



NEWFOUNDLAND
LABRADOR
LIQUOR CORPORATION

CORPORATE OFFICE



NEWFOUNDLAND
LABRADOR
LIQUOR CORPORATION

annual report

Vision

To be passionate about service in everything we do.

Mission

Newfoundland Labrador Liquor Corporation (“NLC” or the “Corporation”) is mandated to oversee the manufacture, sale, and distribution of beverage alcohol within the province – with the expectation that it will generate revenue for the Government which will be reinvested for the benefit of the population. NLC strives to ensure its mandate is conducted in a socially responsible manner. In NLC’s view, these are the outputs expected of it – and they are not expected to change. To achieve these outputs, NLC has taken on the following mission:

“ To be recognized as an exceptional organization, known for its passion in customer service, strong business performance, and progressive corporate culture. ”

The recent initiatives undertaken by NLC speak to its commitment to this mission; and the success to date leaves NLC confident that this is the right approach going forward. This mission provides NLC with a constant sense of urgency to find better ways to deliver on the expectations of key stakeholders. It also reminds the Corporation of the various key drivers of its success – customer focus and work environment. This, coupled with the attention to financial performance, keeps NLC focused on the key measures of success.

NLC will continue to implement new initiatives aimed at achieving this mission – a focus on performance measurement and management, improved operational efficiencies, customer service, promotional and marketing programs, staff education and engagement, social responsibility advocacy and partnerships, increased enforcement and improved governance will enable NLC to meet and exceed expectations.



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Chairperson's Message



It is my pleasure, as the Chairperson of NLC, to present the Corporation's 2008-09 Annual Report. This report has been prepared under my direction and the NLC Board is accountable for its contents. Utilizing the strategies outlined in the Corporation's 2008-11 Business Plan, NLC delivered tremendous results, all of which were guided by adherence to the goals, measures and indicators in this plan.

NLC attained its dividend budget of \$118.0 million with net earnings of \$123.2 million. This success was driven by continued improvements in retail infrastructure, employee development initiatives, implementation of new technologies and an enduring commitment to customer service. Social responsibility remained a pillar of the Corporation's mandate as the "Check 25" program was fully integrated into the business model as well as several new awareness campaigns. Improved processes in Licensing and Inspections eliminated unnecessary steps and made user-systems friendlier for customers and staff alike.

Positive gains are a direct result of the sustained application of the principals outlined in NLC's 2008-11 Business Plan. The Balanced Scorecard approach to performance management, as detailed in the plan, has fostered strong leadership, accountability, and has clearly identified a set of expectations for all employees that centres on the delivery of superior customer service.

The Corporation's ability to achieve its goals is heavily reliant upon an energetic and dedicated staff, and an experienced CEO and Board of Directors that offer invaluable guidance. NLC also benefits greatly from the support provided by the Honourable Jerome Kennedy, Minister of Finance. I am certain that the Corporation will continue to flourish and all of the aforementioned parties will play a large role in NLC's continued success.

Sincerely,

A handwritten signature in black ink that reads "Glenn Tobin".

Glenn Tobin
Chair





Values



▲ The Wine Market Assistant was introduced as a pilot in two Liquor Stores, enabling consumers to pair wine and food, find and print recipes, and much more – it also played an integral role in the growth of wine sales.

Socially Responsible

Each NLC employee and Board member will advocate intelligent consumption by seeking to inform and educate customers and clients in the responsible and safe use of NLC products and by practicing intelligent consumption.

Professional

Each NLC employee and Board member will develop trusting relationships with clients by demonstrating the Corporation's values, being honest and forthright, honouring commitments, and treating people with respect and dignity. NLC stores will be clean, attractive, well designed and functional. NLC staff will be knowledgeable, friendly and will engage customers thoughtfully and courteously to ensure their needs are clearly understood and serviced.

Teamwork

Each NLC employee and Board member recognizes the importance of diversity and teamwork and will seek input from all key stakeholders, internally and externally, to optimize returns from our operations. NLC will recognize outstanding contributions and will look for opportunities to celebrate and develop strong relationships among staff. The Corporation will ensure expectations are defined and communication clear.

Initiative

Each NLC employee and Board member realizes and accepts that leadership is not position specific. Initiative will be encouraged, recognized and rewarded throughout the organization. Staff will be expected to use good judgment and will be empowered to make decisions. NLC employees and Board members believe initiative leads to greater success individually and organizationally.





Lines of Business

Retail Sales

The most visible component of NLC's operations to many is the retail sales of beverage alcohol through its 24 Corporate *Liquor Stores* throughout the province. *Liquor Store* locations are dictated by population.

Liquor Stores carry an extensive selection of spirits, beers, wine and ready-to-drink ("RTD") beverages imported from around the world, as well as locally produced spirits, wine and beer. The staff of all *Liquor Stores* are direct employees of NLC. All aspects of store design, sales, marketing, merchandising, human resources, and business operations fall under NLC jurisdiction.

Wholesale Sales

NLC's wholesale operations supply 118 *Liquor Express* agency operated locations and over 1,700 licensees. This group accounts for almost 40% of NLC's annual provincial sales revenues. *Liquor Express* locations are normally established in areas of the province that do not have the population to support a Corporate *Liquor Store* and involve an arrangement whereby an individual or corporation competes for the right to

◀ NLC acquired a new contract to bottle Crystal Head Vodka, the unique skull-shaped bottle presented packaging/ bottling challenges which were successfully met with an adaptable workforce and streamlined production processes.

sell beverage alcohol in a retail environment. *Liquor Express* locations have limited selection and service relative to a *Liquor Store*.

NLC issues licenses to restaurants, bars and lounges, authorizing the sale of alcoholic beverage products. These licenses totaled 1,796 as of April 4, 2009.

Licenses are also issued by NLC to brewer's agents, authorizing the sale of beer to the general public. The brewers' agent network consisted of 1,128 outlets in the province as of April 4, 2009.

NLC issues special event licenses as temporary permits for festivals, community celebrations and charitable events. These licenses totaled 763 in fiscal 2008-09.

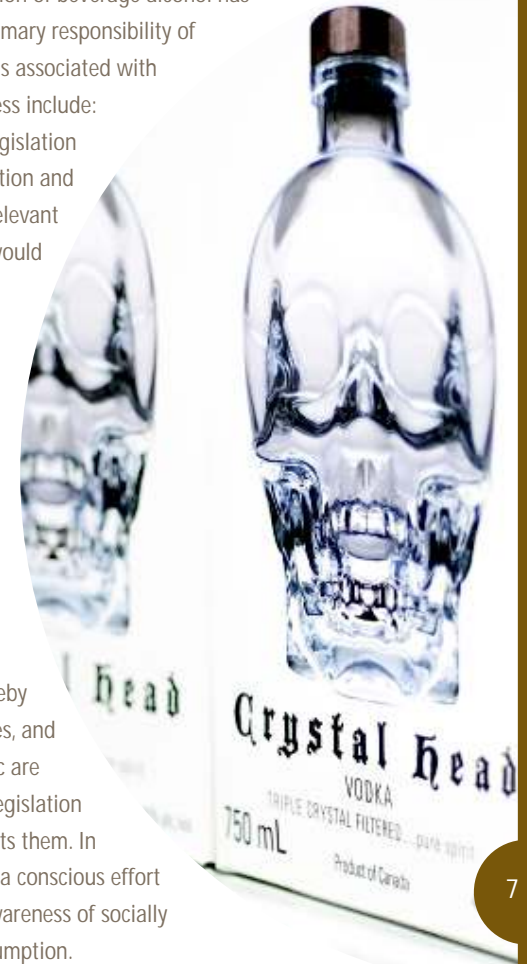
Manufacturing

NLC's manufacturing operation consists of a blending and bottling plant. NLC has developed recipes for various spirits, owns the rights to certain brands, and blends and bottles product on site. These products are sold locally and are marketed to other liquor jurisdictions in Canada. NLC also blends, bottles, and distributes spirits on behalf of other suppliers. In 2007-08 NLC produced 233,000 cases* and in fiscal 2008-09 production was 242,000 cases with a projected target for 2009-10 at 292,000 cases.

* Note: Cases are 9 litre equivalents

Regulatory Services

Recommending appropriate legislation governing the sale and distribution of beverage alcohol has always been a primary responsibility of NLC. The functions associated with this line of business include: recommending legislation and the investigation and enforcement of relevant legislation. This would include laying charges and imposing penalties against those in violation of this legislation. This arm of the business also includes an education component whereby licensees, agencies, and the general public are informed of the legislation and how it impacts them. In addition, there is a conscious effort to raise public awareness of socially responsible consumption.





Financial Perspective: Excellent Business Performance

Goal

By 2011, NLC will have improved its financial performance.

Measure

Improved financial performance as demonstrated by achievement of 2011 targets for measure indicators with Objectives F1, F2 and F3.

Objective F1- Optimize Shareholder Value

F1 Measure

NLC will implement initiatives to optimize shareholder value by striking a balance between revenue generation while promoting socially responsible consumption.

NLC met its dividend payment target of \$118.0 million in fiscal 2008-09. In fiscal 2007-08 the dividend payment was budgeted at \$110.0 million however, due to budget surpluses in recent years an additional \$15.0 million was remitted bringing the total dividend payment to \$125.0 million. Excluding the lump sum payment from cash surpluses the dividend payment has increased by \$8.0 million year over year or 7.3%.

