents authorizing them to sell beer to the general public. The brewers agent network consisted of 1,231 outlets in the province as at March 31, 2006.

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## Enhanced Customer Service.

Improvements at the retail level, such as new and more convenient locations, renovated stores, expanded product selection, and exceptional customer service, have created an enhanced shopping experience for customers.



**Shane Saunders**  
Retail Clerk, Blackmarsh Road

## Chairperson's Message

It has been a successful and exciting year, and as Chairperson of the Newfoundland and Labrador Liquor Corporation, I am pleased to present the Corporation's fiscal 2005-06 annual report. I would first like to take the opportunity to thank the Honorable Loyola Sullivan, Minister of Finance, for his ongoing support to the Board of NLC. The 2005-06 NLC annual report has been prepared under my direction. I am accountable for the contents of this report. The information presented reflects the performance of the NLC for the 2005-06 fiscal year.

The mandate of NLC is to manage the importation, sale and distribution of beverage alcohol in Newfoundland and Labrador. This report summarizes the significant progress made in areas such as financial performance, social responsibility, enforcement, organizational effectiveness, and customer service. It highlights our work with our many partners in industry and government and throughout the communities we serve in the province.

This was a year of change, as the Corporation implemented initiatives and prepared for the development of new projects. NLC continued to drive growth with strategic vision and creative concepts. It was a progressive year as the Corporation sought new opportunities and monitored existing advancements. We will continue to guarantee the success of initiatives by ensuring the highest possible levels of performance and accountability. As with any organization, there is constantly room for improvement and growth, and our job is to achieve optimum levels of customer service, productivity, efficiency, shareholder value and profitability. With an energetic and knowledgeable workforce, dedicated board members and superior management, these are reachable goals.

Meeting financial objectives and profitability goals was vital and necessary to the Corporation, and several projects were carried out to ensure the growth of NLC. Significant efforts were made to enhance the level of customer service in response to Consumer Research findings. A new store was opened on Blackmarsh Road in St. John's and several existing stores underwent upgrades and renovations. A new Supply Chain Management system was implemented which will assist in ensuring the right products are in the right place at the right time for our customers. The success of our efforts are reflected

in our financial results which we are very pleased to report are \$2.1 million ahead of the previous fiscal year from a net earnings perspective. The Corporation realized net earnings of \$106.1 million in fiscal 2005-06 and paid a dividend to the province of \$99.0 million, which was on target with the fiscal 2005-06 budget.

NLC made great strides in creating an efficient and effective retail organization, utilizing new technologies to assist in achieving this desired state. It must be noted that our staff, through their dedicated and diligent efforts, have been critical to the success of all NLC initiatives. Employees have been successfully managing the challenges of working in an environment with new technologies and significant change. Training efforts have been increased to ensure staff has the necessary knowledge and skills to manage in the new environment and ultimately provide superior service to our customers.

We owe our continued growth and success to our employees, management and our Board. Through their efforts, commitment and constant dedication to the goals of the Corporation, NLC has experienced a successful year. We will continue to build on our successes into the new fiscal year while ensuring we meet the expectations of all our stakeholders, in particular, the residents of our province and our government.



Glen Tobin  
Chairperson of the Board

**Committed to Growth.**  
A renewed focus on customer needs, progressive management practices, technological improvements, and a skilled workforce provide a solid foundation for the continued growth and financial success of the Corporation.



**Glen Tobin**  
Chairperson of the Board  
(left)

**Steve Winter**  
President and CEO  
(right)

# Shared Commitments

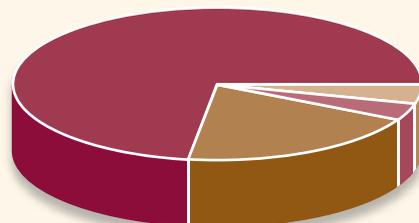
**N**LC is unique in that it is a Crown Corporation operating within the retail sector. It has a broad public mandate, and consequently has a variety of customers and stakeholders. NLC operates on the basis of effectively serving its stakeholders, which include the provincial government, residents of Newfoundland and Labrador, employees, suppliers, industry partners, non-profit groups and our customers. We work with groups to promote public safety, and place a great deal of emphasis on providing high quality service to our customer base. Our customers include the general public who shop our retail network of corporate and agency outlets, as well as restaurants and bars that are licensed to serve the products we distribute.

