2013-14

NEWFOUNDLAND
LABRADOR
LIQUOR CORPORATION

annual report

it starts here

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chairperson's **message**

On behalf of NLC's Board of Directors, I am pleased to present the Corporation's Annual Report for fiscal year 2013-14. The Board is accountable for the contents and the actual results outlined in this report, which was prepared under my direction.

This past fiscal year marked the end of NLC's 2011-2014 Business Plan. This Annual Report outlines key results, financial information and highlights from 2013-14, and provides a summary of NLC's successful completion of the years covered under the 2011-2014 Business Plan.

With a new three year Business Plan for 2014-2017, NLC will build upon its past success as a good corporate citizen that focuses on superior customer service, a progressive corporate culture, and excellent financial performance, while staying true to its commitment to social responsibility. The 2014-2017 Business Plan was presented in the House of Assembly on June 27th, 2014 and is available to view online at nlliquor.com/corporate/about-nlc/business-plan.

Within the past three years, NLC has returned a distribution of $138.0 million in fiscal 2011-12, $141.0 million in fiscal 2012-13, and $152.0 million in fiscal 2013-14. Revenue, which includes sales and commission on the sale of beer, for fiscal 2013-14 reached $306.4 million, and total net earnings for the year were $155.4 million, a growth of 17.7% since fiscal 2010-11.

NLC demonstrated its value and commitment towards social responsibility through the education of customers and staff about the responsible sale and use of NLC products. The continued presence and refreshed positioning of the Check 25 program throughout Liquor Store locations is an important element demonstrating NLC's commitment to socially responsible retailing.

On behalf of the Corporation I would like to recognize the Honourable Charlene Johnson, Minister of Finance for her continued support. I look forward to the beginning of a new three year business plan with much success ahead.

Sincerely,

Glenn Tobin
Chair

Photo (left) Glenn Tobin , Chairperson of the Board, (right) Steve Winter, President & CEO.

Board Members

Glenn Tobin, Chairperson

Andrea Marshall, Vice Chairperson

Peter Au, Director

Marjorie Gaulton, Director

Brian McCormack, Director

Dick McCrate, Director

Steve Winter, President and CEO

vision & mission

vision

To be passionate about service in everything we do.

mission

The Newfoundland Labrador Liquor Corporation (NLC or the Corporation) is mandated to oversee the importation, distribution and sale of beverage alcohol within the province of Newfoundland and Labrador – with the expectation that it will generate revenue for the Government which will be reinvested for the benefit of the province's population. Furthermore, NLC will strive 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 adopted the following mission:

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

NLC's 2011-2014 Business Plan established objectives, goals and measures to help guide the Corporation to deliver on this mission. Looking back upon the past three years, it is clear that the Corporation has made significant gains. Recognized by partners and the business community for its performance, the Corporation's approach to retail programming and employee engagement has garnered many positive reviews, including an award as Employer of Distinction from the Newfoundland and Labrador Employer's Council in 2012. Further demonstration of NLC's progressive corporate culture and strong business performance is made evident by President and CEO Steve Winter's fourth Top 50 CEO award from Atlantic Business Magazine in 2013.

The initiatives undertaken by NLC clearly demonstrate commitment to its mission, providing a constant sense of urgency to find more efficient ways to deliver on stakeholder expectations. It also reminds the Corporation of the key elements of success – customer focus and work environment. Combined with keen attention to financial performance, this keeps NLC focused on 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, marketing programs, staff education, employee engagement, social responsibility advocacy and partnerships, and continued education will enable NLC to meet and exceed expectations.

NLC's 2014-2017 Business Plan, presented in the House of Assembly on June 27th, 2014 outlines expectations for the next three years, forming the basis for the evaluation of the Corporation's performance.

values

Socially Responsible

Each NLC employee and Board member will advocate intelligent consumption by seeking to inform and educate customers and clients in the safe, responsible use of our products and by practicing intelligent consumption. NLC will also actively contribute to the communities within which it operates. Finally, NLC will also seek to operate in an environmentally friendly manner.

Professional

Each NLC employee and Board member will develop trusting relationships with our clients by demonstrating our values, being honest and forthright, honouring our 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 encourage input from all of our key stakeholders to promote better decision-making and to optimize performance. We will recognize outstanding contributions and will look for opportunities to celebrate and develop strong relationships among our staff. We will ensure expectations are defined and communication is clear.

Initiative

Each NLC employee and Board member appreciates 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.

Accountability

NLC employees and Board members recognize that each individual is personally responsible for ensuring that expectations are understood and will take the appropriate actions to ensure that these expectations are met. These individuals will seek feedback to ensure that expectations are met, and where they are not, will take action to remedy the situation and prevent it from happening in the future.

lines of **business**

Retail Sales

The most publicly visible component of NLC's operations is the retail sale of beverage alcohol through its 24 Liquor Stores and 3 satellite locations throughout the province. Satellite is a new store format, which offers best-selling spirits and wines in conveniently located small retail footprints of less than 800 square feet. For labour efficiency and cost containment, these locations are staffed and managed by a nearby Corporate store. Population density, as well as traffic flow, local demographics and growth trends influence the location of Liquor Stores and satellite locations. Currently, these Corporate retail stores are situated in the following locations:

St. John's (8 stores, 1 satellite)

Mount Pearl (2 stores, 1 satellite)

Conception Bay South

Bay Roberts

Carbonear

Placentia

Clarenville (1 store, 1 satellite)

Marystown

Gander

Grand Falls-Windsor

Corner Brook (2 stores)

Stephenville

Port aux Basques

Happy Valley-Goose Bay

Labrador City

Liquor Stores carry an extensive selection of spirits, wine, beer, and ready-to-drink (RTD) beverages imported from around the world, as well as locally manufactured products. Staff members of all Liquor Stores are direct employees of NLC. All aspects of Liquor Store design, systems, sales, marketing, merchandising, human resources and business operations fall under NLC jurisdiction.

Wholesale Sales

NLC's wholesale operations supply 136 Liquor Express agency operated locations and 1,400 licensees. 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 sell beverage alcohol in a retail environment. Liquor Express locations have limited selection and service relative to Liquor Stores. Liquor Express operators receive a commission from NLC on the product they sell.

Licensees include bars, lounges and restaurants that are licensed by NLC's Regulatory Services department to purchase product that is resold to their customers for on-site consumption in the operation of their business.

Regulatory Services

Overseeing the administration and ensuring compliance with applicable legislation governing the sale and distribution of beverage alcohol is a primary responsibility of NLC. The functions associated with this line of business include: authorizing and issuing licenses in accordance with legislation, educating licensees, promoting compliance with legislation through investigation and enforcement, and recommending legislative changes where appropriate. A key component of the Regulatory Services mandate is the education of licensees, agencies and the general public in regards to the legislation and how it impacts them in order to promote responsible sale and consumption of beverage alcohol.

Manufacturing

NLC's manufacturing / bottling operation, Rock Spirits, consists of a blending and bottling plant which employs over fifty people. NLC has developed recipes for various spirits, owns the rights to certain brands, and blends and bottles product at its manufacturing / bottling facility in St. John's. These products are sold in Newfoundland and Labrador and are marketed to other liquor jurisdictions in Canada and the United States. NLC also blends, bottles and distributes spirits on behalf of other suppliers. NLC's manufacturing plant offers both high speed bottling as well as the ability to handle intricate bottling required of unique bottle shapes and sizes.
NLC owns, produces and markets the following products:

- **Screech Rum**
- **Screech Honey Rum**
- **Screech Spiced Rum**
- **Old Sam Rum**
- **George Street Spiced Rum**
- **London Dock Rum**
- **Ragged Rock Rum**
- **Shiver Vodka**
- **Shiver Gin**
- **Cabot Tower Rum**
- **Newfoundlander's White Rum**
- **Amherst Gate Whisky**
- **Big Land Whisky**

Rock Spirits has the bottling contract for the following products:

- **Iceberg Vodka**
- **Iceberg Gold Rum**
- **Iceberg Silver Rum**
- **Iceberg Gin**
- **Crystal Head Vodka**
- **Golden Wedding Whisky**
- **Lemon Hart Rum**
- **Smuggler's Cove Dark Rum**
- **White Star Rum**


Famous
NEWFOUNDLAND
RUM - RHUM
AIR MILES

financial perspective

NLC's financial performance revolves not around profit maximization, but rather optimizing shareholder value – that is, delivering appropriate financial return while maintaining a strong emphasis on socially responsible operations. Society's expectation for a demonstrated commitment to protecting and educating consumers to the dangers associated with the products NLC sells and distributes invariably conflicts with a profit maximization strategy. Also, as with most business entities, NLC strives to continually improve operational efficiency and asset utilization.

Given the above, NLC has focused on the following in order to achieve its intended financial performance: optimize shareholder value; grow sales; and improve operational efficiency.

Goal

By 2014, NLC will have improved its financial performance.

Measure

By 2014, NLC's financial performance has improved.

Objective F1: Optimize Shareholder Value

Measure

NLC will implement initiatives to optimize shareholder value by balancing financial return within the context of a socially responsible organization.

Indicator	2013-14 Target (Source: 2012-13 Annual Report)	2013-14 Actual
F 1.1 Distribution*	$156.0 million**	$152.0 million
F 1.2 Net earnings	$157.0 million**	$155.4 million
F 1.3 Earnings from operations	$94.0 million**	$94.1 million

**The term distribution was previously referred to as dividend and is changed to more accurately reflect the nature of the transaction. **Original fiscal 2013-14 targets stated in 2011-2014 Business Plan were revised though the 2012-13 annual reporting process to reflect NLC's fiscal 2013-14 budget as follows: F 1.1 was revised from $142.0m to $156.0m; F 1.2 was revised from $143.5m to $157.0m; F 1.3 was revised from $82.1m to $94.0m*

NLC set an ambitious goal of growing the distribution to the Provincial Government by $15.0 million, an increase of 10.6%. In the fall of 2013 it became evident that this goal would not be achieved. A significant contributing factor was the signing of the collective agreement, which included a signing bonus as well as an increase in shift differential pay - neither of which was anticipated in the fiscal 2013-14 budget. An additional issue impacting the distribution, which occurred late summer and early fall, was that commission revenue on the sale of beer fell short of budget due to an unexpected and unexplained decline in beer sales, primarily in August and September of 2013. The result of this is reflected in the net earnings shortfall from budget of $1.6 million. These two factors resulted in NLC adjusting the distribution to Government from $156.0 million to $152.0 million, representing an $11.0 million increase over fiscal 2012-13 or 7.8%.