Measure:

F 1.1 Dividend

08/09 Target:	08/09 Actual:	09/10 Target:
\$118.0 million	\$118.0 million	\$124.0 million

08/09 Initiatives:

- Regularly review financial expectations and performance with Government and Board. ✓
- Pursue revised legislation governing NLC operations. ✓

The improved dividend is the result of increased sales of 8.4% in fiscal 2008-09 over fiscal 2007-08, resulting in increased net earnings of \$6.0 million or 5.1%. Fiscal 2007-08 was a 53-week year while fiscal 2008-09 was a 52-week year. On a comparative 52-week to 52-week basis, sales increased by 10.2% and net earnings increased by 6.7% or \$7.7 million.

Financial information is reviewed on a regular basis with NLC's Board of Directors. NLC results are reported to the

Government of Newfoundland and Labrador on a quarterly basis.

The budgeted dividend for the upcoming fiscal year 2009-10 is \$124.0 million, an increase of \$6.0 million over fiscal 2008-09 or 5.1%.

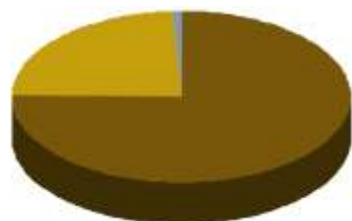


Sales by Product Category (millions of dollars)

	2009 Actual 52 weeks	2009 Budget 52 weeks	Variance	% Variance	2008 Actual 52 weeks	Variance	% Variance
SALES							
Spirits	105.9	104.3	1.6	1.5%	98.9	7.0	7.1%
Wine	43.5	40.3	3.2	7.8%	38.6	4.9	12.7%
RTD	12.2	11.2	1.0	9.2%	11.0	1.2	11.5%
Beer	17.5	15.6	1.9	12.5%	14.3	3.2	22.2%

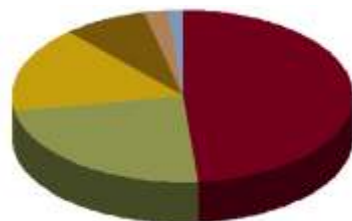
Financial Perspective: Excellent Business Performance

Figure A - Sources of Revenue,
Fiscal Year 2009



75% ■ Sales - Spirits, Wine, RTD, Beer
24% ■ Commission Revenue on Sale of Beer
1% ■ Other

Figure B - Application of Revenue,
Fiscal Year 2009



49% ■ Payments to the Province of Newfoundland and Labrador
24% ■ Suppliers
16% ■ Administrative Expenses
8% ■ Federal Taxes
2% ■ Purchase of Capital Assets
1% ■ Equity

Measure:

F 1.2 Net Earnings

08/09 Target:	08/09 Actual:	09/10 Target:
\$118.0 million	\$123.2 million	\$123.9 million

08/09 Initiatives:

- Implement new budgeting solution and further automate financial reporting. ✓
- Track financial performance and take appropriate action to address issues. ✓
- Conduct ROI analysis on all investments. ✓

Net Earnings for fiscal 2008-09 were \$123.2 million which was \$5.2 million greater than the \$118.0 million budgeted. Sales and other income were the main factors contributing to this strong result; sales were \$7.4 million greater than budget which resulted in a gross profit increase of \$3.0 million over budget. Other income was over budget by \$2.3 million primarily due to increased beer commissions.

Each of the fiscal 2008-09 initiatives relating to the net earnings measure were completed during the year. A new budgeting

system was implemented utilizing a Microsoft platform. This resulted in a significantly improved budget process. Financial performance against plan is tracked on a regular basis by all levels of management and acted upon as appropriate. All capital investments are analyzed both from a necessary maintenance perspective as well as an expansionary perspective. Expansionary capital is subject to a Return on Investment ("ROI") analysis. The 2009-10 net earnings budget is \$123.9 million.

Financial Performance (dollars in thousands)

	Fiscal 2009	Budget 2009	Variance \$	Variance %
Sales	182,916	175,467	7,449	4.2%
Cost of Goods Sold	76,944	72,450	4,494	6.2%
Gross Profit	105,972	103,017	2,955	2.9%
Gross Profit %	57.9%	58.7%		
Administrative and operating expenses	42,457	42,386	71	0.2%
Earnings from operations	63,515	60,631	2,884	4.8%
Earnings from operations % of sales	34.7%	34.6%		
Other income	59,653	57,343	2,310	4.0%
Net earnings	123,168	117,974	5,194	4.4%

Financial Perspective: Excellent Business Performance

Earnings from operations as a percentage of sales is a key indicator in that as sales grow, NLC must ensure that the profitability of those sales is optimized both from an absolute dollar perspective as well as a percentage of sales perspective. This is achieved through ongoing analysis and attention to the factors influencing gross profit margins as well as strict control on expenditures. The target, outlined in the fiscal 2008-11 plan was 34.6%. This was exceeded by 0.1% in 2008-09.

The initiatives outlined have all been completed during the fiscal year. As previously discussed financial information is reviewed at the operational level on an ongoing basis as well as key indicators and issues addressed in a timely manner.

A revised store audit program which includes an audit scorecard for each retail outlet was implemented in fiscal 2008-09 by the Enterprise Risk Management Department. The stores are reviewed regularly based on a priority level determined by evaluating objectively determined risk rankings.

Measure:

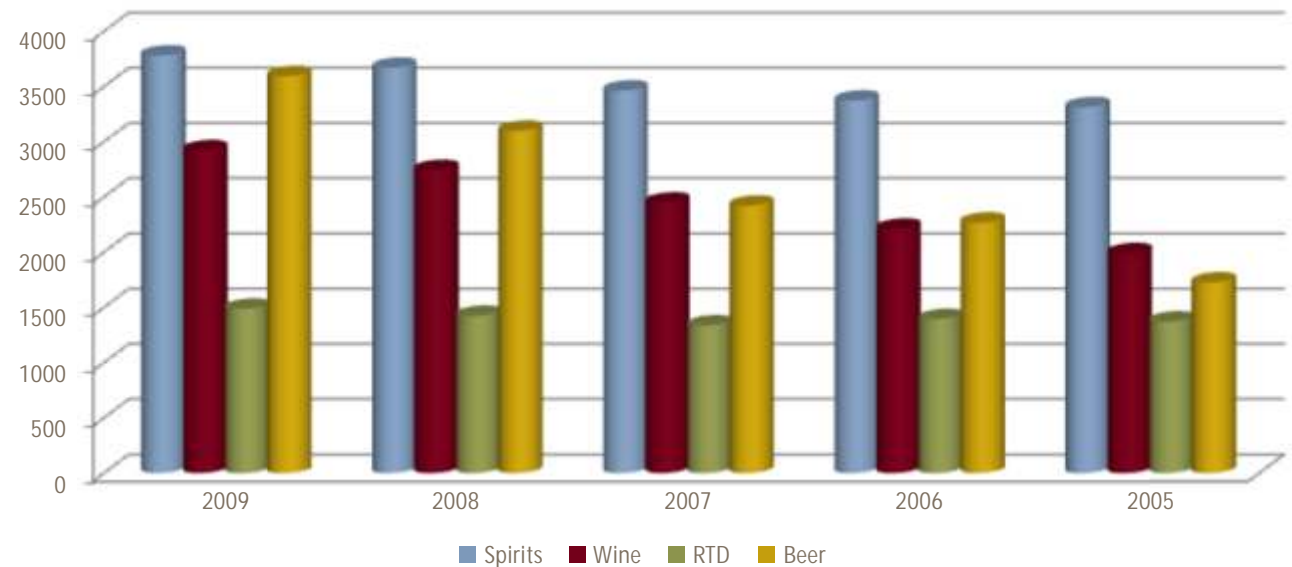
F 1.3 Earnings from Operations as a % of sales

08/09 Target:	08/09 Actual:	09/10 Target:
34.6%	34.7%	35.0%

08/09 Initiatives:

- Regularly review financial performance with key management staff. ✓
- Track key financial indicators regularly and take action as appropriate. ✓
- Develop and implement an audit scorecard for stores. ✓

Figure C - Product Sales Volume (litres in thousands)



Financial Perspective: Excellent Business Performance

Objective F2- Increase Sales

F2 Measure

NLC will implement initiatives that will generate information to improve financial decision making and behaviors that drive improved financial performance.

Sales for 2008-09 were \$182.9 million which exceeded budget by \$7.4 million or 4.2% and the prior year by \$14.2 million or 8.4%. Removing the effect of the additional one week in the prior year, sales were \$16.9 million or 10.2% above the prior year. Strong sales performance can be attributed to successful marketing and staff training programs. New and renovated stores continued to show strong sales growth.

All product categories exceeded budget and the prior year's sales level, due primarily to new initiatives within the NLC Promotional Policy, accompanied with significant investment from the supplier community. Beer had the most significant increase. The expanded chill room capabilities in the new and recently renovated *Liquor Stores*, as well as an enhanced assortment of imported beer, contributed to this dramatic increase. Spirits generated substantial gains fueled by new listings, including PET* products. Wine sales continue to grow, with NLC's traditionally strong base of wines from France, Italy, Australia and the US being

Measure:

F 2.1 - Sales

08/09 Target:	08/09 Actual:	09/10 Target:
\$175.5 million	\$182.9 million	\$191.1 million

08/09 Initiatives:

- Review financial performance weekly with store managers. ✓
- Store managers to communicate financial performance and goals with store staff. ✓

complimented by the emergence of new world countries such as Argentina and Chile. Consumer education, made possible through in-store tastings, staff product knowledge training, and the popular Wine Fests held in St. John's and Corner Brook, has had a strong impact on the growth of the wine category. The successful specialty wine offerings and releases, such as the Bordeaux Futures offerings have also furthered the growth of the category.

