



# TOWARDS A NEW BALANCE

ANNUAL REPORT 2011

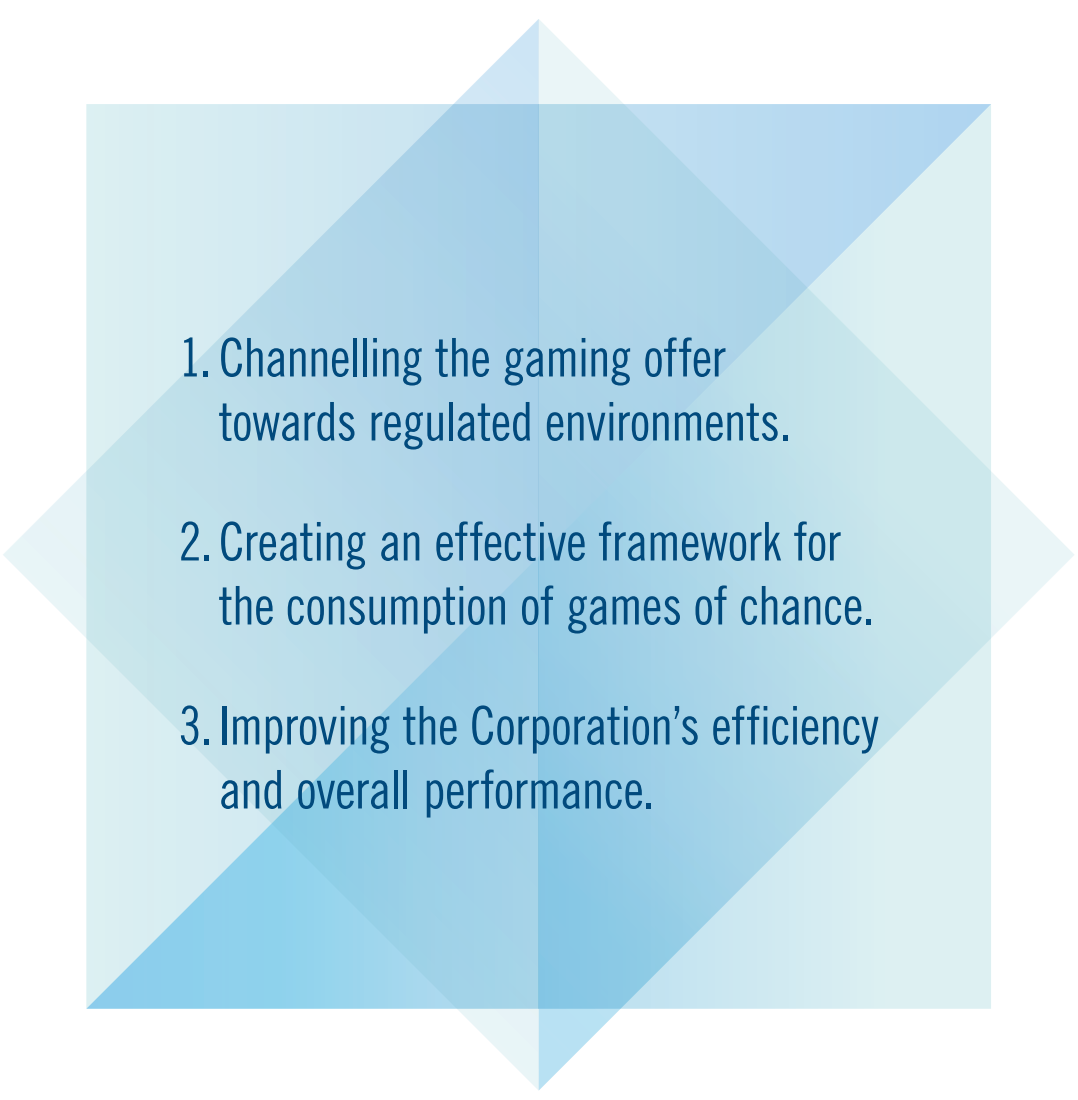


**CERTIFIED - LEVEL 4**  
RESPONSIBLE GAMING FRAMEWORK  
2009 - 2012

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# STRATEGIC ORIENTATIONS

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1. Channelling the gaming offer towards regulated environments.
  2. Creating an effective framework for the consumption of games of chance.
  3. Improving the Corporation's efficiency and overall performance.

## MISSION

To responsibly manage games of chance in a controlled and measured fashion, in the interest of all Quebecers.

## VISION

To become a recognized world leader in the responsible commercialization of games of chance.

# KEY FIGURES

As at March 31

<i>(in thousands of dollars)</i>	2011	2010	\$ VARIATION	% VARIATION
<b>Total revenues</b>	<b>3,674,862</b>	3,755,078	(80,216)	(2.1)
Lotteries	<b>1,787,813</b>	1,795,334	(7,521)	(0.4)
Casinos	<b>890,998</b>	935,307	(44,309)	(4.7)
Video lotteries	<b>1,001,092</b>	1,043,332	(42,240)	(4.0)
Bingo	<b>31,334</b>	32,025	(691)	(2.2)
Inter-sector transactions	<b>(36,375)</b>	(50,920)	14,545	(28.6)
Prizes awarded – lotteries	<b>918,948</b>	922,723	(3,775)	(0.4)
Prizes awarded – bingo	<b>15,692</b>	16,521	(829)	(5.0)
Gross margin	<b>2,301,860</b>	2,363,593	(61,733)	(2.6)
Operating expenses	<b>842,336</b>	846,890	(4,554)	(0.5)
Net earnings	<b>1,337,941</b>	1,340,687	(2,746)	(0.2)
Dividends	<b>1,246,813</b>	1,251,597	(4,784)	(0.4)
Other amounts contributed to the Québec and Canadian governments	<b>244,434</b>	236,806	7,628	3.2
Total assets	<b>1,216,626</b>	1,185,789	30,837	2.6
Shareholder's equity	<b>134,477</b>	134,477	–	–

## TOTAL REVENUES

<i>(in millions of dollars)</i>	2011	2010	2009	2008	2007
	<b>3,674.9</b>	3,755.1	3,814.6	3,795.4	3,738.6

## NET EARNINGS

<i>(in millions of dollars)</i>	2011	2010	2009	2008	2007
	<b>1,337.9</b>	1,340.7	1,455.8	1,436.2	1,468.1

# ECONOMIC AND SOCIAL CONTRIBUTIONS

## ECONOMIC

DIVIDENDS TO THE GOVERNMENT  
OF QUÉBEC

\$1.247 B

PRIZES AWARDED TO LOTTERY  
AND BINGO WINNERS

\$934.6 M

COMMISSIONS AND OTHER COMPENSATIONS TO LOTTERY,  
VIDEO LOTTERY AND BINGO NETWORK PARTNERS

\$349.5 M

PURCHASES FROM COMPANIES  
CONDUCTING BUSINESS IN QUÉBEC

\$310.9 M

SALARIES AND  
EMPLOYEE BENEFITS

\$408.6 M

TAXES TO  
GOVERNMENTS

\$137.8 M

SPECIAL CONTRIBUTIONS  
TO GOVERNMENTS

\$106.7 M

## SOCIAL

CONTRIBUTIONS TO THE FIGHT  
AGAINST EXCESSIVE GAMING

\$31.1 M

CONTRIBUTIONS TO THE MINISTÈRE  
DE LA SANTÉ ET DES SERVICES  
SOCIAUX IN AID OF THE ELDERLY  
WHO HAVE LOST THEIR AUTONOMY

\$30.0 M

CONTRIBUTIONS TO  
THE MINISTÈRE DE L'AGRICULTURE,  
DES PÊCHERIES ET DE L'ALIMENTATION

\$7.1 M

CONTRIBUTIONS AND COMMISSIONS  
TO NON-PROFIT ORGANIZATIONS

\$17.7 M

CONTRIBUTIONS TO THE  
MINISTÈRE DE LA CULTURE,  
DES COMMUNICATIONS ET DE LA  
CONDITION FÉMININE (OSM)

\$10.0 M

CONTRIBUTIONS TO THE MINISTÈRE  
DES FINANCES (COMITÉ DE SUIVI  
DU JEU EN LIGNE)

\$0.3 M

FONDS D'AIDE À L'ACTION COMMUNAUTAIRE AUTONOME  
– ASSISTANCE FOR  
INDEPENDENT COMMUNITY ACTION

\$14.8 M

– ASSISTANCE FOR INTERNATIONAL  
HUMANITARIAN ACTION

\$3.0 M

SPONSORSHIPS

\$13.9 M

COLLECTION  
LOTO-QUÉBEC

\$0.4 M

## MESSAGE FROM THE CHAIRWOMAN OF THE BOARD

Last year, Loto-Québec's Board of Directors had a full schedule of important decisions to take, on both the business and corporate fronts. Among the significant developments was the adoption last summer by the members of Loto-Québec's 2010-2013 Strategic Plan, entitled *Fulfilling our mission responsibly, for the benefit of all Quebecers*. This document defines the Corporation's three major strategic orientations, which led to updating the mission and vision statements to bring them more in line with the realities now facing Loto-Québec. Since the document's publication, the Board has diligently monitored its implementation.

The Board of Directors also continued to ensure that Loto-Québec was managed over the past fiscal year in compliance with the provisions of its Act of Incorporation and its regulations, and saw to it that the Corporation took the necessary measures to achieve its business plan objectives. In this regard, my fellow Directors and I noticed great cohesiveness between Loto-Québec managers and the Board of Directors in the management of governance practices.

Among the other value-creating initiatives is the furtherance of efforts to establish framework policies for sound risk management. In step with this, risk management and strategic planning now report directly to the President and Chief Executive Officer of the Corporation, strengthening the importance accorded to the pursuit of efforts in this direction.

The Directors also oversaw the implementation of the *espacejeux.com* project right up to the site's launch in November 2010, as well as during its first months of operation. The implementation of this site is in line with the Corporation's mission, which consists of redirecting illegal gaming activity to a secure, controlled environment. In addition, the Board proceeded with the creation of the Société du jeu virtuel du Québec, the subsidiary that now provides the daily management of Loto-Québec's online gaming operations. Members also approved additional loans from Loto-Québec to French casino operator Casinos Développement Europe and its subsidiaries, and monitored their development.

### PARITY ON THE BOARD OF DIRECTORS

During the course of the past year, two new members were appointed to the Board, Mr. André Dicaire and Ms. Céline Trépanier. Since June 2007, women have made up half of the Board. As at March 31, 2011, there were five women and five men, respecting the gender parity goal set by the Government of Québec for 2011. It is worth mentioning that the Corporation was honoured last March by the Conférence régionale des élus (CRÉ) de Montréal and the Ministère de la Culture, des Communications et de la Condition féminine for achieving gender parity among members of its Board of Directors. Loto-Québec was awarded its Prix Cravate rose de la parité trophy on International Women's Day.

A portrait of Hélène F. Fortin, a woman with dark, wavy hair, smiling and standing with her arms crossed. She is wearing a coral-colored cardigan over a white top, a gold necklace with a large pendant, and a gold watch. The background is a blurred cityscape with tall buildings. A large blue diagonal graphic element is on the left side of the image.

## HÉLÈNE F. FORTIN, FCA, ICD.D.

CHAIRWOMAN  
OF THE BOARD

*Loto-Québec more than doubled  
the government objective set  
for 2010-2011 by posting a  
reduction of its expenses and  
an improvement in its productivity  
equivalent to \$14.9 million.*

## **CONSTANT ATTENTION TO EFFICIENCY AND PERFORMANCE**

As part of its responsibilities, the Board oversaw the activities related to risk management, the certification program for internal controls and internal audit activities. It also adopted the revised mandate of the Audit Committee to include information technologies.

Over the past fiscal year, the Board approved Loto-Québec's spending reduction policy and measures for increasing productivity, submitted them to the Government and followed through on them. Loto-Québec more than doubled the government objective set for 2010-2011 by posting a reduction of its expenses and an improvement in its productivity equivalent to \$14.9 million.

Loto-Québec also continued to implement measures to assess its efficiency and performance, including benchmarking against similar companies. The results of this exercise, which were approved by the Board in December 2010, show that Loto-Québec's performance is comparable to that of similar Canadian enterprises.

In addition to ensuring the Corporation's long-term sustainability, the measures put forward to improve Loto-Québec's performance and efficiency maximize its contribution to Québec society, notably through the annual dividend it pays to the Government of Québec.

## **EVOLUTION OF GOOD GOVERNANCE PRACTICES**

During the last fiscal year, the Board and its Committees followed through on the compliance exercise related to the Act Respecting the Governance of State-Owned Enterprises, so as to maintain the highest standards and best practices in management. On the recommendation of the Governance and Ethics Committee, the Directors approved amendments to the Code of Ethics and Rules of Professional Conduct for Directors and Managers and the Code of Ethics for Employees, along with the implementation of a phone line for reporting complaints. In addition to updating the internal bylaws of the Board and its committees, the members adopted guidelines regarding the conduct and operation of the closed meetings that take place after each meeting held by the four committees and the Board. These guidelines were developed based on best industry practices.

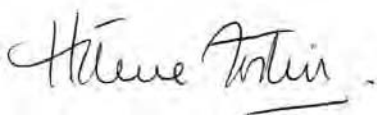
## **THE EMPLOYEES, CREATORS OF VALUE**

Value created in the conduct of Loto-Québec's business was made possible by the experience and skills of the women and men who work in the Corporation each and every day. Throughout the last fiscal year, the Directors witnessed the daily efforts of people who fulfill their potential by working at Loto-Québec. One of the decisions the Board took was to approve Loto-Québec's corporate volunteer program, established in January 2011, which showcases the generosity of the staff. This program is part of the broad array of actions included in the Corporation's sustainable development framework. At each Board meeting during the last fiscal year, the Directors also continued to receive a report on the progress of sustainable development initiatives, and can therefore attest to how this approach was incorporated into the annual action plans of the organization's various sectors.



## MESSAGE FROM THE CHAIRWOMAN OF THE BOARD

At the end of this very full year, I want to thank the President and Chief Executive Officer, Mr. Alain Cousineau, for his trust, but above all for his integrity, his determination and his vision in conducting the Corporation's business. I would also like to congratulate the management team for their dedicated efforts, particularly in regard to the tight control of spending and the improvement in productivity. All the employees at Loto-Québec also deserve our heartfelt appreciation for the work that they accomplished during the past fiscal year. Finally, I thank my fellow members of the Board for their commitment and support in carrying out our mandate.



Hélène F. Fortin, FCA, ICD.D.  
Chairwoman of the Board of Loto-Québec

## MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

The last fiscal year was significant for a number of reasons, including the tabling of Loto-Québec's 2010-2013 Strategic Plan last fall at the National Assembly. Preparing this plan enabled us, among other things, to define our future orientations. The Corporation also successfully launched the [espacejeux.com](http://espacejeux.com) online gaming website, with its usual thoroughness and full integrity. Other highlights of last year include the ongoing modernization at the Casino de Montréal and a rigorous process of international certification by the World Lottery Association (WLA) in information security. The Corporation also embarked on a proactive social media initiative.

### FINANCIAL RESULTS AND THE ECONOMIC SITUATION

Loto-Québec reported consolidated revenues of \$3.675 billion for the past fiscal year, down 2.1% from the same period last year. In all, the Corporation's activities generated consolidated net earnings of \$1.338 billion, a result similar to that of 2009-2010 (-0.2%). Every sector of activity at Loto-Québec experienced a decline in revenues to various degrees over 2010-2011. However, the Lottery sector stayed the course, with sales of \$1.788 billion, a result similar (-0.4%) to the same period in the previous fiscal year. For fiscal 2010-2011, the Corporation paid \$1.247 billion in dividends to its shareholder, the Québec Minister of Finance.

A few years ago, after a period of accelerated growth in revenues that spanned 30 years, the games of chance industry in Québec entered its maturity phase. The less favourable economic situation, aging of the population and desire to further restrict the development of activities in video lotteries, all contributed to the stagnation of the Corporation's earnings. In its 2004-2007 Development Plan, Loto-Québec, for the first time, observed a clear break in the growth of its revenues and net earnings in the early 2000s. This trend can be seen not only in Québec, but worldwide.

### THE HIGHEST STANDARDS OF PERFORMANCE AND EFFICIENCY

Like most organizations in the games of chance industry, Loto-Québec faces economic and business challenges, competitive pressures, consumer perceptions and expectations, technological change and regulatory restrictions. Despite all these factors and the difficult economic situation, the Corporation achieved satisfactory results. During fiscal 2010-2011, it managed to reach the objective stated in its 2010-2013 Strategic Plan, namely to maintain its net profit margin at 35.2%.

Well aware of the importance of improving public finances, the Corporation outperformed government expectations in the past fiscal year. In fact, through implementing its plan to reduce spending in accordance with the Government of Québec's balanced budget bill, and its measures to increase productivity, Loto-Québec achieved reductions of \$14.9 million, compared to the Government's target of \$5 million. These efforts complement the measures taken since 2003 that have kept increases in operating expenses at a level comparable to the rate of inflation. Accordingly, from 2003 to 2011, the Corporation's average increase in annual expenses was lower than the average inflation rate in Québec.

A portrait of Alain Cousineau, a middle-aged man with dark hair and glasses, wearing a light blue and white striped shirt and a dark red tie. He is standing in front of a large window with a view of a city skyline. A large blue triangle is overlaid on the left side of the image, partially covering the text.

## ALAIN COUSINEAU

CHAIRMAN  
AND CHIEF EXECUTIVE OFFICER

*This plan provided an opportunity to perform an in-depth review of Loto-Québec's mission and its orientations. Out of this collective reflection emerged three strategic orientations: channel gaming offers towards regulated environments; create an effective framework for the consumption of games of chance; and improve the overall efficiency and performance of the Corporation. These guidelines form a new framework for all of the organization's activities, and led Loto-Québec to update its mission statement.*

In the interest of continuous improvement, Loto-Québec continued to adopt measures for assessing the Corporation's efficiency and performance, including a benchmarking exercise with similar organizations. Carried out with the help of an outside firm, this exercise found that, considering Loto-Québec's overall strategic orientations, its level of performance is comparable to that of similar Canadian organizations. The Corporation is also drafting an action plan that will further improve its efficiency and performance.

## TOWARDS A NEW BALANCE

As is the case for all public gaming organizations in the world, Loto-Québec must secure a social consensus, which is the basis for the legitimacy of its activities. In recent years, however, Loto-Québec's mission has been called into question stemming from concern over the social costs of gaming. With this in mind, the Corporation developed its 2010-2013 Strategic Plan, which was ratified by the Québec Cabinet, as evidenced in the September 29<sup>th</sup> edition of *La Gazette officielle du Québec*. This plan provided an opportunity to perform an in-depth review of Loto-Québec's mission and its orientations. Out of this collective reflection emerged three strategic orientations: channel gaming offers towards regulated environments; create an effective framework for the consumption of games of chance; and improve the overall efficiency and performance of the Corporation. These guidelines form a new framework for all of the organization's activities, and led Loto-Québec to update its mission statement, which is now "to responsibly manage games of chance in a controlled and measured fashion, in the interest of all Quebecers." The Corporation also adopted a new vision, namely "to become a recognized world leader in the responsible commercialization of games of chance." With this new forward-looking statement, social responsibility will continue to be front and centre among Loto-Québec's concerns.

## HIGHLIGHTS

### ONLINE GAMING WEBSITE – ESPACEJEUX.COM

Since last December, adults living in Québec have been able to legally play various online games of chance on [espacejeux.com](http://espacejeux.com). On April 1, 2011, the activities on this site were officially regrouped into Loto-Québec's new subsidiary, the Société du jeu virtuel du Québec. The setting up of [espacejeux.com](http://espacejeux.com) site and its basic offering required investments of \$12.6 million. Developing a complete and comprehensive offering will continue to require investment. As at March 31, 2011, [espacejeux.com](http://espacejeux.com) had 37,753 subscribers, of whom about 60% were considered active, and posted revenues of \$7 million. The site's growth in terms of membership and income is well in line with initial expectations.

This site enables Loto-Québec to channel the gaming offering into a secure environment whose integrity is beyond reproach. It is important to point out that in Québec, the population currently has access to about 2,000 online gaming sites that are illegal and unregulated. Given the state of the online gaming market, the expectations of new generations of consumers and the emergence of an unregulated parallel gaming offer, it became imperative for Loto-Québec to engage in such a project.

In so doing, Loto-Québec implemented control and prevention measures that are among the most innovative and rigorous in the industry. The [espacejeux.com](http://espacejeux.com) site was subjected to an analysis by the internationally renowned researcher and consultant Dr. Richard Wood of Nottingham Trent University. His report found that the site adheres to the highest standards in responsible gaming.

Last February, the British Columbia Lottery Corporation, owner of the [Playnow.com](http://Playnow.com) online gaming site, joined [espacejeux.com](http://espacejeux.com) to offer poker to its clientele. This means that thousands of players from British Columbia now have access to a bilingual platform on a joint jurisdictional basis. New games will be added in a timely manner in order to maintain the site's diversified and competitive game offering.

## MODERNIZATION AT THE CASINO DE MONTRÉAL

To fulfill our vision of making our four casinos the very best in terms of customer service while offering games that stand out for their innovation and diversity, we are following through on the modernization project at the Casino de Montréal. Representing an investment of about \$306 million over a period of four years, the project is proceeding on schedule. By March 31, 2011, 27% of the work had been completed. Fully aware of the logistical challenges that this project represents, the Casino de Montréal team continues to welcome its clientele by maintaining its games of chance offering throughout the renovation period, while making all possible efforts to minimize any inconvenience to the entertainment experience. It is noteworthy that this investment will ensure, on the one hand, the sustainability of both the Pavillon de la France and the Pavillon du Québec through an infrastructure upgrade, and on the other hand, will enhance the beauty and security of the premises. In this regard, once the work is completed, the layout of the modernized casino will dovetail perfectly with the surrounding urban space and provide facilities that are fully suited to customer expectations.

## SUITABLE AND SUFFICIENT DISTRIBUTION OF THE NUMBER OF VIDEO LOTTERY TERMINALS

In 2003, Loto-Québec undertook a major reconfiguration of its network of video lottery terminals (VLTs) throughout Québec. This restructuring was completed on March 31, 2009, with results surpassing the initial 31% target set for reducing the number of sites by reaching 36% throughout Québec. As stated in its 2010-2013 Strategic Plan, Loto-Québec is committed to maintaining a maximum of 12,000 gaming positions in approximately 2,000 establishments, including the gaming halls in Québec City and Trois-Rivières. It is through suitable and sufficient distribution of the number of VLTs within the network that Loto-Québec plans to concentrate the units in existing or new establishments. Experience shows that establishments in which several VLTs are grouped are more dynamic, provide better services to their customers and are more committed to a responsible gaming approach.

## A SUCCESS FOR LOTTO MAX

Over the past fiscal year, Loto-Québec awarded Quebecers 62 prizes of \$1 million or more, twice the number awarded during the previous year. This record can be explained in large part by the popularity of Lotto Max and its Maxmillions concept. This lottery is a huge success with the Québec public, as evidenced by total sales of \$381.4 million for 2010-2011, which represent over 20% of sales in the Lottery sector. Of the 176 Maxmillions selections won in Canada, there were 42 winners from Québec who won a share of or a prize of \$1 million. It is also noteworthy that the largest prize ever paid to a Quebecer, a jackpot of nearly \$37.6 million, was won in a Lotto Max draw last August.

## THE KINZO PILOT PROJECT

Launched last October as a pilot project to assist non-profit organizations (NPOs) deprived of income due to the closure of the bingo halls, the all new Kinzo entertainment game achieved results below expectations. Consequently, certain adjustments were made to the concept in recent months. These include changes to the opening hours, which are now concentrated around the busiest time slots. In addition, early in the summer, Kinzo Express satellite halls, comprising some fifty seats each, will open their doors in existing bingo halls in the metropolitan area. This new concept will help renew the clientele while enhancing the current game offerings.

## LOTO-QUÉBEC, A RESPONSIBLE CORPORATE CITIZEN

### SOUND RISK MANAGEMENT

Loto-Québec has always exercised sound risk management by implementing policies and measures for control and management. Through a process of continuous improvement, risk management and strategic planning now report directly to the President and Chief Executive Officer of Loto-Québec. A new management structure was also created to support the Corporation's various sectors with their projects. A few years ago, we chose to focus on strategic planning as a management practice to guide our efforts. This means that the new risk management structure is integrated into a strategic planning process that is already in place within the organization.

### **INTERNATIONAL CERTIFICATION IN INFORMATION SECURITY**

Loto-Québec is pursuing a process of international certification in information security and business processes related to the marketing of lottery products. It is called the World Lottery Association Security Control Standard (WLA-SCS). This certification is used as the basis for compliance with ISO-27001, the global standard for information security. Applying this standard will enable the Corporation to respond more appropriately to all present and future requirements in terms of control. It should be noted that in North America, only the Kentucky Lottery, and closer to home, the Atlantic Lottery, meet the WLA-SCS standard. Loto-Québec is on course to obtain this certification by late summer 2011.

### **A GESTURE IN THE NAME OF FAIRNESS**

On March 23, 2010, a ruling by the Superior Court ratified the settlement reached as part of a class action suit related to video lottery terminals in which it was recognized that video lottery terminals are not the cause of compulsive gambling, thereby confirming Loto-Québec's position. At the conclusion of the ruling, for reasons of fairness, the government agreed to reimburse compulsive gamblers for documented therapy services received from 1994 to 2002, regardless of the games played. Mise sur toi was designated as claim coordinator while Loto-Québec will make the payments.

As at March 31, 2011, a total of \$391,000 was paid in therapy expense compensation. The Corporation does not expect to make additional expenditures before October 31, 2011, which is the end of the claim period.

### **SOCIAL MEDIA: AN ONGOING DIALOGUE WITH THE COMMUNITY**

This year, Loto-Québec began communicating with the community through social media. This innovative and proactive initiative makes it possible to communicate directly with the public and customers about the Corporation's business activities and social contributions. It offers everyone free access to a host of information about Loto-Québec, its activities and products. Whether on Facebook, Twitter or YouTube, communications on various 2.0 platforms provide the opportunity to learn what people think and have to say about Loto-Québec. This presence also helps to set the record straight and correct misperceptions about the Corporation.

