



PURCHASING AND MERCHANDISING POLICY
SOCIÉTÉ DES ALCOOLS DU QUÉBEC

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CONTENTS

1	THE SAQ – BUSINESS ENTERPRISE.....	4
1.1	Mandate	4
1.2	Exclusivity of Merchandising	4
2	GENERAL MANAGEMENT RULES	4
2.1	Transactions with Suppliers	4
2.2	Electronic Communications	5
2.3	Product Promotion.....	5
2.4	Agents.....	5
2.5	Consultations	5
2.6	Sales and Inventory Statistics.....	6
2.7	Disclosure of Information	6
2.8	Business Relationships	6
2.9	Business Ethics.....	6
2.10	Applicable laws	6
2.11	Regular and Specialty Products.....	6
2.12	Products Marketed in Grocery Stores	7
3	CATEGORY MANAGEMENT.....	7
3.1	Principles	7
3.2	Categories.....	8
4	PRODUCT SELECTION.....	8
4.1	Principles	8
4.2	Product Offers	8
4.3	Product Proposal Selection Process	8
4.4	Acceptance of a Product Proposal.....	8
4.5	Refusal of Product Offer	9
4.6	Product Substitution	9
5	PRODUCT PURCHASING	9
5.1	Sales Agreement.....	9
5.2	Price.....	9
5.3	Price Changes	10
5.4	Change Affecting a Product	10
5.5	Invoicing Currency.....	10
5.6	Amounts Due from a Supplier.....	11
5.7	SAQ Purchase Order	11
5.8	Indemnity.....	11
6	PRODUCT MERCHANDISING	11
6.1	Distribution.....	11

6.2	Advertising and Promotional Programs	12
6.3	Withdrawal of Products from the Catalogue	12
6.4	Penalty in Case of Withdrawal	12
6.5	Specialty Products	13
7	GUARANTEES AND INDEMNIFICATION	13
7.1	Guarantees	13
7.2	Indemnification	14
7.3	Certificate	14
7.4	Recall and Withdrawal from Sale	14
8	REVIEW AND COMPLAINTS	15
8.1	Review of a Decision	15
8.2	Complaints to the Ombudsman	15
9	FINAL AND TRANSITIONAL PROVISIONS	15
9.1	Implementation and monitoring	15
9.2	Amendment	15
9.3	Replacement and Coming into Effect	16
9.4	Official language	16

The Société des alcools du Québec (hereinafter the “SAQ”) is a government corporation with a mandate to trade in alcoholic beverages in Quebec. As such, the SAQ is required to offer high-quality service and products to Quebecers.

The purpose of this Purchasing and Merchandising Policy is to enable the SAQ to build, maintain and appropriately merchandise, under the best possible conditions, a suitable selection of products that meet the needs of its various customer segments, while maintaining sound business relations with its suppliers.

The following rules reflect the management principles that the SAQ intends to apply in order to attain its objectives.

1 THE SAQ – BUSINESS ENTERPRISE

1.1 Mandate

The SAQ is a joint stock company, created under the *Act respecting the Société des alcools du Québec* (R.S.Q., c. S-13), whose role is to trade in alcoholic beverages in the Province of Quebec. It has all the powers required to carry out its business mandate, which consists more particularly in selecting, purchasing, importing, storing, distributing, and selling alcoholic beverages.

1.2 Exclusivity of Merchandising

The SAQ has the exclusive primary distribution rights in Quebec on all alcoholic beverages, with the exception of light cider and beer bottled in Quebec. It also retails alcoholic beverages through its network of outlets and agencies for consumption outside the points of purchase.

2 GENERAL MANAGEMENT RULES

2.1 Transactions with Suppliers

The SAQ deals directly with its suppliers and does not acknowledge any intermediaries in its business transactions.

For the purposes of this policy, the term “supplier” means any person who supplies alcoholic beverages and non-alcoholic products to the SAQ for sale.

In its procurement process, the SAQ takes into account business considerations such as price, quality, available quantities, marketability, transportation and other conditions related to purchasing or sales, and

provides suppliers with adequate opportunities to participate in these purchases in compliance with current business practices.