The sales target for fiscal 2009-10 is \$191.1 million. Continued staff training and development, as well as innovative marketing programs that focus on product education are in the plans for the coming year. Discussions are also underway to replace the older *Liquor Stores* that have not been renovated to corporate standards.

*Polyethylene Terephthalate ("PET") is one of the most commonly used food grade packaging plastics due to its chemical inertness and appealing physical properties. PET is quickly becoming the choice material for many beverage containers as it is lightweight, durable and 100% recyclable.

Measure:

F 2.2 Gross Profit

08/09 Target:	08/09 Actual:	09/10 Target:
\$103.0 million	\$106.0 million	\$110.5 million

08/09 Initiatives:

- Develop a pricing strategy that optimizes balance between revenue generation and social responsibility. ✓

Social responsibility dictates that the NLC pricing strategy establishes clear minimum levels at which retail prices can be set tied to the alcohol content of the various products offered. This is balanced with giving our customers an appropriate selection of products within various price ranges and allowing greater value with the purchase of larger formats.

Gross profit for fiscal 2008-09 was \$106.0 million which was greater than the target set for the year in the 2008-11 Business Plan by \$3.0 million. The 2.9% improvement over the plan was due to the larger than expected growth in sales. The target for fiscal year 2009-10 is \$110.5 million.

Financial Perspective:

Excellent Business Performance

Revenue per litre exceeded budget in all individual product categories. The blended revenue per litre is lower than budget due to the proportionately greater increase in beer sales volume relative to the other categories. Beer has the lowest revenue per litre, therefore any increase in beer category sales which outpaces other, higher revenue per litre categories, has the effect of lowering the blended revenue per litre results. Moving forward, NLC will no longer use this measurement as unpredictable shifts in volume make setting blended targets very difficult. Instead, the Corporation will focus on setting individual revenue per litre targets for each product category as demonstrated in the table F2.3 Revenue Per Litre.

NLC continued to develop customer product knowledge through special events. A fun and entertaining atmosphere was created at each show that allowed suppliers to educate customers through interactive samplings and demonstrations.

In total, NLC delivered five major events in 2008-09 (Wine Fest St. John's, Wine Fest Corner Brook, Spirit Fest St. John's, Spirit Fest Corner Brook and Beer Fest St. John's), making it the largest year ever for special events. Again, Wine Fest events delivered record-breaking numbers. Each year, show attendance increases and creativity to enhance our customer experience grows.

Measure:			
F 2.3 Revenue Per Litre			
Category	08/09 Target:	08/09 Actual:	09/10 Target:
Spirits	29.33	29.38	30.02
Wine	14.28	14.89	15.19
RTD	7.88	8.22	8.38
Beer	4.79	4.87	4.98
Blended	15.45	15.43	-
08/09 Initiatives:			
<ul style="list-style-type: none"> • Implement customer education that promotes appreciation for quality products. ✓ 			

NLC hired its first Product Knowledge Consultant, Andrew Facey, who is responsible for staff and customer product knowledge education. Andrew is a graduate of the International Sommelier Guild ("ISG") which teaches a graduate program in wine and spirits knowledge. NLC was also successful in partnering with the ISG to host level 1 and level 2 of the ISG program in St. John's, which is now the only city east of Toronto to offer this program. Held at the community room at NLC's Howley Estates *Liquor Store* in St. John's, classes of 24 students consisting of the general public and select NLC front line staff have successfully

graduated from level 1 and level 2 with plans to offer the third and final level in the near future.

NLC launched SERVE, a store staff sales training program designed to provide NLC's front line sales staff with a consistent customer service approach that ensures the customer's needs are addressed. SERVE, combined with product training from vendors and NLC's Product Knowledge Consultant, have helped NLC take a big step forward in providing top quality customer service.

Measure:		
F 3.1 - Operating Expenses as a % of Sales		
08/09 Target:	08/09 Actual:	09/10 Target:
24.2%	23.2%	23.9%
08/09 Initiatives:		
<ul style="list-style-type: none"> • Regularly track expenses and take appropriate action to address issues. ✓ • Implement new tools, equipment, and technology that increase efficiency. ✓ • Conduct an operational/energy efficiency review of NLC facilities. ✓ • Implement the Records Management strategy. ✓ 		

Objective F3 - Improve Operational Efficiency

F3 Measure

NLC will implement initiatives and new processes to promote efficient utilization of its assets.

Administrative and operating expenses as a percentage of sales were 23.2% which is one percentage point better than the target for 2008-09 of 24.2%. The timing of certain activities such as computer systems implementation affected the percentage by lowering expenses such as amortization and training. The target for the next fiscal year is 23.9%. Growing sales while maintaining or reducing administrative and operating expenses as a percent of sales is a goal of the Corporation. NLC's focus to control salary expense, the Corporation's largest single operating expense, led to new scheduling and training initiatives, which delivered exceptional customer service with efficient staff utilization.

Also during fiscal 2008-09, NLC recruited an individual to fill the new position of Continuous Improvement ("CI") Manager. The CI Manager, using their expertise in work flow and process design, will work with all functional areas of the Corporation identifying opportunities to improve the efficiency and effectiveness of processes and ensure greater value for money spent. The person will also teach others in the organization about the tools and techniques that lead to greater productivity without increased costs.

The budgeting system implemented in fiscal 2008-09 has greatly increased the efficiency with which the budget is prepared and analyzed. This integrated system is the first of its kind for the Corporation.

New policy and procedures were developed for recorded information management, records classification, records retention and disposal, records transfer, records retrieval and archiving in fiscal 2008-09 and basic records management training was delivered to all NLC employees. Records retention disposal schedules have been implemented for all corporate departments.

A review of NLC facilities identified areas to improve operational and energy efficiencies. Energy conservation projects included replacement of the original hot water boiler for building heating with two energy efficient boilers resized for the building load, replacement of warehouse lighting systems with high bay fixtures, redesign of the loading bay facility to reduce heating loss during winter months and cooling loss in the summer, and optimization of computer based building automation systems technology to limit energy consumption. By end of fiscal 2008-09, there was a reduction of approximately 10% in electrical consumption at Corporate Office over the same period a year prior.

In fiscal 2008-09 NLC inventory turns were 3.0 turns per year on a target of 3.1. The need to stock the expansion of our store system as well as an increase in products to improve customer selection resulted in a slightly lower than target turn ratio. A review of order cycles commenced in fiscal 2008-09, and will continue to refine processes as the Corporation adjusts to new global transportation contracts effective the first quarter of fiscal 2009-10. As part of this process NLC has collaborated with other Atlantic liquor jurisdictions to avail of combined orders so that smaller shipments can be handled with greater efficiency.

As product selection continues to broaden and change to meet consumer expectations, the warehouse layout is continuously under review to ensure the Corporation is structured to meet the demands.

The target for 2009-10 has been set at 3.2 inventory turns. In order to provide the necessary focus on optimum inventory levels, NLC will continue to analyze best practices for improving consolidation and freight efficiencies, as well as optimizing strategic partnerships with other Atlantic jurisdictions. NLC will also create a new Logistics Manager position to deal with the increasing complexities of freight movement both locally and internationally.

Measure:

F 3.2 - Inventory Turns Annually

08/09 Target:

08/09 Actual:

09/10 Target:

3.1

3.0

3.2

08/09 Initiatives:

- Review ordering and shipping cycles to establish optimal cycle times. ✓
- Investigate inventory controls and automatic replenishment to stores. ✓
- Develop revised inventory report. ✓
- Review warehouse layout and operations and implement initiatives to improve operations. ✓

Figure D - Spirit Sales by Product Type (litres in thousands)

	2009	2008	2007	2006	2005
Rum	1,986	1,941	1,850	1,789	1,774
Rye Whiskey	759	752	727	730	721
Vodka	452	416	379	365	338
Liqueurs	366	348	303	286	283
Scotch - other Whiskey	115	113	106	107	104
Gin	60	57	56	52	52
Brandy	22	23	24	27	27
Tequila	17	16	14	13	11
Cognac	3	3	3	2	3
Miscellaneous	1	1	1	1	0
	3,781	3,670	3,463	3,372	3,313

Figure E - Wine Sales (litres in thousands)

	2009	2008	2007	2006	2005
Table Wine	2,602	2,429	2,151	1,910	1,693
Sparkling and Champagne	235	228	212	210	204
Fortified Wine	83	85	84	90	92
Low Alcohol Wine	2	2	1	1	1
	2,922	2,744	2,448	2,211	1,991

Figure F - RTD and Cider Sales (litres in thousands)

	2009	2008	2007	2006	2005
RTD	1,436	1,386	1,311	1,371	1,354
Cider	52	38	25	23	18
	1,488	1,424	1,336	1,394	1,371

Figure G - Beer Sales (litres in thousands)

	2009	2008	2007	2006	2005
Local Beer (Bottles)	1,830	1,539	1,111	803	661
Imported Beer	1,404	1,254	1,107	1,295	933
Local Beer (Cans)	262	231	147	116	92
Low Alcohol Beer	98	74	56	53	38
	3,594	3,098	2,421	2,267	1,725



Customer Perspective: Everything Begins with the Customer

Goal

By 2011, NLC will have improved customer service across all key customer segments.

Measure

Improved customer service across all key customer segments as indicated by achievements of 2011 measure indicator targets associated with Objectives C1, C2 and C3.

Objective C1 - Create an Engaging and Satisfying Customer Experience

C1 Measure

NLC will implement initiatives to enhance the whole shopping experience at *Liquor Stores* and *Liquor Express* locations.