It's good to know that Loto-Québec is carrying out its social media initiative in a highly structured framework. Loto-Québec is also recognized as being at the forefront of this field in Québec, thanks to the various tools implemented and the ongoing, real-time dialogues the Corporation holds with Internet users. Loto-Québec may still be taking its first steps, but the pace of messages received is accelerating. That's why a team of contributors will keep participating in the various 2.0 platforms in the years to come.

## ACKNOWLEDGEMENTS

I would like to thank the Board of Directors and the Executive Committee for their substantial contribution to achieving the Corporation's objectives. I especially thank Ms. Hélène F. Fortin for the constructive support she brought to the organization's business. Finally, I thank and congratulate all the staff at Loto-Québec and its subsidiaries for their ongoing efforts. It was through their contribution on a daily basis that the last year was so very rich in achievements.

A handwritten signature in black ink, reading "Alain Cousineau". The signature is fluid and cursive, with the first name "Alain" and last name "Cousineau" clearly distinguishable.

Alain Cousineau  
President and Chief Executive Officer of Loto-Québec

# LOTTERIES





## THE CHANGING OF THE GUARD

The Lottery sector posted total sales of \$1.788 billion in 2010-2011, similar to the previous year's result (– 0.4%) for the same fiscal period. Last year was marked by the emergence of Lotto Max as the new leader product. Launched in 2009-2010, it only took Lotto Max one year to live up to its full promise and become Loto-Québec's most popular lottery, after the almost 30-year reign of Lotto 6/49.

Lotto Max also marked fiscal 2010-2011 in another way. A Montérégie resident won the biggest prize ever awarded in the history of Loto-Québec, close to \$37.6 million, in the August 20, 2010 draw. Lastly, Lotto Max received the prestigious Batchy Award for the best new online game at the most recent convention of the North American Association of State and Provincial Lotteries. This award recognizes the ingenuity of a unique innovation in the world of lotteries: when the Lotto Max grand prize jackpot tops \$50 million, the excess amount is divided into additional prizes of \$1 million each, called Maxmillions.

It is mission-critical in the lottery industry to continuously refresh the offering to keep pace with the market's changing and varied expectations, and suitably respond to consumers' taste for novelty. Over the past fiscal year, this buzz creation for the offering was particularly evident in the scratch games category, with more than 80 launches and successive editions of permanent games. For example, scratch game launches coincided with the releases of the movies *Sex in the City* and *Funkytown*. The Découvrez Québec game, the result of a collaboration with the local tourism industry, was also launched in summer 2010, while classics such as Roue de fortune chez vous! and Loto-bingo were completely redesigned. On top of that, the gaming portal lotoclic.com maintained its pool of loyal fans who are enthusiasts of this form of instant multimedia lottery. In partnership with Ingenio, a subsidiary of Loto-Québec, eight new titles were added to the portal, which boasted about 40 in all at the end of March 2011.

Turning to terminal-based games, both Extra and Banco had their prize structure redesigned and were the focus of a major marketing initiative. It should be noted that these two products are, respectively, Loto-Québec's third and fourth bestselling lotteries with annual sales surpassing \$280 million. Also, a special edition in celebration of Loto-Québec's 40<sup>th</sup> anniversary was produced that offered consumers draws for 40 consecutive days. Lastly, la Poule aux oeufs d'or reached an important milestone in its history when, in January 2011, the cumulative prizes awarded to participants in the studio since the first show was broadcast hit the \$150 million threshold.

### TWO WORLD PREMIERES: LOTO EXPRESS AND FORMULE GROUPE

Creativity in the Lottery sector was expressed not only in its range of products, but in its business approach. In 2010-2011, two innovative projects came into being, with major benefits for the lottery retailer network. In both cases, they are world premieres.

### Loto Express

The first project involves the installation of 1,301 Loto Express units, portable sales terminals specially designed for multiple-cash-register environments such as those found in grocery stores and pharmacies. Loto Express helps declutter customer service counters at major grocery stores, and at the same time, they improve customer service by offering consumers Quick Picks for their favourite terminal-based lotteries.

### Formule groupe

The second major project was the launch in November 2010 of Formule groupe, an easy and secure new way to sell lotteries to groups. This solution not only represents a major advance in security at the point of sale, it reflects a decidedly commercial perspective as well. Each week, Formule groupe continues to attract new followers among Québec consumers. There is no doubt that Formule groupe responds to customers' needs, as can be seen in its rapid and substantial adoption rate.

### RECORD NUMBER OF MILLIONAIRE WINNERS

During fiscal 2010-2011, a record number of 62 prizes of \$1 million or more were won in Québec, compared to 31 prizes the previous year. This increase is due mainly to the high number of Lotto Max Maxmillions and the higher Extra jackpot, which went from \$0.5 million to \$1 million in May 2010. In its 41-year history, Loto-Québec has paid out a total of 1,177 prize claims for \$1 million or more to winners of one of its various lotteries.

It should also be noted that the February 19 Lotto 6/49 draw enabled a group of 10 Lotomatique subscribers to share a \$20.7 million jackpot. This is the largest prize ever awarded through this subscription system. Better yet, the non-profit organization that sold the subscription was awarded a commission in excess of \$200,000, equivalent to 1% of the win.

### THE END OF BALL MACHINE DRAWS ON TV

In other news, after a good 40 years on the air, draws by ball machines were televised for the last time on June 30, 2010. Since summer 2009, the full version of recent draws can be viewed anytime online in the Video Zone of the Loto-Québec website, allowing consumers to watch draws at their convenience.



CÉLÉBRATION 2011 GALA



LAUNCH OF FORMULE GROUPE



LOTTO MAX JACKPOT OF NEARLY \$37.6 MILLION  
FOR A MONTRÉGIE RESIDENT

## LOTTERIES

As at March 31, 2011

<i>(in thousands of dollars)</i>	<b>Sales 2011</b>	<b>Sales 2010</b>	<b>Variation</b>
<b>DRAW LOTTERIES</b>			
Lotto 6/49	<b>366,842</b>	483,331	(116,489)
Lotto Max	<b>381,444</b>	133,143	248,301
Super 7	-	82,377	(82,377)
Québec 49	<b>74,754</b>	82,023	(7,269)
Extra	<b>143,613</b>	146,764	(3,151)
Banco	<b>140,564</b>	142,692	(2,128)
La Quotidienne	<b>41,090</b>	41,092	(2)
Jour de Paye	<b>7,636</b>	7,883	(247)
Astro	<b>3,743</b>	4,022	(279)
Triplex	<b>5,899</b>	6,081	(182)
Tango	-	2,773	(2,773)
Vie de Millionnaire	<b>4,072</b>	-	4,072
Mini	<b>11,934</b>	11,799	135
Special Editions	<b>45,955</b>	46,906	(951)
Teleactives	<b>48,633</b>	50,305	(1,672)
Subtotal	<b>1,276,179</b>	1,241,191	34,988
<b>INSTANT LOTTERIES</b>	<b>466,396</b>	503,937	(37,541)
<b>SPORTS BETTING</b>	<b>45,238</b>	50,206	(4,968)
<b>Total</b>	<b>1,787,813</b>	1,795,334	(7,521)



LOTO EXPRESS



DISPLAY STAND AT POINTS OF SALE



# CASINOS

## RESOLUTELY FORWARD-LOOKING CASINOS

In recent years, the Société des casinos du Québec (SCQ) has faced serious challenges – including increased competition – which it dynamically addresses by implementing concrete solutions within its various establishments.

Québec's four casinos, along with their restaurant and hotel services, remain very strong economic motors. At the end of fiscal 2010-2011, the subsidiary recorded revenues of \$891 million, down 4.7% from 2009-2010. Like all businesses involved in the games of chance industry around the world, Québec's casinos are experiencing a slowdown in their revenues. To counter this trend, the SCQ is continuing to advance its corporate vision, which is to make its casinos unparalleled in customer service and outstanding in the diversity and innovation of its games.

It must be understood that SCQ casinos are evolving in a competitive context that has changed enormously since the Casino de Montréal first opened in 1993. In fact, over the last decade, the number of gaming houses in the immediate competitive market has increased considerably. SCQ casinos are also facing an ever larger and more varied global entertainment offering. So for the subsidiary to remain a solid contender, it is essential that efforts aimed at turning its vision into action continue.

Several strategies have been put into place to achieve this. To begin with, much effort has gone into the modernization and redesign of the venues to improve the customer experience. This is evident in the major renovations underway at the Casino de Montréal, the new multimedia decor at the Casino de Charlevoix and the opening of the Altitude restaurant and lounge at the Casino de Mont-Tremblant.

Next, much is being done in the area of ongoing improvement in order to be as efficient as possible for customers. A unit dedicated to this improvement initiative has been set up within the Corporation.

Furthermore, the *Service de rêve* organizational culture, which aims to exceed customer expectations by making them dream, is in place in all casinos. This is one of the aspects covered in the training course *Résolument client*, designed to give casino employees the tools necessary to know and apply standards of customer service that are fully in line with the subsidiary's vision.

Lastly, new offerings and the design of playing areas to satisfy the expectations and needs of current and future clienteles are all part of the Corporation's strategies. In this regard, it is noteworthy that new games were certified over the course of fiscal 2010-2011 and are now or will soon be available in Québec casinos. In addition, other innovations have been created in recent months and will be launched during fiscal 2011-2012, including an application for Apple platforms developed by Ingenio, a subsidiary of Loto-Québec, and a version of the SCQ website for mobile communication devices. Also of note is the presence of Québec casinos in such social media as Facebook, Twitter, YouTube and Flickr, which allows the subsidiary to reach its customers and establish a dialogue with them.

Among the other innovative projects during fiscal 2010-2011, Ingenio and supplier IntuiCode Gaming Corporation (IGC) finalized the first multi-player electronic casino game, Zodiak Revolution. This game was displayed publicly for the first time at the Global Gaming Expo (G2E), in November 2010, in Las Vegas. Zodiak Revolution was submitted for certification to Gaming Laboratories International (GLI) in early 2011 and will also be subject to a specific certification in Québec. Once these steps are completed, the game can be marketed in Québec and abroad.

While it focuses on its excellent customer service and innovative and diverse gaming offering, the SCQ continues to be a socially responsible organization. Among its recent initiatives in this direction are the establishment of a composting program at the Casino du Lac-Leamy and an inter-casino committee on sustainable development. Several measures related to responsible gaming, including the self-exclusion program, have also been integrated into operational activities. A social communication campaign was rolled out during fiscal 2009-2010 and is ongoing. This is a poster campaign informing customers and employees about the SCQ's many economic, social and environmental benefits.

## CASINO DE MONTRÉAL

During the last fiscal year, many activities were held in SCQ establishments. At the Casino de Montréal, it is undoubtedly the renovations that have primarily attracted attention. As a reminder, these works are spread over a period of four years and are valued at close to \$306 million. Ultimately, the site will be better adapted to satisfy customer expectations and the renovated infrastructures will improve operational efficiency. In recent months, major steps have been completed, including the relocation of administrative offices to two new galleries, freeing up space in the Pavillon de la France that will improve customer comfort and traffic flow. The next steps include reconfiguring the restaurant offering and constructing a new main entrance. New technologies will also figure more prominently in providing a completely different gaming atmosphere.

While the work is being carried out, the clientele is not left in the lurch, as evidenced by a promotion on an unprecedented scale. *La course au million* includes a series of events spread over more than a year culminating in the *Gala du million*, to be held October 14, 2011 at Place des Arts. All the finalists of this promotion will attend, and one of them will win a \$1 million grand prize.

## CASINO DE CHARLEVOIX

The Casino de Charlevoix brought to life a vision of the future for casinos by inaugurating an innovative multimedia system on the 8<sup>th</sup> of October. This new environment helps visitors to the establishment gain an intense and memorable experience. Designed by Québec-based Moment Factory, the system makes it possible to spectacularly highlight jackpots won by customers and to present interactive promotions. This pilot project will also be implemented in other casinos.

## CASINO DU LAC-LEAMY

For its part, the Casino du Lac-Leamy celebrated its 15<sup>th</sup> anniversary on March 24, 2010. For the occasion, a number of activities and surprises were organized for the clientele.

The Casino du Lac-Leamy has also implemented a composting program in partnership with the City of Gatineau. This program, which exemplifies the Corporation's sustainable development initiative, makes it possible to recover organic materials and reduce the amount of waste sent to landfills.

The Casino du Lac-Leamy's involvement in its region is also evident in the awarding of a contract to 3GE Company, a consortium of three local businesses, for the management and programming of the Théâtre du Casino.



LA COURSE AU MILLION AT THE CASINO DE MONTRÉAL



MULTIMEDIA ENVIRONMENT AT THE CASINO DE CHARLEVOIX



15<sup>TH</sup> ANNIVERSARY OF THE CASINO DU LAC-LEAMY



Also worthy of mention is the Hotel Award of Excellence received by the Hilton Lac-Leamy at the 2011 Congress of Hilton Hotels for customer loyalty and satisfaction, as well as for the quality of its service and installations. This award joins the impressive list of distinctions that the hotel has already received. Among these, in 2010, the Hilton was selected as one of the top 100 hotels in the world by readers of the prestigious Condé Nast Traveler magazine.

### CASINO DE MONT-TREMBLANT

The latest addition to the SCQ family of casinos, the Casino de Mont-Tremblant, celebrated its first anniversary on June 24, 2010. The gaming venue is a top tourist attraction in the Laurentians. Last September's opening of the Altitude Seafood and Grill Restaurant and Lounge rounded out the Casino's entertainment offering. With its chic and trendy decor, its mountain views and the cuisine of its chef, Christian Bolduc, Altitude has everything it takes to delight the clientele.

### CASINO MUNDIAL

Through its subsidiary Casino Mundial and the holding company Casinos Développement Europe, Loto-Québec is a co-owner of JOAGROUPE, a French company that owns and operates a network of 20 casinos in France.

Casino Mundial owns 35% of the capital stock of the group. Other shareholders are the European investment firm Bridgepoint Capital and the management team of the company, who respectively hold 59.5% and 5.5% of the capital.

In June 2010, the shareholders completed a restructuring of the group's debt. This restructuring made it possible to postpone certain bank deadline dates, to change the priority of reimbursement of certain loans in favour of the shareholders and to reduce the interest burden on the group. In return, the shareholders, Casino Mundial and Bridgepoint Capital, increased their financial contribution to the group by 15 million euros, including a loan of \$7.4 million from Casino Mundial.

This restructuring was accompanied by favourable table games tax relief measures in France and an upturn in activities in French casinos during the second half of 2010, after they had undergone successive impacts in the wake of France's prohibition on smoking and the global recession in 2008 and 2009. Casino Mundial and its partner Bridgepoint Capital are quite confident that these positive factors will lead to full recovery of funds invested in Casinos Développement Europe and its subsidiaries.

In this regard, an appraisal of the Casino Mundial investment was conducted by an outside firm, using the same methodology as the appraisal made last year. This made it possible to increase the value of our investment by \$4.6 million, mainly due to the reduction of another year from the discounted cash flows. This re-evaluation is recorded as interest income for the year 2010-2011.



HOTEL AWARD OF EXCELLENCE FOR THE HILTON  
DU LAC-LEAMY



ALTITUDE SEAFOOD AND GRILL RESTAURANT AND LOUNGE  
AT THE CASINO DE MONT-TREMBLANT

## VIDEO LOTTERIES





## A RESPONSIBLE APPROACH THROUGHOUT THE NETWORK

For fiscal year 2010-2011, the Société des loteries vidéo du Québec (SLVQ) posted revenues of \$1.001 billion, constituting a decrease for a second consecutive year. This drop was mainly due to the economic downturn and, obviously, the reduced size of the video lottery network. Nevertheless, SLVQ revenues enabled consolidated net earnings of \$642.7 million and payments of retailer commissions totalling \$215.4 million.

### AN INCREASE IN GAMING HALLS REVENUES

Revenues from the Québec City and Trois-Rivières gaming halls increased by 7.2% during the last fiscal year. Efforts to offer customers a diverse gaming experience have been fruitful. In addition to successfully meeting player expectations, the introduction of new themed games and the organization of several promotional activities helped broaden the gaming hall clientele.

### SUITABLE AND SUFFICIENT DISTRIBUTION OF TERMINALS

Under Loto-Québec's 2010-2013 Strategic Plan, the Corporation is committed to maintaining a maximum of 12,000 gaming positions spread throughout close to 2,000 establishments, including the gaming halls in Québec City and Trois-Rivières, and to properly channel video lottery activity.

Accordingly, before video lottery terminals (VLTs) are allotted within the network, an assessment is made based on strict management parameters that meet a specific set of socio-economic criteria. This assessment ensures a suitable and sufficient geographic distribution of VLTs in all regions of Québec, especially in areas where there are no VLTs yet, and in urban areas.

Notably, this mode of operation gives the SLVQ enough geographic coverage to curb the proliferation of illegal terminals, as stated in its mission.

### **BIEN JOUÉ!: A RESPONSIBLE APPROACH**

The SLVQ has instituted an annual recognition program for responsible retailers called *Bien joué!* The objectives of this program are to reinforce desired behaviours in responsible gaming, to increase retailers' commitment and cooperation and to honour responsible retailers.

To qualify, retailers must meet specific criteria mainly related to the code of responsible commercialization and the *Taking risks is no game* training. This initiative falls under the program for the assessment and ongoing improvement of responsible management methods introduced by the SLVQ in 2008.

Over the past fiscal year, 2,172 people took the *Taking risks is no game* training, bringing the number of bar or brasserie owners and employees who have been trained to about 24,000 since its introduction in 2001.

Also noteworthy is that within the framework of its activities, the SLVQ worked closely with Loto-Québec's committee on responsible gaming to create tools and programs for the adoption of responsible gaming behaviour, all in accordance with the Level 4 certification from the World Lottery Association (WLA).

### **THE VIDEO LOTTERY PLAYER PROFILE**

This player profile has remained substantially the same for many years. Close to one person in ten has played VLTs in the past 12 months. The next paragraph describes some of their traits.

The typical video lottery player is a single man, with an average age of 37. It should be noted, though, that four out of every ten people who play video lotteries are women. Before starting to play, three-fourths of the players set a gaming budget and close to 60% of them never exceed it. Furthermore, the vast majority of players go out to bars above all to meet people and take advantage of the opportunity to play VLTs with friends. Most of them play for fun, not to win.

Also, close to nine out of ten players use the Internet and of them, close to 10% play online games.



THE *BIEN JOUÉ!* RECOGNITION PROGRAM FOR RETAILERS



ENTERTAINMENT IN THE ESTABLISHMENTS



THE TROIS-RIVIÈRES GAMING HALL

### REPLACEMENT OF VLTS THROUGHOUT THE NETWORK

During the last fiscal year, the SLVQ got down to analyzing calls for proposals and awarding contracts to various suppliers for the acquisition of new equipment under the replacement process for VLTs and its central operating system. It goes without saying that this major project has mobilized the majority of the subsidiary's 70 employees in one way or another. Fiscal 2011-2012 will be more devoted to developing equipment, a basic step in the project.

### PROSPECTS

The SLVQ will work on properly channeling the video lottery offering through entertaining products tailored to meet the expectations of its various clienteles. It will continually strive to apply a responsible approach to commercialization and promote responsible gaming behaviour in accordance with the WLA's responsible gaming certification.



ELECTRONIC ROULETTE

# BINGO



## A SECTOR SHOWING DYNAMISM

For several years, the bingo industry has been experiencing a serious erosion of its patronage. Despite its initiatives and the launch of new products, the Société des bingos du Québec (SBQ) posted revenues of \$31.3 million for fiscal year 2010-2011, a slight decrease of 2.2% from the previous fiscal year.

### NETWORK BINGO

The setbacks affecting Québec's traditional bingo industry have repercussions on network bingo. For the third consecutive year, network bingo sales are down (– 7.5%) from the same fiscal period last year. This result is explained by the even steeper drop in the annual number of visits to bingo halls. Despite the situation, the SBQ managed to pay about \$6 million to non-profit organizations (NPOs) thanks to a major overhaul of its star products: Le Grand Tour and Le Petit Tour.

To revitalize its product offering and thereby maintain consumer interest, the SBQ marketed two new prelude games over the course of the year. The subsidiary also intensified its efforts to attract a new clientele to bingo halls by mounting advertising and promotional activities as well as by holding special events at the venues. Network bingo products remain an important lever for traditional bingo, mainly because they offer larger jackpots in the afternoon and the evening. This major and distinctive component had to be kept unchanged in the redesign of the prize structure associated with the product overhaul, and it was. During the past year, the SBQ awarded 17 prizes in excess of \$50,000.

To find ways to renew the bingo game offering, the SBQ is working with hall managers to develop new game concepts for possible future commercialization.

### THE KINZO PILOT PROJECT

On October 19, 2010, a new collective gaming concept called Kinzo was launched as a pilot project. This new game aims to support NPOs that have been deprived of funding following the closure of several bingo halls in recent years.

The SBQ's ultimate goal with Kinzo is to maintain its average annual contribution of \$10 million per year to NPOs by:

- continuing to turn over 100% of network bingo profits to affiliated NPOs;
- providing ad hoc financial support to orphan NPOs\*; and
- creating a fund to promote the bingo industry.

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\* Orphan NPOs are those that benefited from the proceeds of bingo, but are now deprived of vital revenues to fund the services they provide to the community.

Kinzo is a dynamic and exciting game based on an electronic draw from a total of 90 numbers. Located in Montreal, Kinzo is offered in a one-of-a-kind location enhanced by multimedia animations projected on screens and lighted ceiling displays, all with great sound effects. Kinzo sets itself apart by the original way players announce a win, i.e., pressing a buzzer located in front of them, and by the fact that it targets a younger clientele than bingo. Ingenio, a subsidiary of Loto-Québec dedicated to research and development, deserves mention for how much it contributed to this pilot project by applying its expertise to producing panels for projections and draws, and to creating visual atmospheres.

The Kinzo establishment began its operations six months before the end of the fiscal year. Awareness of the product and the establishment is growing gradually, but the financial results still fall short of targets. To accelerate Kinzo's pace of growth, the SBQ has introduced two measures.

First, in order to adapt to the market, last April the SBQ changed the facility's opening hours to meet the needs of an active clientele. This change made it possible to concentrate activities so as to increase the average hourly attendance, and indirectly, the amount of prizes offered.

Second, while minimizing the additional investments required for this pilot project, the SBQ is preparing to expand its distribution channels by creating Kinzo Express satellite halls as early as the summer of 2011. Located within existing bingo halls, the closed-off sections with a capacity for 50 players will make it possible to accommodate a new clientele and increase traffic. Kinzo Express players will be playing simultaneously with the players in the main Kinzo hall using a network feature. The concept of Kinzo Express, developed within our existing network, will allow halls to attract a new clientele without undermining their current offering.



KINZO CARDS



LE GRAND TOUR AND LE PETIT TOUR CARDS



COFFRES AUX TRÉSORS GAME



## LOTO-QUÉBEC, A RESPONSIBLE CORPORATE CITIZEN

During fiscal 2010-2011, Loto-Québec pursued its initiatives on the sustainable development front. Whether through the support it provided to a range of events in the province or to Québec's visual and performing arts community, the Corporation expressed its social commitment in all kinds of ways. It also continued to deploy efforts towards responsible gaming in order to ensure a controlled and secure environment for conducting games of chance.



## SUSTAINABLE DEVELOPMENT

Continuity characterized how sustainable development efforts were carried out last year at Loto-Québec and in its subsidiaries. The nature of internal projects is moving beyond the environmental component to encompass economic and social aspects. This transition is also reflected in the fact that sustainable development is one of the six points of focus in Loto-Québec's 2010-2013 Strategic Plan, under the strategic orientation aiming to "Increase the efficiency and overall performance of the Corporation." Loto-Québec continues to analyse the impacts of its activities in the field. The objective is to better understand these impacts in order to increase their positive repercussions and minimize their negative consequences.

Several concrete initiatives have been put in place. A notable example is the Casino du Lac-Leamy, where one of the largest composting systems in the Outaouais region was implemented. This system, which also serves the Casino de Mont-Tremblant, makes it possible to divert the equivalent of 100 garbage bags away from landfill sites per day, for an annual total of about 600 tons of composted leftovers.

The Hilton hotel and conference centre attached to the Casino du Lac-Leamy also recover compostable materials in an initiative that helps to raise awareness among many of the facility's three million annual visitors.

Also noteworthy, an iPad application was developed for Loto-Québec that lets event organizers easily calculate the greenhouse gas emissions related to transporting participants to their activities. The application is available free of charge at [lotoquebec.com](http://lotoquebec.com).

In addition, the Corporation was rewarded by obtaining a certificate of compliance for its responsible event management standards from the Bureau de normalisation du Québec. This certificate authorizes Loto-Québec to state that the events it promotes comply with BNQ 9700-253, which establishes criteria for the selection of suppliers, the characteristics of materials and energy sources, residual waste management and choices related to food and transportation.

Lastly, the support offered by Loto-Québec to festivals and sponsored events to help them integrate sustainable development principles into their work earned the Corporation an award at the Gala de reconnaissance en environnement et développement durable de Montréal.



DÉFI CLIMAT POSTER



COMPOSTING AT THE LOTO-QUÉBEC BUILDING  
IN QUÉBEC CITY



2011 PARTNERS MEETING



## SPONSORSHIPS

Again this year, Loto-Québec provided financial support to various festivals and events held in every region of Québec.

More than \$12.2 million was distributed in event sponsorships, for the most part through *Rendez-vous Loto-Québec* and *Sorties signées Casino*. These programs aim to support and promote the most promising events in terms of their social and economic spin-off benefits throughout Québec. In total, the Corporation was able to reach more than 10 million visitors at 136 events of varying sizes.