Although net earnings were impacted by the new collective agreement and beer commissions, increased gross sales and gross profit offset the increased costs from the collective agreement, resulting in earnings from operations achieving budget. Net earnings did not achieve budget target of $157.0 million. Actual net earnings were $155.4 million, which is $1.6 million below budget.

The Corporation regularly reports financial performance to the Board of Directors and to its Shareholder, the Province of Newfoundland and Labrador. Internally, frequent monitoring of key performance indicators, financial and otherwise, is paramount in ensuring informed decision making. The financial information provided in NLC's Business Plan and the charts in this report are reflective of how management measures and manages financial indicators internally. These, by nature, differ from the external financial statements which are reported in accordance with International Financial Reporting Standards (IFRS) required for external reporting in regards to a Government Business Enterprise such as NLC.

Objective F2: Grow Sales

Measure

NLC will implement initiatives that lead to improved sales without interfering with its commitment to social responsibility.

Indicator	2013-14 Target (Source: 2012-13 Annual Report)	2013-14 Actual
F 2.1 Gross sales*	$246.8 million**	$249.9 million
F 2.2 Gross profit	$141.1 million**	$142.1 million

**Gross sales differ from sales as reported in the financial statements in that they exclude Liquor Express commissions and revenue from the sale of AIR MILES reward miles. ** Original fiscal 2013-14 targets stated in 2011-2014 Business Plan were revised though the 2012-13 annual reporting process to reflect NLC's fiscal 2013-14 budget as follows: F 2.1 was revised from $237.3m to $246.8m; F 2.2 was revised from $133.6m to $141.1m.*

Indicator		2013-14 Target (Source: 2012-13 Annual Report)	2013-14 Actual
F 2.3 Revenue per litre (by product category)	Spirits	$32.08*	$32.10
	Wine	$16.73*	$16.79
	RTD	$8.05*	$8.10
	Beer	$5.37*	$5.42

** Original fiscal 2013-14 targets stated in 2011-2014 Business Plan were revised though the 2012-13 annual reporting process to reflect NLC's fiscal 2013-14 budget as follows: Spirits was revised from $30.60 to $32.08; Wine was revised from $15.80 to $16.73; RTD was revised from $8.34 to $8.05; Beer was revised from $5.29 to $5.37*

Gross sales for fiscal 2013-14 were $249.9 million, exceeding target by $3.1 million or 1.3%. Sales exceeded fiscal 2012-13 by $11.9 million or 5.0%. Continued growth in gross sales is attributable to NLC's focus on customer service. Customer service is paramount, in-store and throughout every facet of the organization. A culture of customer service has been developed over time such that every employee realizes they have a role to play. NLC's Vision Statement, "To be passionate about service in everything we do", is what leads the Corporation and contributes to the growth in gross sales on a yearly basis.

With the exception of spirits, which fell short of budget by 0.6%, all product categories exceeded sales targets. Spirit sales exceeded the prior year by 3.3%. In the new fiscal year, renewed focus will be on this product category, with the goal of providing customers with information on new and exciting spirits-based drink recipes. The spirits category is a key contributor to gross profit, therefore a focus on protecting this revenue stream is an important element in NLC's merchandising strategy.

Gross sales growth at NLC does not necessarily equate to volume growth. The organization takes the role of promoting responsible consumption seriously, such that growing sales by encouraging customers to try better quality products, not more product, is a desirable outcome of the sales process. Marketing and staff training programs, coupled with careful monitoring of product trends and product selection, all contribute to enhancing customer knowledge and appreciation for the products offered.

Objective F3: Improve Operational Efficiency

Measure

NLC will implement initiatives to improve processes and promote efficient asset utilization.

Indicator	2013-14 Target (Source: 2012-13 Annual Report)	2013-14 Actual
F 3.1 Operating expenses as a % of sales	19.1%*	19.2%

** Original fiscal 2013-14 target stated in 2011-2014 Business Plan was revised from 21.7% to 19.1% though the 2012-13 annual reporting process to reflect NLC's fiscal 2013-14 budget.*

Indicator		2013-14 Target (Source: 2012-13 Annual Report)	2013-14 Actual
F 3.2 Inventory turns annually (by category)	Core	4.6*	4.7
	Non-core	0.4*	0.4

** Original fiscal 2013-14 targets stated in 2011-2014 Business Plan were revised though the 2012-13 annual reporting process to reflect NLC's fiscal 2013-14 budget as follows: Core was revised from 4.4 to 4.6; Non-core was revised from 0.5 to 0.4.*

Improvement in operating expenses as a percentage of sales was significant in fiscal 2013-14. The decline of operating expenses as a percentage of sales from 20.3% in fiscal 2012-13 to 19.2% in fiscal 2013-14 was the direct result of a detailed review of NLC's cost structure. Reducing costs in certain areas was deemed prudent, and in certain instances involved risk to revenue and operations, however, overall cost reductions which occurred late in fiscal 2012-13 have proven for the majority of items to be wise decisions.

In addition to cost reduction efforts, a fee schedule was introduced for licenses issued by NLC's Regulatory Services department. These fees, which partially offset the cost of providing licensing and compliance services, are included in other income. Prior to the implementation of license fees, Newfoundland and Labrador was the only province in Canada which did not have such fees.

Operating expenses as a percentage of sales was slightly below target at 19.2%, a 0.1 percentage point overage. Given the impact of the collective agreement in regards to the unbudgeted costs of signing bonuses and shift differential, NLC's cost containment measures have exceeded expectations.

In fiscal 2013-14 inventory turns for core products were 4.7 turns per year compared to a target of 4.6 turns per year while inventory turns for non-core products were 0.4 turns per year compared to a target of 0.4 turns per year. Non-core products include specialty wines and wine futures. Non-core products have increased in recent years due to NLC's premium wine strategy that allows for a greater selection of premium wines for its customers. NLC continues to focus on improving inventory turns while maintaining in-stock service levels.

The construction of a new distribution centre was completed during fiscal 2013-14 in St. John's. This facility allowed for the more efficient storage and movement of inventory, and facilitated the consolidation of distribution centres in Newfoundland and Labrador. During fiscal 2013-14, NLC implemented a forecasting and replenishment software solution for the fulfillment of inventory for its distribution centre, improving operational efficiencies. Additional details on the new distribution centre and fulfillment system are available in Internal Process, IP1, page 31.

Year Ended April 5, 2014 (In millions of dollars)

	2013-14 Actual	2013-14 Target	Variance	% Variance	2012-13 Actual	Variance	% Variance
Gross sales	249.9	246.8	3.1	1.3%	238.0	11.9	5.0%
Cost of goods sold	107.8	105.7	2.1	2.0%	104.9	2.9	2.8%
Gross profit	142.1	141.1	1.0	0.7%	133.1	9.0	6.8%
	56.8%	57.2%			55.9%		
Operating expenses	53.0	51.6	1.4	2.7%	52.8	0.2	0.4%
Other income from operations	5.0	4.5	0.5	11.1%	4.6	0.4	8.7%
Net operating expenses	48.0	47.1	0.9	1.9%	48.2	(0.2)	(0.4%)
	19.2%	19.1%			20.3%		
Earnings from operations	94.1	94.0	0.1	0.1%	84.9	9.2	10.8%
Other income	61.3	63.0	(1.7)	(2.7%)	63.1	(1.8)	(2.9%)
Net earnings	155.4	157.0	(1.6)	(1.0%)	148.0	7.4	5.0%
Distribution to the province of Newfoundland and Labrador	152.0	156.0	(4.0)	(2.6%)	141.0	11.0	7.8%

Sales by Product Category (millions of dollars)

	2013-14 Actual	2013-14 Target	Variance	% Variance	2012-13 Actual	Variance	% Variance
Spirits	126.7	127.5	(0.8)	(0.6%)	122.7	4.0	3.3%
Wine	67.9	66.7	1.2	1.8%	62.2	5.7	9.2%
RTD	13.9	13.6	0.3	2.2%	13.5	0.4	3.0%
Beer	32.3	30.6	1.7	5.6%	29.9	2.4	8.0%

Spirits Sales (litres in thousands)	2013-14	2012-13	2011-12 (53 weeks)	2010-11	2009-10
Rum	1,947	1,959	1,962	1,894	1,875
Rye Whisky	815	814	800	774	772
Vodka	584	560	537	509	479
Liqueurs	371	379	375	365	366
Scotch - other Whiskey	124	116	132	121	116
Gin	60	59	59	60	60
Tequila	20	21	19	18	18
Brandy	19	20	21	21	21
Cognac	4	4	4	4	3
Miscellaneous	1	1	1	1	1
	3,945	**3,933**	**3,910**	**3,767**	**3,711**

(Includes sales in the province of Newfoundland Labrador only)

Wine Sales (litres in thousands)	2013-14	2012-13	2011-12 (53 weeks)	2010-11	2009-10
Table Wine	3,692	3,495	3,363	3,083	2,826
Sparkling and champagne	275	274	263	251	244
Fortified Wine	71	71	72	74	79
Low Alcohol Wine	5	4	4	3	3
	4,043	**3,844**	**3,702**	**3,411**	**3,152**

