



PURCHASING AND MERCHANDISING POLICY
SOCIÉTÉ DES ALCOOLS DU QUÉBEC

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DIRECTORS)**

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The *Société des alcools du Québec* (hereinafter referred to as the « SAQ ») is a state-owned corporation with a mandate to operate the alcoholic beverages trade in Québec. In this capacity, the SAQ must offer high-quality service and products to Quebecers.

The purpose of this Purchasing and Merchandising Policy is to enable the SAQ to build and maintain a suitable selection and appropriate merchandising of products that meet the needs of its various clienteles in the best possible conditions, 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 business corporation, created under a special act, whose role is to operate the alcoholic beverages trade in the Province of Québec. It has all the powers required to carry out its business mandate, which consists more particularly in the selection, purchase, import, storage, distribution, and sale of alcoholic beverages.

1.2 Exclusivity of Merchandising

The SAQ has the exclusive primary distribution rights in Québec on all alcoholic beverages, with the exception of light cider and beer bottled in Québec. It also retails alcoholic beverages through its network of outlets and agencies for consumption outside 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” designates any person who supplies alcoholic beverages and non-alcoholic products to the SAQ for sale.

In terms of procurement, 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

Upon request, suppliers may obtain the information required to register at a transactional portal.

In this policy, the term « online » means (according to the context) that information is available or that an action can be carried out through the SAQ website (www.saq.com).

2.3 Product Promotion

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

The SAQ provides 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 rules respecting participation and operation 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 in dealing with the SAQ for specific purposes. In order to do so, the supplier must appoint the agent in writing, using the *Power of Attorney* form that is available online.

A supplier must notify the SAQ's Procurement and Merchandising Department of the name of its agent and any change with respect to its agent immediately, and in writing.

This notification must indicate which products are affected, and the date when any change comes into effect.

In terms of dealings with the SAQ, the supplier is responsible for the actions and behaviour of its agent. The SAQ will not intervene in any dispute that may arise between a supplier and its agent.

2.5 Consultations

The SAQ consults stakeholders in the alcoholic beverage industry as required. These consultations may assist in identifying common goals.

2.6 Sales and Inventory Statistics

The SAQ provides suppliers and their agents with access to sales statistics for all of the products that it markets. 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 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.

2.8 Business Ethics

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

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

In this context, suppliers must comply with the rules of conduct that are imposed on SAQ employees, which are available online.

2.9 Applicable laws

Suppliers shall be responsible for informing themselves of the federal and provincial legislation applicable to the import, possession, storage, transportation, and sale of alcoholic beverages in Québec, along with those that govern its promotion and advertising.

2.10 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” designates any alcoholic beverage that complements the line of regular products and that features a specific characteristic that is associated with superior quality, reputation, or rarity, or that potentially represents a discovery for Québec 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” designates any product that is sold by the SAQ that is not a speciality product or considered to be a speciality product.

2.11 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 permit are collectively referred to herein as the « grocery network ».

3 MANAGEMENT BY CATEGORY

3.1 Principles

In order to select and merchandise the alcoholic beverages that it markets, the SAQ practices « management by category ».

This approach does not apply to products that are intended for sale through the grocery network.

Essentially, the goal of management by category is to satisfy the demand of various clienteles on the basis of market trends and the performance of each category. It enables the SAQ to maintain an adequate selection of products in keeping with the specific dynamics of each product category.

3.2 Categories

A product category is a group of products that have common characteristics. A category must provide potential for sales development, and it must be recognized as a category by consumers.

When a category is created, it must contain a minimum of eight (8) products, and it must attain a minimum of five million dollars (\$5,000,000) in annual sales.

If necessary, the SAQ's Board of Directors can create exceptional categories who do not meet the criteria mentioned previously.

The list of current 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 clienteles while ensuring sound business management.

4.2 Product Offers

The SAQ publicly solicits proposals for new products. In the case of specialty products and regular spirits, 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.

A product proposal must comply with the conditions for submitting proposals, which are available online.

4.3 Selection Process for Product Proposals

If a proposed product contributes to attaining the objectives for its category, it is assessed based on its quality, reputation, and sales potential. Any efforts deployed by suppliers with respect to sustainable development will also be considered in the assessment of 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 supplier of a regular product that is marketed by the SAQ may replace it with another product chosen by the supplier, subject to the following conditions:

- a) At the time when the request for substitution is submitted, the substitute product must have a sales volume that is greater than twice the applicable minimum sales quota;
- b) The proposal for the substitution must meet the objectives of the category;
- c) The supplier must agree to respect the conditions of this policy as applicable to a new regular product.
- d) For unsold inventory of the product substituted on the date of acceptance of its 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.

Similarly, a supplier may substitute two of its regular products for another of its products, subject to the terms described above, except that, at the time when the substitution request is submitted, each of the two substitute products must attain at least 1.25 times applicable minimum sales quota.