In addition, the arrival of *Les rendez-vous Loto-Québec* in social media in June 2010 gave the Corporation the opportunity to reach Quebecers more easily and tell them about the extent and variety of the festival offering in the province. This initiative also helps to forge links between events and those who attend them.

It is from this perspective that *Les rendez-vous* accompanies festival partners on a daily basis through its social media initiative. This support is mainly provided by the *Guide d'utilisateur des médias sociaux* designed by the Corporation and distributed to event organizers. This guide provides an overview of the most popular 2.0 platforms and sets out best practices and tools and even provides some tips to achieve maximum benefits from their use. It was applauded by the Corporation's partners, as well as by recognized web 2.0 experts.

## LES AVENTURIERS DU HASARD

In 2007, *Les rendez-vous Loto-Québec* innovated by launching its Probabilitron, a fun tool created to raise awareness about the nature of games of chance. To communicate with a wider audience, the educational content of the Probabilitron was overhauled this year by Les Aventuriers du hasard.

The Aventuriers are entertainers who travel from festival to festival promoting healthy gaming behaviour, and demonstrating that "chance is random". Twenty actors were trained for this project, and teams crisscrossed Québec all summer long, allowing the Corporation to bring the awareness message to every corner of the province. Twenty events were visited with total audience exceeding 186,000 festival-goers.

## LES ENTRÉES EN SCÈNE LOTO-QUÉBEC

Since 2008, *Les entrées en scène Loto-Québec* has encouraged emerging artistic creation throughout Québec. This program is offered in partnership with the Réseau indépendant des diffuseurs d'événements artistiques unis (RIDEAU). Thanks to RIDEAU's expertise and the Corporation's financial support, *Les entrées en scène Loto-Québec* ensures that the selected artists gain access to established hospitality structures run by professional entertainment companies. As for the public, it gains access to new and diverse creations of professional level.



THE INTERNATIONAL BALLOON  
FESTIVAL OF SAINT-JEAN-SUR-RICHELIEU



THE JUST FOR LAUGHS FESTIVAL

This year, five artists were selected in the second round of the *Entrées en scène*. By the end of this tour, singer Marcie, techno sound quartet Apadoorai, choreographer and dancer Andrew Turner, singer Amylie and pop duo Orange Orange will have given 65 performances in 58 venues and festivals in 54 cities and villages across Québec.

### THE COLLECTION LOTO-QUÉBEC

True to its mission of stimulating the visual arts in Québec, the Collection Loto-Québec was further enriched this year by 154 works of art created by 37 artists. Close to \$0.4 million was dedicated to the purchase of these works.

Since its inception in 1979, the Collection has acquired no fewer than 4,363 works by more than 1,000 artists.

These works are also widely available. Close to 17,000 visitors attended one of the four exhibitions presented this year at Espace Création. The exhibition space located at Loto-Québec's head office has already welcomed its 75,000 visitor since its opening in 2005. Five regional exhibitions and four Repérages events (the Corporation's expos-sales program held outside of major urban centres) were also held. In total, 28,000 people have been able to view works from the Collection in Montréal and in the regions in this way.

### MEANINGFUL PARTNERSHIPS

Loto-Québec's involvement in the cultural field is well known. Again this year, some of the initiatives undertaken by the Corporation were made possible by lasting partnerships. Among these was the creation of the Account in support of the Orchestre symphonique de Montréal (OSM) announced last summer. The agreement provides for payment by Loto-Québec, to a specific purpose account, of \$10 million for the first fiscal year (2010-2011) and \$8.5 million per year over the following three years. These funds allow the MSO to pursue its artistic mission and spread its influence, both on the local scene and internationally.

Also worth mention are the creation of a partnership that will bring the *Belles-Sœurs* musical to Paris in 2012. Loto-Québec will contribute \$700,000 to send this production to the Théâtre du Rond-Point on the Champs Élysées. In addition, the Corporation sought and obtained the support of three prestigious financial partners: the Caisse de dépôt et placement du Québec, CGI and Power Corporation of Canada, each of which will contribute \$233,000 in funding for this project. *Les Belles-Sœurs* by Michel Tremblay holds the record for Québec plays that have been staged around the world, with some 425 productions in over 20 languages and 25 countries. The Corporation is proud to support this show by providing the helping hand it needs to embark on a major international tour.



ALAIN COUSINEAU ACCOMPANIED BY RENÉ RICHARD CYR AND MICHEL TREMBLAY AT THE *LES BELLES SŒURS S'EXPLOSENT* EXHIBITION



*LES BELLES-SŒURS S'EXPLORENT* EXHIBITION AT ESPACE CRÉATION

## RESPONSIBLE GAMING

With the new vision that the Corporation announced in its 2010-2013 Strategic Plan, namely to become a recognized world leader in the responsible commercialization of games of chance, responsible gaming remains at the core of its priorities.

In this regard, the committee on responsible gaming, formed in 2009 and reporting directly to the President and Chief Executive Officer of Loto-Québec, proposed the 2010-2013 Strategic Plan on responsible gaming. The plan includes the 2010-2011 action plans from each business units of the Corporation. It was approved by Loto-Québec's Board of Directors on October 20, 2010. The action plans of all business units include not only the continuation of existing initiatives and programs, but also new actions and fresh initiatives aimed at integrating best practices in responsible gaming into their daily workflow, all with a view to continuous improvement.

It must be said that Loto-Québec's strategic planning on responsible gaming for 2010-2013 is based on the principles of the World Lottery Association's (WLA) Responsible Gaming Framework, more specifically that of Level 4, and takes into account Loto-Québec's Responsible Gaming Code of Conduct. As a reminder, in 2009, the Corporation obtained the WLA's highest international certification in responsible gaming, Level 4.

As it does in all of its operations, Loto-Québec has taken great care to implement control and prevention measures that are both innovative and rigorous for its Kinzo pilot project and its online gaming site, espacejeux.com. Furthermore, last November the Corporation held, for the fifth consecutive year, its Responsible Gaming Awareness Week. This thematic week was an opportunity for Loto-Québec to reaffirm its commitment and remind its employees, partners and customers of its ongoing efforts in the responsible commercialization of games of chance.

## SUBSTANTIAL AMOUNTS ALLOCATED TO COMBATTING COMPULSIVE GAMBLING

In recent years, the Corporation has invested more than \$269 million in the fight against compulsive gambling, including \$31.1 million spent in 2010-2011 alone. This last amount includes \$6.1 million provided to Mise sur toi, an entity independent of Loto-Québec since February 2009.

It is important to know that, according to a 2009 study by Concordia University researchers, Quebecers spend an average of \$483 per year on games of chance. According to information gathered by Loto-Québec, this individual expenditure is the lowest in Canada. The study also shows that pathological gambling is not on the rise in Québec. In fact, the results indicate that the percentage of pathological gamblers among Québec's adult population is 0.7%, which means that fewer than 1% of adults in Québec have developed a gambling problem.

It is noteworthy that all of Loto-Québec's efforts to promote responsible gaming and prevent problem gambling make Québec one of the places in the world where the most resources are applied to the issue of compulsive gambling.

<sup>1</sup> Kairouz, S., Nadeau, L., Portrait of gambling in Quebec: Prevalence, incidence and trajectories over four years [PDF Format, 1.20 MB – Help]. Concordia University, Université de Montréal, Fonds de recherche sur la société et la culture, 2010.

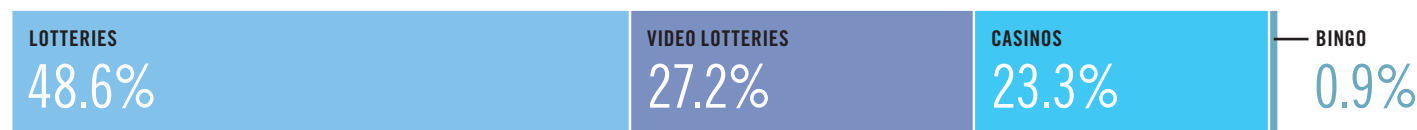


LOTO-QUÉBEC'S 2010 RESPONSIBLE GAMING WEEK

# FINANCIAL REVIEW

As at March 31, 2011

## CONSOLIDATED REVENUES



At the end of fiscal 2010-2011, Loto-Québec reported consolidated revenues of \$3.675 billion. This represents a decrease of \$80.2 million from the previous fiscal year (– 2.1%), of which \$44.3 million is attributable to the Casino sector and \$42.2 million to the Video lottery sector. The Corporation recorded a consolidated gross margin of \$2.302 billion, as compared to \$2.364 billion for fiscal 2009-2010. This is a decrease of \$61.7 million (– 2.6%). Operating expenses stood at \$842.3 million, a decrease of \$4.6 million (– 0.5%). Despite lower revenues, consolidated net earnings, at \$1.338 billion, remain comparable to that of last year, down only \$2.7 million (– 0.2%) from the previous fiscal year.

### LOTTERIES

With sales of \$1.788 billion, the Lottery sector showed a \$7.5 million (– 0.4%) decline from the previous fiscal year. This drop is attributable to lower sales in instant lotteries (\$37.5 million or 7.4%), partially offset by increased sales in draw games (\$35.0 million or 2.8%). Sales in sports betting are also lagging, at \$5.0 million (– 9.9%). Gross profit amounted to \$712.1 million, a slight decrease of \$0.3 million from the previous fiscal year. A total of \$918.9 million was awarded to lottery winners and \$124.7 million was paid out in the form of commissions to retailers.

### CASINOS

Revenues from casinos dropped by \$44.3 million (– 4.7%) from the previous fiscal year. Over the course of the fiscal year, revenues from the Casino de Montréal fell by \$36.5 million, largely due to its renovation project. Combined promotional cash payments to players totaled \$34.5 million for all casinos combined.

### REVENUES

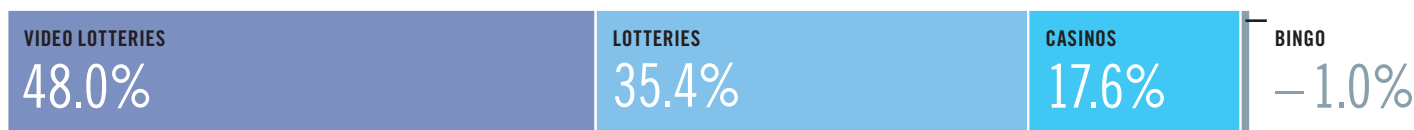
As at March 31, 2011

	2010-2011	2009-2010	Variation (\$)	Variation (%)
<i>(in millions of dollars)</i>				
Casino de Montréal	<b>556.3</b>	592.8	(36.5)	(6.2)
Casino de Charlevoix	<b>53.4</b>	56.5	(3.1)	(5.5)
Casino du Lac-Leamy	<b>260.5</b>	265.8	(5.3)	(2.0)
Casino de Mont-Tremblant	<b>20.8</b>	20.2	0.6	3.0
Total	<b>891.0</b>	935.3	(44.3)	(4.7)

### VIDEO LOTTERIES

The Video lottery sector registered revenues of \$1.001 billion, lower by \$42.2 million (– 4.0%) than in the previous fiscal year. This decrease is mainly due to an unfavourable economic context and the full effect of having reduced the size of the video lottery network (– \$ 51.0 million). Moreover, new game addition (+ \$19.0 million) absorbed the net impact of the October 2009 closing of racetracks (– \$10.0 million). A total of \$215.4 million was paid out in commissions and financial compensation to retailers as compared to \$225.9 million in 2009-2010.

## CONSOLIDATED NET EARNINGS

**BINGO**

For several years, the bingo industry has been experiencing a serious erosion of its patronage. Despite various initiatives and the launch of new products, the sector posted revenues of \$31.3 million for fiscal 2010-2011, which represents only a slight decrease of 2.2% from the previous fiscal year, allowing the Bingo sector to continue its mission to provide financial assistance to non-profit organizations.

**OPERATING EXPENSES**

Operating expenses totalled \$842.3 million, down \$4.6 million (– 0.5%) compared to the previous fiscal year. This decrease was achieved despite the opening of the Kinzo hall, which incurred installation and operating costs that amounted to \$11.1 million, and despite higher amortization of property, plant, equipment and intangible assets that amounted to \$13.2 million, of which \$8.2 million is attributable to renovating the Casino de Montreal and \$0.6 million to the Kinzo hall. Without these factors, our expenses would have been lower by 3.4%, despite inflationary pressures on our purchases and costs related to the renewal of our collective agreements.

**BILL 100**

All requirements of Québec's Balanced Budget Act with respect to reducing administrative operating expenses and certain expenses in particular (travel, training and advertising) combined with the introduction of measures to improve productivity have made it possible to generate savings of \$14.9 million, \$9.9 million more than the \$5 million requested by the Minister of Finance. Moreover, the Act's provisions for management personnel concerning increases in salary scales and incentive remuneration have been met.

**OTHER ITEMS**

Other items totalled \$121.6 million, a \$54.4 million (– 30.9%) drop in spending from the previous fiscal year, mainly due to the revaluation in 2010 of loans made by Casino Mondial to Casinos Développement Europe and its subsidiaries.

**CONTRIBUTIONS TO GOVERNMENTS**

Loto-Québec's contribution in the form of dividends to the Ministère des Finances stood at \$1.247 billion, representing a reduction of \$4.8 million compared to last year. An additional \$91.1 million was paid into the Government of Québec's various designated funds, along with \$85.6 million to the Ministère du Revenu in tax on capital and Québec Sales Tax (QST). Total contributions to the Government of Québec consequently equalled close to \$1.424 billion. Furthermore, the Corporation contributed \$15.5 million to the Government of Canada as compensation for its withdrawal from the Lottery sector and \$52.2 million in the form of the Goods and Services Tax (GST).

## MANAGEMENT'S REPORT

The consolidated financial statements of Loto-Québec have been prepared by management, who is responsible for their preparation and presentation, including making significant estimates and judgments. This responsibility also includes selecting appropriate accounting policies that are in accordance with Canadian generally accepted accounting principles. Financial information provided elsewhere in the annual report on activities is consistent with that shown in the financial statements.

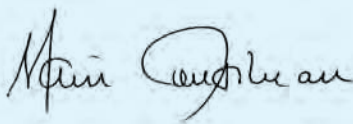
To meet its obligations, management maintains internal control systems that are designed to provide reasonable assurance that assets are safeguarded and transactions are properly recorded at the desired time, that they are duly approved, and that they enable management to produce reliable consolidated financial statements. Corporate Management of the internal audit performs periodic audits to ensure the adequacy and maintenance of the internal controls that are applied consistently by Loto-Québec.

Loto-Québec recognizes that it is responsible for managing its business in compliance with the laws and regulations that govern it.

The Board of Directors of Loto-Québec, assisted by its Audit Committee, which consists solely of outside directors, oversees the manner in which management carries out its financial reporting responsibilities and approves the consolidated financial statements. The Audit Committee meets with management and the Auditor General of Québec and the accounting firm KPMG LLP ("KPMG") reviews the consolidated financial statements and recommends their approval to the Board of Directors.

The Auditor General of Québec and KPMG have jointly audited the consolidated financial statements of Loto-Québec, in compliance with Canadian generally accepted auditing standards, and their independent auditors' report states the nature and scope of this audit and their statement of opinion. The Auditor General and KPMG have free access to the Audit Committee to discuss audit-related issues.

President and Chief Executive Officer,



ALAIN COUSINEAU

Senior Vice-President  
Financial Affairs of Loto-Québec,



GILLE DUFOUR

MONTREAL, JUNE 1, 2011



# INDEPENDENT AUDITORS' REPORT

To the Minister of Finance

## CONSOLIDATED FINANCIAL STATEMENTS' REPORT

We have audited the accompanying consolidated financial statements of Loto-Québec, which comprise the consolidated balance sheet as at March 31, 2011, and the consolidated statements of earnings, retained earnings and cash flows for the year then ended, and notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

### MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

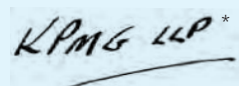
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Loto-Québec as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the *Auditor General Act* (R.S.Q., chapter V-5.01), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

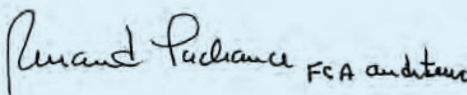


CHARTERED ACCOUNTANTS\*

MONTREAL, QUÉBEC

JUNE 1, 2011

The Auditor General of Québec,



RENAUD LACHANCE, FCA AUDITOR

QUÉBEC CITY, QUÉBEC

JUNE 1, 2011

\* CA Auditor permit no. 8240

# CONSOLIDATED STATEMENT OF EARNINGS

Year ended March 31, 2011

<i>(in thousands of dollars)</i>	2011	2010
<b>Revenues</b>	<b>3,674,862</b>	3,755,078
<b>Cost of sales</b> (Note 5)	<b>1,373,002</b>	1,391,485
<b>Gross margin</b>	<b>2,301,860</b>	2,363,593
<b>Operating expenses</b>		
Operating costs	715,782	726,642
Amortization of property, plant and equipment	105,595	95,341
Amortization of intangible assets	16,707	13,748
Financial expenses (Note 6)	4,252	11,159
	<b>842,336</b>	846,890
<b>Earnings before the undernoted</b>	<b>1,459,524</b>	1,516,703
Special payments (Note 7)	29,760	32,205
Goods and Services Tax	35,024	34,620
Quebec Sales Tax	56,799	54,694
Casinos Développement Europe and its subsidiaries (Note 11)		
Write-down of loans	–	29,583
Write-off of capitalized interest	–	24,914
	<b>121,583</b>	176,016
<b>Net earnings</b>	<b>1,337,941</b>	1,340,687

The accompanying notes are an integral part of the consolidated financial statements.

# CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended March 31, 2011

<i>(in thousands of dollars)</i>	2011	2010
<b>Balance, beginning of year</b>	<b>134,307</b>	134,307
Net earnings	1,337,941	1,340,687
	<b>1,472,248</b>	1,474,994
Dividends	(1,246,813)	(1,251,597)
Fonds d'aide à l'action communautaire autonome (Note 8)		
Aide à l'action communautaire autonome	(14,817)	(15,818)
Aide à l'action humanitaire internationale	(2,963)	(3,164)
Contributions to the Government of Quebec (Note 9)	(73,348)	(70,108)
	<b>(91,128)</b>	(89,090)
<b>Balance, end of year</b>	<b>134,307</b>	134,307

The accompanying notes are an integral part of the consolidated financial statements.



# CONSOLIDATED FINANCIAL STATEMENTS

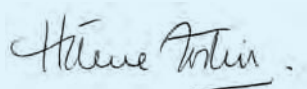
## CONSOLIDATED BALANCE SHEET

As at March 31, 2011

<i>(in thousands of dollars)</i>	2011	2010
<b>ASSETS</b>		
<b>Current assets</b>		
Cash on hand – casinos	62,522	61,470
Cash	34,097	33,908
Accounts receivable (Note 10)	76,003	90,865
Inventories	4,974	5,499
Prepaid expenses	36,850	32,213
Current portion of financial assets related to life annuities (Note 16)	1,384	1,249
	215,830	225,204
<b>Investments</b> (Note 11)	98,069	83,322
<b>Property, plant and equipment</b> (Note 12)	740,408	732,556
<b>Intangible assets</b> (Note 13)	104,372	93,031
<b>Financial assets related to life annuities</b> (Note 16)	51,485	48,215
<b>Accrued benefit asset</b> (Note 21)	6,462	3,461
	1,216,626	1,185,789
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank loans (Note 14)	472,219	365,730
Dividends payable	21,813	171,597
Accounts payable and accrued charges (Note 15)	236,195	237,426
Current portion of life annuities payable (Note 16)	1,384	1,249
Deferred revenues	23,112	18,217
Current portion of long-term debt (Note 17)	–	75,000
	754,723	869,219
<b>Life annuities payable</b> (Note 16)	51,485	48,215
<b>Accrued benefit liability</b> (Note 21)	8,687	8,878
<b>Long-term debt</b> (Note 17)	267,254	125,000
	1,082,149	1,051,312
<b>SHAREHOLDER'S EQUITY</b>		
<b>Share capital authorized, issued and paid:</b>		
1,700 shares with a par value of \$100 each	170	170
<b>Retained earnings</b>	134,307	134,307
	134,477	134,477
	1,216,626	1,185,789
<b>Commitments and contingencies</b> (Note 18)		

The accompanying notes are an integral part of the consolidated financial statements.

APPROVED BY THE BOARD OF DIRECTORS



HÉLÈNE F. FORTIN, FCA  
CHAIRPERSON OF THE BOARD



PAULE BOUCHARD, FCA  
CHAIRPERSON OF THE AUDIT COMMITTEE

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Year ended March 31, 2011

<i>(in thousands of dollars)</i>	2011	2010
<b>OPERATING ACTIVITIES</b>		
Net earnings	1,337,941	1,340,687
Items not affecting cash:		
Amortization of property, plant and equipment and intangible assets	122,302	109,089
Loss on disposal of property, plant and equipment	8,563	4,055
Share in the results of Manoir Richelieu, Limited Partnership	1,419	1,306
Partners' share of Manoir Richelieu, Limited Partnership	5,719	5,969
Interest income on loans to Casinos Développement Europe and its subsidiaries	(5,472)	–
Exchange (gain) loss on loans to Casinos Développement Europe and its subsidiaries	(791)	22,376
Write-down of loans to Casinos Développement Europe and its subsidiaries	–	29,583
Write-off of capitalized interest on the loans to Casinos Développement Europe and its subsidiaries	–	24,914
Change in non-cash operating working capital items (Note 20)	15,175	(13,621)
<b>Cash flows from operating activities</b>	<b>1,484,856</b>	<b>1,524,358</b>
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(1,396,597)	(1,375,400)
Bank loans	106,489	102,409
Increase in long-term debt	142,254	–
Repayment of long-term debt	(75,000)	–
Contributions to the Government of Quebec	(73,348)	(70,108)
Fonds d'aide à l'action communautaire autonome		
Aide à l'action communautaire autonome	(14,817)	(15,818)
Aide à l'action humanitaire internationale	(2,963)	(3,164)
<b>Cash flows used in financing activities</b>	<b>(1,313,982)</b>	<b>(1,362,081)</b>
<b>INVESTING ACTIVITIES</b>		
Acquisitions of property, plant and equipment	(125,572)	(109,889)
Acquisitions of intangible assets	(28,975)	(22,364)
Proceeds from disposal of property, plant and equipment	345	285
Increase in loans to Casinos Développement Europe and its subsidiaries	(7,447)	–
Investment, net of distributions, in Manoir Richelieu, Limited Partnership and payments to partners	(7,984)	(5,446)
<b>Cash flows used in investing activities</b>	<b>(169,633)</b>	<b>(137,414)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>1,241</b>	<b>24,863</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>95,378</b>	<b>70,515</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b> (Note 20)	<b>96,619</b>	<b>95,378</b>

The accompanying notes are an integral part of the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

## NOTE 1

### INCORPORATION AND ACTIVITIES

The Société des loteries du Québec, designated under the name Loto-Québec, is a joint-stock company whose shares are part of the domain of the State and are allocated to the Quebec Minister of Finance. Under *An Act respecting the Société des loteries du Québec* (R.S.Q., chapter S-13.1), the functions of the Corporation are to conduct and administer lottery schemes and to operate businesses that contribute to the operation of a State casino. The Corporation may also offer, for consideration, consulting and implementation services in areas of its expertise. Under the *Income Tax Act*, (R.S.C. (1985), Ch. 1 (5<sup>th</sup> supplement)) and the *Taxation Act* (R.S.Q., Ch. I-3), Loto-Québec is exempt from income taxes.

## NOTE 2

### SIGNIFICANT ACCOUNTING POLICIES

The preparation of Loto-Québec's consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates. The main items that are subject to estimates include the value of the loans to Casinos Développement Europe and its wholly owned subsidiaries (in 2010: named JOAGROUPE Holding), the useful life of property, plant and equipment and intangible assets, the valuations of life annuities payable and assets related to those annuities, and valuations of the accrued benefit asset and liability.

#### Consolidation

The consolidated financial statements include the accounts of Loto-Québec and those of its wholly owned subsidiaries, namely:

- Lotim inc.
- La Société des casinos du Québec inc.
- Casiloc inc.
- La Société des loteries vidéo du Québec inc.
- Ingenio, filiale de Loto-Québec inc.
- La Société des bingos du Québec inc.
- La Société du jeu virtuel du Québec inc.
- 9059-3849 Québec inc.
- Casino Mundial inc.
- Casino Capital 2006 inc.
- Technologies Nter, société en commandite
- Technologies Nter inc.

The investments in Manoir Richelieu Limited Partnership, the general partner 9064-1812 Québec inc., and Casinos Développement Europe and its subsidiaries are recorded using the equity method.

## **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

### **Revenues**

#### Lotteries and bingo

Revenues from sales of lottery tickets and bingo cards are recorded on the date of the draw, except for revenues from sales of instant lottery tickets, which are recorded at the time of sale.

Lottery tickets sold as at March 31 for draws subsequent to that date, with the exception of instant lotteries, are recorded as deferred revenues. Retailer commissions associated with these sales are carried to prepaid expenses.

In addition to lottery prizes that are payable in cash or merchandise, Loto-Québec also awards free tickets. The value of these prizes is equal to the selling price and they are mainly recorded against revenues.

#### Casinos and video lotteries

Revenues generated from these business segments consist of the difference between wagers made and prizes awarded.

#### Restaurants and lodging

Revenues are recognized when services are rendered to customers, when the selling price is fixed or determinable, and when collection is reasonably assured.

### **Cost of sales**

#### Lotteries and bingo

Prizes awarded from ticket sales related to bingo and other products in the lottery sector are determined using a theoretical rate applied to sales.

#### Casinos

Promotional discounts are the cash amounts paid to casino players.

### **Commodity taxes**

Taxes paid on products and services acquired and attributable to gaming activities are not recoverable by Loto-Québec. These taxes are recorded as part of the cost of the item to which they relate.

Furthermore, rather than collecting the Quebec Sales Tax (QST) and the Goods and Services Tax (GST) on revenues generated by gaming activities, Loto-Québec pays the taxes normally payable by the consumer and absorbs the cost. These taxes are presented separately in the Consolidated Statement of Earnings.