In an effort to respond to the needs and concerns of NLC stakeholders in 2005-06, we have:

- Continued to offer quality products and superior service to our customers
- Implemented a Supply Chain Management System to better control areas such as inventory management and improve operational standards
- Increased training in an effort to enhance service provided to customers, and improve the workplace environment for employees
- Continued to partner with suppliers to provide promotional opportunities for their products
- Increased efforts to provide a safe workplace for all staff
- Developed new signage and promotional efforts to enhance our provision of product information to customers
- Opened a new corporate store and renovated existing stores to enhance both the efficiency of our stores and the shopping experience for customers
- Opened new agency outlets and relocated others to ensure customers are serviced in convenient locations
- Participated in fundraising campaigns for a significant number of charitable organizations including Give to Feel Good Campaign, Child Find Newfoundland and Labrador, Canadian Diabetes Association, Janeway Foundation, Newfoundland and Labrador Lung Association, Canadian Mental Health Association and Junior Achievement of Newfoundland and Labrador

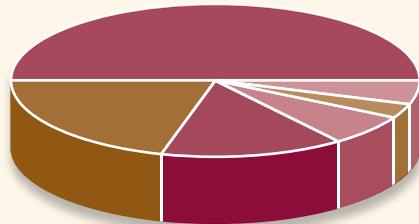
- Continued involvement in consumer and trade events, and the hosting of events such as the Wine Fest and Spirit Fest
- Promoted the responsible and safe use of alcoholic beverages through public awareness campaigns, and in partnership with non-profit groups, government, communities, the Royal Newfoundland Constabulary and the Royal Canadian Mounted Police

**Figure A - Sources of Revenue**  
Fiscal Year 2006



- 72% Sales - Spirits, Wine, Refreshment Beverages, Beer
- 26% Beer Revenue Commission
- 1% Licensee Purchase Commission
- 1% Other

**Figure B - Application of Revenue**  
Fiscal Year 2006



- 50% Payments to the Province of NL
- 22% Suppliers
- 16% Administrative Expenses
- 7% Federal Taxes
- 2% Purchase of Capital Assets
- 3% Equity

## Supply Chain Management System.

Investment in New Radio Frequency (RF) technology combined with enhanced Warehouse Management and Procurement software will produce greater operational efficiencies within our warehouse and distribution network.



**Sophia Williams**  
Inventory, Warehouse

# 2005-2006 Year in Review

**N**LC's Strategic Plan developed in 2000 was extended to apply to fiscal 2005-06 as the plan was considered to be substantially valid to guide the fiscal year. It is the intent of the NLC to review and revise as appropriate the plan in detail in fiscal 2006-07. Progress on our five strategic objectives is supported by business plans that set priorities for actions to meet objectives and timelines for their completion. The following discussion is a synopsis of the highlights of our progress towards the achievement of our strategic objectives.

## Strategic Objective:

Customer Service

### Goal

To understand the needs of our customers so that we can provide quality products and services that are delivered by knowledgeable, courteous employees in attractive and accessible facilities.

### Objectives

1. Provide customer-friendly facilities
2. Offer convenient locations throughout Newfoundland and Labrador
3. Increase customer satisfaction

### Performance Highlights:

A highlight of fiscal 2005-06 was the opening of a new store in St. John's on Blackmarsh Road. This state of the art store provides our customers with a superior product assortment, a customer friendly design, and the convenience of being adjacent to a major grocery store. Design features include a large, chilled beverage centre, larger capacity shelving, wide aisles and a bright and welcoming environment. This store has quickly become a success story in terms of sales volume which speaks to the need for the location in terms of customer service. We also identified the requirements for the renovation and upgrade of our Commonwealth Avenue location in Mount Pearl and Topsail Road location in St. John's. We increased our product selection, improved aisle widths and traffic flow, increased signage and enhanced the interior, bringing these stores closer to our current standards. These modifications ultimately provide increased satisfaction to NLC customers by

creating an enjoyable shopping environment. We are continuing to prepare for the opening of other new stores in the next fiscal year on Kelsey Drive in St. John's, O'Connell Drive in Corner Brook, and Goff Avenue in Carbonear. All of these new stores are adjacent to major grocery stores thereby making it very convenient for our customers. In addition to these openings, NLC is in the process of relocating stores. These replacement stores in Bay Roberts, Clarenville, Corner Brook, and on Merrymeeting Road in St. John's, will provide enhanced service, an attractive layout, increased capacity and improved traffic flow.

In an effort to standardize and advance the level of service provided to customers, NLC has all of its corporate stores "mystery shopped". This occurs up to four times a year by a third party adept in evaluating customer service and the overall shopping experience. Each visit is scored and documented, and sent back to NLC with the respective store managers copied for review with their staff. The results have been extremely positive overall. We will continue this program to ensure we maintain contact with customer needs and to monitor our effectiveness meeting those needs.

Figure C - Product Sales Volume - Litres in Thousands



Figure D - Spirit Sales by Product Type - Litres in Thousands

Year	2006	2005	2004	2003	2002
Rum	1,789	1,774	1,794	1,581	1,482
Rye Whiskey	730	721	774	741	718
Vodka	365	338	348	326	309
Liqueurs	286	283	301	295	275
Scotch - other Whiskey	107	104	105	98	96
Gin	52	52	55	51	51
Brandy	27	27	29	28	26
Tequila	13	11	10	8	8
Cognac	2	3	3	3	3
Miscellaneous	1	0	1	0	0
<b>Total</b>	<b>3,372</b>	<b>3,313</b>	<b>3,420</b>	<b>3,131</b>	<b>2,968</b>