2.2 Electronic Communications

The SAQ carries out all procurement transactions with all its suppliers exclusively through electronic data interchange. Upon request, suppliers may obtain the information necessary to register at a transactional portal.

In this policy, the term “online” means, depending on the context, that information is available or that an action can be performed via the Internet on the following website: www.saq-b2b.com.

2.3 Product Promotion

Suppliers are solely responsible for conducting all promotional activities associated with their products.

The SAQ offers advertising and promotional programs, which suppliers are free to participate in at any time. To this end, the SAQ informs all affected suppliers, or their agents (as defined below), of the participation and operation rules for each of these programs.

The SAQ also carries out promotional activities in connection with specific products.

2.4 Agents

A supplier may retain the services of a third party (an “agent”) to carry out promotional activities in connection with its products.

A supplier may also hire an agent as a representative for dealing with the SAQ for specific purposes. To do so, the supplier must appoint the agent in writing, using the Power of Attorney form available online.

The supplier must notify the SAQ’s Procurement and Merchandising Department of the name of its agent, and of any change with respect thereto, immediately and in writing. This notification must indicate which products are affected and the date on which the change comes into effect.

The supplier is responsible for the actions and behaviour of its agent. The SAQ shall not be required to intervene in any dispute that may arise between a supplier and its agent.

2.5 Consultations

The SAQ consults with stakeholders in the alcoholic beverage industry as required.

2.6 Sales and Inventory Statistics

The SAQ provides suppliers and their agents with access to sales statistics for all the products that it sells. These sales statistics may be consulted at the SAQ's head office free of charge. They are also available electronically upon payment of certain fees.

The SAQ also provides suppliers and their agents with access to inventory statistics pertaining to their own products. These statistics are only available electronically upon payment of certain fees.

2.7 Disclosure of Information

By doing business with the SAQ, a supplier thereby and without any further formality authorizes the SAQ to disclose any and all information about the business that it does with the SAQ to any relevant public authority.

2.8 Business Relationships

With respect to its business relationships with suppliers and their representatives, the SAQ expects them to be polite and courteous at all times and to act in a cooperative manner, taking into consideration the interests of both parties.

2.9 Business Ethics

In order to maintain the trust of its partners, the public, and its customers, the SAQ requires its employees to comply with the rules of business ethics.

It specifically requires that they avoid any conflict-of-interest situation, either real or apparent, resulting from accepting any favours from a supplier.

In this context, suppliers are required to comply with the rules of conduct imposed on SAQ employees. These rules are available online.

2.10 Applicable laws

Suppliers and their representatives are responsible for informing themselves of the federal and provincial laws applicable to the import, possession, storage, transportation and sale of alcoholic beverages in Quebec, as well as those that govern promotion and advertising.

2.11 Regular and Specialty Products

All alcoholic beverages and all non-alcoholic products sold by the SAQ are classified as either regular products or specialty products.

The term “specialty product” means any alcoholic beverage that complements the line of regular products and that features a specific characteristic associated with superior quality, reputation or rarity, or that potentially represents a discovery opportunity for Quebec consumers.

Denatured alcoholic beverages, beverages that are sold in bulk, beverages that are used for religious purposes or that meet a specific or seasonal demand and non-alcoholic products are also considered to be specialty products.

The term “regular product” means any product that is sold by the SAQ that is not a speciality product or considered to be a speciality product.

In response to market changes, a specialty product may, upon agreement with the supplier, in the form prescribed by the SAQ and in accordance with the agreed terms and conditions, be transferred to the regular product catalogue.

2.12 Products Marketed in Grocery Stores

Alcoholic beverages that are intended for sale by grocery permit holders for which the SAQ is the exclusive wholesale distributor are subject to this policy, subject to the required adjustments. The establishments operated by the holders of these grocery permits are collectively referred to herein as the “grocery network.”

3 CATEGORY MANAGEMENT

3.1 Principles

In order to select and merchandise the alcoholic beverages that it sells, the SAQ practices “category management.”