Different rules of substitution can be applied to the products of an exceptional category.

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 its 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 said product 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 said 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 of 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 selling 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 selling price to the SAQ that is required in order to attain the sought reduction in the retail selling price.

5.4 Change Affecting a Product

Any changes that affect a product, and especially changes that involve the container, the label, or the format, must be submitted 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 only once per year, on a date that is determined by the SAQ.

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 purchasing and marketing 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 the new product does not attain the sales forecast that was specified in the sales agreement during the first twelve (12) months after its market launch. This indemnity is 300 \$ per each negative percentage point of the difference between the actual sales and its 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 STANDARDS

6.1 Labelling and Packaging

Subject to compliance with the laws and regulations applicable in Québec and with the SAQ's standards and practices, products must comply with the labelling and packaging standards applicable in their country of origin when claiming such origin, including product classification and identification standards.

Any indication, appellation, or brand associated with the product that appears on a label or on the product packaging must be accurate, must not create confusion, and must not be misleading.

The label includes all product labelling and presentation, particularly including the main, back, and neck labels. Packaging includes the product container and any other element that is used for the purpose of presentation, handling, storage, or transportation.

Labelling and packaging standards are available online.

6.2 Product Composition and Elaboration

Subject to compliance with the laws and regulations applicable in Québec and with the SAQ's standards and practices, products must respect the standards for the composition and elaboration of alcoholic beverages applicable in their country of origin when claiming such origin.

The main standards for the composition and elaboration of products are available online.

6.3 Supplier Warranties

The supplier agrees to hold harmless and indemnify the SAQ, its directors, shareholders, officers, employees, agents, and representatives (hereinafter referred to as the "indemnified person(s)"), and to defend them against any claim, action, or proceeding filed against them on the basis of (i) an apparent or latent defect in a product, including its packaging (hereinafter referred to as the "product") that the supplier has sold to the SAQ, including the presence in the product of elements that are harmful, toxic, contaminated, or prohibited by any legislation or SAQ standards; or (ii) any allegation by a third party of an infringement or violation of an intellectual property right, including in particular a trademark or copyright, in connection with the marketing by the SAQ of a product purchased from the supplier; or (iii) failure by the supplier to comply with any other obligation provided for in its sales agreement.

Within the context of its undertakings provided for in the preceding paragraph, the supplier shall compensate the indemnified persons for any pecuniary judgment for damages, fines, expenses, expenditures, or other, as well as any legal fees paid by the indemnified persons for their defence.

However, the supplier is not liable for any changes in the quality of its product if such changes are undoubtedly linked to a cause that is external to the product and that is beyond the control of the supplier and that occurs after the compliant shipment of the product.

7 PRODUCT MERCHANDISING

7.1 Distribution

Distribution of products to SAQ sales outlets is carried out in accordance with the physical constraints of each outlet.

A portion of the physical space of each outlet is arranged in such a way that a common range of regular products, selected from among the best sellers in each category, is available throughout the network. In order to respond to specific requests from clients, each of these categories is completed by regular products of the same category, which are selected by the manager of each outlet.

The shelf space that is occupied by these products and the positioning of products on the shelves are determined by a planogram.

Within an outlet, each category is given the proportion of shelf space that corresponds to its share of the total sales for the outlet. An annual outlet-by-outlet review is conducted in order to assign shelf space to each category corresponding to its share of the sales for the outlet.

New regular products are marketed in a specified group of outlets for a minimum period of twelve (12) months. The list of outlets that are included in this group is available online.

Any space that is not covered by the planogram is reserved for specialty products, which are selected by the manager of each outlet in response to requests from clients.

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

7.2 Advertising and Promotional Programs

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

7.3 Continued Product Listing

A regular product must meet the applicable minimum sales quota. This quota is the one that is in effect on the date when the sales of said product are calculated.

Minimum sales quotas for products are determined by the SAQ's Board of Directors, and are available online.

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

In the case of an emerging or exceptional category or a category which the assortment is full, a regular product may continue to be listed, despite performance that does not attain the applicable sales quota.

A specialty product will be withdrawn from the catalogue if its sales performance, turnover rate, or purchase price are judged to be unsatisfactory, or if it no longer complies with the definition of a specialty product.

7.4 Product Withdrawal

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

7.5 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 special withdrawal measures provided below.

For inventory that remains in outlets, the supplier of the product must pay a penalty of twenty-five percent (25%) of its purchase price.

In order to collect this penalty, the SAQ may deduct the amount of the penalty 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 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 *Ombudsman – SAQ Business Relations and Personnel* may receive and hear a complaint from a supplier or its agent.

The description of the Office of Ombudsman and the conditions for invoking the 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 Committee of the business practices.

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 June 11, 2009.

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.