Figure E - Wine Sales - Litres in Thousands

Year	2006	2005	2004	2003	2002
Table Wine	1,910	1,694	1,629	1,499	1,315
Sparkling and champagne	210	204	222	224	227
Fortified Wine	90	92	93	88	85
Low Alcohol Wine	1	1	2	2	2
<b>Total</b>	<b>2,211</b>	<b>1,991</b>	<b>1,946</b>	<b>1,813</b>	<b>1,629</b>

**Figure F - Refreshment Beverages and Cider Sales** - Litres in Thousands

Year	2006	2005	2004	2003	2002
Refreshment Beverages	1,371	1,353	1,433	1,103	869
Cider	23	18	20	14	13
<b>Total</b>	<b>1,394</b>	<b>1,371</b>	<b>1,453</b>	<b>1,117</b>	<b>882</b>

**Figure G - Beer Sales** - Litres in Thousands

Year	2006	2005	2004	2003	2002
Imported Beer	1,295	933	866	797	521
Local Beer (Bottles)	803	661	684	572	422
Local Beer (Cans)	116	92	101	88	72
Low Alcohol Beer	53	39	47	36	28
<b>Total</b>	<b>2,267</b>	<b>1,725</b>	<b>1,698</b>	<b>1,493</b>	<b>1,043</b>

**Figure H - Key Financial Data** - Dollars in Thousands

Year	2006	2005	2004	2003	2002
Sales	143,559	130,732	131,107	118,217	108,455
Gross Profit on Sales	84,175	77,921	76,058	68,096	63,622
Commission Revenue on Sale of Beer	51,814	52,343	50,343	46,849	46,693
Commission on Licensee Purchases	1,832	2,626	2,789	2,649	2,635
Other Income	1,623	1,231	1,688	1,364	1,310
Income from Operations	139,444	134,121	130,878	118,958	114,260

Agency stores throughout the province have begun to see changes aimed at ensuring consistency in appearance and standards, thereby delivering a shopping experience similar to our corporate stores but in line with the size of the store and the customer base serviced by the outlet. The stores will be consistent in appearance with appropriate product selections, which will vary depending on the size of the store, ensuring the most frequently sought after products are readily available for our customers. Each agency store will have signage displaying *Liquor Express* store, and customers will be educated that although these are not the stores you see in larger centres they will certainly meet the basic customer requirements. These enhancements are in the early stages of development, and it is expected they will be substantially completed within the next fiscal year.

In the previous fiscal year we conducted a Consumer Research project utilizing the expertise of a local marketing research firm. As a result of this research which included surveys and focus groups, several changes were implemented during fiscal 2005-06:

- Focus Group participants expressed dissatisfaction with the quantity of special offers at NLC Stores. A review of the number of monthly price reductions identified that there were a large amount of items in each category with special offers, however the main issue was that the signage used did not advertise the promotion adequately to our customers. NLC implemented a

new signage program this year which standardized promotional items with a red and white shelf flag and laminated card displaying the savings. This has had a positive impact on sales of these items and has resolved the issues raised in the focus groups.

- The research also indicated that customers wanted chilled refreshment beverages and beer in all NLC stores. All new locations being constructed have facilities for chilled beverages. In addition, several stores that were not due for a renovation in the near future were outfitted with stand up coolers to offer a selection of chilled products.
- Survey results indicated that customers found the chill rooms uncomfortable to shop due to the cold and the fact that products were not attractively displayed. The design has been modified on new NLC stores to offer chilled refreshment beverages that allow customers to shop and browse through the glass doors. For example, in the new store on Blackmarsh Road in St. John's there are thirty-two cooler doors and no walk-in chill room – so customers can browse and then open the door to make their selection.
- Finally, the research identified that customers wanted more sampling opportunities in NLC stores. It is the responsibility of our suppliers to facilitate these samplings, therefore, we changed the promotional policy to encourage suppliers to offer samplings in all corporate NLC locations, instead of only the larger NLC stores which are centered in St. John's. To date, additional samplings have been scheduled at almost all NLC locations, including Labrador.

The modern retail concept known as Category Management was also introduced in the NLC in fiscal 2005-06. Category Manager positions were established replacing marketing positions under the former system. These Category Managers are responsible for achieving the optimum product assortment taking into account amongst other factors, market trends, demographics, the physical capacity of the retail outlets and brand profitability. This optimization takes place within broad

categories of products including spirits, wine, refreshment beverages and beer. Our Category Managers and those involved in the execution of our category management plans were exposed to training in this area given by experienced consultants in this field. We are excited about the concept of category management as it ensures a disciplined approach to meeting our customers needs for the long term.

The Wine Fest events continue to grow and their popularity demonstrates the desire of our customers to try new wines and become better educated on the wide variety of wine products in the market. This year a new event was added, Spirit Fest. This event showcased a wide variety of spirits demonstrating mixability and allowing customers to become educated in the various types of spirits and how they can compliment each other in terms of serving suggestions. The event was sold out and the positive feedback received will lead to a similar event in next fiscal year.

### Strategic Objective:

Financial Performance

#### Goal

To maximize profitability through efficient business practices and exploring new, related business opportunities.