Category management is not used for products to be sold through the grocery network.

Category management is a process whereby efficiency and profitability in various product categories are achieved by effectively meeting consumers’ needs. This is done by, in particular, focusing on market trends and on each category’s performance. Category management allows an adequate selection of products to be maintained due to the specific dynamics of each product category in conformance with the plan for each of these categories.

The categories are managed as strategic business units.

3.2 Categories

A product category is a group of products that have common characteristics. A category must provide potential for sales development.

Determining the categories takes into account how consumers perceive the products and make their purchases.

The current list of categories is available online.

4 PRODUCT SELECTION

4.1 Principles

The SAQ selects products that reflect its objective of offering the best range of products to its various customer segments while ensuring sound business management.

4.2 Product Offers

The SAQ publicly solicits proposals for new products. In certain specific cases, the SAQ may also, exceptionally, solicit proposals by invitation, or it may negotiate directly with a supplier.

Despite the general rule described in the preceding paragraph, a supplier may submit a product proposal on its own initiative at any time.

Product proposals must comply with the proposal submission conditions, which are available online.

4.3 Product Proposal Selection Process

In determining whether a proposed product contributes to attaining the strategic objectives for its category, the product is assessed based on its quality, reputation and sales potential. Any sustainable development efforts made by suppliers will also be considered when assessing proposed products.

In addition, in order to be accepted, proposed products must comply with applicable standards for labelling, packaging, composition and elaboration, and must not represent a risk to the SAQ's brand image.

4.4 Acceptance of a Product Proposal

The supplier is informed, in writing, of the SAQ's decision to list the proposed product in the SAQ's catalogue.

4.5 Refusal of Product Offer

If a product offer is not accepted, the supplier is notified in writing, along with the reasons for the refusal.

4.6 Product Substitution

The conditions that must be met in order to have a regular product substituted are set out in the Application Procedures available online.

When a substitution is authorized, the replacement product must meet the conditions of the policy as applicable to a new regular product.

The supplier is required to pay the SAQ for any unsold inventory of the substituted product in the ninety (90) days following the date of authorization of the substitution, the supplier must pay an amount representing twenty-five percent (25%) of their purchase price. The SAQ may deduct this amount from any amount that is payable to the supplier.

Substitution is not permitted in the case of specialty products.

5 PRODUCT PURCHASING

5.1 Sales Agreement

Following acceptance, a product is purchased and marketed in accordance with the terms and conditions specified in the sales agreement between the SAQ and the supplier.

This agreement comprises the following contractual documents:

- a) the proposal and all accompanying documentation submitted by the supplier, as amended or clarified;
- b) the SAQ purchase order;
- c) this policy.

5.2 Price

When purchasing products, the SAQ negotiates the most advantageous terms and prices possible.

A supplier may not sell a product to the SAQ at a warehouse price that is higher than the warehouse price charged to any other provincial or territorial liquor control board in Canada for the same product.

The SAQ may waive this requirement if the supplier of the product concerned demonstrates, to the satisfaction of the SAQ, that non-compliance with this requirement is justified.

If the supplier violates this stipulation, the SAQ reserves the right to terminate procurement of the product.

5.3 Price Changes

Any change in the purchase price of a product must be approved by the SAQ. A request for approval must be submitted in writing, stating the reasons for the request, and must comply with the other conditions applicable to price changes, which are available online.

A request for a change in the purchase price for a speciality product must be submitted by the supplier when renewing its offer.

The SAQ's purchase price for a new regular product cannot be increased during the first twelve (12) months after its market launch.

A change in the purchase price does not affect the price of products in orders that have already been accepted by the supplier.

In the event of a decrease in the purchase price for a product, the SAQ will reduce the retail sales price for all inventory of the product in stock. The supplier must then pay the inventory credit that will be charged to it by the SAQ. The inventory credit corresponds to the portion of the supplier's sales price to the SAQ that is required in order to attain the sought reduction in the retail sales price.

5.4 Change Affecting a Product

Any changes that affect a product, in particular changes that involve the container, the label, the dimension of the cases, or the format, must be submitted beforehand to the SAQ for approval.