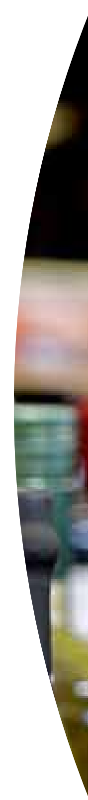
RTD and Cider Sales (litres in thousands)	2013-14	2012-13	2011-12 (53 weeks)	2010-11	2009-10
Refreshment Beverages	1,578	1,584	1,455	1,402	1,465
Cider	137	88	80	69	67
	1,715	**1,672**	**1,535**	**1,471**	**1,532**

Beer Sales (litres in thousands)	2013-14	2012-13	2011-12 (53 weeks)	2010-11	2009-10
Local Beer	3,479	3,386	3,145	2,813	2,535
Imported Beer	2,378	2,134	1,981	1,985	1,761
Low Alcohol Beer	100	102	106	110	114
	5,957	**5,622**	**5,232**	**4,908**	**4,410**

Financial Perspective: Three Year Performance Summary

Measure	2010-11 Actual*	2013-14 Actual
F 1.1 Distribution	$132.0 million	$152.0 million
F 1.2 Net earnings	$132.0 million	$155.4 million
F 1.3 Earnings from operations	$72.2 million	$94.1 million
F 2.1 Gross sales	$210.0 million	$249.9 million
F 2.2 Gross profit	$119.1 million	$142.1 million
F 2.3 Revenue per litre	Spirits - $30.21 Wine - $15.32 RTD - $8.27 Beer - $5.04	Spirits - $32.10 Wine - $16.79 RTD - $8.10 Beer - $5.42
F 3.1 Operating expenses (as a % of sales)	22.3%	19.2%
F 3.2 Inventory turns annually	Core – 4.3 Non-Core – 0.4	Core – 4.7 Non-Core – 0.4

**Actual results as reported in 2010-11 Annual Report serve as a baseline for the purposes of measuring performance over following three years.*



The majority of targets set by the Corporation in the 2011-14 Business Plan have been exceeded. Similarly, financial results have substantially improved over the three year period from the end of fiscal 2010-11 to fiscal 2013-14.

The distribution to Government has exceeded the Business Plan by $10.0 million. This additional $10.0 million is the result of a combination of factors, two of which have the greatest impact – sales growth and the decline of operating expenses as a percentage of sales. Annual gross sales have grown by $39.9 million at the end of the three year period, $12.6 million more than the Business Plan target.

The result of this sales growth is an additional $23.0 million in gross profit annually at the end of the three year period, which is $8.5 million above Business Plan target. This outstanding growth is attributable to a robust provincial economy combined with a focus on customer service, and ensuring product offerings and promotional activity deliver the desired results.

The second contributing factor to the successful execution of the Business Plan targets was a concentrated effort to reduce operating expenses as a percentage of sales. These efficiencies were gained through initiatives such as labour management and targeted cost reductions.


Wines of

customer **perspective**

Customer expectations are constantly changing and increasingly difficult to predict. Research indicates that consumers are becoming more value-based but seek a pleasant and rewarding shopping experience, one with polite, caring sales associates who are genuinely interested in helping the customer; sales associates that have excellent product knowledge and offer good advice to the consumer; attractive store design; and a reasonably fast shopping process. NLC's efforts to deliver exceptional customer service through professional and well trained staff will continue to be a key differentiator for the business.

Younger consumers are driving significant change. These consumers are incredibly plugged-in, using technology to connect with others, to access product information, to find products at the best price and to attain products that meet their specific individual needs.

Their use of social media gives this group incredible ability to influence a retailer's reputation as an individual's experience, both good and bad, can go viral and get communicated to a huge customer segment in a short period of time. In fulfilling the needs of these consumers, NLC has increased its use of social media to create greater connection and interaction between NLC and the consumer.

NLC customers, and the public at large, have clear expectations of NLC to operate in a socially responsible manner. This includes ensuring safe and fair sale and distribution of NLC products, but also a commitment to give back to the community and to operate in an environmentally sensitive manner. Consequently, social responsibility messaging will be integrated into all NLC marketing and media programs. In addition, NLC will implement initiatives, individually or in partnership with other organizations, that reach out to the public, engaging and educating them.

NLC's role of educator and promoter of responsible consumption and its commitment to the communities in which it operates goes hand in hand with the sale of our products – programs will be strategically aligned so that NLC's reputation as a socially responsible organization is just as evident as its reputation as an excellent retailer.

To deliver on its customer promise, NLC has identified the following areas of focus: create an engaging and satisfying customer experience; serve customers (internal and external) with passion and integrity; and enhance NLC's reputation as a socially responsible organization.

Goal

By 2014, NLC will have improved customer service across all key customer segments

Measure

By 2014, NLC's customer service across all key customer segments has improved

Objective C1: Create an engaging and satisfying customer experience

Measure

NLC will implement initiatives to enhance the consumer's shopping experience at Liquor Store and Liquor Express locations.

Indicator	2013-14 Target (Source: 2012-13 Annual Report)	2013-14 Actual
C 1.1 Internal and external customer survey scores (receipt based customer satisfaction survey)	90.0%*	96.0%

**Original fiscal 2013-14 target stated in 2011-2014 Business Plan was revised from 88.0% to 90.0% through the 2012-13 annual reporting process to reflect fiscal 2013-14 budget.*

During fiscal 2013-14, NLC continued to build on customer experience and engagement by making further improvements to its network, continuously monitoring customer satisfaction and making strategic investments in staff training.

Through the launch of satellite store formats in fiscal 2013-14, NLC now offers customers its best-selling spirits and wines, across a range of price points, in conveniently located small retail footprints (less than 800 square feet). For labour efficiency and cost containment, these locations are staffed and managed by a nearby Corporate store. In April 2013, the first satellite location opened at the entrance to Memorial Stadium Dominion, followed by a second location at Coleman's Grocery in Mount Pearl in January 2014. A third location was added on the Trans Canada Highway in Clarenville in late March 2014, adding additional convenience for customers.

NLC monitored the results of its receipt-based customer satisfaction survey on a daily basis during fiscal 2013-14. Over fifty four thousand surveys were completed by customers throughout the province during the fiscal year which provided the Corporation with valuable insight and information that was used to improve customer service. NLC received an average score of 96.0% (6.0% improvement over target) on all surveys completed. This percentage is based on a weighted average of the following attributes:

- Satisfaction with the environment of NLC Liquor Stores
- Level of service provided to customers
- Products available for purchase
- Overall satisfaction

Each Liquor Store manager monitors their store's survey results on a regular basis and makes changes to help improve customer service.

Objective C2: Serve customers (internal and external) with passion and integrity

Measure

NLC will implement initiatives that enable staff to better understand and meet customer expectations.

Indicator	2013-14 Target (Source: 2012-13 Annual Report)	2013-14 Actual
C 2.1 Internal and external customer survey scores (survey monkey)	88.0%	n/a*

**Due to timing of completion of fiscal 2012-13 Internal customer survey (January 2013), it was decided to forego the survey in fiscal 2013-14 to focus on communicating the results and addressing employee input. See Section IP2 on page 32 for examples of staff suggestions implemented. Having listened to staff's comments, NLC intends to revise its process for internal surveys in 2014-15.*

In 2013, certain product knowledge courses became mandatory for all retail employees. These programs serve to prepare employees to answer questions from customers with confidence. These courses include the Liquor Control Board of Ontario (LCBO) Product Knowledge Training, International Sommelier Guild (ISG) Program and the Academy of Wine (AOW).

As of fiscal 2013-14, over 300 Sales Clerks in 24 Corporate stores have participated in LCBO Product Knowledge Training; 145 have completed Level One of the ISG Program and 25 have completed Level Two. In addition, over 200 Sales Clerks have completed the AOW Program.

NLC has also empowered Product Knowledge Consultants to help educate staff through "lunch and learn" sessions. During these sessions, a category or product is chosen and a presentation is conducted with staff to further educate them in the products available. These educational sessions serve to encourage staff to pursue their own interests in the field. NLC's Senior Product Knowledge Consultant travels regularly across the province, conducting product knowledge training to improve staff knowledge.

Objective C3: Enhance NLC's reputation as a socially responsible organization

Measure

NLC will implement initiatives that demonstrate a recognizable commitment to socially responsible consumption, retailing, and business operations.

Indicator	2013-14 Target (Source: 2012-13 Annual Report)	2013-14 Actual
C 3.1 External customer survey scores (social responsibility)	94.0%*	94.0%
C 3.2 Number of challenges as a % of transactions	7.0%	8.5%

**Original fiscal 2013-14 target stated in 2011-2014 Business Plan was revised from 90.0% to 94.0% through the 2012-13 annual reporting process to reflect NLC's fiscal 2013-14 budget.*

Building on its social responsibility initiatives in past years, in fiscal 2013-14, NLC implemented numerous initiatives that validate its sustained commitment to social responsibility.

NLC has taken great strides to integrate social responsibility into its **It Starts Here** brand platform. In fiscal 2013-14, NLC made a significant investment in-store to refresh Check 25 signage, making customers aware that NLC sales associates will check for ID if the customer appears to be under the age of 25. The refreshing creative centered around items from the 1980's, which a person 25 years of age or older might recognize – large mobile phones and cassette 'mix tapes' were accompanied with the message "Can't remember this? Then remember your ID."

To maximize the reach of NLC's social responsibility efforts and to enhance the Corporation's status as a good corporate citizen, NLC partnered with numerous groups throughout the 2013-14 fiscal year. The most notable partnerships include Mothers Against Drunk Driving (MADD); Fetal Alcohol Spectrum Disorder (FASD) Newfoundland & Labrador; Addictions Treatment Services Association (ATSA); Royal Newfoundland Constabulary (RNC); Royal Canadian Mounted Police (RCMP); and the Canadian Breast Cancer Foundation (CBCF).

NLC was formally recognized by MADD Canada for its continued support of educational programs promoting responsible choices throughout the province. As well, in fiscal 2013-14, NLC took part in "Get Pink'd," a CBCF initiative to raise awareness and funds for Breast Cancer research. In a one-day event, management and staff from head office and Corporate Liquor Stores raised a total of $9,434.25 for this worthwhile cause.