#### Objectives

1. Achieve or exceed net earnings targets
2. Meet the planned dividend to the provincial government

### Performance Highlights:

Figure I below details our financial performance against our fiscal 2005-06 budgeted targets.

Sales were \$5.7 million above budget due to higher than anticipated sales in all product categories with the exception of refreshment beverages. Sales exceeded last fiscal year 2004-05 by \$12.8 million. This significant increase over last year was due to the impact of a month long strike in April 2004 which lowered revenues in the previous fiscal year, additional revenue generated due to Sunday openings which began in February 2005, our new store on Blackmarsh Road, a price increase in April 2005, a significant increase in imported beer sales and general market growth.

Commission revenue on the sale of domestic beer at Brewers Agents was slightly underbudget by 0.2% and also below the prior year by 1%. The beer market has seen a decline in recent years due to factors such as out-migration, a shift in demographics, and the seasonality impact, which can affect beer sales because of poor weather conditions.

As previously mentioned, imported beer, which is sold exclusively through NLC corporate and agency stores, increased dramatically in 2005-06. We have improved our selection of imported beer in response to consumer requests in the previous fiscal year. Beer sales in NLC corporate stores improved overall for both domestic and imported products as a result of the increased availability of chilled products.

Other income was below budget due to the 25% reduction in the licensee levy which lowered revenue by \$0.9 million. This was not anticipated in our original budget as the reduction was announced by the provincial government in March 2005. This was a welcomed reduction by our licensee customers, and the shortfall was partially offset by an increase in other areas such as interest income and income from a newly introduced supplier promotional program.

Administration and Operating expenses were below budget by 2% due to a successful year of expense management. This positive variance occurred despite the fact the NLC was given responsibility for the licensing and inspection functions previously performed by the Government Services Centre in fiscal 2005-06 which resulted in increased costs that had not been budgeted.

In fiscal 2005-06 a Director of Facilities Management and Administration was appointed. This Director is responsible for procurement practices for the NLC. The creation of this new position demonstrates the NLC's commitment to ensuring operating and capital dollars are

spent in the most effective manner. We are continuously exploring opportunities to become more efficient in the management of our operating expenses.

The fact that sales and gross profit exceeded budget meant an increased contribution of \$2.7 million to total net earnings. This, coupled with savings in administration and operating expenses, was the principal reason net earnings of \$106.1 million exceeded budget by \$3.1 million or 3% and were \$2.1 million or 2% above last fiscal year.

Working capital management was a key focus in 2005-06 and we are pleased to report that working capital investment has been reduced by \$1.9 million dollars over the previous year. The most significant factor contributing to this improvement is a reduction of \$2.4 million in inventory.

The Corporation invested over \$3.3 million in capital assets in fiscal 2005-06. A significant portion of capital went to the purchase of new technologies, our new corporate store and upgrades of existing stores.

The final result is the Corporation met its commitment of a \$99.0 million dividend payment to the provincial government in fiscal 2005-06.

In fiscal 2006-07 we have targeted sales growth of approximately 4%. This growth is expected to be the result of our initiatives to enhance the agency store program, the relocation and opening of new stores in key locations, an increase in bottling plant production and general market growth. As a result of this growth we have committed to a dividend payment to the provincial government of \$101.0 million, a 2% increase over fiscal 2005-06.

Figure I - Financial Performance - Dollars in thousands

	Fiscal 05-06	Budget 05-06	Variance \$	Variance %
<b>Sales</b>	<b>143,559</b>	<b>137,867</b>	<b>5,692</b>	<b>4.1%</b>
Cost of goods sold	59,384	56,380	3,004	5.3%
<b>Gross profit</b>	<b>84,175</b>	<b>81,487</b>	<b>2,688</b>	<b>3.3%</b>
Gross profit %	58.6%	59.1%		
Commission revenue on sale of beer	51,814	51,917	(103)	-0.2%
Other income	3,455	3,716	(261)	-7.0%
<b>Earnings from operations</b>	<b>139,444</b>	<b>137,120</b>	<b>2,324</b>	<b>1.7%</b>
Administrative and operating expenses	33,312	34,105	(793)	-2.3%
<b>Net earnings</b>	<b>106,132</b>	<b>103,015</b>	<b>3,117</b>	<b>3.0%</b>

**Strategic Objective:**

Social Responsibility

**Goal**

In partnership with community groups and suppliers, we will strive to raise public and staff awareness of the responsible use of beverage alcohol.

**Performance Highlights:**

We place emphasis on sending out specific messages to the general public about the harmful effects of drinking and driving. Various campaigns were conducted year round, with messages placed in the media directed at individuals throughout the province. These thought provoking campaigns targeted transportation, recreational vehicles, and hunting activities. The winter campaign focus is on snowmobiles and drinking and driving, while the fall media messages focus on the dangers of hunting and drinking. Our Brown Bag promotional campaign continued this year, proving to be very successful with numerous participants. This particular campaign was in partnership with Citizens Crime Prevention, the Royal Newfoundland Constabulary, and the Royal Canadian Mounted Police, and over 12,000 brown paper bags were distributed to grade four and five students in the province. The students placed messages about drinking and driving on the bags. A committee of the NLC chose five regional winners. Each winner received a cheque for \$300, a framed picture of their winning bag, and two computer systems for their school. The remaining bags were distributed to the corporate stores and used to bag customer purchases during the May 24th holiday weekend. The campaign was aimed at providing anti drinking and driving messages to children and citizens, and bringing awareness of the negative effects it will have on individuals.