5.5 Invoicing Currency

The supplier has the choice of invoicing exclusively in Canadian dollars or in any of the foreign currencies accepted by the SAQ. The list of accepted currencies is available online. The invoicing currency may be changed in conformance with the terms and conditions set out in the Application Procedures, which are also available online.

Payments made to suppliers of products that are intended for the grocery network shall be made exclusively in Canadian dollars.

5.6 Amounts Due from a Supplier

All amounts claimed by the SAQ from suppliers are invoiced in Canadian dollars.

5.7 SAQ Purchase Order

Products are ordered using an SAQ purchase order, which sets out purchasing conditions, including compliance with the provisions of this policy.

The purchase order form is available online.

5.8 Indemnity

The supplier of a new regular product must pay an indemnity to the SAQ if, during the first twelve (12) months after its market launch, the new product does not attain the sales forecast specified in the sales agreement. The indemnity is \$300 per negative percentage point of the difference between the actual sales and the sales target.

In order to collect this indemnity, the SAQ may deduct the amount of the indemnity from any amount that is payable to the supplier.

6 PRODUCT MERCHANDISING

6.1 Distribution

The distribution of products in SAQ sales outlets is initially determined by the physical space available in each outlet.

A portion of the physical space of each outlet is arranged so that a standard range of regular products, selected from among the top sellers in each category, is available throughout the network. To meet customer demand, each of these categories is completed by regular products of the same category, which are selected by the authorized person in each outlet.

The shelf space occupied by these products and their position on the shelves are determined by a planogram, which is based on the overall sales in each of the categories in the various outlet groups. The planogram is revised regularly to reflect any changes in the categories.

New regular products are offered for sale in a specified group of outlets for a minimum period of twelve (12) months. The list of outlets making up the group is available online.

A space not covered by the planogram is set aside for specialty products, which are selected by the outlet's authorized person based on customer demand.

Distribution of products to the grocery network is based on orders from grocery permit holders.

6.2 Advertising and Promotional Programs

Upon request, a supplier is required to inform the SAQ of its commitments with respect to advertising and promotional programs, as provided for in its sales agreements.

6.3 Withdrawal of Products from the Catalogue

Introducing new products revitalizes categories and does much to increase the effectiveness of category management. To maintain a balance and an optimal product offer in the outlet network, some products will eventually have to be withdrawn from the catalogue.

In conformance with the strategy set out in the category plan, the worst-performing regular product(s) in a category or category segment, as the case may be, may be dropped from the catalogue. The plan for each category is made available online in advance at the beginning of each fiscal year.

A regular product that has been listed for less than twelve (12) months cannot be withdrawn from the catalogue.

The SAQ will immediately inform the supplier in writing of the reasons for the withdrawal of a product. Disposal of withdrawn products is at the discretion of the SAQ.

6.4 Penalty in Case of Withdrawal

A regular product that is withdrawn from the catalogue less than two years after its market launch date is subject to the penalty described below.

For unsold inventory of the product, the supplier must pay to the SAQ a penalty equal to twenty-five percent (25%) of its purchase price.

To collect this penalty, the SAQ may deduct the amount of the penalty from any amount that is payable to the supplier.

6.5 Specialty Products

A product offered for sale as a specialty product may be reordered (renewed) if it continues to comply with the definition of a specialty product (see paragraph 2.11) and if justified by its sales performance, turnover rate, purchase price and the interest it generates among consumers.

7 GUARANTEES AND INDEMNIFICATION

7.1 Guarantees

The supplier gives the SAQ the following guarantees regarding the products that it sells to it.

The products:

- a) comply with the laws and regulations in effect in Quebec and with the SAQ's standards, practices, requirements and specifications;
- b) subject to the provisions of subparagraph a), comply with the labelling, packaging, classification, identification, composition and production standards applicable in their country of origin when claiming such origin;
- c) are suitable for their intended use and free of any apparent or hidden defect;
- d) are free and clear of all securities, priorities, hypothecs, privileges or all other encumbrances and liens of any nature whatsoever and are of merchantable quality;
- e) do not, in any manner whatsoever, violate or infringe on the intellectual property rights of a third party, including but not limited to trademarks, patents, industrial designs and copyrights; and
- f) include labels and packaging that present information, identifications, appellations and specific, complete and accurate brand names and that does not create confusion or misunderstanding.