Net taxes attributable to gaming activities therefore represent about 28% of the bulk of taxable gaming expenses, while those attributable to non-gaming activities are calculated in the same way as those for other entities subject to commodity taxes.

### **Employee future benefits**

Defined contribution plan accounting is applied to the multiemployer governmental defined benefit plans due to the fact that Loto-Québec has insufficient information to apply defined benefit plan accounting.

The Régime de retraite des employés de la Société des casinos du Québec inc. (the Employee Plan) and the Régime de retraite du personnel cadre et professionnel de la Société des casinos du Québec inc. (the Executive Plan) are funded in accordance with the applicable laws, and the plan assets are held by an independent trustee. The obligations of Loto-Québec's Supplementary Pension Plan for Executive Management are funded.

Other employee benefits consist primarily of sick leaves convertible to cash upon the departure or retirement of applicable employees, extended coverage during family and disability leaves, and lump-sums on retirement.

## SIGNIFICANT ACCOUNTING POLICIES (continued)

The Société des casinos du Québec inc. accrues the defined benefit plan cost based on actuarial methods and assumptions determined by Loto-Québec, which include management's best estimate of future changes in salaries, other cost increases, retirement age of employees and other actuarial factors. The net periodic pension plan cost includes:

- The cost of pension benefits provided in exchange for services rendered by employees during the year;
- The interest expense on obligations;
- The expected return on pension plan assets based on the fair value of plan assets;
- Gains or losses on settlements or curtailments. When the restructuring of a plan gives rise to both a settlement and a curtailment, the curtailment is accounted for prior to the settlement;
- Amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the accrued benefit obligations or fair value of plan assets at the beginning of the year, over the average remaining service life of the employee group covered by the defined benefit pension plans or the average remaining lifetime of employees entitled to benefits for plans covering only inactive participants.

Plan obligations are calculated using the projected benefit method prorated on services.

## Financial instruments

### Categories of financial instruments

Assets and liabilities held for trading include cash and cash equivalents as well as the forward foreign exchange contract. Also, Loto-Québec has designated the following financial assets and liabilities as held for trading: accounts receivable, financial assets related to life annuities, bank loans, prizes to winners, dividends payable, accounts payable and accrued charges, and life annuities payable.

Loto-Québec has classified loans to Casinos Développement Europe and its subsidiaries and to Manoir Richelieu, Limited Partnership in the loans and receivables category.

Long-term debt is classified under other financial liabilities.

### Initial measurement

The financial instruments are recognized at fair value at the transaction date.

### Subsequent measurement

Financial assets and financial liabilities held for trading are valued at their fair value and, if applicable, the gains and losses that would result from a fair value revaluation would be recognized in net earnings.

Loans and receivables as well as long-term debt are measured at amortized cost using the effective interest rate method.

### Fair value

Loto-Québec classifies financial instruments recognized at fair value using a three-level hierarchy that reflects the type of inputs used in making the measurements:

- Level 1: prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs, other than Level 1 prices, that are directly observable for the asset or liability (i.e. prices) or indirectly observable for the asset or liability (i.e. derivatives of prices);
- Level 3: inputs for the asset or liability that are not based on market data (unobservable inputs).

## Comprehensive income

During the year, Loto-Québec did not carry out any transactions that had an impact on comprehensive income, and no opening or closing balance of accumulated comprehensive income has been presented.

## SIGNIFICANT ACCOUNTING POLICIES (continued)

### Inventories

#### Restaurants

Inventories are valued at the lower of cost or net realizable value. The cost of food and beverages is established using the average cost method.

### Property, plant and equipment

Property, plant and equipment are presented at cost and, except for works of art, are amortized over their useful lives using the straight-line method at the following annual rates:

Buildings	2% to 14.29%
Improvements to parking lots	2.5% to 14.29%
Improvements to rented parking lots	2.86% and 33.33%
Interior layout	2.5% to 20%
Landscaping	2.5% to 14.29%
Leasehold improvements	4% to 27.91%
Office furniture	10%
Automotive equipment	6.67% and 30%
Equipment	10% to 33.33%

Property, plant and equipment that are unused and yet to be commissioned are not amortized.

Improvements to existing property, plant and equipment that significantly extend the useful lives or improve the use of assets are capitalized, whereas maintenance and repair costs are charged to earnings when incurred.

### Intangible assets

Intangible assets consist of software and computer development. They are presented at cost and amortized over their estimated useful lives using the straight-line method at rates varying from 10% to 33.3%.

Application systems that are modified internally are capitalized when the criteria for deferral are met, like establishing the technical feasibility. Software is treated like intangible assets, as it is not an integral part of the operation of the related computer equipment.

Computer projects under development are amortized when the development phase is completed and implementation has begun.

### Impairment of property, plant and equipment and intangible assets

Long-lived assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The impairment test compares the net carrying amounts of long-lived assets with the undiscounted future cash flows expected to be generated from their use. Impaired assets are recorded at fair value, which is determined using estimated discounted future cash flows arising from their use and eventual disposition.

**SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect on the balance sheet date. Non-monetary assets and liabilities are translated at historical rates, and revenue and expense items are translated at the exchange rate prevailing on the transaction date. All exchange gains and losses are included in earnings for the year.

Loto-Québec uses derivative instruments to manage its exposure to the foreign exchange risks related to its loans to Casinos Développement Europe and its subsidiaries. Loto-Québec's policy, in accordance with Government of Quebec's *Regulation respecting currency exchange or interest rate exchange agreements concluded by a body*, stipulates that it cannot use derivative financial instruments for trading or speculation purposes.

Loto-Québec does not use hedge accounting for its financial instruments. Derivative instruments that are economic hedges but are not designated in a hedging relationship are recorded in the balance sheet at fair value, and changes in fair value are recorded in earnings.

**Cash and cash equivalents**

Loto-Québec's policy consists of presenting the following as cash and cash equivalents: cash on hand at casinos, bank balances and short-term investments that are readily convertible into known amounts of cash, that present an insignificant risk of change in value and that have a maturity of at most 90 days.

**NOTE 3****FUTURE CHANGES IN ACCOUNTING POLICIES**

The Accounting Standards Board of Canada (AcSB) has confirmed that publicly accountable enterprises will be required to apply International Financial Reporting Standards ("IFRS") for financial statements of years beginning on or after January 1, 2011 including comparative figures for 2010. For Loto-Québec, IFRS will therefore be applied to the annual consolidated financial statements for periods beginning on April 1, 2011. Accordingly, in its financial reporting published after April 1, 2011, Loto-Québec will have to provide comparative figures for the previous year, which means that April 1, 2010 will be the transition date. Loto-Québec is working on finalizing its assessment of the impact of these new standards on its consolidated financial statements.

**NOTE 4****CAPITAL DISCLOSURES**

Loto-Québec defines its capital as being shareholder's equity, as follows:

<i>(in thousands of dollars)</i>	2011	2010
<b>Shareholder's equity</b>		
Capital stock	170	170
Retained earnings	134,307	134,307
	<b>134,477</b>	<b>134,477</b>

Under the *Act respecting the Société des loteries du Québec*, dividends are set by the Quebec Minister of Finance, who determines the payment terms. Dividends declared are deducted from retained earnings and correspond to the consolidated net earnings less amounts payable to the Fonds d'aide à l'action communautaire autonome and contributions to the Government of Quebec. Loto-Québec is subject to these capital requirements, which it met throughout the year. These requirements are the same as those in the previous year.

Loto-Québec manages its capital through careful management of its revenues, expenses, assets, liabilities, investments and other financial transactions to ensure it meets the objectives set out in its incorporating act.

## NOTE 5

### COST OF SALES

<i>(in thousands of dollars)</i>	2011	2010
<b>Lotteries</b>		
Prizes awarded	918,948	922,723
Commissions to retailers	124,670	124,898
Printing of tickets	31,964	35,303
	<b>1,075,582</b>	1,082,924
<b>Casinos, restaurants, lodging</b>		
Promotional discounts	34,521	32,516
Restaurants	27,660	29,719
	<b>62,181</b>	62,235
<b>Video lotteries</b>		
Commissions to retailers	215,399	225,016
Printing of coupons	895	910
	<b>216,294</b>	225,926
<b>Bingo</b>		
Prizes awarded	15,692	16,521
Commissions to operators	2,371	2,562
Printing of cards	882	1,317
	<b>18,945</b>	20,400
	<b>1,373,002</b>	1,391,485

## NOTE 6

### FINANCIAL EXPENSES

<i>(in thousands of dollars)</i>	2011	2010
Interest expense on:		
Bank loans <sup>(1)</sup>	3,966	2,824
Long-term debt	6,634	7,180
Interest income on:		
Term deposits	(455)	(283)
Loans to Casinos Développement Europe and its subsidiaries	(910)	–
Interest related to the increase of the discounted value of loans to Casinos Développement Europe and its subsidiaries	(4,562)	–
Loss (gain) on foreign exchange contracts	370	(20,938)
Exchange (gain) loss on loans to Casinos Développement Europe and its subsidiaries	(791)	22,376
	<b>4,252</b>	11,159

<sup>(1)</sup> Include \$2.0M (\$0.8M in 2010) from the Fonds de financement du gouvernement du Québec and \$0.3M (\$0.3M in 2010) from the Caisse de dépôt et placement du Québec.



## NOTE 7

### SPECIAL PAYMENTS

<i>(in thousands of dollars)</i>	2011	2010
Compensation to the Government of Canada	15,544	15,249
Net contribution to Manoir Richelieu, Limited Partnership	7,138	7,275
Guaranteed payments – gaming halls	–	2,513
Special commissions to NPOs	1,133	1,071
Compensation to participating NPOs	5,523	5,646
Compensation to non-participating NPOs	422	451
	<b>29,760</b>	<b>32,205</b>

#### Compensation to the Government of Canada

Following an agreement reached between provincial governments and the Government of Canada regarding the federal government's withdrawal from the administration of lotteries, the provinces pay the federal government an annual amount of \$24.0M in 1979 dollars, i.e. \$66.2M for the year ended March 31, 2011 (\$65.0M in 2010).

The Government of Quebec's share is payable by Loto-Québec in accordance with the agreement reached between the provinces and the regional lottery corporations.

#### Net contribution to Manoir Richelieu, Limited Partnership

Pursuant to a guarantee agreement, and according to the distribution terms and conditions specified in the partnership agreement, the net contribution amount represents the minimum portion of cash generated by the operations of the Casino de Charlevoix payable to the partners, while taking into account Loto-Québec's share in the earnings generated by Manoir Richelieu.

#### Guaranteed payments – gaming halls

Under the guaranteed payments agreement, the guaranteed payments equal 22% of the net revenues from 535 gaming stations located in two gaming halls connected to the hippodromes of Trois-Rivières and Quebec City.

Until October 13, 2009, the guaranteed payments were made by a subsidiary of Loto-Québec that acts as an agent of the Government of Quebec. On October 14, 2009, in accordance with the penalties set out in article 17.10 of the agreement for the sale of assets and commitments relative to the horseracing industry, the Minister of Finance instructed Loto-Québec to stop making any guaranteed payments as of that date.

#### Special commissions to non-profit organizations (NPOs)

Further to the shareholder's decision, a commission equal to the discount provided to retailers is paid to NPOs that sell lottery tickets through the *Lotomatique* subscription system.

#### Compensation to non-profit organizations (NPOs)

##### Participating

As an agent, La Société des bingos du Québec inc. awards the following amount to charitable or religious organizations that hold bingo licences: an amount equal to 36.4% of bingo ticket sales less the value of prizes awarded to game winners or 50% of net earnings generated by bingo, not counting compensation to non-participating NPOs, whichever is higher.

##### Non-participating

As an agent, La Société des bingos du Québec Inc. awards an amount equal to 5.45% of pari-mutuel ticket sales generated by *Le Grand Tour* less the value of prizes paid to game winners to charitable or religious organizations that hold a bingo licence but do not participate in the bingo games of La Société des bingos du Québec Inc.

**NOTE 8****FONDS D'AIDE À L'ACTION COMMUNAUTAIRE AUTONOME**

Loto-Québec makes annual contributions to the Fonds that are equal to 6% of the previous year's net earnings with respect to the operations of State-run casinos and the contributing businesses. Under its incorporating act, the amounts are allocated to the Fonds d'aide à l'action communautaire autonome up to 5/6 of the allocated amount and up to 1/6 to the Fonds d'aide à l'action humanitaire internationale.

**NOTE 9****CONTRIBUTIONS TO THE GOVERNMENT OF QUEBEC**

<i>(in thousands of dollars)</i>	<b>2011</b>	<b>2010</b>
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ)	<b>7,132</b>	14,207
Ministère de la Santé et des Services sociaux	<b>52,000</b>	52,000
Ministère de la Sécurité publique	<b>3,916</b>	3,901
Ministère de la Culture, des Communications et de la Condition féminine	<b>10,000</b>	—
Ministère des Finances	<b>300</b>	—
	<b>73,348</b>	70,108

**NOTE 10****ACCOUNTS RECEIVABLE**

<i>(in thousands of dollars)</i>	<b>2011</b>	<b>2010</b>
Wholesalers	<b>30,664</b>	29,317
Retailers	<b>15,880</b>	24,260
Miscellaneous	<b>29,459</b>	37,288
	<b>76,003</b>	90,865

## NOTE 11

### INVESTMENTS

<i>(in thousands of dollars)</i>	2011	2010
Casinos Développement and its wholly owned subsidiaries <sup>(1)</sup>		
Loans, in euros, fixed rate of 8%, cashable, on April 16, 2018 <sup>(2)</sup> (41.9M€)	<b>57,583</b>	52,822
Loan, in euros, fixed rate of 15%, principal and compound interest cashable on April 16, 2018 <sup>(3)</sup> (6.5M€)	<b>8,949</b>	–
Manoir Richelieu, Limited Partnership and 9064-1812 Québec inc., General Partner, interest equal to 50% of the operations of Manoir Richelieu and Casino de Charlevoix	<b>29,029</b>	27,992
Manoir Richelieu, Limited Partnership		
Loan, without terms of repayment, bearing interest at a fixed rate of 5%, payable annually	<b>2,508</b>	2,508
	<b>98,069</b>	83,322

<sup>(1)</sup> Loto-Québec holds a 35% equity interest in Casinos Développement Europe and its subsidiaries. The value of the shares was written down by \$6.3M as at March 31, 2009 to reflect 35% of the loss as at December 31, 2008 up to the cost of the equity held by Loto-Québec of \$6.3M. The share of unrecognized gains for the year was \$0.4M, for a cumulative total loss of \$10.8M (\$11.2M in 2010).

<sup>(2)</sup> In 2010, following the global recession and difficulties in the French casino industry, Loto-Québec, with the assistance of an independent valuator, estimated the value of the loans to Casinos Développement Europe and its subsidiaries (named JOAGROUPE Holding in 2010). The carrying amount was reduced to the estimated realizable value, which is equal to the discounted expected future cash flows at an initial loan interest rate of 8%. The carrying amount of the loans was written down by \$29.6M. In addition, capitalized interest in the amount of \$24.9M was fully written off. In 2011, the French casino industry stabilized and no additional write-down was recorded.

Since February 16, 2009, for all of the loans bearing interest at 8%, Loto-Québec is annually renewing its agreement to suspend the interest. The maturities of these loans were changed during the year from May 2016 to April 2018. The loans are subordinated to senior loans and to the liens of Casinos Développement Europe and its subsidiaries.

<sup>(3)</sup> On June 22, 2010, as part of the restructuring of the debt load of Casinos Développement Europe and its subsidiaries, the shareholders agreed to a \$15M€ contribution in the form of loans. Loto-Québec's share is \$7.4M€ (\$5.8M€).

During the year, the appreciation of the euro with respect to the Canadian dollar increased the value of loans by \$0.8M (decrease of \$22.4M in 2010).

## NOTE 12

### PROPERTY, PLANT AND EQUIPMENT

<i>(in thousands of dollars)</i>				2011			2010		
	Cost	Accumulated Amortization	Net		Cost	Accumulated Amortization	Net		
Land	46,101	–	46,101		42,339	–	42,339		
Buildings	413,076	147,974	265,102		408,913	138,722	270,191		
Improvements to parking lots	120,404	82,203	38,201		130,980	86,444	44,536		
Improvements to rented parking lots	1,555	1,192	363		5,485	3,935	1,550		
Interior layout	258,334	132,040	126,294		227,509	119,898	107,611		
Landscaping	58,203	41,555	16,648		37,377	25,883	11,494		
Leasehold improvements	70,521	39,080	31,441		63,527	36,172	27,355		
Office furniture	22,659	13,323	9,336		22,858	13,395	9,463		
Automotive equipment	1,158	560	598		921	562	359		
Equipment	564,929	404,533	160,396		560,567	378,648	181,919		
Works of art	6,867	–	6,867		6,479	–	6,479		
Unused property, plant and equipment	39,061	–	39,061		29,260	–	29,260		
	<b>1,602,868</b>	<b>862,460</b>	<b>740,408</b>		<b>1,536,215</b>	<b>803,659</b>	<b>732,556</b>		

Unused property, plant and equipment consists of equipment awaiting commissioning in the amount of \$0.9M (\$6.2M in 2010), buildings undergoing renovations in the amount of \$2.5M (\$7.5M in 2010) as well as \$35.7M (\$15.6M in 2010) in costs related to the Casino de Montréal modernization project.

## NOTE 13

### INTANGIBLE ASSETS

<i>(in thousands of dollars)</i>				2011			2010		
	Cost	Accumulated Amortization	Net		Cost	Accumulated Amortization	Net		
Software and computer development	182,804	92,887	89,917		144,524	75,952	68,572		
Computer projects under development	14,455	–	14,455		24,459	–	24,459		
	<b>197,259</b>	<b>92,887</b>	<b>104,372</b>		<b>168,983</b>	<b>75,952</b>	<b>93,031</b>		

During the year, Loto-Québec acquired \$29.0M (\$22.4M in 2010) in software and computer development as well as computer projects under development of which \$14.3M (\$7.0M in 2010) in costs is from internal development.

## NOTE 14

### BANK LOANS

Loto-Québec is authorized by the Government of Quebec to make short-term borrowings of up to \$575.0M from financial institutions or the Quebec Minister of Finance, in its capacity of manager of the Fonds de financement, and long-term borrowings of up to \$1.0B from the same fund.

Despite the aforementioned, the total amount of Loto-Québec's short-term and long-term borrowings may at no time exceed \$1.3B.

Short-term bank loans totalled \$472.2M (\$365.7M in 2010) of which \$133.0M (\$102.0M in 2010) is with the Fonds de financement du gouvernement du Québec, and \$197.0M (\$87.0M in 2010) is with the Caisse de dépôt et placement du Québec. These loans bear interest at the market rate, i.e., 1.11% to 1.85% (0.33% to 0.94% in 2010).

## NOTE 15

### ACCOUNTS PAYABLE AND ACCRUED CHARGES

<i>(in thousands of dollars)</i>	2011	2010
Accounts payable and accrued charges <sup>(1)</sup>	144,962	150,696
Prizes to winners	72,856	66,578
Manoir Richelieu, Limited Partnership	6,224	5,667
Provision for unclaimed prizes	2,748	5,249
Goods and Services Tax	3,332	3,484
Quebec Sales Tax	6,073	5,752
	<b>236,195</b>	<b>237,426</b>

<sup>(1)</sup> Include accrued interest of \$3.1M (\$2.6M in 2010) with Fonds de financement du gouvernement du Québec and of \$0.03M (\$0.008M in 2010) with the Caisse de dépôt et placement du Québec.

The provision for unclaimed prizes is comprised of the unclaimed prizes of all Loto-Québec's products, excluding Canada-wide games. The amount is used to pay bonus prizes and commissions to retailers.

## NOTE 16

### LIFE ANNUITIES

Loto-Québec offers life annuities on lottery products. When large prize winners opt for life annuities instead of lump sums, Loto-Québec assigns the issuance and administration of the annuity to a third party.

Amounts paid to the third party are recorded as financial assets and amortized based on the life expectancy of the winners upon issuance of the annuity. The amortization and the change in fair value for the year are \$1.4M presented in operating expenses.

The financial liability is measured by the internal actuary based on assumptions, including life expectancy.

For the year, Loto-Québec's disbursements to a third party for life annuities stood at \$4.8M (\$5.3M in 2010).

## NOTE 17

### LONG-TERM DEBT

<i>(in thousands of dollars)</i>	2011	2010
Loans from the Fonds de financement du gouvernement du Québec, interest payable semi-annually, repayable at maturity on:		
December 1, 2010, fixed rate of 3.382%	–	75,000
May 5, 2014, fixed rate of 3.113%	50,000	50,000
December 1, 2014, fixed rate of 2.702%	49,801	–
December 1, 2015, fixed rate of 4.117%	75,000	75,000
December 1, 2016, fixed rate of 3.262%	49,378	–
December 1, 2020, fixed rate of 4.102%	43,075	–
	<b>267,254</b>	200,000
Less current portion	–	(75,000)
	<b>267,254</b>	125,000

## NOTE 18

### COMMITMENTS AND CONTINGENCIES

#### Contingencies

In the normal course of business, Loto-Québec is subject to claims and lawsuits. Loto-Québec's management disputes these claims and lawsuits. No provision has been made in Loto-Québec's records with respect to these contingencies, because, in management's view, no settlement that could arise from these lawsuits would have a significant impact on Loto-Québec's consolidated financial statements.

#### Commitments

##### Leases

Loto-Québec is committed under long-term leases expiring on various dates through May 2035 for the rental of administrative offices and land. In certain cases, these leases carry an implied two-to-five-year renewal option up to a maximum term of 60 years.

Future minimum payments, in thousands of dollars, are as follows:

2012	23,890
2013	19,814
2014	16,455
2015	14,185
2016	10,987
2017 and thereafter	14,358
	<b>99,689</b>

## COMMITMENTS AND CONTINGENCIES *(continued)*

### **Casinos**

#### Modernization of the Casino de Montréal

The Casino de Montréal modernization budget is \$305.7M and the project will continue until 2013-2014. As at March 31, 2011, accumulated investments totalled \$81.1M (\$15.6M in 2010) and commitments stood at \$15.1M.

### **Video lotteries**

In December 2009, the Government of Quebec authorized a subsidiary of Loto-Québec to acquire video lottery machines and site controllers for an amount not exceeding \$245.2M as well as a management centre for an amount not exceeding \$20.0M.

As at March 31, 2011, investments totalled \$10.6M of which \$10.0M is for video lottery machines and site controllers and \$0.6M for the management centre. These investments started in 2011.

### **Mise sur toi**

Loto-Québec has committed to make an annual contribution to Mise sur toi equivalent to 1.95/10 of 1% of actual net earnings of the lotteries, casinos, video lotteries, and bingo business segments. In 2011, Loto-Québec paid \$6.1M. For the coming year, the estimated payment will be \$5.4M.

The mission of Mise sur toi is to build awareness and inform Quebecers about gaming and gambling so they can make responsible and informed decisions and thereby maintain a healthy approach to gambling. Its main objectives are to promote responsible gaming behaviour, prevent the harmful effects of excessive gambling, and protect at-risk individuals.

### **Contributions to the Government of Quebec**

#### Ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ)

Following the repeal of fairground casinos, at the request and with the authorization of the Government of Quebec, Loto-Québec has concluded an agreement with MAPAQ, starting in fiscal 2008-09, for the annual payment of \$6.1M to a specified purpose account for a period of five years ending March 31, 2013.

Loto-Québec is also committed to the MAPAQ to pay \$0.1M for fiscal 2011-2012 into a specified purpose account to finance the Programme d'aide ponctuelle aux éleveurs de chevaux Standardbred.

#### Ministère de la Santé et des Services sociaux

At the request and with the authorization of the Government of Quebec, Loto-Québec is committed to make an annual contribution of \$22.0M to the Ministère de la Santé et des Services sociaux (MSSS) into a specified purpose account to finance prevention measures, treatment services and research programs and awareness campaigns to help compulsive gamblers.

Furthermore, Loto-Québec is also committed to the MSSS to make an annual contribution of \$30.0M into a specified purpose account to finance assistance and support services for the elderly who are no longer autonomous but who live on their own or in home-care centres.

Since no termination date for the commitment has been specified by the Government, Loto-Québec is not in a position to assess the total amount of these commitments.

#### Ministère de la Sécurité publique

At the request and with the authorization of the Government of Quebec, Loto-Québec is committed to the Ministère de la Sécurité publique to make an annual contribution of \$3.0M into a specified purpose account to finance intensive control measures and activities that will be implemented by the Régie des alcools, des courses et des jeux to ensure the management of control measures regarding access to video lottery terminals. Since no termination date for the commitment has been specified by the Government, Loto-Québec is not in a position to assess the total amount of this commitment.

Furthermore, Loto-Québec is also committed to the Ministère de la Sécurité publique to make an annual contribution of approximately \$0.9M into a specified purpose account, indexed annually according to the consumer price index, and to do so for a five-year period ending March 31, 2012 to finance additional resources that would help reduce the certification delays for game terminals operated by Loto-Québec.



## COMMITMENTS AND CONTINGENCIES *(continued)*

### Ministère de la Culture, des Communications et de la Condition féminine

At the request and with the authorization of the Government of Québec, Loto-Québec is committed to the Ministère de la Culture, des Communications et de la Condition féminine to make a contribution into a specified purpose account of \$35.5M, including \$10.0M for fiscal 2010-2011 and \$8.5M for each of the fiscal years 2011-2012, 2012-2013 and 2013-2014 to finance the current operations of the Orchestre symphonique de Montréal.

### Ministère des Finances

At the request and with the authorization of the Government of Quebec, Loto-Québec is committed to the Ministère des Finances to make a contribution into a specified purpose account of \$1.1M, including \$0.3M for fiscal 2010-2011, \$0.3M for fiscal 2011-2012, \$0.3M for fiscal 2012-2013 and \$0.2M for fiscal 2013-2014 to repay all of the expenses incurred to operate the Online Gaming Monitoring Committee.