In addition to the initiatives and partnerships highlighted, NLC continues to police itself by holding random internal compliance audits to ensure our service and commitment to social responsibility is meeting and exceeding standards.

Customer Perspective: Three Year Performance Summary

Measure	2010-11 Actual*	2013-14 Actual
C 1.1 Internal and external customer survey scores (receipt-based customer satisfaction survey)	97.0%**	96.0%
C 2.1 Internal and external customer survey scores (survey monkey)	97.0%**	n/a***
C 3.1 External customer survey scores (social responsibility)	78.0%	94.0%
C 3.2 Number of challenges as a % of transactions	7.0%	8.5%

**Actual results as reported in 2010-11 Annual Report serve as a baseline for the purposes of measuring performance over following three years. **2010-11 customer survey scores based on customer survey sent with assistance of Air Miles, from which 1500 responses were collected. Beginning in fiscal 2011-12, NLC changed to its method of collecting customer scores to receipt-based and survey monkey. ***Due to timing of completion of fiscal 2012-13 Internal customer survey (January 2013), it was decided to forego the survey in fiscal 2013-14 to focus on communicating the results and addressing employee input. See Section IP2 on page 32 for examples of staff suggestions implemented. Having listened to staff's comments, NLC intends to revise its process for internal surveys in 2014-15.*

As per the goal outlined in NLC's 2011-2014 Business Plan, the Corporation made significant improvements to customer service over this period. Having introduced a new and improved receipt-based survey method that provided increased responses from customers, satisfaction levels saw a slight decrease of 1.0% from 2010-11 compared to 2013-14, but remained very high at 96.0%. In fact, with the new survey systems in place, the Corporation was able to gather much greater customer insight from a larger consumer base, and make positive changes that resulted in steady improvements in each of the last three years.

Survey scores related to NLC's social responsibility initiatives clearly show that the Corporation has reached its goal to increase awareness of socially responsible consumption habits. By taking the time to review and respond to customer feedback, as well as working with industry groups to help raise awareness and educate the public about safe practices, NLC has been successful in creating a balance between revenue generation and social responsibility.

A continued focus on adherence to the Corporation's Check 25 policy, whereby customers who appear to be under the age of 25 are asked for identification, led to an increase in the number of challenges as a percentage of transactions over the past three years.

NLC has continued to build on the success of its special events over the past three years. In fiscal 2013-14, NLC's special event team delivered a wide range of sampling events that furthered the Corporation's objective to educate consumers about new brands, food and drink pairings and responsible consumption. Spring's "A Taste of North America" showcased wines from Ontario's Niagara region to B.C.'s Okanagan Valley and from Oregon's growing wine estates to the classic Napa and Sonoma Valley wines of California. June's "Beer Expo" delivered 100 different beers and ciders to a growing audience of beer enthusiasts. October showcased the 18th edition of the ever-popular "Wine Show" with an offering of products from the best winemaking countries in the world. During Wine Show festivities, NLC also hosted an ultra-premium tasting event at a local restaurant in St. John's with a selection of fine wines from Bordeaux's Chateau Rauzan Segla. Whisky-lovers gathered in November to enjoy samples of the best Scotch, Irish, American and Canadian offerings at the "Whiskies of the World" show. The NLC events calendar concluded with the very special return of "Wines of Bordeaux" featuring incredible vintages and 50 winemakers from some of Bordeaux's finest estates.

With the continued emergence of digital technologies, NLC has remained focused on developing its web, mobile and social channels to educate, inform and serve its internal and external customers. Following a complete re-design of nlliquor.com in 2012, NLC further enhanced its web and mobile sites in fiscal 2013-14 to include improved product search features, with the ability to view current inventory by store, along with refined information regarding product specials, tasting notes, limited time discounts and Air Miles bonus offers.

NLC's social media presence expanded with a growing number of followers and engaged consumers on its Facebook and twitter pages.

These social media channels have been used increasingly to connect with both internal and external customers as a means to promote product offers and inform employees and the public about important notices regarding store hours of operations and closures due to dangerous weather conditions. As reliance upon traditional media for information shifts to the growing usage of web and particularly mobile, NLC will continue to develop its digital properties to ensure that internal and external customers have access to relevant content.


facebook
90 Premium Wines
from the celebrated
2009 & 2010 Vintages
Tickets
$100.00
Timeline
About
Events
Likes
More
PEOPLE
9,197 likes
54 visits
ABOUT
Operated by NLC, Liquor Stores are responsible for the sale and distribution of beverage alcohol in Newfoundland & Labrador. We operate 24 stores across...
READ MORE
NLC Liquor Store
Attention Mount Pearl shoppers...
http://bit.ly/19pHIFG
Like · Comment
NLC Liquor Store


TWEETS
986
PHOTOS/VIDEOS
36
FOLLOWING
219
Tweets
Tweets & replies
NLC Liquor Store @nlliquor · Sep 14
ow.ly/i/6RUsc
NLC Liquor Store

internal **processes**

With the ever increasing complexity of consumers associated with meeting customer needs, NLC must continuously improve the manner in which it delivers services. Efficiency and innovation are required not just to increase efficiencies and manage expenses, but also to grow revenues and continue to instill a sense of social responsibility into the organization and the public.

NLC will continue to implement and utilize technology to provide improved information and analytics that lead to better understanding of our environment, our market and relationships between different variables – ultimately, this leads to improved business decisions.

NLC's efforts to improve efficiencies while simplifying processes helps to ensure that, as an organization, it does not become stagnant. Internal processes, over which the Corporation exerts direct control, largely determine success in meeting customer expectations in all areas of the business. Internal processes will continuously garner stringent review and evaluation to ensure NLC excels in those processes that have the greatest impact on corporate success.

To this end, the following have been established to achieve excellence in internal operations: ensure we have the right products and services at the right place at the right time; ensure processes are simple, efficient, and reduce unnecessary complexity; and build social responsibility into all areas of our business.

Goal

By 2014, NLC will have improved internal processes to deliver enhanced operational efficiency to better meet customer expectations.

Measure

By 2014, NLC's internal processes have improved, providing enhanced operational efficiency that better meets customer expectations.


Feature

Objective IP1: Ensure we have the right products and services at the right place at the right time

Measure

NLC will implement initiatives to streamline product flow and provide customers with the products they demand.

Indicator	2013-14 Target (Source: 2012-13 Annual Report)	2013-14 Actual
IP 1.1 Completion (%) of stated Business Plan initiatives	97.0%	98.0%

The construction of a new distribution centre was completed during fiscal 2013-14 in St. John's. This new facility was required due to the historical and expected growth of retail sales, the growth of the manufacturing operations and the restrictive layout of the previous distribution centre. This facility has allowed for the more efficient storage and movement of NLC inventory, and has facilitated the consolidation of multiple distribution centres in Newfoundland and Labrador. During fiscal 2013-14, NLC's distribution centres in central and western Newfoundland and Labrador were consolidated with the St. John's distribution centre which reduced inventory requirements while maintaining customer service levels to Liquor Store and Liquor Express customers. This consolidation lowered the overall costs to distribute beverage alcohol in Newfoundland and Labrador.

Indicator	2013-14 Target (Source: 2012-13 Annual Report)	2013-14 Actual
IP 1.2 In-stock Service Level (core products)	95.0%	96.0%

NLC achieved an overall in-stock service level of 96.0% in fiscal 2013-14 compared to a target of 95.0%, achieving this measure while continuing to provide customers with a wide selection of products. Core products are categorized into A, B, C and D product units ("A" being the highest volume products) with appropriate service level percentages set for each category. Actual service levels for "A"'s (97.0%), "B"'s (95.0%), "C"'s (93.0%) and "D"'s (91.0%) all exceeded target. NLC's use of a new forecasting and replenishment software solution, described in further detail in Objective IP2, had a significant impact on the attainment of these levels.

Objective IP2: Ensure processes are simple, efficient and reduce unnecessary complexity

Measure

NLC will implement initiatives to improve the efficiency and effectiveness of processes throughout the organization.

Indicator	2013-14 Target (Source: 2012-13 Annual Report)	2013-14 Actual
IP 2.1 Percent of suggestions received from employees implemented	50.0%	64.9%

During fiscal 2013-14, NLC implemented a forecasting and replenishment software solution for the fulfillment of inventory for its distribution centre. This system's main benefits include increased forecast accuracy, reduced safety stock and increased inventory turns while maintaining in-stock service levels.

NLC began work on its Process Optimization Project (POP) in fiscal 2013-14, with planned implementation in fiscal 2014-15. The new point of sale (POS) system will affect every aspect of NLC's retail business and serve to ensure procedures and processes are as simple and efficient as possible.

One of the driving factors behind the implementation of a new POS system is to enhance customer service. As NLC continually seeks improved methods to serve its customers, the new POS system will allow additional flexibility and improvements in efficiency of pricing and promotions; reduced reliance on NLC's Information Technology (IT) team; improved inventory management; and reduced complexity.

The benefits to NLC customers include:

- Option for customers to have purchase history retained at the cash for efficient review of past purchases and returns
- Availability of gift receipts
- Bonus Air Miles earned to be printed on receipts
- Additional programs to encourage trial of premium products
- More efficient execution of couponing
- Additional capability to execute value-add (free items with purchase)
- Emailed receipts

In fiscal 2013-14, NLC launched the newest version of the Electronic Promotional Application Calendar (ePAC), an online web application which allows suppliers to submit brand budgets and apply for promotional programs. Several new functionalities will benefit both NLC and its partners. Key improvements to the system include the ability to capture all NLC promotional information; increased flexibility to change and create promotions; access to timely budgeting and status information; email notification of cancellations and modifications; and overall enhanced user-friendly capabilities.