NLC's investment in Corporate *Liquor Stores* continued in fiscal 2008-09. Two corporate locations, Labrador City and Ropewalk Lane, St. John's were relocated adjacent to grocery stores, which has proven to be a successful partnership. Based on population growth and strong future sales projections, NLC's Stavanger Drive, St. John's location was expanded to 10,000 square feet to serve its growing customer base better. To allow for improved service and selection, a new Corporate *Liquor Store* was built in Long Pond, CBS in fiscal 2008-09. Eighteen of the twenty four corporate locations have now been renovated or relocated since August of 2006, demonstrating NLC's commitment to modernizing its aging retail stores and providing customers with an improved shopping experience. Over twenty *Liquor Express* locations were reviewed in regards to customer needs this year. New products were added across all categories in accordance with new shelf management standards.

Measure:		
C 1.1 Customer Survey Scores (Retail)		
08/09 Target:	08/09 Actual:	09/10 Target:
88%	83%*	89%
08/09 Initiatives:		
<ul style="list-style-type: none"> • Implement improvements in shopping facilities and infrastructure to create an engaging shopping experience. ✓ • Increase staff training in product knowledge and customer engagement. ✓ • Develop and implement operational support and education initiatives for <i>Liquor Express</i> operators. ✓ • Conduct annual customer survey. ✓ • Increase number of promotional marketing, and merchandising initiatives. ✓ • Establish brand recognition for <i>Liquor Store</i> and <i>Liquor Express</i> locations. ✓ • Establish consistent standards for store product listings by store. ✓ 		

*There were over 1,200 respondents to the survey and 83 percent of respondents were "very satisfied" with their last visit to an NLC *Liquor Store* and 98 percent of respondents were "very/somewhat satisfied."

Customer Perspective: Everything Begins with the Customer

Staff training and product knowledge were key areas of focus for the Corporation in fiscal 2008-09. NLC launched SERVE, a sales program designed to provide a guided sales approach to *Liquor Store* staff on assisting the customer in their purchase selection. The SERVE program incorporates fun and product knowledge, and is aimed at providing a level of comfort and confidence to store staff to aid in building relationships with the customer. The program was fully adopted by *Liquor Store* management and staff and the positive results in average revenue per litre and basket size demonstrates its success. NLC's mystery shopper program was modified to include a check to ensure that SERVE was being utilized to assist customers, with stores scoring positive results. The addition of Andrew Facey, NLC's certified sommelier and Product Knowledge Consultant was a significant step towards increased product knowledge. Andrew visited all *Liquor Stores* several times in fiscal 2008-09, conducting training seminars with staff and management on wines and spirits.

Liquor Express operators across the province attended a meeting to discuss state of business, policies and procedures and to receive training in sales, product knowledge and social responsibility.

NLC utilized the AIR MILES® customer data to send customer satisfaction surveys to frequent and

infrequent customers to gauge their level of satisfaction with NLC *Liquor Stores*. There were over 1,200 respondents to the survey and 83 percent of respondents were "very satisfied" with their last visit to an NLC *Liquor Store* and 98 percent of respondents were "very/somewhat satisfied."

The 83 percent result might give the impression that NLC missed its customer satisfaction target of 88 percent, however, this target was set prior to full development of the survey tool. In order to obtain the most comprehensive data, the Corporation widened the variety of response options for participating customers. The results were very positive, albeit not truly representative of the initial target.

From a marketing perspective, NLC developed several new programs this year. A monthly flyer featuring sale items, AIR MILES bonus offers, new products and product knowledge was designed and distributed. This allowed customers to browse the featured items and plan their shopping trip or peruse the flyer during their visit to a *Liquor Store*. *Liquor Store* gift cards were also prominently promoted throughout the year as a great gift for any occasion. Gift card sales experienced 71% growth, demonstrating that customers did agree that this was a good gift alternative.

Branding efforts of *Liquor Store* and *Liquor Express* continued in fiscal 2008-09. In addition to new marketing vehicles like the monthly flyer and an email distribution list that received weekly updates, NLC utilized television advertising to promote products as well as to reinforce social responsibility. *Liquor Express*

locations received new exterior and interior signage to help identify locations. New standards for service were established for this store format.

Liquor Express locations were divided into groups based on sales volume and standards were set based on these store formats, to ensure that selection and space equally matched the customers needs at each store location.

Nine *Liquor Stores* remain to be updated to current store standards, four of which are expected to be completed in the coming fiscal year. *Liquor Express* locations that are renewed will be subject to the new standards and shelf

► From a marketing perspective AIR MILES customer data has provided key information allowing NLC to effectively target individual market segments.



Customer Perspective: Everything Begins with the Customer

management. The focus on SERVE will continue into 2009-10 as well as increased product knowledge programs and investment in training for sales associates. A customer survey to measure any changes in satisfaction levels is also planned as well as additional mystery shops to ensure that the level of customer service continues to improve.

NLC's flyer will undergo positive changes to hold more product information in a friendlier format. A new in-store wine education program will be



▲ NLC will bring a greater level of social responsibility awareness to all marketing vehicles this year. Check 25 advertising is included in every monthly flyer.

developed to aid in customer's learning of this growing category. Promotion of gift cards as the gift of choice will continue into fiscal 2009-10. NLC will utilize newsprint, radio and television to promote product knowledge and social responsibility in the coming year.

Objective C2 - Serve Customers - Internal and External - With Passion and Integrity to Build Loyalty

C2 Measure

NLC will identify and implement initiatives to better understand and engage the customer.

A target of \$30.50 was set for fiscal 2008-09, which represented a 1.4% increase over the previous year's actual sales per over the counter transaction ("OTC") of \$30.06. OTC sales are the retail sales to customers from our Corporate *Liquor Stores*. With the combined positive effects of SERVE with NLC staff, and continued focus on product knowledge, the actual average sales per OTC

transaction for fiscal 2009 grew to \$31.45 and 3.1% greater than the target. At the same time, OTC transactions grew from 3.2 million in 2007-08 to 3.4 million in 2008-09.

NLC's special events continued to be wildly popular with customers in 2008-09. The addition of a Special Events Coordinator this year ensured that all special events ran smoothly and positioned NLC to expand the number of events that it hosts each year. Based on the success of Spirit Fest in the eastern part of the province, a second Spirit Fest was held in Corner Brook, with a sell out audience for both nights. An inaugural Beer Fest was held in St. John's in late March 2009, which also sold out to the largest audience NLC has ever hosted to date. Customer and supplier reviews were extremely positive on both existing and new events held in fiscal 2009. Based on customer feedback and category size, NLC is planning a Whisky & Scotch show for 2010 as well as an additional wine show in St. John's that will explore a specific country in greater detail. Of course, all existing shows will continue as will the planning to ensure that each show meets or exceeds customer expectations.

Measure:

C 2.1 Sales per OTC Transaction

08/09 Target:	08/09 Actual:	09/10 Target:
\$30.50	\$31.45	\$31.70

08/09 Initiatives:

- Introduce new events into NLC's Special Events portfolio. ✓
- Grow e-mail distribution list to further develop customer relationships. ✓
- Develop initiatives to gather feedback from customers. ✓

* all dollar amounts shown above are before taxes and bottle deposit.

Customer Perspective: Everything Begins with the Customer

Objective C3 - Promote a Sense of Social Responsibility in the Enjoyment of our Products and Services

C3 Measure

NLC will implement initiatives and leverage partnerships to promote socially responsible consumption of beverage alcohol.

NLC's Marketing department worked closely with the Corporate Services division to bring a greater level of social responsibility awareness to all of NLC's marketing vehicles this year. NLC's new monthly flyer includes Check 25 advertising and the Corporation's social responsibility tagline "Moderation the Smart Choice" has been added to all print advertising and several in-store promotional elements.



The Corporate Services department of NLC worked closely with RCMP, RNC and Crime Stoppers during fiscal 2008-09 through tribunal hearings, license suspensions and media events to ensure that enforcement and awareness issues are appropriately addressed.

Year	Inspections	Hearings
2007	3,211	27
2008	2,700	18
2009	2,878	16

Measure:

C 3.1 Customer Survey Scores (Social Responsibility)

08/09 Target:	08/09 Actual:	09/10 Target:
75%	87%	80%

08/09 Initiatives:

- Marketing department to oversee marketing efforts of NLC's social responsibility initiatives. ✓
- Develop partnerships to leverage resources with other groups to maximize penetration of the social responsibility message. ✓
- Implement new initiatives to promote socially responsible consumption. ✓
- Review and recommend revisions to current legislation. ✓
- Enhance community visibility as a good corporate citizen. ✓

Social Responsibility messaging for Drinking and Driving, Drinking and Boating, and Drinking and Snowmobiling was implemented in all *Liquor Stores*, *Liquor Express*, brewer's agents and licensed establishments. A major focus on Check 25 was also executed this year, with messaging and awareness in local media as well as in all retail liquor and beer stores and on-premise accounts.

A partnership with NTV/OZFM and NLC's Corporate Services department saw the development and production of a Drinking and Driving awareness campaign entitled, "25 Second Ad Challenge" where students were challenged to create a drinking and driving awareness commercial script where the winning entry would be aired on NTV/OZFM.

In the June 2008 Customer Satisfaction Survey to over 1200 *Liquor Store* customers, 87 percent of respondents were satisfied with NLC's efforts in promoting social responsibility.

NLC has also undertaken a review of the Liquor Control Act and Regulations and recommended revisions, with the goal of updating the act to reflect today's environment.