## NOTE 19 FINANCIAL INSTRUMENTS

### **Risk management policy**

Management has implemented policies and procedures that ensure proper management of the risks inherent to financial instruments.

### **Credit risk**

The carrying amount of financial assets represents the entity's maximum exposure to credit risk. The line item "Cash on hand – Casinos" includes the cash inventory of the casinos. Accounts receivable are primarily from transactions concluded with a significant number of wholesalers and retailers. Other financial assets represent life annuities paid to large insurance companies. Except for the credit risk related to the loans to Casinos Développement Europe and its subsidiaries presented in Note 11, management considers that Loto-Québec is not exposed to any significant credit risk. Overdue accounts represent less than 1% of accounts receivable in 2011 and 2010.

### **Foreign exchange risk**

Loto-Québec has investment loans denominated in euros in Casinos Développement Europe and its subsidiaries, with a carrying amount of \$66.5M (48.4M€) as at March 31, 2011 (\$52.8M (38.5M€) in 2010). On March 31, 2010, Loto-Québec signed a forward foreign exchange contract denominated in euros for an amount of \$53.2M (38.5M€) that expired on March 31, 2011 and on June 22, 2010 Loto-Québec signed a forward foreign exchange contract denominated in euros for an amount of \$7.4M (5.8M€) expiring on March 31, 2011. These forward contracts were purchased to protect itself against any future changes in the exchange rate with respect to these investments. Similar protection in the amount of \$67.8M (49.3M€) expiring on March 31, 2012 was renewed. The fair value of the foreign exchange contract as at March 31, 2011 is nil, as it was entered into on that date. The foreign exchange contracts were signed with the Fonds de financement du gouvernement du Québec.

Furthermore, Loto-Québec carries out other transactions in foreign currencies. It does not hold or issue financial instruments as a way to manage the foreign exchange risk to which it is exposed through these transactions. However, this risk does not have a significant impact on Loto-Québec's earnings or financial position.

The impact on earnings of foreign exchange hedging transactions is recorded under Financial Expenses.

**FINANCIAL INSTRUMENTS** *(continued)***Liquidity risk**

Contractual cash flows related to Loto-Québec's financial liabilities are as follows:

<i>(in thousands of dollars)</i>			<b>Maturity</b>			
	Carrying amount	Total contractual cash flows	Less than 12 months	1 to 2 years	2 to 5 years	5 to 10 years
<b>Financial liabilities</b>						
Bank loans	472,219	475,359	475,359	—	—	—
Dividends payable	21,813	21,813	21,813	—	—	—
Accounts payable and accrued charges	236,195	236,195	236,195	—	—	—
Long-term debt	267,254	320,522	8,120	9,393	199,494	103,515
	<b>997,481</b>	<b>1,053,889</b>	<b>741,487</b>	<b>9,393</b>	<b>199,494</b>	<b>103,515</b>

Loto-Québec considers that it has sufficient assets readily convertible to cash and credit facilities to ensure it has the necessary funds to meet current and long-term financial needs, if necessary, and at a reasonable cost.

**Interest rate risk**

Interest rates on loans and long-term debt are fixed.

Interest rates on bank loans are also fixed. Bank loans are taken out to meet temporary liquidity needs for a period of less than 365 days with financial institutions or the Minister of Finance in its capacity as the manager of the Fonds de financement. Careful loan management helps reduce cash flow risk with respect to interest paid.

**Fair value**

<i>(in thousands of dollars)</i>		<b>2011</b>		<b>2010</b>	
	Level	Carrying amount	Fair value	Carrying amount	Fair value
Assets held for trading*	1	<b>96,619</b>	<b>96,619</b>	95,378	95,378
Assets designated for trading purposes*	3	<b>128,872</b>	<b>128,872</b>	140,329	140,329
Loans and receivables**	n/a	<b>69,040</b>	—	55,330	—
Liabilities designated for trading purposes*	3	<b>783,096</b>	<b>783,096</b>	824,217	824,217
Other liabilities***	n/a	<b>267,254</b>	—	200,000	—

\* All financial instruments recognized at fair value are short-term instruments whose fair values equal their carrying amounts due to their short-term maturities.

\*\* Loans to Casinos Développement Europe and its subsidiaries and Manoir Richelieu Limited Partnership resulted from related party transactions and, consequently, the terms and conditions of these loans may differ from those that would be negotiated between unrelated companies.

\*\*\* The long-term debt resulted from related party transactions (Fonds de financement du gouvernement du Québec).

## NOTE 20

### CONSOLIDATED CASH FLOWS

<i>(in thousands of dollars)</i>	2011	2010
<b>Cash and cash equivalents, end of year</b>		
Cash on hand – Casinos	62,522	61,470
Cash	34,097	33,908
	<b>96,619</b>	<b>95,378</b>
<b>Change in non-cash operating working capital items</b>		
Accounts receivable	14,862	(18,805)
Inventories	525	171
Prepaid expenses	2,914	(5,561)
Financial assets related to life annuities	(3,405)	(4,107)
Accrued benefit asset	(3,001)	(3,461)
Accounts payable and accrued charges	(4,829)	15,778
Life annuities payable	3,405	4,107
Deferred revenues	4,895	(2,774)
Accrued benefit liability	(191)	1,031
	<b>15,175</b>	<b>(13,621)</b>
<b>Additional information</b>		
Property, plant and equipment included in prepaid expenses	8,521	970
Acquisitions of property, plant and equipment financed by accounts payable and accrued charges	18,961	14,627
Acquisitions of intangible assets financed by accounts payable and accrued charges	2,990	3,917
Partners' share in Manoir Richelieu, Limited Partnership included in accounts payable and accrued charges	6,101	5,910
Interest paid	12,022	10,011

## NOTE 21

### EMPLOYEE FUTURE BENEFITS

Employees of Loto-Québec, La Société des loteries vidéo du Québec inc., La Société des bingos du Québec inc., Société du jeu virtuel du Québec inc., Ingenio, subsidiary of Loto-Québec inc. and Technologies Nter société en commandite participate in the Régime de retraite des employés du gouvernement et des organismes publics (RREGOP), the Régime de retraite des fonctionnaires (RRF) or the Régime de retraite du personnel d'encadrement (RRPE). These are defined benefit plans and include guarantees upon retirement or death. Contributions charged to consolidated earnings for the year for these multiemployer plans totalled \$6.2M (\$5.1M in 2010). The employer's obligations toward these government plans are limited to its contributions as an employer.

Until December 31, 2009, employees of La Société des casinos du Québec inc. participated in the defined contribution plan and employees of Technologies Nter société en commandite participated in a group RRSP. Contributions charged to consolidated earnings for 2010 for these plans were \$7.8M.

On December 31, 2009, the Société des casinos du Québec inc. set up two new defined benefit pension plans, the Employee Plan and the Executive Plan. Membership in these plans is mandatory for all Société des casinos du Québec inc. employees who meet the eligibility criteria. These plans will provide pension benefits determined based on indexed yearly pensionable earnings (maximum annual indexing of 2%) for the Employee Plan and number of years of service and average salary of the best three consecutive years for the Executive Plan. The annuities paid to pensioners will be increased each year based on 50% of the rise in the consumer price index (maximum annual indexing of 2%). The annual contribution of the Société des casinos du Québec inc. will be equal to that of employees unless the actuary deems that it should be higher in order to fund the employees' accrued benefits and amortize any plan deficit. Surplus assets will be used to repay the Société des casinos du Québec inc. in the form of an annual contribution holiday up to the balance of the amortization payments. An amount equal to 20% of the balance of surplus assets will be used to reduce employee and the Société des casinos du Québec inc. contributions equally.

Loto-Québec offers a Supplementary Pension Plan for Executive Management (the Supplementary Plan) to executive officers to pay life benefits exceeding the limits provided under the *Income Tax Act*.

At the end of the year, for accounting purposes, the internal actuary, assisted by the independent actuaries measured the benefit obligations and the fair value of plan assets for the Employee Plan, the Executive Plan, the Supplementary Plan and other future employee benefits. The most recent actuarial valuations for funding purposes of the Employee Plan and the Executive Plan were completed as of December 31, 2009 and the next valuations must be completed as of December 31, 2010. The most recent actuarial valuation for funding purposes of the Supplementary Plan was completed as of March 31, 2011 and the next valuation must be completed no later than March 31, 2012.

**EMPLOYEE FUTURE BENEFITS** *(continued)*

The following table presents information on Loto-Québec's plans:

<i>(in thousands of dollars)</i>	<b>2011</b>		<b>2010</b>	
	<b>Pension plans</b>	<b>Other employee benefits</b>	<b>Pension plans<sup>(1)</sup></b>	<b>Other employee benefits</b>
<b>Accrued benefit obligations</b>				
Balance, beginning of year	<b>118,921</b>	<b>8,878</b>	2,500	6,375
Service costs rendered	<b>13,253</b>	–	2,707	–
Interest expense	<b>9,003</b>	–	1,891	–
Employee contributions	<b>15,409</b>	–	3,542	–
Benefits paid	<b>(904)</b>	–	(42)	–
Net transfer amount	<b>10,927</b>	–	97,192	–
Actuarial loss (gain)	<b>18,533</b>	<b>(191)</b>	11,131	2,503
Balance, end of year	<b>185,142</b>	<b>8,687</b>	118,921	8,878
<b>Fair value of plan assets</b>				
Balance, beginning of year	<b>119,575</b>	–	1,072	–
Actual return on plan assets	<b>15,250</b>	–	1,228	–
Employer contributions	<b>16,887</b>	–	7,910	–
Employee contributions	<b>15,409</b>	–	3,542	–
Benefits paid	<b>(904)</b>	–	(42)	–
Net transfer amount	<b>12,803</b>	–	105,926	–
Plan administration expenses	<b>(1,139)</b>	–	(62)	–
Balance, end of year	<b>177,881</b>	–	119,574	–
<b>Funded status – surplus (deficit)</b>	<b>(7,261)</b>	<b>(8,687)</b>	653	(8,878)
Unamortized net actuarial loss	<b>13,723</b>	–	2,808	–
<b>Accrued benefit asset (liability)</b>	<b>6,462</b>	<b>(8,687)</b>	3,461	(8,878)

<sup>(1)</sup> From January 1 to March 31, 2010 for the Employee and the Executive plans.

According to the fair value of assets held as at March 31, 2011, pension plan assets are comprised of 1.8% cash, 58.8% obligations, 13.2% Canadian equity and 26.2% global equity.

**EMPLOYEE FUTURE BENEFITS** *(continued)*

Components of the cost recognized as accrued benefits are as follows:

<i>(in thousands of dollars)</i>	<b>2011</b>		<b>2010</b>	
	<b>Pension plans</b>	<b>Other employee benefits</b>	<b>Pension plans<sup>(1)</sup></b>	<b>Other employee benefits</b>
Current service cost	<b>14,003</b>	–	2,895	–
Interest expense	<b>9,003</b>	–	1,891	–
Actual return on plan assets	<b>(15,250)</b>	–	(1,228)	–
Actuarial (gain) loss	<b>17,046</b>	<b>(191)</b>	11,131	2,503
Cost established for the year	<b>24,802</b>	<b>(191)</b>	14,689	2,503
Difference between expected and actual return on plan assets	<b>6,109</b>	–	(618)	–
Difference between net actuarial loss (net actuarial gain) and actual actuarial loss (net actuarial gain)	<b>(17,025)</b>	–	(11,131)	–
Difference with respect to the temporary obligation	–	–	37	–
<b>Cost recognized for the year</b>	<b>13,886</b>	<b>(191)</b>	2,977	2,503

<sup>(1)</sup> From January 1 to March 31, 2010 for the Employee and the Executive plans.

The weighted averages of significant actuarial assumptions for the year are:

	<b>2011</b>		<b>2010</b>	
	<b>Pension plans</b>	<b>Other employee benefits</b>	<b>Pension plans<sup>(1)</sup></b>	<b>Other employee benefits</b>
<b>Accrued benefit obligations, end of year</b>				
Discount rates	<b>5.50%</b>	<b>4.75%</b>	6.00%	4.75%
Rates of compensation increase	<b>3.50%</b>	<b>3.50%</b>	3.75%	3.75%
<b>Net cost of plans for the year</b>				
Discount rates	<b>6.00%</b>	<b>4.75%</b>	6.50%	4.75%
Rates of compensation increase	<b>3.75%</b>	<b>3.50%</b>	3.50%	3.75%
Expected long-term return on plan assets	<b>6.60%<sup>(2)</sup></b>	<b>n/a</b>	6.75% <sup>(2)</sup>	n/a

<sup>(1)</sup> From January 1 to March 31, 2010 for the Employee and the Executive plans.

<sup>(2)</sup> Nil for the Supplementary Plan.

## NOTE 22

### RELATED PARTY TRANSACTIONS

In addition to the related party transactions already disclosed and recorded at the exchange amount, Loto-Québec is related to all Government of Quebec departments and special funds as well as all agencies and enterprises directly or indirectly controlled by the Government of Quebec or subject to either joint control or significant influence of the Government of Quebec. Except for the aforementioned transactions, Loto-Québec has not concluded any business transactions with these related parties other than in the normal course of business and usual business terms and conditions. These transactions have not been disclosed separately in the financial statements.

## NOTE 23

### COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to the presentation adopted for 2011.

## NOTE 24

### SUPPLEMENTARY INFORMATION

<i>(in thousands of dollars)</i>						2011
Business segments	Lotteries	Casinos	Video lotteries	Bingo	Elimination of intersegment transactions	Consolidated figures
<b>Revenues</b>						
Games	1,787,813	800,698	1,001,092	31,334	–	3,620,937
Restaurants	–	74,160	–	–	(36,375)	37,785
Lodging	–	16,140	–	–	–	16,140
	1,787,813	890,998	1,001,092	31,334	(36,375)	3,674,862
<b>Cost of sales</b>						
Games	1,075,688	34,521	216,294	18,945	(106)	1,345,342
Restaurants	–	27,660	–	–	–	27,660
	1,075,688	62,181	216,294	18,945	(106)	1,373,002
<b>Gross margin</b>	712,125	828,817	784,798	12,389	(36,269)	2,301,860
<b>Operating expenses</b>						
Operating costs <sup>(1)</sup>	161,578	503,519	69,391	17,563	(36,269)	715,782
Amortization of property, plant and equipment	13,484	60,876	30,639	596	–	105,595
Amortization of intangible assets	9,821	4,731	2,011	144	–	16,707
Financial expenses	3,280	(2,792)	3,767	(3)	–	4,252
	188,163	566,334	105,808	18,300	(36,269)	842,336
<b>Earnings before the undernoted</b>	523,962	262,483	678,990	(5,911)	–	1,459,524
Special payments	16,677	7,138	–	5,945	–	29,760
Goods and Services Tax	12,826	7,919	13,872	407	–	35,024
Quebec Sales Tax	20,823	12,853	22,465	658	–	56,799
	50,326	27,910	36,337	7,010	–	121,583
<b>Net earnings (loss)</b>	473,636	234,573	642,653	(12,921)	–	1,337,941

<sup>(1)</sup> Expenses are assumed by Loto-Québec's corporate management team. Certain operating costs and related commodity taxes, attributable directly to the segments, are allocated based on their use. Other expenses are allocated based on the net revenues of the main business segments.



## SUPPLEMENTARY INFORMATION (continued)

(in thousands of dollars)						2010
Business segments	Lotteries	Casinos	Video lotteries	Bingo	Elimination of intersegment transactions	Consolidated figures
<b>Revenues</b>						
Games	1,795,334	829,810	1,043,332	32,025	–	3,700,501
Restaurants	–	90,320	–	–	(50,920)	39,400
Lodging	–	15,177	–	–	–	15,177
	1,795,334	935,307	1,043,332	32,025	(50,920)	3,755,078
<b>Cost of sales</b>						
Games	1,082,924	32,516	225,926	20,400	–	1,361,766
Restaurants	–	29,719	–	–	–	29,719
	1,082,924	62,235	225,926	20,400	–	1,391,485
<b>Gross margin</b>	712,410	873,072	817,406	11,625	(50,920)	2,363,593
<b>Operating expenses</b>						
Operating costs <sup>(1)</sup>	170,876	520,794	79,081	6,811	(50,920)	726,642
Amortization of property, plant and equipment	13,212	50,984	31,052	93	–	95,341
Amortization of intangible assets	8,427	3,707	1,608	6	–	13,748
Financial expenses	3,015	4,551	3,595	(2)	–	11,159
	195,530	580,036	115,336	6,908	(50,920)	846,890
<b>Earnings before the undernoted</b>	516,880	293,036	702,070	4,717	–	1,516,703
Special payments	16,320	7,275	2,513	6,097	–	32,205
Goods and Services Tax	13,409	6,154	14,731	326	–	34,620
Quebec Sales Tax	20,930	10,049	23,201	514	–	54,694
Casinos Développement Europe and its subsidiaries:						
Write-down of loans	–	29,583	–	–	–	29,583
Write-off of capitalized interest	–	24,914	–	–	–	24,914
	50,659	77,975	40,445	6,937	–	176,016
<b>Net earnings (loss)</b>	466,221	215,061	661,625	(2,220)	–	1,340,687

<sup>(1)</sup> Expenses are assumed by Loto-Québec's corporate management team. Certain operating costs and related commodity taxes, attributable directly to the segments, are allocated based on their use. Other expenses are allocated based on the net revenues of the main business segments.

## COMPARATIVE RESULTS

As at March 31

<i>(in thousands of dollars)</i>	2011	2010	2009	2008	2007
Consolidated earnings					
<b>Revenues</b>	<b>3,674,862</b>	3,755,078	3,814,630	3,795,405	3,738,564
Cost of sales					
<b>Lotteries</b>					
Prizes awarded	<b>918,948</b>	922,723	961,747	978,496	907,362
Commissions to retailers	<b>124,670</b>	124,898	128,705	130,028	124,004
Printing of tickets	<b>31,964</b>	35,303	37,282	36,097	32,507
Lotteries subtotal	<b>1,075,582</b>	1,082,924	1,127,734	1,144,621	1,063,873
<b>Casinos</b>					
Promotional allowances	<b>34,521</b>	32,516	25,021	23,153	21,821
Restaurants	<b>27,660</b>	29,719	27,636	27,556	27,248
Casinos subtotal	<b>62,181</b>	62,235	52,657	50,709	49,069
<b>Video lotteries</b>					
Commissions to retailers	<b>215,399</b>	225,016	229,919	229,317	241,542
Printing of coupons	<b>895</b>	910	1,250	1,430	1,121
Video lotteries subtotal	<b>216,294</b>	225,926	231,169	230,747	242,663
<b>Bingo</b>					
Prizes awarded	<b>15,692</b>	16,521	16,804	19,187	18,010
Commissions to operators	<b>2,371</b>	2,562	2,325	2,499	2,387
Printing of cards	<b>882</b>	1,317	1,168	1,570	1,107
Bingo subtotal	<b>18,945</b>	20,400	20,297	23,256	21,504
Total	<b>1,373,002</b>	1,391,485	1,431,857	1,449,333	1,377,109
Gross margin	<b>2,301,860</b>	2,363,593	2,382,773	2,346,072	2,361,455
<b>Operating expenses</b>					
Lotteries	<b>161,578</b>	170,876	162,882	161,758	155,128
Casinos	<b>467,250</b>	469,874	439,074	427,447	435,048
Video lotteries	<b>69,391</b>	79,081	81,555	73,451	67,628
Bingo	<b>17,563</b>	6,811	5,901	6,006	5,498
Amortization of property, plant and equipment	<b>105,595</b>	95,341	87,288	84,525	80,742
Amortization of intangible assets	<b>16,707</b>	13,748	11,915	9,797	11,557
Financial expenses	<b>4,252</b>	11,159	9,537	16,598	6,911
	<b>842,336</b>	846,890	798,152	779,582	762,512
<b>Earnings before the undernoted</b>	<b>1,459,524</b>	1,516,703	1,584,621	1,566,490	1,598,943
Special payments	<b>29,760</b>	32,205	34,175	33,551	32,008
Goods and Services Tax	<b>35,024</b>	34,620	33,959	41,025	44,073
Québec Sales Tax	<b>56,799</b>	54,694	54,417	56,230	55,814
Holding in the Casinos Développement Europe and its subsidiaries satellite corporation	—	—	6,311	(479)	(1,017)
Write-down of loans	—	29,583	—	—	—
Write-off of capitalized interest	—	24,914	—	—	—
	<b>121,583</b>	176,016	128,862	130,327	130,878
<b>Net earnings</b>	<b>1,337,941</b>	1,340,687	1,455,759	1,436,163	1,468,065

# MEASURES TO REDUCE SPENDING AND INCREASE PRODUCTIVITY

Efforts to boost the efficiency of activities underway at Loto-Québec are already bearing fruit. In 2010-2011, the Corporation more than doubled its contribution to the effort to reduce spending and increase productivity requested by the Government, achieving \$14.9 million instead of the target \$5 million. More specifically, this \$14.9 million resulted from the measures taken in compliance with the Act to implement certain provisions of the Budget Speech of March 30, 2010, reduce the debt and return to a balanced budget in 2013-2014, along with those aimed at improving productivity and reducing spending as requested by the Minister of Finance.

## THE ACT'S PROVISIONS

The Act provides that administrative operating expenses must be reduced, by the end of fiscal 2013-2014, by at least 10% compared to fiscal 2009-2010. Within this reduction, the Act also requires total advertising, training and travel expenses be reduced by 25% for the fiscal year ending March 31, 2011. Instead, Loto-Québec reduced its advertising, training and travel expenses by 36%, or 11% more than the stipulated objective.

The Corporation achieved a further 21% reduction in its other administrative expenses by reducing expenses for public relations, business relations and publishing, among other things, as well as lowering spending on promotional items and purchases related to the new head office installations.

This enabled Loto-Québec to achieve overall savings of 24% on administrative operating expenses as a whole.

Turning to the remuneration of management personnel, in accordance with the Act, salary scales for the period from April 1, 2010 to March 31, 2011 were increased by 0.5%. Also, performance bonuses for senior executives were reduced by 10 percentage points while payroll expenses relating to bonuses of other executives were reduced by 30%.

# MEASURE TO ASSESS EFFICIENCY AND PERFORMANCE

## BENCHMARKING

As set forth in the Act Respecting the Governance of State-Owned Corporations, the Corporation carried out the measure to assess its efficiency and performance, including benchmarking against similar enterprises as at March 31, 2010.

To perform the benchmarking exercise, the management consulting firm SECOR was selected through a call for tenders. In all, eight Canadian public sector organizations in the games of chance industry were selected to be included in the benchmarking exercise: the British Columbia Lottery Corporation, the Western Canada Lottery Corporation, the Alberta Gaming and Liquor Commission, the Saskatchewan Liquor and Gaming Authority, the Manitoba Lotteries Corporation, the Ontario Lottery and Gaming Corporation, the Atlantic Lottery Corporation and the Nova Scotia Gaming Corporation. For some of these organizations, the exercise had to be carried out solely from publicly available information because they did not provide information deemed confidential.

## RESULTS AND FINDINGS

SECOR noted in its report that the comparison of performance indicators should factor in the particular features of the gaming offering of each of the corporations selected and the differences between their business models. While this diversity has made it difficult to draw conclusions from the comparison of performance indicators, the exercise nevertheless concluded that, considering Loto-Québec's overall strategic directions, the Corporation's level of performance is comparable to that of similar Canadian enterprises.

The exercise revealed that, in recent years, the games of chances offering in Québec and the Atlantic provinces has declined significantly, particularly in the video lottery sector. This situation means that the largest portion of revenues from Loto-Québec and the Atlantic Lottery Corporation stems from the marketing of traditional lotteries. In contrast, Ontario and the Western provinces have opted for a growth strategy for their respective lottery and gaming offerings, mainly in the casino and video lottery sectors.

The report also found that, like Québec, the Canadian lottery and gaming industry has entered a stage of maturity. Actually, in all provinces, gaming expenditures per adult as a percentage of disposable personal income have dropped. Furthermore, in Canada, revenues generated by games of chance operations have risen by only 1.6% since 2003. During this period, revenues generated in the two regions where the gaming offering has decreased, i.e., Québec and the Atlantic provinces, have experienced a slight decline. Gaming revenues in Ontario have remained relatively stable, while those in the Western provinces grew, reflecting the increase in their gaming offerings.

Moreover, the report brought up that Loto-Québec integrates responsible marketing practices into all its activities, and does so to strike a balance between its commercial vocation and its social responsibility. Loto-Québec was also recognized in 2009 by the World Lottery Association, which awarded it the highest level of recognition, Level 4 certification under its Responsible Gaming Framework. Loto-Québec was the first organization in the worldwide games of chance industry to obtain this distinction.

In the coming years, Loto-Québec will continue to perform benchmarking in its various business units to ensure the efficiency of its operations.

# FOLLOW-UP ON THE ACTIONS OUTLINED IN THE 2008-2013 SUSTAINABLE DEVELOPMENT ACTION PLAN

for fiscal 2010-2011

In March 2009, Loto-Québec unveiled its 2008-2013 Sustainable Development Action Plan. In accordance with the stipulations of the Sustainable Development Act, the present Status Report serves as an update on the activities undertaken by the Corporation during fiscal 2010-2011 for each of the 14 actions set forth in the aforementioned Plan.