NLC employees are often the most well-suited to suggest ways to improve processes. In fiscal 2013-14, NLC outperformed its target of 50.0% of sugestions received from employees implemented, with an actual score of 64.9%. A sample of ideas implemented include:

- Increasing the provision of employee uniforms for temporary employees to ensure utmost professional appearance of all staff
- Increasing the personalization and relevancy of condolences / congratulatory emails to foster a greater sense of care and community among staff
- Creating a shortcut on NLC's internal network (Grapevine) to allow staff to more readily view and access awards and recognition of fellow NLC employees

Objective IP3: Build social responsibility into all areas of our business

Measure

NLC will implement initiatives to raise employee awareness and commitment to socially responsible principles in the performance of their duties.

Indicator	2013-14 Target (Source: 2012-13 Annual Report)	2013-14 Actual
IP 3.1 Employee survey scores re integration of social responsibility into work processes and organization culture	90.0%	n/a*

**Due to timing of completion of fiscal 2012-13 Internal customer survey (January 2013), it was decided to forego the survey in fiscal 2013-14 to focus on communicating the results and addressing employee input. See Section IP2 on page 32 for examples of staff suggestions implemented. Having listened to staff's comments, NLC intends to revise its process for internal surveys in 2014-15.*

In achieving this objective, it is imperative that all NLC employees be aware of the expectations and be committed to socially responsible business operations. Social responsibility is ingrained in NLC's culture to create an environment where NLC's initiatives are developed and executed with consideration to social responsibility.

In fiscal 2013-14, NLC's investment in-store to refresh Check 25 further demonstrated to staff the level of importance placed on social responsibility. The refreshing creative discussed in detail in section C3 of Customer Perspective on page 16, was very well received by staff and continues to reinforce employee engagement in the program.

While NLC employees continue to engage in social responsibility in-store, efforts have been noted publically as well. During the annual Happy Valley-Goose Bay Santa Claus parade, local staff members created a float dedicated to NLC's drinking and driving prevention campaign, "Chill Out". Creating the float and taking part in the parade were done on employees' own personal time, and helped spread word of NLC's and its employees' commitment to this important cause. In addition, NLC employees have been recognized and thanked by police for helping catch impaired motorists. In several instances, staff have refused to sell alcohol to customers determined to be intoxicated and have contacted RNC and / or RCMP to advise, resulting in subsequent arrests and charges. Once again, this illustrates employee commitment and engagement in regards to social responsibility.

Internal Process Perspective: Three Year Performance Summary

Measure	2010-11 Actual*	2013-14 Actual
IP 1.1 Completion (%) of stated Business Plan initiatives	97.0%	98.0%
IP 1.2 In-stock Service Level (core products)	97.0%	96.0%
IP 2.1 Percent of suggestions received from employees implemented	n/a**	64.9%
IP 3.1 Employee survey scores re integration of social responsibility into work processes and organizational culture	n/a**	n/a***

**Actual results as reported in 2010-11 Annual Report serve as a baseline for the purposes of measuring performance over following three years.*
***IP 2.1 and IP 3.1 performance measures were introduced in fiscal 2011-12, and have no recorded result for 2010-11 Actual.*
****Due to timing of completion of fiscal 2012-13 Internal customer survey (January 2013), it was decided to forego the survey in fiscal 2013-14 to focus on communicating the results and addressing employee input. See Section IP2 on page 32 for examples of staff suggestions implemented. Having listened to staff's comments, NLC intends to revise its process for internal surveys in 2014-15.*

In-stock service levels for fiscal 2013-14 were 96.0% compared to 97.0% for fiscal 2010-11, which exceeded the target of 95.0% in both years. The in-stock service level exceeded target while inventory turns on core products increased from 4.3 turns per year in fiscal 2010-11 to 4.7 turns per year in fiscal 2013-14.

NLC's Internal Processes goal, as stated in the 2011-14 Business Plan is "improved internal processes to deliver enhanced operational efficiency to better meet customer expectations." While much success has been gained in fiscal 2013-14 with respect to this goal, many of the initiatives highlighted in this past fiscal year are built upon efforts planned and implemented in both fiscal 2011-12 and fiscal 2012-13.

There were 59 initiatives stated in NLC's 2011-2014 Business Plan, of which 58 (98.0%) have been completed. The remaining initiative is the completion of ACHIEVE performance planning and coaching for all staff, which is further discussed in Employee Learning and Growth, section ELG2 on page 24.

employee **learning & growth**

In fiscal 2013-14, NLC employed 658 employees, of which 381 were female and 277 were male. The largest portion of NLC's workforce is aged 36-55 (59.0%), while those aged 35 and under represent 34.0%, and those over the age of 55 represent 7.0% of its employees.

NLC cannot be an exceptional organization without exceptional people. If NLC is to attract, retain, and fully utilize the best people, it must position itself as a great place to work – one where employees are challenged, able and motivated to contribute and to grow professionally, are rewarded for their success and feel safe.

NLC's success hinges on its employees and their willingness and capability to deliver on its customer promise, to be creative and innovative, and their access to the tools and environment that fosters excellence in their role. To achieve this, NLC has identified the following: attract, retain and grow the best people; foster a culture of exceptional performance, open communication and employee engagement; and ensure a safe, healthy and respectful workplace.

Employees continue to deliver on performance expectations thereby enabling NLC to meet organizational performance measures. NLC continues to build upon its reputation as a workplace which strives for both employee and organizational success.

Goal

By 2014, NLC will create a corporate culture that is more widely recognized for engaging its staff, celebrating success, and being an excellent employer.

Measure

By 2014, NLC's corporate culture is recognized for staff engagement, celebrating success, and being an excellent employer.

Objective ELG 1: Attract, retain, and grow the best people

Measure

Implement initiatives that create a workplace that attracts, retains, and develops exceptional talent.

Indicator	2013-14 Target (Source: 2012-13 Annual Report)	2013-14 Actual
ELG 1.1 Employee survey scores	77.0%*	n/a**

**Original fiscal 2013-14 target stated in 2011-2014 Business Plan was revised from 75.0% to 77.0% through the 2012-13 annual reporting process to reflect NLC's fiscal 2013-14 budget. **Due to timing of completion of fiscal 2012-13 Internal customer survey (January 2013), it was decided to forego the survey in fiscal 2013-14 to focus on communicating the results and addressing employee input. See Section IP2 on page 32 for examples of staff suggestions implemented. Having listened to staff's comments, NLC intends to revise its process for internal surveys in 2014-15.*

Indicator	2013-14 Target (Source: 2012-13 Annual Report)	2013-14 Actual
ELG 1.2 Training time per full time employee	21.0 hours	10.1 hours*

**Reduction of hours due to change in focus from traditional classroom setting to self-directed, online learning. This change has resulted in increased difficulty in measuring actual amount of time devoted to employee training.*

NLC's continued strong performance in fiscal 2013-14 can be attributed to its highly engaged staff.

In the last Employee Engagement survey, January 2013, 81.0% of employees indicated that NLC is a great place to work.

NLC's ability to retain talent is another significant measure of employee engagement, demonstrated by its 8.0% turnover in permanent staff for fiscal 2013-14, compared with a 17.0% turnover rate in fiscal 2011-12.

The Corporation's commitment to employee development starts on date of hire, at which time new employees are provided with criteria required for successful completion of the probationary period through an employee knowledge passport and probationary period checklist. Regularly scheduled evaluations are completed during probation where performance is measured against a specific set of criteria, with employees coached towards successful completion of probationary period.

Following the probationary period, the ACHIEVE performance planning and communication sessions guide employee performance expectations. ACHIEVE supports the performance culture as this is the scheduled time for the employee and supervisor to formally discuss expectations and plan for the time ahead.

Training and professional development are not only tools used to attract and retain high quality employees, but are a means of driving excellence in customer service and financial performance. Increased attention to building leadership capacity at the supervisory level helps ensure employees receive the coaching and feedback to excel.

In fiscal 2013-14, NLC relied primarily on self-directed learning (CoursePark) with live events for specific needs. Opportunities which staff took advantage of include:

- ISG Levels 1 and 2 training; across the province for advanced wine knowledge
- Wine Academy online training in partnership with Constellation Brands
- Social Responsibility online training
- Workplace Intimidation & Violence Prevention
- First Aid training
- WHMIS (Workplace Hazardous Material Information System) online training

Objective ELG2: Foster a culture of exceptional performance, open communication, and employee engagement

Measure

NLC will implement initiatives that promote a culture of exceptional performance, open communication and employee engagement.

Indicator	2013-14 Target (Source: 2012-13 Annual Report)	2013-14 Actual
ELG 2.1 Employees with a completed performance plan (ACHIEVE)	95.0%	95.0%

ACHIEVE is a forum to reinforce expectations and develop performance plans, and is an important tool in the mission to retain talent, as it helps to provide a path to success for each individual. In fiscal 2013-14, NLC met its goal to have 95.0% of its employees complete a performance plan through the ACHIEVE process. ACHIEVE helps foster communication among employees, supervisors and the Corporation.

Effective communication supports engaged employees, and engaged employees deliver exceptional service to customers. NLC committed in the 2011-2014 Business Plan to build upon an established corporate culture that is recognized for engaging its staff, celebrating success and being an exceptional employer. Hence, NLC focused its initiatives on those areas that could positively influence employee satisfaction as well as overall corporate performance.

NLC continues to take a progressive approach to union relationships by regularly engaging representatives on issues affecting their members, through various committees including Labour Management; and Occupational Health and Safety (OH&S). This open communication continues to build on strong, respectful, collaborative relationship with union officials, which has benefited NLC and its employees.

Consistent communication with stores, a geographically dispersed group, is facilitated by weekly conference calls with the operations team to ensure priorities are aligned throughout the province.

NLC's internal communications portal, Grapevine, continues to be a priority with improvements to access across stores through upgrades to accessible PC's in lunchrooms allowing for:

- Enhanced online training capabilities
- Expanded use of corporate email accounts for all staff improving two-way communication throughout the organization
- More timely accessibility to policy and procedure documents

Exceptional performance is celebrated through NLC's Reward & Recognition program, where employee achievements are recognized through a variety of programs. "Quarterly Departmental Performance Awards" rewards an entire department for reaching established targets for defined departmental key performance indicators (KPIs), "Three Cheers Awards" recognize outstanding employee performance and "Tapping In", the employee suggestion award, designed to generate ideas from employees throughout NLC, rewards those who take the time to come forth with improvement ideas.