Corporate Services partnered with NLC's Store Operations and Wholesale department to launch a Check 25 Mystery Shopper program whereby a shopper over 19, but under 25 that appeared young was sent into 30 *Liquor Express* locations and all *Liquor Stores* to make a purchase and the shopper recorded whether or not they were asked for ID. This program heightened the awareness of Check 25 and compliance with the program across retail outlets.

With the success of last year's launch, the second wave of Check 25 will be rolled out in fiscal 2009-10 with targeted messages focused on reaching the 19-25 year old demographic. In conjunction with other liquor jurisdictions across the country, NLC will commence the national campaign "Moderation is always in good taste." This 4-year project is being led by the Canadian Association of Liquor Jurisdictions ("CALJ") and will strive to make moderate consumption of alcohol a "top of mind" topic for everyone as NLC increases awareness regarding the importance of responsible drinking habits.

Internal Processes: Innovate, Collaborate, and Allocate Resources Effectively

Goal

By 2011 NLC will improve internal processes to deliver enhanced operational efficiency in meeting customer expectations.

Measures

Improved internal processes that deliver enhanced operational efficiency in meeting customer expectations as defined by the achievement of 2011 measure indicator targets associated with Objectives IP1, IP2, IP3, and IP4.

Objective IP1- Ensure We Have the Right Products and Services at the Right Place at the Right Time

IP1 Measure

NLC will implement initiatives to streamline product delivery and reduce stock-outs of core products.

NLC conducted a review of inventory reporting processes and set service levels and expectations around in-stock percentages in fiscal 2008-09. A 92% in-stock service level was the goal for core products. Products were further categorized into A, B and C product units with appropriate service level percentages set for each category. Service levels for A's (98%) and B's (94%) were attained, while the volume of C product units resulted in an overall service level of 91% versus the target of 92%. The service level for C product units – which are primarily sourced from overseas – was impacted negatively by labour unrest at the ports in Argentina, Chile, Greece, Italy, France, Spain and Portugal and poor service from our freight handling providers servicing Northern Europe, Ireland and South Africa. The process of dissecting the product base to monitor service levels continues and in 2009-10 a target of 95% has been set for our core product group.

A list of “core” or mandatory listings was established for *Liquor Express* locations across the province, to ensure that top selling products in each category were available in all *Liquor Express* locations. Monthly product displays in Corporate *Liquor Stores* were strategically matched with seasonal brands to help ensure inventory levels were adequate to meet peak customer demand.

Maintaining in-stock service levels is oft times a delicate balance between inventory levels and space requirements. NLC will focus on physical inventory flow to ensure this fine balance is maintained. The addition of a Logistics Manager in 2009-10, will enable a greater focus on this and is expected to improve NLC's in-stock service level on core products to 95%.

Enhanced reporting utilizing Microsoft SharePoint for *Liquor Express* operators will allow for improved communication between NLC and the operators. New functionality is expected to include online ordering and enhanced product knowledge.

Measure:

IP 1.1 In-stock Service Level (Core Products)

08/09 Target:

92%

08/09 Actual:

91%

09/10 Target:

95%

08/09 Initiatives:

- Establish core products listing and establish optimal order and shipping cycles for each category. ✓
- Establish new processes to make it easier to order product. ✓
- Review inventory management practices and warehouse layout. ✓

Internal Processes:

Innovate, Collaborate, and Allocate Resources Effectively

Objectives IP2 - Ensure Processes are Simple, Efficient and Reduce Unnecessary Complexity

IP2 Measure

NLC will implement improved processes and technology throughout the organization to improve efficiency and reduce errors.

Throughout fiscal 2008-09, all departments were responsible for identifying key process and technology improvements in their particular business units.

The hiring of a Continuous Improvement Manager in fiscal 2008-09 demonstrated NLC's commitment to establishing best practices in corporate-wide productivity.

An analysis of procedures in Licensing and Inspections led to the elimination of unnecessary processes and made the system more user friendly for customers and staff. Improved management of records was also achieved through the guidelines established in a new records retention and disposal plan for all departments.

Development of 'Grapevine', a Corporate Office and *Liquor Store* intranet communications tool continued. Corporate Office departments now post

Measure:

IP 2.1 Process Improvement Compliance

08/09 Target:	08/09 Actual:	09/10 Target:
85%	91%	91%

08/09 Initiatives:

- Departments to identify key process and technology improvement initiatives annually and report on success of implementation. ✓

notices and documents to the Grapevine. Store standards documents and policies and procedures can now be quickly and easily accessed by internal employees via this new internal site.

Electronic payment to vendors was implemented in fiscal 2008-09 to reduce costs, and improve the vendor payment process. The process for customer special orders was reviewed and streamlined for efficiency, and all warehouse listings were evaluated and classified as high, medium and low volume products with service level targets set for each.

NLC implemented a new Payroll and Human Resources Information System during the year. This permits more complete and accurate employee records and far greater analysis of various labour statistics and other employee based performance measures.

Two new category management tools were developed, designed and tested in fiscal 2008-09 for deployment to vendors in fiscal 2009-10. The Electronic Promotional Application Calendar ("e-PAC") is an electronic submission system designed to track vendors programs, expenditures and results and compare this to the budgets established at the start of the fiscal year. It will

dramatically improve communication and analysis of promotional programs to Corporate office departments, *Liquor Stores* and *Liquor Express* and external vendors. The Electronic Product Application Submission System ("e-PASS") is an electronic submission system designed to track listing applications submitted by vendors, maintain a history of approvals and rejections, allow access to this information, and track progress of Corporate office departments as the listing moves from category to finance and supply chain before arriving at the warehouse.

Within the Supply Chain department a full review of forecasting and replenishment systems is planned to improve these systems.

Early in fiscal 2009-10, distribution to *Liquor Express* locations will be centralized to four locations: St. John's, Clarenville, Deer Lake and Labrador City to better serve *Liquor Express* locations as well as improve customer service at Corporate *Liquor Stores* that were previously serving both customer types. Corporate Services is also working towards posting all licensing applications online to allow these customers easier access to this information.

Internal Processes:

Innovate, Collaborate, and Allocate Resources Effectively

Early in fiscal 2009-10, work is set to begin on a new analytical tool that will allow improved reporting across all business units within NLC. Business Intelligence ("BI") will begin with Supply Chain and Store Operations, but will ultimately expand to hold data across all departments and will be the main source for data and information for the Corporation. The result will be improved Key Performance Indicator reporting and efficient and accurate access to critical sales and business user information.

Objective IP3 - Optimize Manufacturing Productivity

IP3 Measure

NLC will improve utilization of plant assets to improve financial return on these assets.

In 2008-09 the distillery suffered from the economic downturn, particularly from the US where one of NLC's key customers and largest contracts saw a drastic decline in volumes. The Corporation's production estimates were based on estimates provided by the client and ultimately, neither party could have foreseen the massive reduction in output as a result of surprising economic conditions, decreased sales and fewer orders for product.

On a more positive note, late in fiscal 2008-09 the distillery acquired a new contract to bottle Crystal Head Vodka, a unique vodka bottled in a skull-shaped bottle and distributed in the US and Canada with expectations for expansion into other markets. There was a significant learning curve associated with the introduction of this new product, as the unique bottle required NLC to introduce a different production method to accommodate filling and packaging procedures, and staff training to establish the process for delivery. With a streamlined workforce and production process, and a tremendously popular product with inquiries coming from around the world, it is expected that this contract will be a significant contributor in 2009-10.

In 2008-09 NLC introduced four new PET bottled products (Shiver Vodka, Shiver Gin, Amherst Gate Whisky and Big Land Whisky) as well, the Corporation completed research and development, and procurement of materials for a new premium spirit, "Newfoundlander's Rum", scheduled for production in the first quarter of 2009-10.

New management structure introduced in the last quarter of fiscal 2008-09 will serve to strengthen manufacturing processes and gain greater efficiencies. Key positions were filled in Distillery Operations management. Work began to reorganize direct bottling line supervision and will continue in fiscal 2009-10. This initiative was undertaken to ensure an adequate structure exists to grow the current business and to position the manufacturing operation so that the Corporation can take advantage of new business opportunities.

As the US market looks to improve and with the new Crystal Head contract, it is anticipated that the manufacturing operations' results will be significantly better in 2009-10. However, the target figure is significantly less than the submitted budget figure of \$777,000, a result of a post-budget review of operational and market issues affecting the operation by the new management team.

Measure:

IP 3.1 Net Earnings (Manufacturing)

08/09 Target:	08/09 Actual:	09/10 Target:
\$875,000	(\$10,342)	\$530,000

08/09 Initiatives:

- Streamline and improve quality of manufacturing reporting. ✓
- Increase production through new contract bottling opportunities and the introduction of three new NLC products. ✓
- Reduce bottling line downtime. ✓
- Implement initiatives to improve inventory control, forecasting and production scheduling. ✓

Internal Processes:

Innovate, Collaborate, and Allocate Resources Effectively

Measure:		
IP 4.1 Number of Challenges as a % of Transactions		
08/09 Target:	08/09 Actual:	09/10 Target:
2.5%	2.7%	2.8%
08/09 Initiatives:		
<ul style="list-style-type: none"> • Develop clear guidelines for challenges and refusals in <i>Liquor Stores</i> and <i>Liquor Express</i> locations. ✓ • Track challenges and refusals monthly. ✓ • Implement Mystery Shopper approach to ensure compliance with procedures. ✓ 		

Objective IP4 - Build Social Responsibility into all Areas of our Business

IP4 Measure

NLC will develop and implement standard operating procedures that reduce the risk that beverage alcohol is sold to inappropriate individuals.