## ACTIONS 1 TO 4 ARE ALIGNED WITH THE GOVERNMENT'S OBJECTIVE 1

MAKE PEOPLE INCREASINGLY AWARE OF THE SUSTAINABLE DEVELOPMENT CONCEPT AND PRINCIPLES. PROMOTE KNOWLEDGE AND EXPERIENCE SHARING IN THIS AREA AND ASSIMILATE KNOWLEDGE AND KNOW-HOW FACILITATING ITS IMPLEMENTATION

### ACTION 1

#### ORGANIZATIONAL OBJECTIVE

Promote the integration of the concept and principles of sustainable development among employees

ACTION	MEASURES	STATUS
Implement sensitization activities that contribute to the understanding of sustainable development as a concept and the successful realization of Loto-Québec's sustainable development initiative	– Conduct forums and presentations on the theme of sustainable development	Ongoing
	– Organize thematic campaigns and events on subjects related to the Corporation's sustainable development activities	Ongoing
	– Distribute periodic bulletins and structured features via the Corporation's internal communications vehicles	Ongoing

#### INDICATOR

– Percentage of employees reached by the sustainable development awareness activities

#### TARGET

– 80% of employees by 2011

#### 2010-2011 RESULTS

– Employees made aware of sustainable development in an overall proportion of 80.4%  
Information collected by survey in March 2011 from 5,319 respondents

#### ADDITIONAL INFORMATION

A total of 5,319 Loto-Québec employees responded to the survey questions. The calculation methodology is that used by the Ministère du Développement durable, de l'Environnement et des Parcs for the survey on the level of awareness of sustainable development among public administration employees conducted by the Institut de la statistique du Québec.

In light of these results, we consider the target met; this is very satisfactory. Although our efforts have borne fruit, we believe that our work to raise awareness among employees needs to continue.

Various thematic activities were carried out during the year, including:

- Bike Week in May 2010 to promote this means of transport and the infrastructures available in the organization's establishments that facilitate the practice of biking to work;
- An awareness campaign in January 2011 to promote the use of videoconferencing, which was presented as effective, respectful of the environment and cost-effective compared to the inconveniences caused by traveling to business meetings;
- Animated capsule to sensitize employees in an original way to the organization's sustainable development initiative, thereby showing that sustainable development involves much more than simply taking action in support of the environment.

## ACTION 2

### ORGANIZATIONAL OBJECTIVE

Promote integration of the concept and principles of sustainable development among employees

ACTION	MEASURES	STATUS
Implement training initiatives that contribute to the successful realization of the Government's sustainable development training plan	– Develop an internal training program on the different themes related to sustainable development	Ongoing
	– Train employees in targeted sectors on the different themes related to sustainable development	Ongoing

### INDICATOR

- Percentage of employees in the targeted sectors having acquired sufficient knowledge of the sustainable development initiative to take it into account in the course of their regular activities

### TARGET

- 50% of employees in the targeted sectors having acquired sufficient knowledge of the concept in order to take it into account while carrying out their regular activities, by 2013

### 2010-2011 RESULTS

- Three training programs offered throughout the year on:
  - Identifying stakeholders
  - Positioning stakeholders
  - Recovery and sorting of compostable materials
- In total, 187 employees were reached by this training

### ADDITIONAL INFORMATION

The gradual implementation of the stakeholder engagement initiative has led to several coaching workshops on the subject in the casinos, a first within the organization.

The success of the training on composting at the Casinos du Lac-Leamy and the Casino de Mont-Tremblant had a direct impact on surpassing the initial objectives set out in the project to launch a compostable materials recovery program, which is the largest to date in the restaurant and hotel industry in the Outaouais region.

### ACTION 3

#### ORGANIZATIONAL OBJECTIVE

Share and communicate the Corporation's experiences and competencies in the area of sustainable development among stakeholders

ACTION	MEASURES	STATUS
Convey the Corporation's initiatives and accomplishments in the area of sustainable development to external stakeholders	– Publish the progress made by Loto-Québec's sustainable development initiative in the Corporation's Annual Report, including results of the administrative performance indicators and the status of the 2008-2013 Sustainable Development Action Plan	Ongoing
	– Periodically distribute Loto-Québec's <i>Profile of Societal Contributions</i>	Ongoing
	– Present the sustainable development initiative and its accomplishments on the corporate website, in specialized publications, and by way of different forums	Ongoing

#### INDICATOR

- External stakeholders reached with activities related to sustainable development

#### TARGET

- Conduct outreach activities targeting at least four of the following five stakeholder categories: the general public, the business community, sustainable development professionals, the public service and the education community

#### 2010-2011 RESULTS

- Outreach activities targeting four stakeholder categories conducted during the year:
  - Advertising campaign in the newspaper *Métro* in Montréal (general public)
  - Participated in the Salon national de l'environnement (general public)
  - Advertising campaign in the business journal *Les Affaires* (business community)
  - Partnership with Novae and Vision durable (sustainable development professionals)
  - Lectures on Loto-Québec's sustainable development initiative in four Québec universities (education community)

#### ADDITIONAL INFORMATION

Increasingly, our expertise and the results of our sustainable development initiative are being recognized. The Université du Québec à Montréal, Université de Sherbrooke, HEC Montréal and Concordia University are all learning institutions where our department presented its initiative as a leader in the field. Moreover, Loto-Québec gave a lecture at the Forum Tremblant and led a panel of experts at Unisféra's annual gathering of experts in sustainable development, as lead partner. Loto-Québec also participated in the Americana conference, *Développement durable dans les grandes entreprises*, as moderator.

The profile of Loto-Québec's contributions was updated in March 2011.



## ACTION 4

### ORGANIZATIONAL OBJECTIVE

Share and communicate the Corporation's experiences and competencies in the area of sustainable development among stakeholders

ACTION	MEASURES	STATUS
Contribute to improving the responsible management of organizations by sharing the Corporation's experience	– Participate in roundtables aimed at developing tools to promote responsible management of activities within departments and government agencies	Ongoing
	– Present the Corporation's accomplishments to other departments and government agencies via different forums in order to promote their engagement in a sustainable development initiative	Ongoing

### INDICATOR

- Projects in which the Corporation participates

### TARGET

- The Corporation hopes to integrate at least one work group each year in response to the needs of the Ministère du Développement durable, de l'Environnement et des Parcs and other organizations

### 2010-2011 RESULTS

- Ongoing participation of the Corporation in three work groups on sensitization and training, responsible procurement and responsible financing within the Ministère du Développement durable, de l'Environnement et des Parcs, as well as the roundtable Espace québécois de concertation sur les pratiques d'approvisionnement responsable (ECPAR)
- Inclusion on the Sustainable Development Committee of the Conseil patronal de l'environnement du Québec and the Conseil québécois de la communication pour le développement durable

### ADDITIONAL INFORMATION

The establishment of the Conseil québécois de la communication pour le développement durable is a major new development in this field. The creation of a common language within the communications industry will enable greater familiarity with the concept of sustainable development in the general public. In addition, the Université d'été de la communication pour le développement durable brought together experts in the field to create a venue conducive to advancing this practice.

## ACTIONS 5 AND 6 ARE ALIGNED WITH THE GOVERNMENT'S OBJECTIVE 4

CONTINUE DEVELOPING AND PROMOTING A CULTURE OF PREVENTION AND DEFINE CONDITIONS TO IMPROVE HEALTH, SAFETY AND THE ENVIRONMENT

### ACTION 5

#### ORGANIZATIONAL OBJECTIVE

Obtain and maintain the World Lottery Association's responsible gaming certification

ACTION	MEASURES	STATUS
Undertake initiatives to promote responsible gaming behaviour among clients and employees of Loto-Québec and its subsidiaries in accordance with the World Lottery Association's certification criteria	– Structure internal and external initiatives and programs focused on the responsible gaming offered at the Corporation's establishments	Ongoing
	– Systematically sensitize Loto-Québec employees to responsible gaming	Ongoing

#### INDICATORS

- World Lottery Association responsible gaming certification status
- Percentage of employees sensitized

#### TARGETS

- Obtaining and maintaining World Lottery Association Level 4 certification
- 100% of employees sensitized

#### 2010-2011 RESULTS

- Maintaining World Lottery Association Level 4 certification
- Loto-Québec employees sensitized in a proportion of 87.2% via responsible gaming training as at March 31, 2011

#### ADDITIONAL INFORMATION

The proportion of sensitized employees has grown significantly over the past year as shown in the table below.

In addition, a follow-up workshop was created during the year for employees who had attended the initial sensitization training.

#### PROPORTION OF SENSITIZED EMPLOYEES (AS AT MARCH 31)

76.2% 2009	76.7% 2010	87.2% 2011
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## ACTION 6

### ORGANIZATIONAL OBJECTIVE

Promote prevention and conditions favourable to maintaining good health through the implementation of a “health culture” within the Corporation

ACTION	MEASURES	STATUS
Offer the <i>Take Care of Your Health!</i> program aimed at promoting good life habits among Loto-Québec employees	– Promote employee participation in the program	Ongoing
	– Organize forums and activities related to the different program themes	Ongoing

### INDICATOR

- State of progress of program activities

### TARGET

- Respect the initial timetable

### 2010-2011 RESULTS

- *Take Care of Your Health!* program:
  - Implementation of the following steps:
    - step 6 for SCQ employees located at head office
    - steps 5 and 6 for the Casino de Charlevoix
    - step 4 for the Casino du Lac-Leamy
    - step 2 for the Casino de Montréal
    - steps 4 and 5 for the Loto-Québec corporate units and the other business units (SBQ, SLVQ and Ingenio)

### ADDITIONAL INFORMATION

The program was fully implemented for the SCQ employees located at head office and those at the Casino de Charlevoix. It continues in the other corporate and business units. The Casino du Lac-Leamy is still one semester behind schedule due to operational constraints. Longer delays have occurred at the Casino de Montréal because of the lack of available venues caused by the substantial renovations on the building.

## ACTION 7 IS ALIGNED WITH THE GOVERNMENT'S OBJECTIVE 6

APPLY ENVIRONMENTAL MANAGEMENT MEASURES AND AN ECORESPONSIBLE PROCUREMENT POLICY TO DEPARTMENTS AND GOVERNMENT AGENCIES

### ACTION 7.1

#### ORGANIZATIONAL OBJECTIVE

Assure the application of the policy for an ecoresponsible government's measures within the Corporation

ACTION	MEASURES	STATUS
Implement practices and activities that contribute to meeting the provisions of the policy for an ecoresponsible government  <i>Deploy the responsible procurement initiative</i>	– Take sustainable development principles into account as part of the procurement process	Ongoing
	– Develop decision-making support tools for procurement personnel and their internal customers	Ongoing
	– Train procurement personnel and their internal customers about sustainable development principles	Ongoing
	– Sensitize suppliers to the responsible procurement practices applied within the Corporation	To be implemented

#### INDICATOR

- State of progress of the responsible procurement initiative

#### TARGET

- 100% of the responsible procurement initiative realized by 2013

#### 2010-2011 RESULTS

- Successful application of 33.6% of the initiative

#### ADDITIONAL INFORMATION

Loto-Québec is actively involved in the Espace québécois de concertation sur les pratiques d'approvisionnement responsables (ECPAR), where its representatives coordinate the Performance et mise en œuvre subcommittee, and are members of the Fiches techniques and Coordonnateur subcommittees. They also participate in the round table on responsible procurement through the Ministère du Développement durable, de l'Environnement et des Parcs.

## ACTION 7.2

### ORGANIZATIONAL OBJECTIVE

Assure the application of the policy for an ecoresponsible government's measures within the Corporation

ACTION	MEASURES	STATUS
Implement practices and activities that contribute to meeting the provisions of the policy for an ecoresponsible government  <i>Structure the environmental management system for the Corporation's infrastructures</i>	– Obtain, maintain and update the certifications related to the various building environmental management programs for all assets, aiming for continuous improvement and exemplary performance	Ongoing
	– Develop and implement energy saving programs for all establishments	Ongoing
	– Develop and implement water saving programs for all establishments	Ongoing
	– Develop and implement a program to reduce the quantity of landfill waste at all establishments	Ongoing

### INDICATORS

- Certifications for the different establishments
- Average energy efficiency of Loto-Québec buildings
- Rate of reduction of water consumption
- Reclamation rate of potentially recoverable residual materials

### TARGETS

- Obtain and maintain up-to-date certification for all corporate establishments
- Increase the energy efficiency of buildings by 10% in 2009-2010 from the 2006-2007 baseline
- Reduction of water consumption in 2012-2013 over the reference year 2009-2010; the percentage reduction will be made following water consumption audits
- Reclaim 80% of potentially recoverable residual materials in 2013

### 2010-2011 RESULTS

- 13 of a total of 14 establishments certified BOMA BEST as at March 31, 2011
- Increase of 6.6% in the average energy efficiency of buildings in 2009-2010 over 2006-2007
- Reduction of water consumption by 4.4% in 2010-2011 over 2009-2010
- Average reclamation rate of 47.0% of potentially recoverable residual materials in 2010

### ADDITIONAL INFORMATION

The Casino de Mont-Tremblant was certified BOMA BEST level 3 in November 2010 and the Au pays des anges ECC (Early Childhood Centre) should receive the same certification before the end of 2011.

The increase in average energy efficiency of buildings is less than the 10% target; some energy efficiency projects at the Casino de Montréal had to be postponed as they will be carried out through the renovations on the building. The addition of computer equipment at head office and the computer center and the addition of gaming equipment at the Casino de Charlevoix also resulted in additional energy requirements for operating and cooling this equipment.

The decrease in average water consumption is mainly attributable to the replacement of some cooling equipment at head office and a decrease in demand at the Casino de Montréal.

The improved performance in terms of recoverable residual materials is largely due to increased recovery in the casinos and the launch of a compostable materials recovery program at the Casino du Lac-Leamy at the end of the year.

### AVERAGE RECLAMATION RATE OF POTENTIALLY RECOVERABLE RESIDUAL MATERIALS

43.5%  
2009

47.0%  
2010

### ACTION 7.3

#### ORGANIZATIONAL OBJECTIVE

Assure the application of the policy for an ecoresponsible government's measures within the Corporation

ACTION	MEASURES	STATUS
Implement practices and activities that contribute to meeting the provisions of the policy for an ecoresponsible government	– Institute a system for measuring the Corporation's transportation-related GHG emissions	Ongoing
	– Minimize the GHG emissions related to business travel and employee transportation	Ongoing
<i>Implement a greenhouse gas (GHG) emissions reduction plan</i>	– Launch initiatives to promote the reduction of GHG emissions related to business travel and employee transportation	To be implemented

#### INDICATORS

- Calculation of GHG emissions related to business travel and the transportation of the Corporation's employees (equivalent tons of CO<sub>2</sub>)
- Review of initiatives implemented by the Corporation related to business travel and employee transportation
- Review of transportation habits within the Corporation

#### TARGETS

- Reduction of GHG emissions related to business travel and employee transportation from 2008 to 2013
- Annual publication of the reviews

#### 2010-2011 RESULTS

- Publication of a review of business travel by employees of Loto-Québec and its subsidiaries

#### ADDITIONAL INFORMATION

The Corporation appointed the firm Voyagez Futé to compile accessibility profiles of the facilities at head office, the CMLQ, the Pierre-de-Coubertin building, the Québec City office, the Québec City and Trois-Rivières gaming halls, and in the casinos. This analysis made it possible to identify both the potential and the limitations in promoting alternatives to single passenger vehicle commuting, and to determine the appropriate courses of action that could contribute to implementing coherent measures in a transportation plan.

The analysis of the Corporation's transportation practices is ongoing. The drafting of a transportation plan and targets for reducing greenhouse gas emissions will be completed by the end of 2011.

## ACTION 7.4

### ORGANIZATIONAL OBJECTIVE

Assure the application of the policy for an ecoresponsible government's measures within the Corporation

ACTION	MEASURES	STATUS
Implement practices and activities that contribute to meeting the provisions of the policy for an ecoresponsible government  <i>Structure the responsible management of events at Loto-Québec</i>	– Establish a profile of practices for the internal and external events organized by the Corporation	Ongoing
	– Progressively integrate responsible practices into the management of events	Ongoing
	– Implement an information gathering system and follow up on event performance	Ongoing
	– Develop appropriate tools to facilitate responsible event management	Ongoing

### INDICATOR

- Percentage of events organized by the Corporation that respect responsible management principles

### TARGET

- To reach or exceed the minimum threshold of sustainability in 80% of events during 2013

### 2010-2011 RESULTS

- Calculation of the indicator not yet initiated

### ADDITIONAL INFORMATION

Loto-Québec received BNQ 9700-253 certification on the Sustainable Development – Responsible Event Management Standard.

Two events complying with BNQ 9700-253 were organized: the BBQ held for Loto-Québec employees and the Sponsorship Team's 2011 Partners Meeting.

An iPad application was developed to calculate the GHG emissions of participants in an event. This app is available on the Loto-Québec website.

## ACTION 8 IS ALIGNED WITH THE GOVERNMENT'S OBJECTIVE 9

APPLY MORE ECO-CONDITIONALITY AND SOCIAL ACCOUNTABILITY IN PUBLIC ASSISTANCE PROGRAMS AND ENCOURAGE THEIR IMPLEMENTATION IN FINANCIAL INSTITUTIONS' PROGRAMS

### ACTION 8

#### ORGANIZATIONAL OBJECTIVE

Enhance the event sponsorship and sponsored public event promotion program with a sustainable development approach

ACTION	MEASURES	STATUS
Implement initiatives aimed at taking sustainable development principles into account in the event sponsorship and sponsored event promotion program	– Sensitize event organizers and prompt them to adopt responsible management practices	Ongoing
	– Integrate sponsored event selection criteria that take responsible practices in line with sustainable development into account	Ongoing

#### INDICATOR

– Score obtained by sponsored events on questions related to sustainable development in the post-event report

#### TARGET

– To reach or exceed the minimum threshold of sustainability in 80% of events in 2013

#### 2010-2011 RESULTS

– 48.1% of sponsored events reached or exceeded the minimum threshold of sustainability

#### ADDITIONAL INFORMATION

For a first year during which event performance was measured based on the threshold of sustainability, the results are very encouraging. The methodology is based on recognized standards, such as the new BNQ 9700-253 standard, and the threshold is based on an analysis of best practices in event management in Québec.

The annual meeting of the promoters was held for the fifth year. At it, Loto-Québec introduced the iPad application that it has made available free of charge to allow event organizers to calculate GHG emissions related to transporting visitors. Other presentations on responsible event management have also raised awareness among some 143 participants, who represented 88 events.

A charter was signed committing event partners and sponsors to sustainable development, the Charte d'engagement envers le développement durable des partenaires et commanditaires d'événements of the Conseil québécois des événements écoresponsables.



## ACTION 9 IS ALIGNED WITH THE GOVERNMENT'S OBJECTIVE 16

INCREASE PRODUCTIVITY AND THE QUALITY OF JOBS THROUGH ECOLOGICALLY AND SOCIALLY RESPONSIBLE MEASURES

### ACTION 9

#### ORGANIZATIONAL OBJECTIVE

Increase the efficiency of the Corporation's human resources by promoting employee mobilization

ACTION	MEASURES	STATUS
Implement an employee mobilization initiative that promotes quality of life in the workplace	– Periodically conduct a survey to measure the Corporation's mobilization index	Ongoing
	– Implement the action plans developed by the Corporation's employee mobilization committees	Ongoing
	– Implement corporate initiatives to promote employee mobilization	Ongoing

#### INDICATOR

- Employee mobilization index

#### TARGET

- Maintain or increase the mobilization index in accordance with established objectives

#### 2010-2011 RESULTS

- The objectives were met

## ACTIONS 10 AND 11 ARE ALIGNED WITH THE GOVERNMENT'S OBJECTIVE 17

KEEP PUBLIC FINANCES HEALTHY FOR THE GENERATIONS TO COME

### ACTION 10

#### ORGANIZATIONAL OBJECTIVE

Optimize economic spin-offs for Québec society while taking sustainable development into account

ACTION	MEASURES	STATUS
Channel games of chance into controlled venues featuring legal, competitive and secure game offerings	– Manage the online gaming offering	Ongoing
	– Carry out a pilot project through the Société des bingos du Québec that could represent a new revenue stream	Ongoing

#### INDICATORS

- Launch date of the online gaming platform
- Annual contributions paid to NPOs

#### TARGETS

- Launch an online marketing platform for gaming by the end of 2010
- Maintain an average annual contribution of \$10 million to NPOs

#### 2010-2011 RESULTS

- Launch of the espacejeux.com online platform for gaming on December 1, 2010
- Total contribution of \$5,945,000 paid by the SBQ to NPOs

#### ADDITIONAL INFORMATION

More details on the initiatives planned to bring the contribution paid to NPOs to the average historic levels can be found in the section of the annual report on the SBQ, which begins on page 26.

## ACTION 11

### ORGANIZATIONAL OBJECTIVE

Optimize economic spin-offs for Québec society while taking sustainable development into account

ACTION	MEASURES	STATUS
Increase the Corporation's overall efficiency and performance so as to establish and maintain its position as a leader in responsible commercialization	– Improve the efficiency of activities, including day-to-day application of best governance and management practices as part of business decision-making	Ongoing
	– Develop new income-generating sources outside Québec by remaining alert to business development opportunities that build on the competitive advantage of the Corporation's expertise and know-how in the various gaming sectors	Ongoing

### INDICATOR

- Percentage of the net profit margin

### TARGET

- Maintain the net profit margin percentage in accordance with the Corporation's development strategy

### 2010-2011 RESULTS

- Loto-Québec met the objective set out in its 2010-2013 Strategic Plan, which was to maintain its net profit margin at 35.2%

## ACTIONS 12 AND 13 ARE ALIGNED WITH THE GOVERNMENT'S OBJECTIVE 21

### STEP UP CONSERVATION AND DEVELOPMENT OF THE CULTURAL AND SCIENTIFIC HERITAGE

#### ACTION 12

##### ORGANIZATIONAL OBJECTIVE

Contribute to the preservation and promotion of Québec's cultural heritage

ACTION	MEASURES	STATUS
Consolidate the program for the acquisition and circulation of the work of Québec artists	– Program and run a series of exhibitions at the Espace Création Loto-Québec gallery each year aimed at showcasing and promoting the province's cultural heritage	Ongoing
	– Assure the development of the Collection Loto-Québec and the circulation and promotion of the work of Québec artists	Ongoing
	– Develop and run special exhibitions and events in the various regions of the province to promote public awareness and appreciation of cultural heritage	Ongoing
	– Measure visitors' level of appreciation	Ongoing

##### INDICATORS

- Amount allocated to the acquisition of contemporary artworks created by Québec artists
- Number of events held annually

##### TARGETS

- Allocate 1/100<sup>th</sup> of 1% of the Corporation's revenues to the acquisition of artwork
- Five annual events, including exhibitions at Espace Création Loto-Québec, exhibit-sales and tours

##### 2010-2011 RESULTS

- Acquisition of 154 new works for a total of close to \$0.4 million, which corresponds to 1/100<sup>th</sup> of 1% of the Corporation's revenues
- Organization of twelve events: three Collection exhibitions at Espace Création Loto-Québec and nine regional tours

##### ADDITIONAL INFORMATION

More than 27,935 people visited the exhibitions at Espace Création and on tour.

### ACTION 13

#### ORGANIZATIONAL OBJECTIVE

Contribute to supporting up and coming talents and the circulation of their creations

ACTION	MEASURES	STATUS
Implement the support program for the new wave of professional performing artists	– Offer financial support to the new wave of professional performing artists	Ongoing
	– Organize events to facilitate the presentation of works by the new wave of professional performing artists	Ongoing

#### INDICATORS

- Number of artists selected for a tour across Québec
- Number of spectators reached by this tour

#### TARGETS

- Four artists selected annually
- 6,200 spectators reached during each annual tour

#### 2010-2011 RESULTS

- Five artists selected in 2009-2010 for a province-wide tour from June 2010 to May 2011
- 17,122 spectators reached during the tour from June 2009 to May 2010

## ACTION 14 IS ALIGNED WITH THE GOVERNMENT'S OBJECTIVE 25

### INCREASE CITIZENS' INVOLVEMENT IN DECISION-MAKING

#### ACTION 14

##### ORGANIZATIONAL OBJECTIVE

Cultivate the Corporation's relations with its stakeholders

ACTION	MEASURES	STATUS
Implement new initiatives to promote dialogue with stakeholders	– Review and analyze the Corporation's practices related to sustainable development with its stakeholders	Ongoing
	– Implement initiatives aimed at consolidating relations with the various stakeholders	Initiated
	– Monitor, control and measure the initiatives undertaken to consolidate relations with stakeholders	To be implemented

##### INDICATOR

- Frequency and levels of communication with the various stakeholders

##### TARGET

- Target to be established after conducting the review and analysis of the practices in place

##### 2010-2011 RESULTS

- Continuation of the review and analysis of the practices in place

##### ADDITIONAL INFORMATION

The SCQ embarked on a structured process of stakeholder engagement during the year. The first two steps, identifying stakeholders and positioning stakeholders, were carried out for each of the casinos and the entire organization. The implementation of a similar process in the other business units and at the corporate level is currently under study.

##### GOVERNMENT OBJECTIVES NOT INCLUDED

For the Government objectives not included in the 2008-2013 Sustainable Development Action Plan, refer to Appendix 2 of the present document at [lotoquebec.com](http://lotoquebec.com).

# ACTION PLAN IMPLEMENTED FOLLOWING THE RECOMMENDATIONS OF THE SUSTAINABLE DEVELOPMENT COMMISSIONER OF QUÉBEC

For its 2009-2010 report, the Sustainable Development Commissioner audited the development of action plans of certain organizations, including Loto-Québec. The Corporation has implemented an action plan to address the Commissioner's recommendations. The following table presents the recommendations and actions planned by the Corporation, and how they are progressing.

RECOMMENDATION*	ACTION PLANNED	TARGET DATE	STATE OF PROGRESS
Conduct a detailed and documented analysis of the objectives related to the government strategy so as to better contribute to their achievement.	– Update the files in Loto-Québec's Follow-up on the Actions Outlined in the 2008-2013 Sustainable Development Action Plan to ensure that the plan contributes to the government strategy's objectives.	Every year until 2013	An initial update was made in spring 2010
Adopt the mechanisms and tools necessary to take into account the principles of the Sustainable Development Act in its main activities.	– Adapt the tools from the MDDEP's sustainable development coordination office to take into account the 16 principles of the Act in the Loto-Québec context.	Completed	Creation of the <i>Guide pour la prise en compte des principes de développement durable</i> and the tool <i>En route vers un développement durable</i> .
	– Integrate taking account of the Act's 16 principles as part of the annual strategic planning process.	December 2011	About 35 managers responsible for strategic planning for their unit or subsidiary received training in fall 2009 on how to better take into account the principles of sustainable development as part of their 2010-2011 annual strategic planning exercise. Similar training is planned for fall 2011.
	– Present the Act's 16 principles in a training module on sustainable development aimed at all managers.	September 2011	The Corporation is planning online training in sustainable development for Loto-Québec managers, which would be available in spring 2011.