**Number of Liquor Licenses Issued in 2005-06**

Brewer's Agents	124
Bonded Warehouse	2
Club	13
Distributor	1
Hotel/Motel	4
Institution	1
Lounge	63
Military Mess	1
Restaurant	28
Recreational Facility	2
Restaurant/Lounge	2
Tourist Home	2
Catering	11
Special Events	650

**Total Licenses in Effect, March 31, 2006**

Airport Establishment	2
Brewer's Agent	1,231
Bonded Warehouse	6
Club	368
Distributor	36
Hotel/Motel	105
Institution	4
Lounge	689
Military Mess	11
Restaurant	310
Recreational Facility	52
Restaurant/Lounge	14
Tour Boat	12
Tourist Home	30
Transportation Services	9
Catering	161

# A Great Place to Work.

New initiatives to improve employee relations, promote safe practices, and identify and develop outstanding talent has created a workplace in which staff can take pride, and makes NLC a great place to work.



**Tracy Lewis**  
Occupational Health  
and Safety Manager

## Strategic Objective:

Enforcement

### Goal

In partnership with the Government Services Centre and enforcement agencies, work to enforce the Acts and regulations with respect to the sale, transportation, and distribution of beverage alcohol.

### Objectives:

1. Ensure adequate information and training is provided to persons involved in the beverage alcohol industry in the province
2. Issue licenses in accordance with provincial regulations for the sale of beverage alcohol
3. Conduct inspections to ensure compliance with the Acts and Regulations

### Performance Highlights:

In fiscal year 2005-06, the functions of licensing and inspections were transferred from the Government Services Centre to the NLC. The Corporate Services department was formed, with responsibility for enforcement, inspections, licensing, and social responsibility. Management of the Corporate Services department spent the majority of the year transferring and hiring staff as well as implementing policies and procedures to ensure fulfillment of its expanded responsibilities. As this department prepared for ensuring appropriate provincial coverage, it was necessary to recruit inspectors to be stationed in St. John's, Clarenville, Gander, Grand Falls, Deer Lake and Corner Brook. NLC had three inspectors transfer from the Department of Government Services, followed by the hiring of six new inspectors and a supervisor. This complement of staff will ensure the department can fulfill its objective of monitoring regulatory compliance by licensed establishments.

This transfer of responsibility was completed midway through fiscal 2005-06. During the second half of the year approximately 1,200 inspections were conducted. As a result of the inspections and the investigation of complaints received from the general public, the NLC held 24 hearings to review the issues raised. Appropriate action was taken by the NLC to address any matters

of concern. We continue to partner with the Royal Newfoundland Constabulary, the Royal Canadian Mounted Police, and Hospitality Newfoundland and Labrador in an effort to ensure enforcement issues are appropriately addressed.

Our front-line employees are trained to deal with age and alcohol-related situations. In fiscal 2005-06 employees challenged over 41,000 individuals who appeared underage or intoxicated. Just under 2,500 individuals were refused service due to their inability to produce valid identification or due to the fact they were intoxicated.

## Strategic Objective:

Organizational Effectiveness

### Goal

To create a progressive and stimulating workplace through an enhanced employee workforce, staff training programs, effective communications, processes, and the latest in available technology.

### Objectives:

1. Ensure an adequate level of staffing is maintained throughout the Corporation
2. Enhance staff skills through employee training programs
3. Ensure information systems are adequate to enable staff to carry out their duties in an efficient and effective manner

### Performance Highlights:

The human resources needs in 2005-06 were far more challenging than in past years as a result of the progressive changes taking place within the Corporation.

While staffing levels remain relatively consistent with recent years, there were improvements made to the recruitment and selection process designed to ensure individuals moving into roles with the Corporation had the right skills and aptitude for both now and the future.

An ever-present theme this year with NLC has been change – and the Corporation took a proactive approach to managing this change with staff. A new position, Vice President of Human Resources and Corporate Administration was created, reflecting the importance NLC places on its human resources practices as well as its commitment to strategic planning and board governance. A renewed effort to develop a cooperative and collaborative relationship with union representatives has been quite successful and is expected to become stronger in the future. The position of Occupational Health and Safety Manager was created which not only led to improved workplace safety policies and awareness of safety in the workplace, but also was instrumental to the organization's compliance with the requirements under the PRIME program delivered by the Workplace Health and Safety Compensation Commission (WHSCC). We are pleased to report that our efforts in this area resulted in a significant reduction in our WHSCC assessment premium. In addition, there was a new initiative to increase staff

understanding of their roles, accountabilities, and performance expectations and to connect this to broader corporate strategic objectives.