Objective ELG3: Ensure a safe, healthy, and respectful workplace

Measure

NLC will implement initiatives that create a safe work environment and enable staff to actively contribute to the best of their abilities.

Indicator	2013-14 Target (Source: 2012-13 Annual Report)	2013-14 Actual
ELG 3.1 Sick leave useage (days per year)	8.5	7.7

In the 2011-2104 Business Plan the Corporation committed to ensuring a safe, healthy and respectful workplace for all of its employees. During that period NLC has seen sustained improvements in attendance; fiscal 2013-14 was ahead of budget and stable at 7.7 days of sick leave used per full-time equivalent. Primarily NLC contends that this level of attendance is the result of high engagement from staff and a continued focus on meaningful work. In addition 72 NLC unionized employees were recognized for perfect attendance through fiscal 2013-14.

In addition to impressive attendance statistics, NLC had a significant improvement in accident / incident reduction. NLC places the highest level of importance on health and safety throughout the organization, achieving a 29.0% reduction in incidents in fiscal 2013-14.

During 2013-14, Benefits Canada selected NLC as a finalist in the 2013 Workplace Health & Benefits Awards. NLC was selected as a finalist in the Workplace Safety category as a result of the health and safety considerations that were included in the construction of the new distribution centre. These awards honour organizations that demonstrate leadership and innovation—and who make a real difference to employees and to the group benefits industry. Some of the specific health and safety considerations included:

- Increased height of lower racking so staff could walk underneath to pick cases of product while maintaining proper body mechanics
- Wider aisles for ease of forklift movement
- Designated picking aisles for staff
- Slow moving gravity feed rollers installed in picking aisles so that cases can be loaded on the back by forklift operators so that product will come to the picking staff with little to no need for reaching in the back of the aisle
- All loading doors equipped with dock locks
- Purchase of a pallet inverter so that damaged pallets can be changed without staff manually placing product onto another pallet case by case
- Designated battery charging area with increased ventilation system and designated charging stations

Throughout the year employees supported a safe workplace through safe day-to-day work, focused OH&S committees and participation in various safe living initiatives such as:

- Updated First Aid training across province
- WHIMIS training
- Wellness clinics
- Flu clinic to minimize risk of flu-related absences
- Gym membership via payroll deduction
- Fall arrest training
- OH&S audits performed by a multidisciplinary team to increase commitment and understanding
- Testing of improved knives for box cutting
- Testing of new ladders for stores

Employee Learning & Growth Perspective: Three Year Performance Summary

Indicator	2010-11 Actual*	2013-14 Actual
ELG 1.1 Employee survey Scores	78.0%**	n/a***
ELG 1.2 Training time per full time employee	8.9 hours	10.1 hours
ELG 2.1 Employees with a completed Performance Plan (ACHIEVE)	95.0%	95.0%
ELG 3.1 Sick leave usage (days per year)	9.32	7.7

**Actual results as reported in 2010-11 Annual Report serve as a baseline for the purposes of measuring performance over following three years.*
***Fiscal 2010-11 Actual for measure ELG 1.1 employee survey score was delayed in fiscal 2010-11 and completed in fiscal 2011-12.*
****Due to timing of completion of fiscal 2012-13 Internal customer survey (January 2013), it was decided to forego the survey in fiscal 2013-14 to focus on communicating the results and addressing employee input. See Section IP2 on page 32 for examples of staff suggestions implemented. Having listened to staff's comments, NLC intends to revise its process for internal surveys in 2014-15.*

The employee engagement survey results from fiscal year 2012-13 indicated that 81.0% of employees believed that "taking everything into account, NLC is a great place to work". Although this question was different than the one asked in June 2010, where 72.0% of employees stated that "NLC is a great place to work", the statements are comparable and represent positive movement within an already strong employee engagement score.

Over the past three years, NLC's commitment to associate development has been strong. Professional development expectations have been set and training has been tailored to meet requirements. Primarily, training has centered on advancing management skills, strengthening product knowledge and advancing customer service, as well as specialized training of employees in various functional roles.

Sick leave usage provides insight into various critical elements of the business including safety practices, management-employee relations and customer service. Lower absences means NLC operates more often with experienced staff whose expertise greatly enhances the customer experience, improves operational efficiencies and lowers replacement costs. Efforts to keep people on the job or to return them to work at full capacity or through accommodation have been successful. NLC's culture is one where an employee's presence and contribution is deeply valued.

Finally, NLC has worked progressively and productively with union representatives. Consultation is frequent, open and respectful. The result is a labour management relationship that enables issues to be addressed early and usually without third party involvement. This relationship has been critical to NLC's ability to create the work environment it currently enjoys.

NLC remains convinced that its success comes from motivated, customer focused and knowledgeable employees who enjoy coming to work each day – accordingly, it will continue to invest in initiatives that promote this principle.


MixTape
CAN'T
remember this?
Then remember
YOUR ID.
Check 25
We ID. It's our job.

opportunities & challenges ahead

NLC's 2011-2014 Business Plan led the Corporation's strategic direction over the past three fiscal years. The 2014-2017 Business Plan, presented in the House of Assembly on June 27th, 2014 will guide NLC's decisions during the coming years. The Corporation will progress through the measures and targets outlined in each perspective of its 2014-2017 Business Plan.

Newfoundland and Labrador is currently experiencing changes in both its demographic and economic conditions, including such things as an aging population and a declining rural population. NLC must therefore further explore marketing strategies and merchandising practices that consider how these changes impact consumer purchasing behaviors. NLC must also continue to both engage and educate its consumers on its products in a socially responsible manner.

NLC has an opportunity to take advantage of its clients' new and expanding tastes – having sampled products from around the world, many customers now expect to have them available for purchase here at home. This represents an opportunity to capitalize on global trends and trial of products not enjoyed in prior years. However, with increased travel and exposure comes the increasing number of inquiries with respect to legal implications of ordering and purchasing product outside of the province. The Corporation will strive to increase awareness among its customers on the regulatory implications of purchasing out-of-province, including online. NLC's private ordering service can assist consumers in legally obtaining globally produced products for personal consumption, which are not sold through NLC retail stores.

With its new distribution centre and on-site bottling plant, NLC also has an opportunity to grow its share of the craft brand market for spirits. Worldwide trends in craft brewing and positive relationships with current partners, such as Crystal Head Vodka, has created an opportunity to attract similar brands. The cost of garnering such exposure on a global scale given Newfoundland and Labrador's geographic location, however, does represent significant challenges in moving forward with such plans.

While expanding its Liquor Express network, NLC will also open its newly designed store location in the town of Paradise in fiscal 2014-15. This represents an opportunity to test new methods of merchandising, display and signage to determine future best practices.

financial statements

Newfoundland Labrador Liquor Corporation
April 5, 2014

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Newfoundland Labrador Liquor Corporation

We have audited the accompanying financial statements of **Newfoundland Labrador Liquor Corporation**, which comprise the statement of financial position as at April 5, 2014 and the statements of comprehensive income, changes in net assets and cash flows for the period then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Newfoundland Labrador Liquor Corporation** as at April 5, 2014 and its financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

St. John's, Canada
June 19, 2014 | Chartered Accountant

Newfoundland Labrador Liquor Corporation

STATEMENT OF FINANCIAL POSITION

As at April 5, 2014
[in thousands]

	April 5, 2014 $	April 6, 2013 $ [restated – note 18]
ASSETS		
Non-current		
Property, plant and equipment [note 6]	**27,177**	24,820
Intangible assets [note 7]	**6,570**	5,741
	33,747	30,561
Current		
Cash and cash equivalents	**29,840**	27,414
Accounts receivable [note 8]	**11,266**	11,950
Inventories [note 9]	**36,100**	36,340
Prepaid expenses	**2,759**	5,357
	79,965	81,061
TOTAL ASSETS	**113,712**	111,622
LIABILITIES AND NET ASSETS		
Non-current		
Obligations under finance lease	**312**	—
Employee benefits [notes 10 and 18]	**6,758**	6,611
	7,070	6,611
Current		
Accounts payable and accrued liabilities [note 11]	**26,638**	28,639
Accrued vacation pay	**2,934**	2,698
	29,572	31,337
	36,642	37,948
Net assets [note 18]	**77,070**	73,674
TOTAL LIABILITIES AND NET ASSETS	**113,712**	111,622

Commitments [note 16]
See accompanying notes

Chairman of the Board

Director

New foundland Labrador Liquor Corporation

STATEMENT OF COMPREHENSIVE INCOME

Period ended
[in thousands]

	April 5, 2014 $	April 6, 2013 $
Sales [note 12]	**246,460**	234,675
Commission revenue on sale of beer	**59,955**	61,847
	306,415	296,522
Cost of sales	**109,011**	105,946
Gross profit	**197,404**	190,576
Administrative and operating expenses [note 13]	**46,326**	46,322
Earnings from operations	**151,078**	144,254
Other income		
Finance income	**351**	368
Miscellaneous income	**3,817**	3,364
	4,168	3,732
Net earnings for the period	**155,246**	147,986
Other comprehensive income		
Remeasurement of employee benefits [note 10]	**150**	—
Comprehensive income for the period	**155,396**	147,986

See accompanying notes

Newfoundland Labrador Liquor Corporation

STATEMENT OF CHANGES IN NET ASSETS

Period ended
[in thousands]

	April 5, 2014 $	April 6, 2013 $ [restated – note 18]
Balance, beginning of period, as previously reported	**73,988**	67,002
Restatement of prior year financial statements [note 18]	**(314)**	(314)
Balance, beginning of period, restated	**73,674**	66,688
Net earnings for the period	**155,246**	147,986
Other comprehensive income for the period	**150**	—
Comprehensive income for the period	**155,396**	147,986
	229,070	214,674
Distributions to the Province of Newfoundland and Labrador	**(152,000)**	(141,000)
Balance, end of year	**77,070**	73,674