\* The recommendations issued by the Sustainable Development Commissioner are intended for Loto-Québec and the following five other organizations:

- The Centre de services partagés du Québec;
- The Financière agricole du Québec;
- The Ministère de l'Agriculture, des Pêcheries et de l'Alimentation;
- The Ministère de l'Éducation, du Loisir et du Sport;
- The Secrétariat du Conseil du trésor.

# CODE OF ETHICS AND RULES OF PROFESSIONAL CONDUCT FOR DIRECTORS AND MANAGERS OF LOTO-QUÉBEC AND ITS SUBSIDIARIES

## PREAMBLE

Whereas the members of the Board of Directors are required to have a code of ethics and rules of professional conduct that respects the principles and rules prescribed by the *Regulation Respecting the Ethics and Professional Conduct of Public Office Holders* (hereinafter referred to as the “Regulation”) adopted in accordance with the *Act Respecting the Ministère du Conseil exécutif* (R.S.Q. c. M-30, a. 3.01 and 3.02; 1997, c.6, a. 1) (hereinafter referred to as the “Act”);

Whereas the Act and the Regulation prescribe certain ethical principles and rules of professional conduct that apply to Directors (contained in Appendix 1 of present Code);

Whereas the members of the Board of Directors wish to provide the Corporation with its own Code of Ethics and Rules of Professional Conduct;

The members of the Board of Directors have adopted the following Code of Ethics and Rules of Professional Conduct.

## 1. DEFINITIONS

In the present Code, unless a different meaning is indicated by context, the terms below are defined as follows:

- a) “Act”: the *Act Respecting the Québec Lottery Corporation* (L.R.Q., c. S-13.1), as amended and modified from time to time.
- b) “Board”: the Board of Directors of the Corporation or of one of its subsidiaries.
- c) “Code”: this Code of Ethics and Rules of Professional Conduct for Directors and Managers of Loto-Québec and its subsidiaries.
- d) “Committee”: the Board’s Governance and Ethics Committee, as prescribed by the *Act Respecting the Governance of State-Owned Enterprises*.
- e) “Confidential information”: all information concerning the Corporation, trends in an industry or sector, or any and all information of a strategic nature that is not known to the public and that, if known by a person who is not a Director or a Manager, would be liable to give the person an advantage or compromise an operation in which the Corporation participates.
- f) “Conflict of interest”: any real, perceived, potential or eventual situation in which Directors or Managers may be prompted to favour a person (including themselves and any related persons) to the detriment of another. Any situation that could be prejudicial to the loyalty, integrity or judgement of a Director or Manager is also subject to the present definition.
- g) “Contract”: a draft agreement.
- h) “Control”: direct or indirect ownership by a person of securities, including partnership shares, that confer more than 50% of voting or shareholder rights and that does not depend on a special event having occurred and allows for the election of a majority of Directors.
- i) “Corporation”: Loto-Québec.
- j) “Director”: a member of the Board of Directors who does or does not occupy a full-time position at Loto-Québec or one of its subsidiaries.
- k) “Enterprise”: any form of organization for the production of goods or services, or any other business of a commercial, industrial or financial nature, and any group intended to promote specific securities, specific interests or specific opinions or influence public authorities. However, this does not include the Corporation or associations or non-profit groups with no financial relationship to the Corporation or no incompatibility with its objectives.
- l) “Manager”: with respect to the Corporation, any contract executive whose conditions of employment are subject to approval by the Board.
- m) “Related enterprise”: any body corporate or company in which the Corporation directly or indirectly holds securities, including shares, conferring more than 10% voting or shareholder rights.



n) "Related persons": persons who are related to Directors or Managers via:

- i. blood
- ii. marriage
- iii. civil union
- iv. common-law marriage
- v. adoption

For the purposes of the present Code, the following persons are also deemed to be related:

- vi. the child of a person defined in sections ii to iv
- vii. any member of the immediate family living under the same roof
- viii. any person with whom a Director or Manager is associated, or the partnership with which either may be associated
- ix. a body corporate in which the Director or Manager directly or indirectly holds 10% or more of any category of voting shares
- x. a body corporate controlled by a Director or Manager or a person defined in sections i through iv and vi, or by a group of such persons acting jointly
- xi. any person that a Director or Manager may be prompted to give preference to because of his relationship to that person or to a third party, or because of his status, title or any other reason.

o) "Spouse": husbands and wives, as well as persons living together maritally for more than one year.

p) "Subsidiary": any company wholly owned by the Corporation.

## 2. GENERAL PROVISIONS

- 2.1 The present Code is intended to maintain and strengthen public trust with respect to the integrity and impartiality of the Corporation's administration, encourage transparency within the Corporation, and to instil a sense of responsibility in its Directors and its Managers.
- 2.2 The present Code is also intended to establish ethical principles and rules of professional conduct for the Corporation. The ethical principles take into account the Corporation's mission, the values on which its actions are based, and its general principles of management. The rules of professional conduct relate to the duties and obligations of Directors and of Managers, clarifying and illustrating them in an indicative manner.
- 2.3 The present Code is applicable to Directors and to Managers of the Corporation and its subsidiaries, all of whom are required to respect its provisions.
- 2.4 The present Code has been established in accordance with the Act, the Corporation's internal governance regulation and the Regulation. It reflects and, as applicable, completes the provisions of the aforementioned.
- 2.5 The Board approves the present Code upon the recommendation of the Committee, which is responsible for its review.
- 2.6 In the context of the present Code, the prohibition of an act includes the attempt to commit the act and participation in or inducement to commit the act.
- 2.7 The Corporation shall take all necessary measures to ensure the confidentiality of information provided by Directors and Managers in conjunction with the application of the present Code.

### 3. ETHICAL PRINCIPLES AND GENERAL RULES OF PROFESSIONAL CONDUCT

- 3.1 Directors or Managers are appointed to contribute to the fulfilment of the Corporation's mission in the best interests of Québec. As such, they must employ their knowledge, capabilities, experience and integrity for the efficient, equitable and effective attainment of the objectives assigned to the Corporation by law and for the proper administration of the assets it possesses as a Government agent.

Their contribution must be made in accordance with the law and with honesty, loyalty, prudence, diligence, efficiency, rigour and fairness.

- 3.2 In discharging their duties, Directors are required to respect the ethical principles and rules of professional conduct prescribed by the Act and the Regulation that constitute an integral part of this Code, as applicable, as well as those stipulated in the present Code. Managers are also required to respect these rules to the extent that they apply to them. In case of discrepancy, the strictest principles and rules are deemed to apply.

In case of any doubt, Directors and Managers are to act in accordance with the spirit of these principles and rules. Directors and Managers who serve as Directors or Managers or are members of another organization or enterprise at the request of the Corporation are bound by the same obligations.

Subject to their obligations of confidentiality, honesty, loyalty and, generally speaking, to obligations of a similar nature in accordance with the Act and Code of Ethics of any organization or enterprise in which Directors or Managers exercise functions at the request of the Corporation, such Directors or Managers are required to inform the Corporation of any question brought up on the agenda of a meeting of the Board of Directors of such organizations or enterprises that may have a significant impact on the finances, reputation or operations of the Corporation. They are required to inform the Corporation within a reasonable delay and prior to any vote by Directors on such matters.

- 3.3 Directors and Managers are required to collaborate with the Chairman of the Board or the Committee on questions of ethics or professional conduct whenever asked to do so.

- 3.4 In exercising their functions, Directors and Managers are required to keep their knowledge current and employ independent professional judgement in the best interests of the Corporation.

They are required to be familiar with, promote the respect of, and conform to the present Code, applicable laws and regulations, and policies, directives and rules as set forth by the Corporation. They are also required to keep themselves informed as to the economic, social and political climate in which the Corporation acts.

- 3.5 Directors and Managers are required to maintain relations with all persons and with the Corporation based on respect, cooperation and professionalism.

- 3.6 Directors and Managers shall make decisions in a manner so as to ensure and maintain the relationship of trust with clients, suppliers and partners of the Corporation, as well as with the Government.

- 3.7 In exercising their functions, Directors and Managers must respect the Corporation's mission and the following objectives:

- Minimize the social costs associated with games of chance and adopt new measures to combat compulsive gambling
- Increase the Corporation's efficiency and general performance so as to maintain the level of net profits remitted annually to the Government
- Work in collaboration with sector stakeholders to contribute to the development and success of the tourism industry
- Refrain from increasing overall game offerings

- 3.8 Directors and Managers may not, either directly or indirectly, offer, solicit or accept an undue favour or benefit for themselves or any persons related to a Director or Manager or a third party, nor can they accept any gift, any hospitality or any benefit other than what is customary and of modest value. Any gift, any hospitality or any benefit that does not correspond to these criteria must be returned to the donor or to the State.

## CODE OF ETHICS AND RULES OF PROFESSIONAL CONDUCT

- 3.9 Door prizes in excess of \$100 won by any Directors or Managers must be returned to the event organizers if the Corporation has paid event participation costs. Persons accompanying Directors or Managers in such cases are subject to the same rule.
- 3.10 In carrying out their functions, Directors and Managers must seek to defend only the Corporation's interests, to the exclusion of their own or those of a third party.
- 3.11 Directors and Managers shall not undertake any obligations to third parties nor afford them any guarantees with respect to any vote that they may be called upon to participate in or any decision whatsoever that the Board may be called upon to render.
- 3.12 A vote by a Director that is in violation of the provisions of the present Code or that is lodged while the Director is in default with respect to the production of the declaration mentioned in section 4.11 may not be considered a deciding vote.
- 3.13 Directors or Managers who assume responsibilities in other entities may occasionally find themselves in situations of conflict of interest. Whenever the present Code does not provide for the specific situation, they must determine whether their actions meet the behavioural standard the Corporation may reasonably expect in such circumstances. They must also determine if a reasonably informed person would conclude that their interests in the other entity are liable to influence their decisions and affect their objectivity and impartiality when discharging their duties to the Corporation.
- 3.14 Within a reasonable delay of assuming their position, Directors and Managers are required to organize their personal affairs so as not to prejudice the exercise of their functions and avoid incompatibility or conflict of interest between their personal interests and the duties of their position. As applicable, they are required to take all necessary measures in order to comply with the provisions of the present Code.
- 3.15 Directors and Managers may not mix the Corporation's assets with their own. They may not utilize the Corporation's assets or confidential information received in the course of carrying out their functions for personal or third party profit. These obligations remain in effect even after they have ceased to occupy their functions.
- 3.16 Directors and Managers are bound by discretion with respect to all confidential information to which they are party in the exercise of their functions and are required to respect the confidential nature of information received at all times. Furthermore, Board deliberations, positions held by, and votes taken by its members are confidential.
- 3.17 Directors and Managers are required to respect any and all restrictions and apply protective measures with regard to confidential information as follows:
- They must only convey confidential information to authorized persons.
  - If they use a system of electronic mail, they must comply with all practices and directives issued or approved by the Corporation regarding the storage, use and transmission of information by this system. They must not forward confidential information received from the Corporation via this system to anyone.
  - They are responsible for taking measures to protect the confidentiality of information to which they have access. These measures include:
    - not allowing documents containing confidential information to be casually seen by third parties or unauthorized employees
    - taking appropriate measures to ensure the physical protection of documents
    - avoiding discussions in public that could reveal confidential information
    - identifying documents that may circulate as containing confidential information that must be treated as such
    - discarding any and all confidential documents using appropriate means (shredding, archiving, etc.) whenever they are no longer necessary for the execution of their mandate as Directors or Managers

- 3.18 While exercising their functions, Directors and Managers may not have dealings with any persons that have ceased being a Director or Manager of the Corporation for less than one year if such persons are acting on behalf of another party with respect to a procedure, negotiation or any other operation to which the Corporation is party and about which such persons possess information that is not publicly available.
- 3.19 Once no longer exercising their functions, no Director or Manager may disclose any confidential information received, or provide anyone with advice based on confidential information unavailable to the public concerning the Corporation or any other organization or enterprise with which they had direct and substantial relations during the year preceding the date on which their functions were terminated. During the course of the 12 months following this date, they are prohibited from acting on or on behalf of others relative to any procedure, negotiation or other operation to which the Corporation is party and about which they possess confidential information not available to the public.
- 3.20 Directors or Managers who intend to become electoral candidates are required to inform the Chairman of the Board of their intention.
- If the Chairman of the Board or the Chief Executive Officer has such intentions, they must so inform the Secretary General of the Executive Committee.
- 3.21 In exercising their functions, Directors and Managers must make decisions independently of all partisan considerations.

#### 4. DUTIES AND OBLIGATIONS OF DIRECTORS AND OF MANAGERS WITH RESPECT TO CONFLICTS OF INTEREST

##### Prevention of conflicts of interest

- 4.1 Directors and Managers must avoid placing themselves in situations of conflict between their personal interests and their official duties, or in situations that may cast reasonable doubt as to their ability to discharge their duties with uncompromised loyalty.
- Directors and Managers must avoid situations in which they or related persons could profit directly or indirectly from a contract signed by the Corporation or by influencing decisions taken by them in accordance with their official functions within the Corporation.
- Full-time Directors or Managers of the Corporation or of any of its subsidiaries are also required to avoid taking positions or being bound by engagements that may prevent them from fully giving their duties the time and attention that would normally be required.
- Other Directors are required to ensure that they are able to devote the appropriate time and attention to the exercise of their functions reasonably required in the circumstances.
- 4.2 Directors and Managers with full-time duties within the Corporation may not possess direct or indirect interests in an organization, enterprise or association that create a conflict between their personal interests and the interests of the Corporation. If they do, they may be subject to dismissal. However, such dismissal shall not take place if the interest accrues through an inheritance or gift that is diligently renounced or disposed of. In the interval, sections 4.5, 4.6, 4.8 and 4.11 shall apply.
- All other Directors holding interests in an enterprise must comply with sections 4.5, 4.6, 4.8 and 4.11. Failure to do so may make them subject to dismissal.
- 4.3 In order to be deemed independent, Directors may not:
- be or have been (during the three years preceding the date of their nomination) employed by the Corporation or be related to a person described in section k) that has been so employed
  - be employed by the Government, a Government agency, or a Government enterprise within the meaning of sections 4 and 5 of the *Auditor General Act* (R.S.Q. c. V-5.01)
  - have any relations as determined by the Government under section 5 of the act respecting governance of public corporations.

Upon assuming their position, and annually thereafter, Directors must declare to the Committee the existence or absence of relations described in the preceding first and second paragraphs. They are also required to declare any changes to their declaration as soon as they become aware of such changes.

- 4.4 Directors and Managers of the Corporation who are also Directors or Managers of a related enterprise are required to be specifically authorized by the controlling shareholder or shareholders of the enterprise to:
- hold shares, partnership equity, any other share or any other security issued by the related enterprise that confers voting rights or interest with respect to the related enterprise, or any and all options for subscription or purchase rights concerning such shares, partnership equity, securities or interests
  - benefit from any profit-sharing plan, unless the Directors or Managers are engaged full-time within the related enterprise and the profit-sharing plan is directly related to the individual performance of the Directors or Managers within the related enterprise
  - benefit from a retirement plan offered by the related enterprise if they are not full-time Directors or Managers of the related enterprise
  - benefit from any and all advantages extended in advance in case of a change in control of the related enterprise.

**Renunciation and abstention**

- 4.5 Directors or Managers who:
- a) are party to a contract with the Corporation or a subsidiary, or
  - b) who possess a direct or indirect interest in an enterprise that is party to a contract with the Corporation or a subsidiary, or are Directors, Managers or employees of this enterprise are required to disclose the nature and scope of their interest in writing to the Chairman of the Board.

The same applies for Directors or Managers who have a direct or indirect interest in matters taken up by the Board.

Directors or Managers must abstain at all times from communicating any information whatsoever regarding such contract or interest to any and all employees, Managers or Directors of the Corporation.

Directors must abstain from deliberation and voting on any question related to such interest and avoid any attempts to influence related decisions. They must also excuse themselves from meetings for the duration of deliberations and voting on such matters. Any such exclusion must appear in the minutes of the Board meeting.

- 4.6 In the case of a Director, disclosure required under section 4.5 must occur during the first meeting:
- a) at which the contract or matter of concern is being discussed
  - b) subsequent to when Directors with no previous interest in the contract or matter acquire such interest
  - c) subsequent to when Directors acquire an interest in an already concluded contract
  - d) subsequent to when any and all persons with an interest in the contract or matter under study become Directors

- 4.7 Managers who are not also Directors must offer the required disclosure under section 4.5 immediately after:

- having learned that the contract or matter of interest was or will be discussed during a meeting
- having acquired an interest, if subsequent to the conclusion of the contract or decision involved
- having become a Manager, if subsequent to the acquisition of such interest

Managers may not attempt to influence decisions made by Directors in any way.

- 4.8 Directors and Managers must make the disclosure required under section 4.5 as soon as they have any knowledge of a contract that falls within the bounds of this section and that, in the normal course of the Corporation's business, does not require Director approval.
- 4.9 Sections 4.5 through 4.8 also apply to cases where such interest is held by a Person related to a Director or Manager.
- 4.10 Directors and Managers shall denounce all rights they may possess against the Corporation or any of its subsidiaries in writing to the Chairman of the Board, indicating their nature and value, as soon as such rights come into existence or as soon as they become aware of them.
- 4.11 Within 30 days of their nomination, and on March 31 of each year in which they remain in service, Directors and Managers must forward a declaration in the form prescribed in Appendix 2 to the Chairman of the Board containing the following information:
- a) The names of any and all enterprises in which they directly or indirectly hold securities or equity (including shares), stipulating the nature and quantitative and proportional amounts of securities held, as well as their equity value
  - b) The names of any and all enterprises in which they exercise functions or in which they have a direct or indirect interest in the form of a claim, right, priority, mortgage or significant financial or commercial benefit
  - c) To the best of their knowledge, the information stipulated in the preceding sections concerning their employer and the body corporate, corporation or enterprise of which they are owner, shareholder, Director, Manager or controller
  - d) The name of any and all associations in which they exercise functions or of which they are members, stipulating their functions, as applicable, as well as the purposes of the association
- Directors or Managers to whom the provisions of sections a) through d) do not apply are required to sign a declaration to that effect and remit it to the Chairman of the Board.
- Directors or Managers are also required to produce a similar declaration within 30 days of any significant change occurring to its contents.
- Declarations made subject to this section shall be treated as confidential.
- 4.12 The Chairman of the Board shall remit declarations received pursuant to the application of sections 4.5 to 4.11 to the Secretary of the Corporation, who shall make them available to the members of the Board and of the Governance and Ethics Committee.
- In addition, the Secretary of the Corporation shall notify the Chairman of the Board and the Governance and Ethics Committee of any breach of obligations under sections 4.5 to 4.11 immediately upon becoming aware of such a breach.
- 4.13 Directors and Managers may notify the Corporation in advance of Board of Directors discussions pertaining to specific corporations or other entities from which they wish to be excluded.
- 4.14 In all cases where a matter may engender a Conflict of Interest related to the function of a Director or Manager, or in the case of a corporation or entity declared by Directors or Managers under section 4.13, the Secretary shall apply the deliberative procedures concerning conflicts of interest as prescribed in Appendix 3 of this Code.
- 4.15 Directors who are members of the Board's Auditing Committee may not hold any interest in the Corporation or in any of its subsidiaries. Moreover, they may not accept fees from the Corporation for consulting or any other similar services.

### Dispensations

4.16 The present Code is not applicable to:

- a) interests held through the intermediary of mutual investment funds in whose management the Directors or Managers do not participate either directly or indirectly
- b) interests held through the intermediary of a blind trust with no beneficiary right of review or right to know the composition of
- c) holding the minimum number of shares required to be eligible to become a Director of a body corporate
- d) an interest which, due to its nature and scope, is common to the population at large or to a particular sector in which Directors who do not exercise full-time functions within the Corporation or its subsidiaries work
- e) a liability insurance contract for Directors
- f) shares issued or guaranteed by a government or municipality on terms that are identical for all.

## 5. APPLICATION OF THE CODE

5.1 The present Code is an integral part of the professional duties of Directors and Managers. Directors and Managers undertake to become familiar and comply with it, as well as with any directive or particular instruction that may be supplied as to its application. In addition, they must confirm their adherence to the Code each year.

In case of any doubt as to the scope or application of a provision, Directors and Managers are required to consult the Committee.

5.2 Within 30 days of the adoption of a substantive amendment of the present Code by the Board, all Directors and Managers must submit the attestation described in Appendix 4 to the Chairman of the Board and the Secretary of the Corporation.

5.3 New Directors and Managers must each do the same within 30 days of their taking office.

5.4 The Associate Secretary General responsible for senior positions at the Ministère du Conseil exécutif is the competent authority for the application of the present Code with respect to the Chairman of the Board and other Directors appointed by the Government.

5.5 The Chairman of the Board is the competent authority with respect to all Directors and Managers of subsidiaries in which the Corporation holds 100% of the shares.

5.6 The Committee may, as it sees fit, provide dispensation to a Director or Manager from one or more of the provisions of the present Code if it is of the opinion that such dispensation does not prejudice the objectives of the present Code as described in section 2.1 and that the provisions of the act and the Regulation have been met.

The Committee designates the Secretary to assist it in this function.

5.7 The Committee may advise Directors and Managers as to the interpretation of the provisions of the present Code and their application to particular or even hypothetical cases. It is not required to limit an opinion to the terms of the request.

5.8 The Committee must:

- review the present Code on an annual basis and submit any changes for approval to the Board
- engage and oversee the process of preparing and assessing the Code of Ethics and Rules of Professional Conduct
- ensure that the Directors and the Managers are provided with information and training about the contents and application procedures of the present Code
- give its opinion and offer its support to the Board (Corporation) and to any and all Directors or Managers confronted with a problem
- handle any requests for information related to the present Code
- investigate any irregularity with respect to the present Code on its own initiative or upon receipt of an allegation.

5.9 The Committee may consult with and receive opinions from outside advisers or experts on any matter it deems relevant.

5.10 The Committee and the competent authority concerned shall preserve the anonymity of complainants, petitioners and informers except when there exists manifest intention to the contrary. They cannot be bound to reveal information likely to identify such persons except if required by the Act or by a court of law.

5.11 The Secretary shall assist the Committee and the Chairman of the Board in matters concerning the application of the present Code.

The Secretary shall maintain archives containing declarations, disclosures and attestations required to be submitted under the provisions of the present Code, as well as reports, decisions and advisory opinions with respect to ethics and professional conduct. Moreover, the Secretary is required to take all necessary measures to ensure the confidentiality of information supplied by Directors and Managers pursuant to the application of the present Code.

5.12 Directors or Managers who are aware of or suspect the existence of a violation of the present Code, including the use of or irregular communication of confidential information or an undisclosed conflict of interest, are required to report this to the Committee.

Such disclosure is to be made confidentially and must include the following information:

- The identity of the perpetrator or perpetrators of the violation
- A description of the violation
- The date or period of time over which the violation took place
- A copy of any documents that support the claim

5.13 Directors and Managers of the Corporation may, on their own initiative, submit a complaint against any Director or Manager to the competent authority.

5.14 In order for an appropriate decision to be taken in an emergency situation requiring rapid intervention, or in case of presumed gross negligence, the competent authority may provisionally remove Directors or Managers accused of breaches of ethics or professional conduct from their functions with remuneration.

5.15 Whenever a Director or Manager is accused of a breach of ethics or professional conduct, the Committee is responsible for gathering all pertinent information. The Committee shall report its conclusions to the appropriate competent authority and recommend any appropriate action that may be required.



5.16 Directors and Managers are not deemed to have violated the provisions of the present Code if prior favourable opinion has been obtained from the Committee under the following conditions:

- a) Notification is received prior to the occurrence of events on which it is based
- b) The Board has been notified
- c) All pertinent facts have been fully revealed to the Committee in an exact and complete manner
- d) Directors or Managers have complied with all the requirements of the notification

## 6. DISCIPLINARY PROCESS

6.1 If it concludes that a violation of the Act, the Regulation, or the present Code has occurred, the competent authority may impose one of the following penalties:

- a) In the case of a Manager, any appropriate penalty up to and including dismissal
- b) In the case of a Director, reprimand, suspension without remuneration for a maximum of three months, or dismissal

Notwithstanding the preceding, when the competent authority is the Associate Secretary General as defined in section 5.3, the penalty shall be imposed by the Secretary General of the Executive Committee. In addition, if the proposed penalty is the dismissal of a Public Administrator named or designated by the Government, it may only be imposed by the latter. In that case, the Secretary General of the Executive Committee may immediately suspend the Public Administrator for a period not exceeding 30 days without remuneration.

6.2 The competent authority shall inform Directors or Managers of any breach of conduct with which they have been charged, as well as of the penalty that may be imposed.

Within seven days of being informed about a breach of conduct accusation, Directors or Managers may submit comments to the Committee. They may also request a Committee hearing on the matter.

6.3 In case of a violation as described in section 4.2, the dismissal of the offender shall be placed on the record by competent authorities.

6.4 Directors and Managers are required to account for any and all profits made or benefits received due to or on the occasion of any violation of the provisions of the present Code, and they must reimburse the Corporation.

6.5 Any vote by Directors provided in violation of the provisions of the present Code or related to any such violation, or while the Directors are in default with respect to the production of the declaration mentioned in section 4.11, shall not be a deciding vote.

## 7. EFFECTIVE DATE

7.1 The present Code came into effect as of the session following its adoption by the Board.

# POLICIES ON LANGUAGE AND THE AWARDING OF CONTRACTS

## LANGUAGE POLICY

### **Making language quality a top priority**

In accordance with the Government's policy on the use of French in public administration, on November 24, 2000, the Corporation adopted a language policy that reflects its business mission and covers the use and quality of French within each of its activity sectors.