The term "product" means a product and all its component parts, including but not limited to the packaging and the main, back and neck labels. Packaging includes, in particular, the product container and any other element that is used for the purpose of presentation, handling, storage, shipping, transportation and reception.

The SAQ's labelling and packaging standards are available online, as are the main standards regarding product composition and production.

The supplier's guarantees are provided in favour of the SAQ and may be to the benefit of its customers, grantees, assigns and successors. The aforementioned guarantees provided by the supplier are in addition to the guarantees and recourses provided by law.

7.2 Indemnification

The supplier agrees to hold harmless and indemnify the SAQ, its directors, shareholders, officers, employees, agents and representatives (hereinafter the "indemnified person(s)") and to defend them against any claim, action or proceeding filed against them on the basis of (i) the supplier's guarantees or (ii) failure by the supplier to comply with any other obligation provided for in its sales agreement.

The indemnification shall include all damages, fines, expenses, expenditures or other pecuniary judgements as well as any legal fees paid by the indemnified persons for their defence, if applicable.

7.3 Certificate

The supplier undertakes to provide to the SAQ, on request, any certificate or other document establishing the authenticity or the particular characteristics of a product, irrespective of whether this certificate or document is required under the laws or regulations of Canada, Quebec or another relevant jurisdiction.

7.4 Recall and Withdrawal from Sale

The supplier acknowledges that (i) failure to comply with section 7 "GUARANTEES AND INDEMNIFICATION" hereof, (ii) the non-compliance of one of its products with the aforementioned section, or (iii) the receipt by the SAQ of a notice from an organization, government department, agency or other authority regarding the non-compliance of one of its products with a law, regulation or standard may result in the recall and withdrawal from sale of the aforementioned product at the supplier's expense.

The supplier waives the right to any claim against the SAQ for any recall or withdrawal from sale of one of its products carried out in compliance with the preceding paragraph.

If, following the withdrawal from sale, the product is withdrawn from the catalogue, the cost of returning the product to the supplier or of destroying the product, as the case may be, shall be borne by the supplier. In particular, the SAQ may deduct this amount from any amount that is payable to the supplier.

8 REVIEW AND COMPLAINTS

8.1 Review of a Decision

The supplier has the right to appeal a refusal to list its product in the SAQ's catalogue or a decision to withdraw its product from the SAQ's catalogue or any other decision taken by the SAQ within twenty (20) days of being informed of such a decision.

In order to exercise this right, the supplier must send a written request for review of the decision to the Secretary General of the SAQ, stating the reasons for this request. Such request is submitted to a Review Committee for review. Only one request for review of a decision is allowed.

A request for review of a decision to withdraw a product does not suspend the withdrawal measures applicable to said product concerned.

8.2 Complaints to the Ombudsman

In accordance with established procedures, and in specific cases, the SAQ's Ombudsman – Business Relations and Personnel may receive and hear a complaint from a supplier or its agent.

The description of the Ombudsman's role and the conditions for initiating a complaint procedure are available online.

A supplier that invokes the right of review provided for in the preceding section retains its right to complain to the Ombudsman.

9 FINAL AND TRANSITIONAL PROVISIONS

9.1 Implementation and monitoring

The Procurement and Merchandising Division is responsible for the implementation and monitoring of this policy.

The mentioned division gives an account of this monitoring to the SAQ's Business Practices Committee.

9.2 Amendment

This policy may be amended by decision of the SAQ's Board of Directors. Amendments are available online.

9.3 Replacement and Coming into Effect

This policy replaces the Purchasing and Merchandising Policy that was adopted on November 18, 2010.

9.4 Official language

Only the French version of this policy shall be deemed official.

In the event of discrepancy between the French text and any translation, the French language text shall prevail.