See accompanying notes

Newfoundland Labrador Liquor Corporation

STATEMENT OF CASH FLOWS

Period ended
[in thousands]

	April 5, 2014 $	April 6, 2013 $
OPERATING ACTIVITIES		
Comprehensive income for the period	**155,396**	147,986
Adjustments for		
Depreciation and amortization	**4,291**	3,954
Loss (gain) on disposal of property, plant and equipment	**4**	(385)
Accrued vacation pay	**236**	289
Employee benefits	**147**	69
	160,074	151,913
Net change in non-cash working capital	**1,521**	(1,301)
Cash provided by operating activities	**161,595**	150,612
INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	**—**	526
Purchase of property, plant and equipment	**(5,140)**	(12,820)
Purchase of intangible assets	**(2,341)**	(1,323)
Cash used in investing activities	**(7,481)**	(13,617)
FINANCING ACTIVITIES		
Obligations under finance lease	**312**	—
Distributions to the Province of Newfoundland and Labrador	**(152,000)**	(141,000)
Cash used in financing activities	**(151,688)**	(141,000)
Net increase (decrease) in cash during the period	**2,426**	(4,005)
Cash and cash equivalents, beginning of period	**27,414**	31,419
Cash and cash equivalents, end of period	**29,840**	27,414

See accompanying notes

notes to financial **statements**

1. NATURE OF OPERATIONS

The Newfoundland Labrador Liquor Corporation [the "Corporation" or "NLC"] is a Provincial Crown Corporation responsible for managing the importation, sale and distribution of beverage alcohol throughout the Province of Newfoundland and Labrador [the "Province"]. As a Crown Corporation, the NLC is not subject to any Provincial or Federal taxation in relation to its income.

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 periods ended April 5, 2014 and April 6, 2013 both contained 52 weeks.

2. BASIS OF PREPARATION

Statement of compliance

The financial statements of the Corporation for the 52 weeks ended April 5, 2014 were authorized for issue in accordance with a resolution of the directors on June 19, 2014.

The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"].

Going concern and basis of measurement

These financial statements were prepared on a going concern basis, under the historical cost convention. The financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand except when otherwise indicated. The financial statements provide comparative information in respect of the previous period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received (or receivable), excluding rebates, and sales taxes or duty. The Corporation assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Corporation has concluded that it is acting as a principal in all of its revenue arrangements. The Corporation's major revenue streams include sales to retail and wholesale customers and commission revenue on the sale of beer. The following specific recognition criteria apply before revenue is recognized:

Sale of goods

The Corporation generates and recognizes net sales to retail and licensee customers at the point of sale in its stores and upon delivery of products to Liquor Express operators. The commission paid to the Liquor Express operators is deducted from the selling price of the products delivered. The commission paid to Liquor Express operators for the period ended April 5, 2014 was $5.1 million [April 6, 2013 – $5.0 million].

Sales of gift cards are included in accounts payable and accrued liabilities as deferred revenue on the statement of financial position at the time of the sale and subsequently recognized in the statement of comprehensive income when redeemed.

Sales exclude HST and other taxes due.

Commission revenues

The Corporation earns a commission on the sale of beer products in the Province sold through Liquor Express outlets and brewer's agent stores. Commissions are recognized on an accrual basis, based upon beer products sold during the reporting period. The commission earned is presented within revenue as it is earned through the ordinary activities of the Corporation.

Foreign currency translation

Transactions in foreign currencies are initially recorded by the Corporation at rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the functional currency spot rate of exchange ruling at the reporting date. Non-monetary assets are valued at the historical amount.

Property, plant and equipment

Property, plant, and equipment are stated at cost less depreciation and any impairment. The cost includes expenditures that are directly attributable to the acquisition of the items. Repairs and maintenance are charged to the statement of comprehensive income during the period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives as follows:

Building components	10 – 50 years
Leasehold improvements	5 – 20 years
Office furniture and equipment	5 – 10 years
Computer hardware	5 – 6 years
Plant and warehouse equipment	5 – 20 years
Store equipment and fixtures	5 – 20 years
Motor vehicles	3 years

Building components include building structure (50 years), building exterior (20 years), mechanical and electrical (20 years), roofing and paving (20 years), and interior finishes (10 years). These components are combined and presented in these financial statements as building components.

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset. The Corporation analyzes its lease agreements to assess whether they are finance or operating leases, using the lease term, useful life of the underlying asset, the present value of lease payments and other relevant factors. The Corporation has concluded that all of its retail store leases are operating leases.

Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

During the year the Corporation entered into a finance lease related to a voice over internet protocol ["VOIP"] telephone system.

Property under finance leases is recorded as an asset, and a liability. The corresponding obligation is recorded as a liability at the lower of the fair value of the asset and the present value of the minimum lease payments. Assets are amortized over the shorter of the lease term or the life of the asset.

The Corporation uses office and warehouse space in St. John's that is owned by the Department of Works, Services and Transportation of the Province. The Corporation is not required to make any payments to the Department of Works, Services and Transportation; no amount has been recorded in these financial statements. All operating, leasehold and maintenance costs related to the buildings are the responsibility of the Corporation.

Intangible assets

Intangible assets consist of trademarks and computer software assets not considered integral to the operation of the related hardware. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any impairment losses. The Corporation capitalizes internally generated intangible assets that meet capitalization criteria. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Intangible assets with finite lives (including computer software) are amortized over periods of 5-9 years. New product research and development costs are expensed as incurred.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit ["CGU"] level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. The Corporation considers the capitalized trademarks to have an indefinite life.

Impairment of non-financial assets

The Corporation assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

Cash and cash equivalents

Cash and cash equivalents are defined as short-term deposits with original maturities of three months or less. The Corporation holds cash in an interest bearing bank account. The interest income earned on these deposits is recorded as finance income.

Inventories

Inventories are measured at the lower of cost and net realizable value and include raw materials and finished goods. Inventories at head office, in transit and in retail stores are measured at landed cost, consisting of acquisition costs, freight and customs and excise duties. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Periodically, NLC reviews its inventory to investigate whether an inventory reserve is required, to reduce the carrying value of inventory for obsolescence and amounts required to value inventory at the lower of cost or net realizable value.

General provisions

General provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Employee benefits

Severance
The Corporation provides a severance payment upon resignation, retirement or termination subject to certain vesting and other conditions of employment. The obligation is actuarially determined using assumptions based on management's best estimates of the probability of employees meeting the eligibility requirements for severance, salary changes, mortality, and expectations on retention along with other relevant assumptions. Discount rates are based on the yield on high quality corporate bonds with cash flows similar to those of this liability. Actuarial gains or losses are recognized immediately in the statement of financial position with a corresponding debit or credit to net assets through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Sick leave
Certain employees of the Corporation are entitled to sick leave benefits that accumulate but do not vest. In accordance with IFRS, the Corporation recognizes the liability for the future use of these benefits in the period in which the employee renders the service. The obligation is actuarially determined using assumptions based on management's best estimates of the probability of use of accrued sick leave, salary changes, mortality, and expectations on retention along with other relevant assumptions. Discount rates are based on the yield on high quality corporate bonds with cash flows similar to those of this liability. Actuarial gains or losses are recognized immediately in the statement of financial position with a corresponding debit or credit to net assets through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Pension
The Corporation and its employees participate in the Province's Public Service Pensions Plan ["PSPP"], a multi-employer defined benefit plan. The Corporation is however not able to obtain sufficient information from the plan administrator to account for the plan as a defined benefit plan and therefore applies defined contribution accounting guidelines. The Corporation's contributions are expensed as incurred.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Corporation.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Corporation uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Corporation determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial instruments

Financial assets
Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement ["IAS 39"] are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial assets at initial recognition. All financial assets are recognized initially at fair value through profit or loss.

Financial liabilities
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial liabilities at initial recognition and all financial liabilities are recognized initially at fair value.

The Corporation has classified and subsequently measures financial assets/liabilities as follows:

Asset/Liability	Classification	Measurement
Cash and cash equivalents	Held for trading	Fair value through profit or loss
Accounts receivable	Loans and receivables	Amortized cost using Effective Interest Rate Method ["EIR"]
Accounts payable and accrued liabilities	Loans and borrowings	Amortized cost using EIR

The carrying value of the Corporation's financial instruments approximate fair value due to their immediate or short-term maturity and normal credit terms.

Impairment of financial assets

The Corporation assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event"), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For financial assets carried at amortized cost, the Corporation first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in profit or loss.

Significant accounting judgments, estimates and assumptions

The preparation of the Corporation's financial statements in conformity with IFRS 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates and assumptions were made as part of the severance and sick leave account balances. The Corporation made assumptions regarding the discount rate, salary increases, and retention rates to estimate the amount of severance and sick leave accrued as of the reporting date.

4. CHANGES IN ACCOUNTING POLICIES

IAS 19 - Employee Benefits ["IAS 19"]

The Corporation applied IAS 19 retrospectively in the current period, in accordance with the transitional provisions set out in the revised standard. Based on the nature of the Corporation's employee benefits, the adoption of IAS 19 did not have an impact on the comparative figures and accordingly there was no restatement of the comparative figures stemming from the adoption of IAS 19. For the current year, the re-measurement gains and losses are recognized in other comprehensive income rather than directly in profit of loss. IAS 19 requires more extensive disclosures which have been provided in Note 10.

IFRS 13 – Fair Value Measurement ["IFRS 13"]

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurement and requires additional disclosures. The adoption of IFRS 13 has not materially affected the fair value measurements of the Corporation. Additional disclosures have been included in the notes to the financial statements.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Corporation monitors the activities of the IASB and considers the impact that changes in the standards may have on the Corporation's financial reporting. Some of the ongoing projects which may impact the Corporation are as follows:

IFRS 9, Financial Instruments ["IFRS 9"]

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The Company does not expect that IFRS 9 will have material financial impact in future financial statements.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to offset" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Company.