Meetings were held with all *Liquor Stores* and *Liquor Express* operators in which training and legal advice were provided on how to handle underage and intoxicated customers. The Check 25 program, whereby all customers who appear under 25 will be asked for an ID, was also promoted in-

store and across several media in fiscal 2008-09. A target to challenge 2.5 percent of all transactions in Corporate *Liquor Stores* was established, which was considerably higher than the fiscal 2007-08 actual of 1.5 percent. In fiscal 2008-09, 2.7 percent of all transactions were challenged by NLC staff, demonstrating that Check 25 was understood and utilized by store employees. As mentioned earlier, Corporate Services, Store Operations and Wholesale also conducted a Check 25 mystery shop program in over 50 Corporate *Liquor Stores* and *Liquor Express* accounts to audit compliance to the program.

Further enhancements to NLC's Grapevine are planned to allow for expansion of the challenges and refusals tracking program to *Liquor Express*. Additional mystery shops to verify Check 25 compliance are also planned for the 2009-10 fiscal year at both Corporate *Liquor Stores* and *Liquor Express* locations.

*Future Accounting Pronouncements

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises in Canada. This will mean that IFRS will be effective for the fiscal year beginning April 3, 2011 for the Corporation. In April 2008, the CICA issued an IFRS Omnibus Exposure Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, for fiscal years beginning on or after January 1, 2011. The transition date of April 3, 2011 will require the restatement, for comparative purposes, of amounts the Corporation reports for its fiscal year ended April 2, 2011, and of the opening balance sheet as at April 4, 2010.

In preparation for the conversion to IFRS, the Corporation has developed an IFRS implementation plan. The Corporation has completed the diagnostic phase which involved a high-level review of the differences between Canadian GAAP and IFRS, as well as a review of the alternatives available for adoption. Throughout fiscal 2010, the Corporation will be conducting the second phase of its plan which encompasses a detailed impact assessment. As implications of the conversion are identified in this phase, the impacts on other key elements of the conversion plan will be assessed. These key elements include: accounting policy changes, information technology changes, education and training requirements, disclosure requirements, internal control impacts and impacts on business activities. The Corporation will continue to report on the key elements and timing of its IFRS implementation plan in its 2010 annual report.

Employee Learning and Growth: Proud to be with NLC

A performance based corporate culture begins with engaged employees. NLC staff has made significant strides creating a work environment which aligns with NLC's Vision. In the last fiscal year, NLC employed a total of 621 employees, of which 328 were female and 293 were male, and 363 employed in urban areas versus 258 working in rural areas of the province. The following section outlines specific employee related metrics and initiatives that contributed to NLC's overall success.

Goal

By 2011, NLC will have shifted its corporate culture to one that more visibly engages staff and recognizes excellent performance.

Measure

Establishment of a corporate culture to one that more visibly engages staff and recognizes excellent performance as measured by achievement of 2011 measure indicator targets for objectives ELG1, ELG2, and ELG3.

Objectives ELG1 - Create a Performance Oriented Culture Through a Knowledgeable and Engaged Workforce

ELG1 Measure

Implement initiatives that engage staff and increase their competence and professional potential.

Measure:

ELG 1.1 Employee Survey Scores

08/09 Target:	08/09 Actual:	09/10 Target:
65%	68%	68%

08/09 Initiatives:

- Develop and conduct employee survey. ✓
- Collaborate and consult regularly with union officials. ✓
- Implement initiatives to promote 2-way communication between management and staff. ✓

NLC initiated a comprehensive Employee Engagement Survey in March 2009. Overall results were positive with a high degree of satisfaction and engagement among staff with approximately 90% of respondents indicating they were proud to work with NLC and found their work interesting. Employee responses indicated a strong desire for continued focus on communications and employee development – both are focus areas going forward.

NLC management met extensively with union representatives during the year to conclude a new collective agreement, with a deal being ratified in February 2009, almost a full year after the expiration of the previous collective agreement. The deal, which expires in 2012, included significant gains for staff in wages, 21% (compounded) over four years, and the creation of 58 new

permanent full-time positions and a number of part-time positions. More flexible scheduling provides NLC with greater operational efficiencies.

While all departments met with staff more often, organizationally, NLC instituted an internal website, the Grapevine, to further enhance communication across the organization.

For 2009-10, NLC will introduce a Code of Conduct to help guide responsible behaviour across the organization. Focus groups with employees will be held to further investigate issues and opportunities identified in the Employee Survey. NLC management staff will continue consultation and collaboration with union officials to implement the new collective agreement.

Measure:

ELG 1.2 Training Spend per Employee

08/09 Target:	08/09 Actual:	09/10 Target:
\$1000	\$1000	\$1050

08/09 Initiatives:

- Allocate budget for staff education. ✓
- Establish career goals for employees and provide educational support to promote their potential.
- Establish minimum performance standards and provide training to ensure staff have appropriate training to be successful.

The last fiscal year, NLC committed over \$500,000 for staff training and professional development. A focused commitment to developing supervisor capabilities and employee's customer service skills, through partnership with Memorial University's Gardiner Centre (formerly the Centre for Management Development) and the Retail Council of Canada, continues to pay dividends, based on corporate results.

NLC developed and introduced ACHIEVE, a performance planning and coaching program designed to provide staff with feedback, promote 2-way communication, clear performance expectations, establish career goals and a planned development agenda. The unanticipated prolonged duration of collective bargaining delayed organization-wide program implementation until 2009-10.

Moving into the next fiscal year, NLC will assess job requirements, customer demands, and succession planning needs to further enhance professional development across the organization.

Objective ELG2 – Define Success and Celebrate It

ELG2 Measure

NLC will implement performance management processes and tools.

The delayed execution of ACHIEVE, as previously discussed, also impacted the performance management process. Initial reaction to the program has been positive, and the Corporation can now focus on delivering its complete mandate for employee performance planning in 2009-10.

In addition to the full implementation of ACHIEVE, the coming fiscal year will see increased proliferation of departmental strategy maps and scorecards combined with initiatives to promote better communication and feedback of performance results at the corporate, departmental, and individual level.

Objective ELG3 - Ensure a Safe, Healthy, and Respectful Workplace

ELG3 Measure

NLC will implement initiatives that protect employees and provide them the opportunity to attend work and to contribute to the best of their ability.

A strong focus on attendance management and a commitment to workplace accommodation and Return to Work programs led

to success reaching the Corporation's target for Sick Leave Usage. Far greater visibility of sick leave statistics, improved communication with employees, training for managers, and employee participation in Return to Work initiatives helped to drive this success.

The significant effort required in this area pushed full implementation of the Attendance/Disability Management Program and OH&S Program to 2009-10.

2009-10 initiatives also include a Healthy Workplace Assessment, continued OH&S training and awareness initiatives, and participation in a National Disability Management Audit. Further, the new HRIS will be utilized to provide even more information to help manage employee absence and increase productive hours across the organization.

Measure:

ELG 2.1 Employees with a Completed Performance Plan

08/09 Target:	08/09 Actual:	09/10 Target:
90% (all staff)	83% (non union)	90% (all staff)

08/09 Initiatives:

- Implement performance management process.
- Report regularly on corporate and employee performance. ✓
- Train staff and managers in the performance management process. ✓

Measure:

ELG 3.1 Sick Leave Usage (days per year)

08/09 Target:	08/09 Actual:	09/10 Target:
11 days per employee per year	10.2 days per employee per year	10 days per employee per year

08/09 Initiatives:

- Implement a disability/attendance management policy.
- Report sick leave usage regularly. ✓
- Implement a comprehensive OH&S program.



Opportunities and Challenges Ahead

2008-09 saw implementation of the goals, measures, and indicators outlined in NLC's 2008-11 Business Plan. This document has provided a framework from which the Corporation guides its employees, holds each business unit accountable, and ultimately measures the Corporation's collective success.

The accomplishments of the past fiscal year have provided valuable insight that will serve the Corporation well as it plans for the future. The challenges ahead will require diligent adherence to the Business Plan and strong leadership to ensure all targets are met and every new opportunity to grow the business is seized and developed to its full potential.

The introduction of new local products and further development of new and current bottling contracts will provide another revenue growth opportunity in the Corporation's manufacturing division. Additional bottling plant and supply

chain staff will be required to handle the increased production workload, operations and logistics management required to reach targets set for the coming year.

Full implementation of NLC's performance planning and coaching program is expected in 2009-10. This will provide a clear set of expectations for each employee and a guide for managers to follow in developing their staff. The focus on professional development and training of current staff and the recruitment and retention of employees will continue to be areas of focus and great importance to NLC.

The changes to NLC's retail environments and the investments made in developing the Corporation's staff in all areas of the business have paid great dividends and raised the bar for future performance. Customers have benefited from greater product selection, more knowledgeable staff and a commitment from all NLC employees to deliver top quality service. Continued success will come from embracing the opportunities ahead and facing the challenges with confidence that the plan developed for the Corporation is appropriate for the organization and all stakeholders from Government to the people of Newfoundland and Labrador.



◀ The Wine Market Assistant's easy-to-use touch screen kiosk makes finding the perfect wine for dinner easy.