Throughout the year, staff have continued to upgrade their skills to reflect the needs of the organization. In particular, this past year staff development has focused on financial accounting and budgeting, business software applications, and occupational health and safety. We have only just begun to reap the benefits of these efforts, and we expect these benefits to grow in the future.

Two significant initiatives in the area of technology have and will continue to further our efforts to improve the operational effectiveness of the Corporation. Implementation of the Supply Chain Management system was a key step in the move toward a full retail solution that will link and create efficiencies in all areas of our operation. The Supply Chain Management System is instrumental in prudent inventory management.

The selection and beginning of the implementation of an Enterprise Resource Planning (ERP) solution was a significant milestone for the Corporation, which has not seen an upgrade to back office systems since the mid to late 1980's and has never had electronic human resource and manufacturing systems. The ERP system will improve efficiencies by reducing manual processes, and the system will fully integrate with other NLC core systems including Point of Sale and Supply Chain Management. The NLC must continue to invest in the upgrading and integration of its systems to improve services and efficiencies.

## Opportunities and Challenges Ahead

**N**LC has made significant strides this past year, and has implemented a variety of initiatives throughout the organization that will ultimately improve the effectiveness of operations and the service we provide our customers. We have also identified a number of opportunities and challenges that we must focus efforts on in the following years to come.

NLC has placed a great deal of emphasis on customer service, and creating pleasurable shopping experiences by opening new stores and conducting renovations. A new store was opened this year, and existing stores underwent changes to enhance the shopping environment for customers. The NLC will continue to look for similar opportunities to ensure our stores are in the right locations from a customer perspective. As population shifts occur over time, this increasingly becomes an area that must be carefully monitored on an ongoing basis. Challenges such as declining populations in rural areas, which impact sales of corporate and agency stores, are real. These issues need to be dealt with in an appropriate manner by respecting our customer base, which remain in these affected areas.

To achieve its objectives, the NLC must have a workplace that attracts and retains talented employees and enables them to contribute to their maximum. The key opportunities and challenges associated with this for the coming year will focus on:

- engaging staff in the changes and preparing them to function effectively in the new environment
- implementing a new strategic planning process that clearly outlines goals, performance expectations, and linkages at all levels of the organization
- providing training designed to ensure managerial excellence across the NLC and strengthen job growth opportunities for staff
- conducting a thorough review and, where necessary, revision of human resources policies and practices

These initiatives are indeed challenging – however, they also present NLC the best opportunity for success, both now and in the future.

We are also looking at opportunities with Special Wines, and are in the process of forming relationships with Houses in France and other parts of the world. By doing so, we are in the position of offering wines to our customers that are normally not available in the province. We have offered Bordeaux Futures for the first time in September 2005, which provides customers the opportunity to purchase wine that has been written about in reviews but not yet released. These initiatives will continue to allow NLC to diversify and provide superior products and services to our customers in this province as most of these opportunities exist in other provinces in Canada.

This past year we completed the implementation of the Supply Chain Management System and began implementing an ERP Solution. Completion of the ERP implementation is expected midway through next fiscal year. Ensuring the organization capitalizes on the benefits of these modern systems will be a key focus in fiscal 2006-07 and into the following year. Both of these systems will improve operations and enhance NLC management's ability to effectively direct the business of the Corporation.

## Social Responsibility.

In addition to its own initiative, NLC has partnered with several agencies including the RNC and RCMP to promote and enforce the responsible use and sale of alcoholic beverages.

A woman with long brown hair, wearing a light blue jacket over a black top, is smiling and holding a large, dark-framed cartoon. The cartoon depicts a police car with a sign that says 'Police' and a driver who looks dazed. The text in the cartoon reads: 'You wouldn't break the law... if you were a cop.' and '...Drinking and driving is breaking the law, so why do it?'. The background of the page is a collage of circular images showing various scenes, including what appears to be a construction site or a large indoor space.

**Laura Skinner**  
2005 Brown Paper Bag  
Awareness Campaign

## Financial Statements

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**Deloitte.**

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### Auditors' Report

To the Board of Directors of  
Newfoundland and Labrador Liquor Corporation

We have audited the balance sheet of the Newfoundland and Labrador Liquor Corporation as at March 31, 2006 and the statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Chartered Accountants  
May 26, 2006

**Newfoundland and Labrador Liquor Corporation**  
**Statement of Earnings**

Year ended March 31 (in thousands)

	<u>2006</u>	<u>2005</u>
	\$	\$
SALES	<b>143,559</b>	130,732
COST OF GOODS SOLD		
Inventory, beginning of the year	<b>26,418</b>	22,723
Purchases	<b>57,030</b>	56,506
Cost of goods available for sale	<b>83,448</b>	79,229
Less: inventory, end of the year	<b>24,064</b>	26,418
	<b>59,384</b>	52,811
GROSS PROFIT	<b>84,175</b>	77,921
COMMISSION REVENUE ON SALE OF BEER	<b>51,814</b>	52,343
OTHER INCOME		
Commission on licensee purchases	<b>1,832</b>	2,626
Interest	<b>869</b>	603
Miscellaneous	<b>754</b>	628
	<b>3,455</b>	3,857
EARNINGS FROM OPERATIONS	<b>139,444</b>	134,121
ADMINISTRATIVE AND OPERATING EXPENSES (Schedule 1)	<b>33,312</b>	30,104
NET EARNINGS	<b>106,132</b>	104,017