IFRIC Interpretation 21 Levies ["IFRIC 21"]

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Company does not expect that IFRIC 21 will have material financial impact in future financial statements.

The Corporation is analyzing the impact these new standards will have on its financial statements.

6. PROPERTY, PLANT AND EQUIPMENT

	April 5, 2014			April 6, 2013
	Cost	Accumulated depreciation	Net book value	Net book value
	$	$	$	$
Land	3,194	—	3,194	704
Building components	15,414	2,215	13,199	3,523
Leasehold improvements	14,203	9,284	4,919	5,643
Office furniture and equipment	1,404	1,159	245	316
Computer hardware	4,735	2,986	1,749	1,472
Plant and warehouse equipment	5,151	2,704	2,447	1,503
Store equipment and fixtures	4,946	3,553	1,393	1,727
Motor vehicles	180	149	31	75
Assets under construction	—	—	—	9,857
Total	**49,227**	**22,050**	**27,177**	**24,820**

	April 5, 2014				
	Opening balance	Transfer	Additions	Disposals	Closing balance
	$	$	$	$	$
Cost					
Land	704	2,490	—	—	3,194
Building components	5,236	7,367	2,811	—	15,414
Leasehold improvements	14,243	—	100	(140)	14,203
Office furniture and equipment	1,496	—	28	(120)	1,404
Computer hardware	3,964	—	800	(29)	4,735
Plant and warehouse equipment	4,020	—	1,203	(72)	5,151
Store equipment and fixtures	4,779	—	198	(31)	4,946
Motor vehicles	180	—	—	—	180
Assets under construction	9,857	(9,857)	—	—	—
Total	44,479	—	5,140	(392)	49,227

	April 5, 2014			
	Opening balance $	Depreciation $	Disposals $	Closing balance $
Accumulated depreciation				
Building components	1,713	502	—	2,215
Leasehold improvements	8,600	824	(140)	9,284
Office furniture and equipment	1,180	98	(120)	1,159
Computer hardware	2,492	523	(29)	2,986
Plant and warehouse equipment	2,517	256	(68)	2,704
Store equipment and fixtures	3,052	532	(31)	3,553
Motor vehicles	105	44	—	149
Total	**19,659**	**2,779**	**(388)**	**22,050**
Net book value	**24,820**	**2,361**	**(4)**	**27,177**

During 2014, the Corporation completed the construction of its new warehouse facility; accordingly the assets previously classified as under construction were transferred to the appropriate asset categories.

7. INTANGIBLE ASSETS

			April 5, 2014	April 6, 2013
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
Trademark	254	—	254	204
Computer software	13,386	7,070	6,316	5,537
	13,640	7,070	6,570	5,741

				April 5, 2014
	Opening balance	Additions/ amortization	Disposals	Closing balance
	$	$	$	$
Cost				
Trademark	204	50	—	254
Computer software	11,096	2,291	(1)	13,386
Total	**11,300**	**2,341**	**(1)**	**13,640**
Accumulated amortization				
Computer software	5,559	1,512	(1)	7,070
Net book value	**5,741**	**829**	**—**	**6,570**

8. ACCOUNTS RECEIVABLE

Accounts receivable include the following:

	April 5, 2014	April 6, 2013
	$	$
Accounts receivable	7,145	6,076
Beer commissions receivable	4,121	5,874
	11,266	11,950

For the year ended April 5, 2014, approximately 99% [April 6, 2013 – 99%] of the accounts receivable balance is current.

9. INVENTORIES

	April 5, 2014	April 6, 2013
	$	$
Distribution centres	19,990	19,832
Branch stores	10,682	10,018
Stock in transit	3,613	4,887
Raw materials	1,815	1,603
	36,100	36,340

The total value of inventory expensed to cost of sales for the period ended April 5, 2014 was $102.9 million [April 6, 2013 – $99.7 million]. The inventory value includes a reserve of $0.6 million [April 6, 2013 – $0.2 million].

10. EMPLOYEE BENEFITS

Employee benefits include the following:

	April 5, 2014 $	April 6, 2013 $
		[restated – see note 18]
Accrued severance, beginning of period	3,332	3,365
Benefit expense	667	240
Benefits paid	(238)	(273)
Actuarial re-measurements recognized in other comprehensive income	(150)	—
Accrued severance, end of period	**3,611**	**3,332**
Accrued sick leave, beginning of period	3,279	3,177
Benefit expense	225	448
Benefits paid	(357)	(346)
Accrued sick leave, end of period	**3,147**	**3,279**
Total employee benefits	**6,758**	**6,611**

Benefit expense includes the current period benefit cost along with interest on the accrued benefit obligation.

The last actuarial valuation was performed effective April 7, 2012; the next actuarial valuation will be performed as at April 4, 2015.

The significant assumptions used by the Corporation in calculating the provisions are as follows:

	April 5, 2014 %	April 6, 2013 %
Salary increases	3.25	3.25
Discount rate – severance liability	4.10	3.75
Discount rate – sick leave liability	3.55	3.25

Employee retention rates used vary depending on age and length of service.

Pension plan

The Corporation's share of pension expense paid to the PSPP for the 52 weeks ended April 5, 2014 is $1.7 million [April 6, 2013 – $1.7 million].

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	April 5, 2014	April 6, 2013
	$	$
Trade payables	4,872	5,255
Accrued liabilities	7,008	7,133
Excise duties	8,813	11,014
HST payable	2,321	2,045
Other payables	3,624	3,192
	26,638	28,639

12. SALES

Sales include the following:

	April 5, 2014	April 6, 2013
	$	$
Sales of beverage alcohol	239,270	226,664
Other	7,190	8,011
	246,460	234,675

13. ADMINISTRATIVE AND OPERATING EXPENSES

	April 5, 2014	April 6, 2013
	$	$
Salaries and employee benefits	27,777	28,011
Depreciation and amortization	4,293	3,954
Marketing	2,891	3,206
Rent and municipal taxes	2,635	2,928
Interest and bank charges	2,163	1,983
Other	6,567	6,240
	46,326	46,322

14. CAPITAL MANAGEMENT

The Corporation defines capital that it manages as net assets. Due to its nature as a Crown Corporation, NLC's capital management is strongly influenced by the liquidity forecasts of the Province, and although the Corporation prepares its own budget, including proposed distributions, the Province may at any time decide to request an additional distribution or to increase the distributions as included in the budget. Generally, the Corporation aims at maintaining a net assets balance that ensures that the Corporation is able to fund its obligations as they fall due and has available a reserve to allow for unexpected expenditure. Annual budgets and distribution plans are set to accommodate the Corporation's expenditures in relation to planned investments in property, plant and equipment and intangible assets.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Corporation's principal financial liabilities comprise trade and other payables. The Corporation's principal financial assets include trade and other receivables and cash and cash equivalents that derive directly from its operations. The primary risk to the Corporation is credit risk.

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. There were two customers that accounted for 10% or more of the Corporation's accounts receivable as at April 5, 2014 [April 6, 2013 – two customers]. 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.

16. COMMITMENTS

The Corporation has entered into rental leases covering most of its corporate stores along with its VOIP telephone system.

Annual lease obligations are as follows:

	April 5, 2014	April 6, 2013
	$	$
Within one year	2,503	2,553
After one year but no more than five years	7,680	8,478
More than five years	1,561	2,818

The Corporation considers the VOIP agreement a finance lease and has included the remaining obligation above.

17. 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 to the Corporation; however, all operating, leasehold and maintenance costs related to the buildings are the responsibility of the Corporation.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of NLC, being the members of the Executive Management (CEO/President, Senior Vice President & CFO, Vice President of Sales and

Marketing, Vice President of Supply Chain Management, Vice President of Human Resources and Corporate Administration, and Chief Information Officer). The total compensation (including salary and benefits) paid to key management personnel for the 52 weeks ended April 5, 2014 was $0.9 million [April 6, 2013 – $0.9 million].

18. RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

During 2014, the independent actuary engaged by the Corporation to value the sick leave and severance liabilities [the "Actuary"] identified an error in the Actuary's previously reported sick leave liability balance. Based on the results of the revised calculation, it was determined the sick leave accrual as at April 7, 2012 was higher than the amounts previously estimated by the Corporation by $0.3 million. The financial statements for the fiscal year ended April 6, 2013 have been adjusted accordingly to increase employee benefits in the statement of financial position and reduce net assets in the statement of changes in net assets.

	Year ended April 6, 2013		
	As previously reported $	Adjustment $	Restated $
Statement of financial position:			
Employee benefits	6,297	314	6,611
Statement of changes in net assets:			
Net assets	73,988	(314)	73,674

SALES BY LOCATION (thousands of dollars)

	2013 – 2014 $
Kenmount Road*	49,829
Howley Estates	17,235
Deer Lake*	16,661
Clarenville Distribution Centre*	14,148
Stavanager Drive	11,375
Merrymeeting Road	10,304
Long Pong - CBS	9,692
Corner Brook - Humber Gardens	9,223
Kelsey Drive	9,059
Topsail Road	9,020
Pearlgate Plaza	8,642
Mount Pearl - Old Placentia Road	7,565
Blackmarsh Road	6,925
Gander	6,634
Grand Falls	6,446
Bay Roberts	5,979
Happy Valley	5,743
Clarenville	5,651
Ropewalk lane	5,554
Labrador City	5,449
Carbonear	4,774
Stephenville	4,708
Marystown	4,697
Queen Street	3,643
Corner Brook Plaza	3,455
Port aux Basques	2,577
Placentia	1,988
Special Events**	1,666
Lake Avenue - Satellite Store	1,094
Centennial Square - Satellite Store	175
Clarenville Irving - Satellite Store	22
TOTAL	249,934

**Denotes locations that also service Liquor Express Stores*
***Special Events also include Clearance Centre Sales*

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PO Box 8750, Station A, 90 Kenmount Road, St. John's, NL, A1B 3V1
t. 709 724 1100 f. 709 754 0321 **nlliquor.com**