Financial Statements

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Auditors' Report

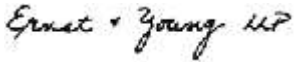
To the Board of Directors of
Newfoundland Labrador Liquor Corporation

We have audited the balance sheet of the Newfoundland Labrador Liquor Corporation ("the Corporation") as at April 4, 2009 and the statements of earnings, retained earnings and cash flows for the 52 week period 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 April 4, 2009 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

St. John's, Canada
May 21, 2009


Chartered Accountants

Newfoundland Labrador Liquor Corporation

Balance Sheet
(in thousands)

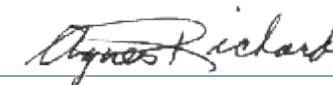
	<u>April 4, 2009</u>	<u>April 5, 2008</u>
	\$	\$
ASSETS		
CURRENT		
Cash and cash equivalents	20,679	16,028
Accounts receivable	4,461	4,757
Beer commissions receivable	5,598	5,116
Inventories (Note 6)	34,636	28,741
Prepaid expenses	1,959	2,601
	<u>67,333</u>	<u>57,243</u>
CAPITAL ASSETS (Note 7)	18,232	16,596
INTANGIBLE ASSET (Note 8)	2	22
	<u>85,567</u>	<u>73,861</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	25,973	19,771
Accrued vacation pay	1,704	1,401
Obligation under capital lease (Note 9)	-	52
	<u>27,677</u>	<u>21,224</u>
ACCRUED SEVERANCE PAY	2,513	2,428
	<u>30,190</u>	<u>23,652</u>
EQUITY		
Retained earnings	55,377	50,209
	<u>85,567</u>	<u>73,861</u>

See accompanying notes

ON BEHALF OF THE BOARD:



CHAIRMAN OF THE BOARD



DIRECTOR

Newfoundland Labrador Liquor Corporation

Statement of Earnings (in thousands)

	52 weeks ended April 4, 2009	53 weeks ended April 5, 2008
	\$	\$
SALES	182,916	168,719
COST OF GOODS SOLD	76,944	71,083
GROSS PROFIT	105,972	97,636
ADMINISTRATIVE AND OPERATING EXPENSES (Note 10)	42,457	38,982
EARNINGS FROM OPERATIONS	63,515	58,654
OTHER INCOME		
Commission revenue on sale of beer	57,361	55,227
Interest	622	1,550
Miscellaneous income	1,670	1,728
	59,653	58,505
NET EARNINGS	123,168	117,159

See accompanying notes

Newfoundland Labrador Liquor Corporation

Statement of Retained Earnings (in thousands)

	52 weeks ended April 4, 2009	53 weeks ended April 5, 2008
	\$	\$
BALANCE, BEGINNING OF PERIOD	50,209	58,050
NET EARNINGS	123,168	117,159
	173,377	175,209
PAYMENTS TO THE PROVINCE OF NEWFOUNDLAND LABRADOR	(118,000)	(125,000)
BALANCE, END OF PERIOD	55,377	50,209

See accompanying notes

Newfoundland Labrador Liquor Corporation

Statement of Cash Flows (in thousands)

	52 weeks ended April 4, 2009	53 weeks ended April 5, 2008
	\$	\$
OPERATING ACTIVITIES		
Net earnings	123,168	117,159
Adjustments for:		
Amortization	3,425	3,508
Gain on disposal of capital assets	-	(605)
Accrual for vacation pay	303	235
Accrual for severance pay	85	28
Net change in non-cash operating working capital	763	(5,135)
	<u>127,744</u>	<u>115,190</u>
INVESTING ACTIVITIES		
Proceeds on disposal of capital assets	-	1,510
Purchase of capital assets	(5,041)	(3,992)
	<u>(5,041)</u>	<u>(2,482)</u>
FINANCING ACTIVITIES		
Payments to the Province of Newfoundland Labrador	(118,000)	(125,000)
Repayment of obligation under capital lease	(52)	(70)
	<u>(118,052)</u>	<u>(125,070)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,651	(12,362)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	16,028	28,390
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>20,679</u>	<u>16,028</u>

See accompanying notes

Newfoundland Labrador Liquor Corporation

Notes to the Financial Statements

April 4, 2009 (tabular amounts in thousands)

1. DESCRIPTION OF BUSINESS

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

2. FISCAL YEAR END

The fiscal year of the Corporation ends on the first Saturday of April. As a result, the Corporation's fiscal year is usually 52 weeks in duration but includes a 53rd week every 5 to 6 years. The years ended April 4, 2009 and April 5, 2008 contained 52 weeks and 53 weeks, respectively. The year ended April 5, 2008 contained 53 weeks as the Corporation changed its reporting period from a March 31 fiscal year end to a floating year end to facilitate four 13 week reporting periods.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

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

Cash and cash equivalents

Cash and cash equivalents are defined as short-term deposits with original maturities of twelve months or less.

Inventories

Inventories are carried at the lower of average cost and net realizable value.

Newfoundland Labrador Liquor Corporation

Notes to the Financial Statements

April 4, 2009 (tabular amounts in thousands)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets

Capital assets are recorded at cost. Amortization is recorded over the expected useful life of the capital 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
Plant and warehouse equipment	5 years
Store equipment and fixtures	5 years
Motor vehicles	3 years

Intangible asset

The intangible asset consists 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.

Employee benefits

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 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 \$1.3 million (2008 - \$1.2 million).

Newfoundland Labrador Liquor Corporation

Notes to the Financial Statements

April 4, 2009 (tabular amounts in thousands)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are initially recorded in the balance sheet at fair value. In subsequent periods, loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost, held-for-trading financial assets and liabilities are measured at fair value and changes in fair value are recognized in net earnings, and available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale, normal purchase exemption. All changes in their fair value are recorded in earnings unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income (loss).

The Corporation classifies its financial assets and liabilities as follows:

Cash and cash equivalents are classified as held-for-trading financial assets. These assets are measured at fair value and changes in fair value are recognized in earnings.

Accounts receivable and beer commissions receivable are classified as loans and receivables and are measured at amortized cost, which is generally the amount on initial recognition.

Accounts payable and accrued liabilities, and accrued vacation pay are classified as other financial liabilities and are measured at amortized cost, which is generally the amount on initial recognition.

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 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.

Newfoundland Labrador Liquor Corporation

Notes to the Financial Statements

April 4, 2009 (tabular amounts in thousands)

4. CHANGE IN ACCOUNTING POLICIES

Capital disclosures

On April 6, 2008, the Corporation adopted the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1535, "Capital Disclosures". The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital. As a result of implementing this standard, the Corporation has included the additional disclosure in Note 11 to the financial statements.

Financial instruments – disclosures and presentations

On April 6, 2008, the Corporation adopted the CICA Handbook Sections 3862, "Financial Instruments – Disclosures" and 3863, "Financial Instruments – Presentation". These sections replace existing Handbook Section 3861, "Financial Instruments – Disclosures and Presentation". Section 3862 requires disclosure by class of financial instruments that enables users to evaluate the significance of financial instruments for the Corporation's financial position and performance. Disclosures are also required of qualitative and quantitative information that enable users of financial statements to evaluate the nature and extent of the Corporation's exposure to the risks arising from financial instruments, specifically market, credit and liquidity risks and how the Corporation manages those risks. As a result of implementing this standard, the Corporation has included additional disclosure in Note 12 to the financial statements.

Section 3863 carries forward the presentation requirements of Section 3861 already adopted by the Corporation. As a result, the adoption of this Section had no impact on the financial statements.

Inventories

On April 6, 2008, the Corporation adopted CICA Handbook Section 3031, "Inventories", which has replaced Section 3030 with the same title. The new section establishes that inventory should be measured at the lower of cost and net realizable value, with guidance on the determination of cost. The adoption of this section had no financial impact on the financial statements.

5. RECENT ACCOUNTING POLICIES

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". The new section will be adopted April 5, 2009. It establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The provisions related to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Accounting Standard 38, "Intangible Assets". The adoption of this standard is not expected to have a material impact on the Corporation's future financial position or results of operations.

Newfoundland Labrador Liquor Corporation

Notes to the Financial Statements

April 4, 2009 (tabular amounts in thousands)

6. INVENTORIES

	April 4, 2009	April 5, 2008
	\$	\$
Head office	15,894	14,047
Branch stores	10,065	8,694
Stock in transit	7,254	4,357
Raw materials	1,423	1,643
	<u>34,636</u>	<u>28,741</u>

The total value of inventory expensed to cost of goods for the period ended April 4, 2009 was \$74.9 million (2008 - \$69.2 million).

7. CAPITAL ASSETS

	April 4, 2009		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Land	1,115	-	1,115
Leasehold improvements	14,127	7,121	7,006
Buildings	5,837	3,050	2,787
Office furniture and equipment	9,396	5,069	4,327
Plant and warehouse equipment	3,730	1,914	1,816
Store equipment and fixtures	3,403	2,244	1,159
Motor vehicles	48	26	22
	<u>37,656</u>	<u>19,424</u>	<u>18,232</u>

Newfoundland Labrador Liquor Corporation

Notes to the Financial Statements

April 4, 2009 (tabular amounts in thousands)

7. CAPITAL ASSETS (continued)

	April 5, 2008		Net Book Value
	Cost	Accumulated Amortization	
	\$	\$	\$
Land	1,115	-	1,115
Leasehold improvements	12,152	6,064	6,088
Buildings	5,582	2,850	2,732
Office furniture and equipment	7,173	4,051	3,122
Plant and warehouse equipment	3,726	1,463	2,263
Store equipment and fixtures	3,208	1,939	1,269
Motor vehicles	25	18	7
	32,981	16,385	16,596

During the period, the Corporation acquired capital assets in the amount of \$5.0 million (2008 - \$4.0 million).