**Newfoundland and Labrador Liquor Corporation**  
**Statement of Retained Earnings**

Year ended March 31 (in thousands)

	<u>2006</u>	<u>2005</u>
	\$	\$
BALANCE, BEGINNING OF YEAR	<b>41,768</b>	43,121
NET EARNINGS	<b>106,132</b>	104,017
	<b>147,900</b>	147,138
PAYMENTS TO THE PROVINCE OF NEWFOUNDLAND AND LABRADOR	<b>(99,000)</b>	(105,370)
BALANCE, END OF YEAR	<b>48,900</b>	41,768

**Newfoundland and Labrador Liquor Corporation**  
**Balance Sheet**

March 31 (in thousands)

	2006	2005
	\$	\$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	23,136	14,957
Accounts receivable	5,152	5,830
Beer commissions receivable	4,413	4,550
Inventories, at cost (Note 3)	24,064	26,418
Prepaid expenses	814	521
	<b>57,579</b>	52,276
<b>CAPITAL AND LEASED ASSETS (Note 4)</b>		
	<b>12,604</b>	11,400
<b>INTANGIBLE ASSETS (Note 5)</b>		
	<b>61</b>	82
	<b>70,244</b>	63,758
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	17,647	18,648
Accrued vacation pay	1,225	978
Current portion of obligation under capital lease (Note 6)	70	13
	<b>18,942</b>	19,639
<b>ACCRUED SEVERANCE PAY</b>		
	<b>2,280</b>	2,351
<b>OBLIGATION UNDER CAPITAL LEASE (Note 6)</b>		
	<b>122</b>	-
	<b>21,344</b>	21,990
<b>EQUITY</b>		
Retained earnings	48,900	41,768
	<b>70,244</b>	63,758

ON BEHALF OF THE BOARD:

  
 CHAIRMAN OF THE BOARD

  
 DIRECTOR

**Newfoundland and Labrador Liquor Corporation**  
**Statement of Cash Flows**

Year ended March 31 (in thousands)

	2006	2005
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net earnings	106,132	104,017
Adjustments for:		
Amortization	2,376	2,153
Gain on disposal of capital assets	-	(2)
Accrual for vacation pay	247	(49)
Accrual for severance pay	(71)	(57)
Net change in non-cash operating working capital	1,875	(366)
	<b>110,559</b>	105,696
<b>INVESTING ACTIVITIES</b>		
Proceeds on disposal of capital assets	-	3
Purchase of capital assets	(3,351)	(1,011)
	<b>(3,351)</b>	(1,008)
<b>FINANCING ACTIVITIES</b>		
Payments to the Province of Newfoundland and Labrador	(99,000)	(105,370)
Repayment of obligation under capital lease	(29)	(50)
	<b>(99,029)</b>	(105,420)
NET INCREASE (DECREASE) IN CASH	<b>8,179</b>	(732)
CASH, BEGINNING OF YEAR	<b>14,957</b>	15,689
CASH, END OF YEAR	<b>23,136</b>	14,957

## Newfoundland and Labrador Liquor Corporation Notes to Financial Statements

March 31, 2006 (tabular amounts in thousands)

### 1. DESCRIPTION OF BUSINESS

The Newfoundland and Labrador Liquor Corporation (the "Corporation") is a provincial crown corporation responsible for managing the importation, sale and distribution of beverage alcohol throughout Newfoundland and Labrador.

### 2. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following accounting policies:

#### Revenue recognition

Revenue is recognized when goods have been sold and all contractual obligations have been met and collection is reasonably assured.

#### Inventories

Inventory is carried at the lower of average cost and net realizable value.

#### Capital and leased assets

Capital and leased assets are recorded at cost. Amortization is recorded over the expected useful life of the capital assets and over the term of the leased assets on a straight-line basis as follows:

Leasehold improvements	1 to 20 years
Buildings	20 years
Office furniture and equipment	5 years and 10 years
Store equipment and fixtures	5 years
Plant and warehouse equipment	5 years
Leased land	30 years
Motor vehicles	3 years

#### Intangible assets

Intangible assets consist of a trademark which is recorded at cost and amortized on a straight line basis over a ten-year period.

#### Severance pay

A liability for severance pay is recorded in the accounts for all employees who have a vested right to receive such payment. No provision for severance pay liability is made for employees who have less than nine years of continual service.

## Newfoundland and Labrador Liquor Corporation Notes to Financial Statements

March 31, 2006 (tabular amounts in thousands)

### 2. ACCOUNTING POLICIES (Continued)

#### Use of estimates

The preparation of the Corporation's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### 3. INVENTORIES

	2006	2005
	\$	\$
Head office	8,870	11,098
Branch stores	7,907	7,054
Stock in transit	6,149	7,190
Raw materials	1,120	1,035
Work in progress	18	41
	<b>24,064</b>	<b>26,418</b>

### 4. CAPITAL AND LEASED ASSETS

	2006		2005	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Land	1,123	-	1,123	1,123
Leasehold improvements	8,540	4,369	4,171	4,550
Buildings	7,329	4,715	2,614	2,696
Office furniture and equipment	5,139	1,815	3,324	1,778
Store equipment and fixtures	2,016	1,179	837	783
Plant and warehouse equipment	1,230	763	467	410
Leased land	249	208	41	49
Motor vehicles	46	19	27	11
	<b>25,672</b>	<b>13,068</b>	<b>12,604</b>	<b>11,400</b>

During the year, the Corporation acquired capital assets in the amount of \$3.6 million. Included in this total was \$0.2 million which was financed through a capital lease.

**Newfoundland and Labrador Liquor Corporation**  
**Notes to Financial Statements**

March 31, 2006 (tabular amounts in thousands)

**5. INTANGIBLE ASSETS**

	2006		2005	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Trademark	203	142	61	82

**6. OBLIGATION UNDER CAPITAL LEASE**

	2006	2005
	\$	\$
IBM Canada Limited, capital equipment lease repayable in monthly instalments of \$6,132 to December 31, 2008	203	-
IBM Canada Limited, capital equipment lease repaid in June, 2005	-	16
	203	16
Less: interest on obligation	11	3
	192	13
Less: current portion	70	13
	122	-

**7. FINANCIAL INSTRUMENTS**

The Corporation's financial instruments included in current assets and current liabilities approximate fair value due to their short term to maturity. The obligation under capital lease bears interest at current borrowing rates available to the Corporation and therefore, reflects fair value.

**Newfoundland and Labrador Liquor Corporation**  
**Notes to Financial Statements**

March 31, 2006 (tabular amounts in thousands)

**8. LEASE COMMITMENTS**

The Corporation has entered into rental leases covering retail outlets. Annual lease obligations for the next five years are as follows:

	\$
2007	1,068
2008	746
2009	456
2010	278
2011	254
	<b>2,802</b>

**9. RELATED PARTY TRANSACTIONS**

The Corporation is leasing office and warehouse space in St. John's from the Department of Works, Services and Transportation. These leases are rent free; however, all operating, leasehold and maintenance costs related to the buildings are the responsibility of the Corporation.

**10. PENSIONS**

The Corporation and its employees are subject to the Public Service Pensions Act effective June 26, 1973. Pension contributions deducted from employees' salaries are matched by the Corporation and then remitted to the Province of Newfoundland and Labrador Pooled Pension Fund from which pensions will be paid to employees when they retire. The Corporation's share of pension expense for the year is \$1.0 million (2005 - \$0.9 million).

**11. COMPARATIVE FIGURES**

Certain of the prior year figures have been reclassified to conform with the current year's presentation.

**Newfoundland and Labrador Liquor Corporation**  
**Schedule of Administrative and Operating Expenses**

Year ended March 31 (in thousands)

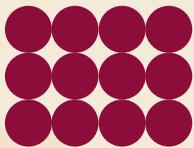
	2006	2005
	\$	\$
Salaries and employee benefits	18,146	14,998
Agency store commission and expenses	4,390	4,196
Amortization on capital and leased assets	2,376	2,153
Marketing	1,130	1,255
Rent and municipal taxes	1,635	1,511
Interest and bank charges	831	793
Other	4,804	5,198
	<b>33,312</b>	<b>30,104</b>

**Newfoundland and Labrador Liquor Corporation**  
**NLC Corporate Stores Revenue**

12 Months Ended March 31

**Sales by location (in thousands)**

	2006	2005
Agency Store	20,192	19,171
Clarenville	14,219	13,934
Elizabeth Avenue	11,523	10,334
Deer Lake	11,398	9,632
Stavanger Drive	7,201	6,371
Pearlgate	5,871	5,004
Topsail Road	5,616	6,636
Millbrook Mall	5,452	4,813
Blackmarsh Road	4,900	-
Harbour Grace	4,709	4,571
Grand Falls	4,523	4,293
Bay Roberts	4,362	4,032
Mount Pearl	4,341	4,153
Marystown	4,028	4,143
Stephenville	3,946	3,640
Gander	3,874	3,430
Happy Valley	3,143	2,545
Kenmount Road	3,009	3,441
Labrador City	2,688	2,631
Corner Brook Plaza	2,588	2,408
Placentia	2,534	2,372
Murray Premises	2,514	2,429
Licensee Store	2,292	2,004
Avalon Mall	2,284	2,493
Churchill Square	2,278	2,513
Port Aux Basques	2,094	1,876
Village Mall	1,469	1,537
Wine Shows	511	326
<b>TOTAL</b>	<b>143,559</b>	<b>130,732</b>



**NEWFOUNDLAND  
AND LABRADOR  
LIQUOR  
CORPORATION**

**NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION**

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