8. INTANGIBLE ASSET

	April 4, 2009		Net Book Value
	Cost	Accumulated Amortization	
	\$	\$	\$
Trademark	203	201	2

	April 5, 2008		Net Book Value
	Cost	Accumulated Amortization	
	\$	\$	\$
Trademark	203	181	22

Newfoundland Labrador Liquor Corporation

Notes to the Financial Statements

April 4, 2009 (tabular amounts in thousands)

9. OBLIGATION UNDER CAPITAL LEASE	<u>April 4, 2009</u>	<u>April 5, 2008</u>
	\$	\$
IBM Canada Limited, capital equipment lease, repaid during the period	-	55
Less: interest on obligations	-	3
	-	52
Less: current portion	-	52
	-	-

10. ADMINISTRATIVE AND OPERATING EXPENSES

	<u>52 weeks ended April 4, 2009</u>	<u>53 weeks ended April 5, 2008</u>
	\$	\$
Salaries and employee benefits	22,797	20,685
Liquor Express commissions and expenses	4,887	4,695
Amortization	3,425	3,508
Rent and municipal taxes	1,979	1,773
Marketing	1,707	1,389
Interest, bank and payment card charges	1,416	1,047
Other	6,246	5,885
	<u>42,457</u>	<u>38,982</u>

11. CAPITAL MANAGEMENT

The Corporation defines capital that it manages as equity. The primary objectives of the Corporation's capital management are to safeguard the entity's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Corporation sets the amount of capital in proportion to risk. The Corporation manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may adjust the amount of dividends paid to shareholders.

Newfoundland Labrador Liquor Corporation

Notes to the Financial Statements

April 4, 2009 (tabular amounts in thousands)

12. FINANCIAL INSTRUMENTS

Market risk - foreign currency exposure

The Corporation purchases beverage alcohol internationally and is therefore exposed to market risks related to foreign currency exchange rate fluctuations. Such exposure arises from purchases of beverage alcohol in currencies other than Canadian dollars. Approximately 3% of the Corporation's purchases are denominated in currencies other than Canadian dollars. To perform a sensitivity analysis, the Corporation assessed the risk of loss in fair values due to the impact of hypothetical changes in foreign currency exchange rates on monetary assets and liabilities denominated in currencies other than Canadian dollars. The Corporation's primary exposures to foreign currency exchange rate fluctuations are in European Euro, U.S dollar, Australian dollar, U.K pound sterling and New Zealand dollar. For the 52 weeks ended April 4, 2009, the potential decrease or increase in earnings from a hypothetical instantaneous 10% increase or decrease in the April 4, 2009 quoted foreign currency spot rates applied to the above currency denominated monetary assets and liabilities included in the April 4, 2009 balance sheet would have been approximately \$0.1 million. To mitigate the potential risk with respect to foreign currency exchange rate fluctuations, the Corporation periodically adjusts the landed cost of its products to account for changing foreign currency exchange rates. The Corporation's retail prices are calculated in reference to landed cost.

Credit risk

The Corporation is exposed to credit risk with respect to accounts receivable from customers. The Corporation provides products to a large customer base, which minimizes the concentration of credit risk. Only one customer accounted for 10% or more of the Corporation's accounts receivable at April 4, 2009 and April 5, 2008. The risk of non-collection from this customer is minimal. The Corporation has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and utilizes internal and third party collections processes for overdue accounts. Accounts receivable balances related to Liquor Express Store operations are subject to General Security Agreements. The Corporation also maintains provisions for potential credit losses that are assessed on an ongoing basis.

Liquidity risk

The Corporation is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. The Corporation manages liquidity risk by maintaining adequate cash and cash equivalents. The Corporation believes that cash and cash equivalents on hand and future cash flows generated by operations will be adequate to meet its financial obligations. All of the Corporation's financial liabilities are due within one year.

Newfoundland Labrador Liquor Corporation

Notes to the Financial Statements

April 4, 2009 (tabular amounts in thousands)

12. FINANCIAL INSTRUMENTS (continued)

Fair values

Fair value estimates are made as of a specific point in time, using available information about the financial instruments and current market conditions. The estimates are subjective in nature involving uncertainties and judgment. The carrying values of financial instruments included in current assets and current liabilities on the balance sheet approximate their fair values, reflecting the short-term maturity and normal trade credit terms of these instruments.

13. LEASE COMMITMENTS

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

	\$
2010	1,927
2011	1,799
2012	1,523
2013	1,187
2014	1,084
	<hr/>
	7,520

Newfoundland Labrador Liquor Corporation

Notes to the Financial Statements

April 4, 2009 (tabular amounts in thousands)

14. 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.

15. 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 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 \$1.3 million (2008 - \$1.2 million).

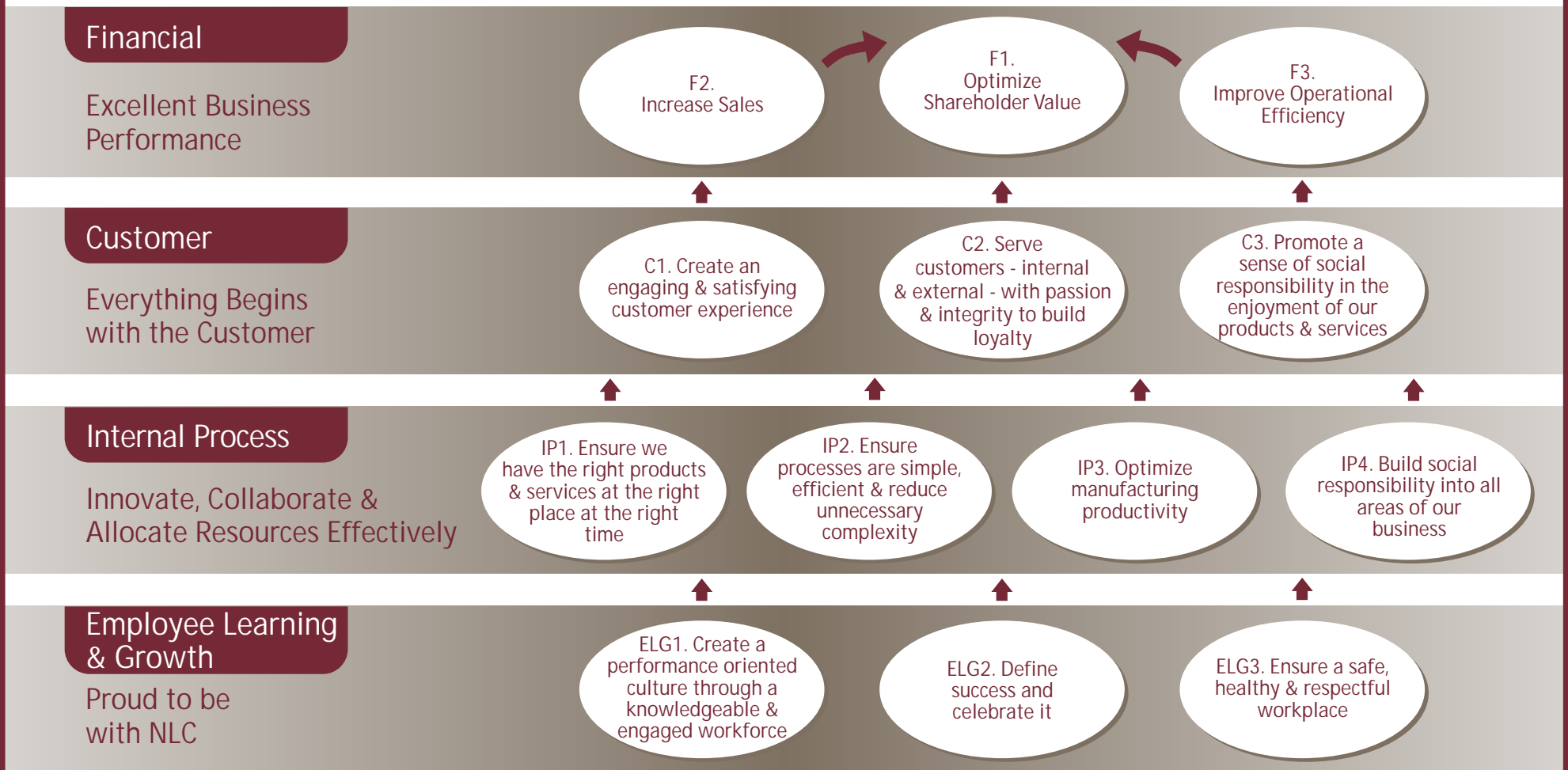
Newfoundland Labrador Liquor Corporation

Sales By Location (Thousands of Dollars)

	<u>2009</u>	<u>2008</u>
Kenmount Road	31,535	29,698
Clarenville	17,262	16,146
Deer Lake	15,800	14,697
Howley Estates	13,302	12,741
Stavanger Drive	8,845	8,335
Merrymeeting Road	8,331	6,742
Pearlgate Plaza	8,169	7,554
Blackmarsh Road	6,971	7,046
Corner Brook - Humber Gardens	6,667	5,878
Topsail Road	6,362	6,096
Kelsey Drive	5,590	4,209
Marystown	5,232	4,602
Stephenville	4,908	4,614
Bay Roberts	4,766	4,779
Gander	4,681	4,435
Mount Pearl	4,541	4,128
Grand Falls	4,472	4,264
Labrador City	3,917	3,185
Happy Valley	3,700	3,639
Carbonear	3,461	3,176
Ropewalk Lane	3,416	2,798
Corner Brook Plaza	3,092	3,260
Port Aux Basques	2,528	2,395
Placentia	1,806	1,713
Long Pond CBS	1,476	-
Special Events	1,105	849
New Gower Street	981	1,740
TOTAL	<u>182,916</u>	<u>168,719</u>

Appendix I

NLC's Strategy Map – The Balanced Scorecard
2008 - 2011





**NEWFOUNDLAND
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