During the past fiscal year, Loto-Québec continued to collaborate actively with the Office québécois de la langue française to ensure the consistent application of this policy throughout the organization and its subsidiaries.

## AWARDING OF CONTRACTS

The procurement policy of Loto-Québec and its subsidiaries reflects the transparency and integrity that govern the awarding of contracts to suppliers. This policy can be consulted on the Loto-Québec website.

# ACCESS TO INFORMATION AND PROTECTION OF PERSONAL INFORMATION

## REQUESTS FOR ACCESS TO INFORMATION

During fiscal 2010-2011, Loto-Québec **received 219 requests for access to information**, of which 126 were requests for access to personal information and 93 were requests to obtain documents from the Corporation.

As at March 31, 2011, eight requests were being processed. Of the processed requests, 20 were for records that the Corporation did not have, 130 were accepted, 32 were partially accepted and 29 were declined. In addition, 7 applications were submitted to the Commission d'accès à l'information for review and are awaiting a hearing.

In general, the reasons for refusing access to documents held by Loto-Québec are that they concern third parties who do not consent to their disclosure, they contain personal information or they contain commercial information.

## ACTIVITIES RELATED TO ACCESS TO INFORMATION AND THE PROTECTION OF PERSONAL INFORMATION

Following the coming into effect of the Regulation respecting the distribution of information and the protection of personal information (hereinafter "the Regulation"), a Committee on Access to Information and Privacy staff was created at Loto-Québec. Since it was formed in November 2009, the committee has met seven times.

In carrying out its mission, the committee studied the disclosure of documents covered by the Regulations as well as the specific measures to follow to protect the confidentiality of personal information collected, used, stored or communicated by means of information systems or when conducting surveys.

Training sessions on access to information and the protection of personal information were held at the Corporation. Employees of corporate units that can be called on to handle personal information in the course of their duties were targeted. The training given was adapted to reflect the activities of each unit. As at March 31, 2011, 12 training sessions had been held, reaching approximately 150 employees in 13 different units. The training will continue during the next fiscal year.

This training made it possible to inform participants on the two principles in the Act respecting access to documents held by public bodies and the protection of personal information, which are the right to have access to documents held by the Corporation in the exercise of its activities and the right to the protection of personal information it holds, in addition to information on the requirements of statutory obligations. These training courses also made it possible to sensitize staff members to the obligations of the Corporation under the Regulation.

In addition, by means of its annual awareness campaign, the Information Security Department reiterated best practices in the field, including the obligation to protect personal information.

# BOARD OF DIRECTORS AND CORPORATE SECRETARIAT

As at March 31, 2011



**HÉLÈNE F. FORTIN**  
FCA, ICD.D

Saint-Lambert

Chairwoman of the Board  
of Directors of Loto-Québec  
Associate with the accounting  
firm of Demers Beaulne

**APPOINTMENT: AUGUST 27, 2008**  
**END OF TERM: JUNE 26, 2012**

Holding a Graduate diploma in Public Accounting with honours from McGill University, Hélène F. Fortin also has an honours Bachelor of Business Administration degree with specialization in accounting and finance from Concordia University. She became a chartered accountant in 1982 and earned the title of ICD.D. from the Institute of Corporate Directors in 2006 after completing the Directors Education Program. A member of the Ordre des comptables agréés du Québec (OCAQ), Ms. Fortin was a member of the Canadian Institute of Chartered Accountants' (CICA) Auditing and Assurance Standards Board from 2006 to 2009. Between 1982 and 2005, she also played an active role in the CICA's interprovincial examination jury. After practicing public accounting for 30 years, in June 2008, Ms. Fortin became an associate with the Montréal accounting firm of Demers Beaulne. In addition, she has sat on numerous Boards since 2003, as well as having served as Chairwoman of various auditing, governance, human resources and retirement fund management committees. She actively contributes to training on the governance of corporations and boards of directors as an author, guest speaker and leader of various workshops. She earned the title of Fellow of the OCAQ in February 2010.



**ALAIN COUSINEAU**

Montréal

President and Chief Executive  
Officer of Loto-Québec

**APPOINTMENT: SEPTEMBER 29, 2003**  
**END OF TERM: SEPTEMBER 30, 2011**

Subsequent to obtaining his Master of Business Sciences degree from Université Laval and completing doctoral studies at the University of Illinois, Alain Cousineau occupied several senior management positions within the university and business sectors, including serving as Dean of the Université de Sherbrooke's Faculty of Administration, President and Chief Executive Officer of SECOR, and Chairman of the Board and of the Executive Committee at the Société des alcools du Québec. A Director of numerous Canadian corporations, Mr. Cousineau also held the post of President of Tourisme Montréal for a number of years.



**JULIE BERNIER**

Westmount  
Senior Partner  
eRing Solutions Inc.

**APPOINTMENT: JUNE 27, 2007**  
**END OF TERM: JUNE 26, 2011**

*Member of the Audit  
and Governance  
and Ethics Committees*

Holding an MBA in Project Management from HEC Montréal, Julie Bernier has more than 20 years of professional consulting experience in the areas of project management, information technologies (IT), risk management, compliance and business process improvement. During the course of her career, Julie Bernier has managed strategic mandates on behalf of major corporations involved primarily in the financial field and the telecommunications sector. Her practice is principally focused on the management of business projects encompassing process reengineering, governance and the implementation of management frameworks within the IT sector.



**PAULE BOUCHARD**  
FCA, ICD.D.

Hampstead  
Partner, RSM Richter  
Chamberland (LLP)

**APPOINTMENT: SEPTEMBER 12, 2007**  
**END OF TERM: SEPTEMBER 11, 2011**

*Chairwoman of the Audit  
Committee*

Paule Bouchard holds a Bachelor's degree in Accounting from Université du Québec à Montréal and also the title ICD.D. from the Institute of Corporate Directors. Ms. Bouchard is a partner in the public accounting firm of RSM Richter Chamberland, where she leads the Professional Standards Department. In addition to carrying out review and quality control responsibilities within the firm, Ms. Bouchard is responsible for all professional training programs. She has 20 years of experience in the fields of accounting (Canadian, U.S. and international) and auditing standards and their practical applications. Ms. Bouchard is also a member of both the International Accounting Education Standards Board and the OCAQ's Professional Discipline Committee.



**MARC G. BRUNEAU**  
BAA, ICD.D.

Montréal  
Vice-President and Partner  
GBC Asset Management

**APPOINTMENT: SEPTEMBER 10, 2003**  
**END OF TERM: JUNE 26, 2010\***

*Member of the Human Resources  
Committee*

A graduate of HEC Montréal with a Bachelor's degree in Business Administration, Marc G. Bruneau also studied Administration at Pepperdine University in California. He occupied positions at BMO Nesbitt Burns and the Business Development Bank of Canada before joining GBC Asset Management in 2002, where he has been a partner since 2004. The 2002 recipient of the Hommage bénévolat-Québec award in recognition of his outstanding volunteerism, Mr. Bruneau serves (or has served) on the Boards of the Sainte-Justine Hospital Foundation, the Kids for Kids organization, and the Cirque Éloize and McCord Museum Foundations. In addition, he was Chairman of the Board of the Montréal Millennium Summit from 2007 to 2009. Mr. Bruneau has also been a member of the Institute of Corporate Directors (ICD) since 2009.



**ANDRÉ DICAIRE**

Québec City  
Expert Advisor  
Réseau d'expertise  
en conseil stratégique  
ENAP

**APPOINTMENT: APRIL 29, 2010**  
**END OF TERM: APRIL 28, 2014**

*Member of the Audit  
and Governance and  
Ethics Committees*

André Dicaire is an economist by training and holds a Master in Public Administration degree from the École nationale d'administration publique (ENAP). Since 2008, Mr. Dicaire has carried out several consulting assignments as Expert Advisor for ENAP's network of expertise in strategic consulting for various public organizations. For more than 35 years, he worked in the Québec public service, in particular for the Ministère de l'Industrie et du Commerce, the Conseil du trésor and as Deputy Minister of the Ministère de la Santé et des Services sociaux. He was also President and Chief Executive Officer of the Régie de l'assurance maladie du Québec and La Financière agricole du Québec. In the private sector, Mr. Dicaire held the office of Vice-President at CGI Group. From 2003 to 2006, he served as Secretary General and Clerk of the Executive Council. He subsequently acted as a government representative in negotiations with the Fédération des médecins spécialistes du Québec. In 2009, he received an honorary doctorate from ENAP, and was further honoured, in 2010, with the Prix Hommage from the Institution d'administration publique de Québec for the quality of his management and his outstanding contribution to Québec public administration.



**MEL HOPPENHEIM**

Montréal  
Location Michel Trudel Inc.  
Mel's Cité du cinéma Ltd.

**APPOINTMENT: MARCH 31, 2004**  
**END OF TERM: SEPTEMBER 11, 2010\***

*Member of the Human  
Resources Committee*

The owner of a vast film and television production installation and equipment operation, Mel Hoppenheim is a leading figure within his industry, both in Montréal and the rest of Canada. He founded Concordia University's Mel Hoppenheim School of Cinema, which enrolls more than 500 students each year. Mr. Hoppenheim also holds an honorary doctorate from Concordia University. He is also one of the co-founders of the Institut national de l'image et du son (INIS). Involved in the financing of numerous charitable and community organizations, he sits on the Boards of the Montréal Children's Hospital and the Montréal Heart Institute Foundation.



**CHRISTIANE JODOIN**

Montréal  
Partner, Osler,  
Hoskin & Harcourt (LLP)

**APPOINTMENT: JUNE 27, 2007**  
**END OF TERM: JUNE 26, 2011**

*Member of the Governance  
and Ethics Committee*

A Université de Montréal Law graduate and member of the Québec Bar since 1984, Christiane Jodoin is a partner at the law firm Osler, Hoskin & Harcourt, where she has been practicing commercial law since 2002. Prior to that, she was a partner at McCarthy Tétrault. With extensive experience in corporate finance, mergers and acquisitions, she has handled numerous business purchase and sale transactions, as well as the restructuring of a number of public and private companies. She sits on the Board of Directors of the MIRA Foundation and was actively involved in the 2008 and 2010 Centraide campaigns.



**SERGE LEBEL, ASC**

Québec City  
Lawyer, BCF (LLP)

**APPOINTMENT: OCTOBER 29, 2003**  
**END OF TERM: JUNE 26, 2010\***

*Chairman of the Governance  
and Ethics Committee*

A Université Laval Law graduate since 1982, member of the Québec Bar since 1983, and Collège des administrateurs de sociétés certified administrator, Serge LeBel specializes in litigation and business law. A member of several Boards of private corporations, M<sup>re</sup> LeBel also sits on the Board of the Interprovincial Lottery Corporation and the Québec Port Authority. Moreover, M<sup>re</sup> LeBel is actively involved in community affairs. For example, he is a strong supporter of the Québec Youth Foundation and the Foundation of Stars, which supports research into early childhood diseases. He has also been an active member of a Lions Club since 1985, including the Sillery Sainte-Foy Québec club since 2003.



**CÉLINE TRÉPANIÉ**

Shawinigan  
President, Export Concept Inc.

**APPOINTMENT: APRIL 29, 2010**  
**END OF TERM: APRIL 28, 2014**

*Member of the Audit and  
Human Resources Committees*

With a Bachelor's degree in Accounting obtained in 1983 from Université du Québec à Trois-Rivières as well as a degree in teaching, Céline Trépanier was a member of the Québec Order of Chartered Accountants from 1985 to 2007. She worked at the Trois-Rivières offices of accountants Samson Bélair, first in accounting, and later in business turnarounds and insolvency services. In 1987, Ms. Trépanier was named Vice-President of Marketing and Director of Exports at Industries Fermco Ltd., a manufacturer of prefabricated homes. Until 1999, she was responsible for exports to Asia, Europe and the United States. An active member of her community, Ms. Trépanier is currently involved in Export Concept Inc., where she advises manufacturing companies, providing tailor-made job training in business administration and management for the development of new markets or services, both in Québec and outside its borders.



**LYNNE ROITER**

Montréal  
Corporate Secretary  
and Vice-President of Legal  
Affairs, Loto-Québec

A graduate of Université Laval's Law Faculty and member of the Québec Bar since 1972, Lynne Roiter joined Loto-Québec in 1985 as Director of Legal Affairs. Prior to that, she practiced her profession at the Commission des droits de la personne and the Régie de l'assurance automobile du Québec. Since November 1996, she has served as Loto-Québec's Secretary and Vice-President of Legal Affairs. She is also Corporate Secretary of the World Lottery Association (WLA), an organization comprised of lottery corporations from some 80 different countries around the world.

\* At the end of a Director's term of office, the Director remains in office until replaced or reappointed by the Government.

## BOARD OF DIRECTORS REPORT

The Board of Directors is responsible for managing Loto-Québec in compliance with the provisions of its Act of Incorporation and the regulations pertaining to it as well as those of the other laws and regulations that govern it. It ensures that the Corporation takes the necessary measures to achieve the objectives arising from its mission. The Board adopts the gaming regulations and approves the Corporation's principal policies and strategic orientations, and annual business plan.

As provided by the Act Respecting the Governance of State-Owned Corporations, Loto-Québec has three statutory committees that support the Board of Directors in its decisions: the Audit Committee, the Governance and Ethics Committee and the Human Resources Committee. The Board also formed the Commercial Affairs Committee during fiscal 2008-2009 to meet its needs. In addition, each committee, in its area of expertise, is responsible for making recommendations to the Board during its deliberation.

The committees are also mandated to conduct an annual review of the Corporation's operational policies in their respective fields of governance. Where warranted, policy amendments are adopted by the Board.

### COMPOSITION

The Board of Directors as at March 31, 2011 consists of ten members, each appointed by the Government. All members are independent, with the exception of Loto-Québec's President and Chief Executive Officer. The diverse expertise and skills they bring are put to productive use at Board and committee meetings. It is worth noting that during the last fiscal year, two new members joined the Board. They are Mr. André Dicaire and Ms. Céline Trépanier, whose respective appointments were announced by Cabinet on April 29, 2010.

Since June 2007, women have made up half of the Board. As at March 31, there were five women and five men, which meets the gender parity objective set by the Act Respecting the Governance of State-Owned Corporations. This was marked on International Women's Day in March 2011, when the Conférence régionale des élus (CRÉ) de Montréal and the Ministère de la Culture, des Communications et de la Condition féminine (MCCCF) honoured Loto-Québec with its Prix Cravate rose de la parité trophy. The Corporation was awarded this trophy for having achieved parity on its Board of Directors.



*Ms. Lynne Roiter, Corporate Secretary and Vice-President of Legal Affairs at Loto-Québec, receives the Cravate rose de la parité trophy from Christine St-Pierre, Minister of Culture, Communications and the Status of Women and Ms. Jane Cowell-Poitras, a member of the Executive Committee of the CRÉ de Montréal and City councillor for the Borough of Lachine.*

### PRESENCE

During fiscal 2010-2011, the Board of Directors held 11 regular meetings. A closed session without management present was held at the end of each meeting. Please note that regular meetings of the Board of Directors are scheduled at the beginning of the fiscal year. As needed, special meetings are held over the course of the year. Advance notice to members of committee meetings varies according to the needs of the committee in question.



## BOARD OF DIRECTORS REPORT

### DIRECTOR ATTENDANCE REPORT AS AT MARCH 31, 2011

Members	Board of Directors	Audit Committee		Governance and Ethics Committee		Human Resources Committee		Commercial Affairs Committees
		<i>From April 1, 2010 to October 20, 2010</i>	<i>From October 21, 2010 to March 31, 2011</i>	<i>From April 1, 2010 to October 20, 2010</i>	<i>From October 21, 2010 to March 31, 2011</i>	<i>From April 1, 2010 to October 20, 2010</i>	<i>From October 21, 2010 to March 31, 2011</i>	
	Regular 11	Regular 7	Regular 3	Regular 4	Regular 3	Regular 3	Regular 2	Regular 3
Hélène F. Fortin	11/11	6/7	3/3	4/4	3/3	3/3	2/2	3/3
Julie Bernier	9/11	7/7	3/3	–	2/3	–	–	3/3
Paule Bouchard	9/11	7/7	3/3	–	–	–	–	2/3
Marc G. Bruneau	10/11	6/7	–	–	–	3/3	2/2	3/3
André Dicaire	9/10	1/1	3/3	–	2/3	–	–	1/1
Mel Hoppenheim	10/11	5/7	–	–	–	–	2/2	3/3
Christiane Jodoin*	5/11	–	–	4/4	1/3	–	–	2/3
Serge LeBel	11/11	–	–	4/4	3/3	–	–	3/3
Céline Trépanier	9/10	–	3/3	–	–	–	2/2	1/1

\* Excused absences

## REMUNERATION

Independent Directors of Loto-Québec are remunerated pursuant to Order in Council 610-2006 adopted by the Government of Québec on June 28, 2006. This remuneration was increased by 2% in June 2007, 2008 and 2009, and by 1% in July 2010 in compliance with the Order-in-Council.

### REMUNERATION OF INDEPENDENT DIRECTORS

Directors	Total remuneration
Fortin, Hélène F. <sup>(1) (2) (3) (4)</sup>	\$48,174.76
Bernier, Julie <sup>(1) (2) (4)</sup>	\$21,300.93
Bouchard, Paule <sup>(1) (4)</sup>	\$22,371.58
Bruneau, Marc G. <sup>(3) (4) (5)</sup>	\$29,545.63
Dicaire, André* <sup>(1) (2) (4)</sup>	\$16,400.77
Hoppenheim, Mel <sup>(3) (4)</sup>	\$19,167.93
Jodoin, Christiane <sup>(2) (4)</sup>	\$14,381.93
LeBel, Serge <sup>(2) (4)</sup>	\$22,368.93
Trépanier, Céline* <sup>(1) (3) (4)</sup>	\$15,864.52
	<b>\$209,576.98</b>

As at March 31, 2011

<sup>(1)</sup> Audit Committee

<sup>(2)</sup> Governance and Ethics Committee

<sup>(3)</sup> Human Resources Committee

<sup>(4)</sup> Commercial Affairs Committee

<sup>(5)</sup> Pension plan committees of employees, management personnel and professional personnel of the Société des casinos du Québec (SCQ)

\* Members of the Board since April 29, 2010

## ACTIVITIES

### STRATEGIC PLANNING AND BUSINESS PLAN

In accordance with the Act Respecting the Governance of State-Owned Corporations, the Directors adopted Loto-Québec's 2010-2013 Strategic Plan, which was approved by Cabinet in September 2010. In addition, at each meeting of the Board of Directors held during the last fiscal year, Loto-Québec management reported on the progress of projects with relation to the Corporation's 2010-2011 business plan and current activities. The Board also approved the 2011-2012 Action Plan and the 2010 Annual Report. Furthermore, in July 2010, it enacted that risk management and strategic planning should be reported directly to Loto-Québec's President and Chief Executive Officer. The new Corporate Strategies and Risk Management Department was created for this purpose.

The Board monitored operations at espacejeux.com, Loto-Québec's online gaming website, which was launched in November 2010. It also created a subsidiary to manage online gaming activities, the Société du jeu virtuel du Québec, which began operations on April 1, 2011.

Among the strategic initiatives monitored by the Directors are the major renovations at the Casino de Montréal and the Kinzo pilot project, whose main hall opened last October. The Board found that the timelines and budgets for these projects had been respected. In addition, the Board authorized the opening of Kinzo Express satellite halls, planned for early summer 2011 in existing bingo halls in the metropolitan area. The Board also monitored the implementation of Formule groupe in retail stores, a project that has changed the way lotteries are played by groups.

Board members also followed up on the project to replace video lottery terminals and the central operating system currently in place. They also authorized additional loans from Loto-Québec to the French casino operator Casinos Développement Europe and its subsidiaries, and monitored their development.

It should be noted that a report on the progress of sustainable development initiatives outlined in the 2008-2013 Sustainable Development Action Plan was also tabled at each Board meeting.

### FINANCIAL RESULTS AND INTERNAL CONTROL

After each meeting of the Audit Committee, the Board received a verbal report of the Committee's activities.

On the recommendation of the Audit Committee, the Directors monitored the progress of the certification program for internal control and risk management. They also approved the financial statements for the year ended March 31, 2010<sup>1</sup> and the Loto-Québec budget. It should be noted that members received a report on the Corporation's financial statements and their highlights at each regular meeting. They also received a report at each meeting on the measures taken by Loto-Québec to oversee and control the Corporation's main risks. In addition, the Directors approved changes to the Audit Committee's mandate to include information technologies.

As provided by the Act Respecting the Governance of State-Owned Corporations, Loto-Québec evaluated its own effectiveness and performance, including benchmarking against similar organizations as at March 31, 2010. The Board authorized, in agreement with the Auditor General, the mandate to be awarded to an outside firm, which was selected following a public call for tenders. After consultation with the selected firm, the Board approved the performance indicators and the benchmarking exercise. For details, see the results of this exercise on page 64.

Furthermore, the Board adopted and submitted to the Government the spending reduction policy and the measures to increase productivity, and closely followed their application. In 2010-2011, Loto-Québec more than doubled the contribution requested by its shareholder by posting a reduction in spending and an improvement in productivity that amounted to \$14.9 million. More information on the spending reductions can be found on page 63.

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<sup>1</sup> At its meeting on June 1, 2011, on the recommendation of the Audit Committee, the Board approved the financial statements for the year ended March 31, 2011.

### CORPORATE GOVERNANCE

After each meeting of the Governance and Ethics Committee, the Board received a verbal report of the Committee's activities.

During 2010-2011, the Directors undertook a validation exercise of governance documents and processes. This made it possible to determine full compliance with applicable laws and best practices. The internal governance regulation was also updated. Also, as part of the annual review, the amendments to the Code of Ethics and Rules of Professional Conduct for Directors and Managers of Loto-Québec and its subsidiaries and the Code of Ethics for Employees of Loto-Québec and its subsidiaries were adopted by the members. Complementing this, the Board monitored the implementation of a phone line for reporting complaints about compliance with these codes.

Furthermore, changes to the Board members' profiles of expertise and experience and an accompanying user guide were adopted by the Board. The Directors also monitored the criteria to evaluate how the Board functions and modified the questionnaire related thereto. They also clarified the mandates of the Board and certain statutory committees. Lastly, members adopted guidelines regarding the conduct and operation of closed meetings, which are held following the meetings of the Board and the four committees.

### HUMAN RESOURCES MANAGEMENT

After each meeting of the Human Resources Committee, the Board received a verbal report of the Committee's activities.

During the past year, the board adopted the remuneration parameters for non-unionized personnel and management personnel of Loto-Québec and its subsidiaries for 2010-2011. They also approved amendments to the profile of skills and experience of the President and Chief Executive Officer of Loto-Québec to include responsibility for integrated risk management. For 2010-2011, the Directors approved the remuneration of the President and Chief Executive Officer and senior executives, as per the established parameters. Other decisions taken by the Board include the approval of the results of the 2009-2010 incentive plan and the methods of administering the 2010-2011 plan for employees, in accordance with the Government-approved program. In addition, the members adopted the negotiating mandate for the SPGQ and STTLQ collective agreements.

Moreover, changes to investment policies and the policy on retirement programs for employees of the SCQ were approved by the Board members. A Director appointed by the Board also continued to sit as a representative of the Loto-Québec Board of Directors on the pension plan committees of SCQ's employees, management and professional personnel. In addition to approving the action plan for persons with disabilities, the Board authorized the method for administering Loto-Québec's corporate volunteer program.

## AUDIT COMMITTEE REPORT

### MANDATE AND COMPOSITION

The Audit Committee's mandate is primarily to support the Board in monitoring the integrity of financial reporting and the Corporation's internal controls. It also reviews the integrated risk management process, in addition to overseeing the establishment of effective and adequate internal control mechanisms and supervising internal auditing activities. The Audit Committee ensures that the Corporation meets its financial commitments as well as legal and regulatory requirements governing financial disclosure. It acts as a communication link between the external co-auditors, Internal Auditing and the Board of Directors. It is responsible for reviewing its mandate's relevance on an annual basis.

The Audit Committee is composed of five independent members.

Chairwoman: Paule Bouchard, FCA

Members: Julie Bernier, André Dicaire and Céline Trépanier

Ex-officio member: Hélène F. Fortin, FCA

All the members have the requisite skills and knowledge in accounting or finance. The Chairwoman is a member of the Ordre des comptables agréés du Québec.

### ACTIVITIES

Over the course of the last fiscal year, the Audit Committee met 10 times and held a closed session without management present at the end of each meeting. Activities at these meetings included the following:

- approved Loto-Québec's quarterly financial statements;
- reviewed the Corporation's 2009-2010 financial statements with the co-auditors, namely the Auditor General of Québec and the firm KPMG<sup>2</sup>. They recommended their approval to the Board of Directors<sup>3</sup>;
- conducted a follow-up on the implementation of the latest recommendations in KPMG's report on prize payment;
- conducted a follow-up on the conversion to International Financial Reporting Standards (IFRS);
- conducted a follow-up on certification programs for internal control;
- recommended approval to the Board of Directors of the policy to reduce spending and the measures to increase productivity, in addition to monitoring them;
- monitored the implementation of the integrated risk management project;
- approved the benchmarking exercise with similar enterprises as at March 31, 2010;
- approved the Department of Internal Auditing's 2009-2012 annual and triennial plan and monitored it;
- monitored integration of the resource optimization concept into auditing mandates and approved the auditing approach to resource optimization;
- ensured that the Department of Internal Auditing was able to perform its role independently of Loto-Québec management;
- monitored the activities of the group responsible for security;
- approved changes to the Loto-Québec operational policies for which it is responsible;
- carried out the annual review of its mandate, in particular to include information technologies;
- carried out the performance evaluation in relation to its mandate.

It should be noted that the Committee reported its activities to the Board of Directors after each meeting.

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<sup>2</sup> The audit fees of the firm KPMG for the 2010-2011 financial statements came to \$1,176,754.

<sup>3</sup> At its meeting of June 1, 2011, the Audit Committee reviewed the 2010-2011 financial statements with the external co-auditors and recommended their approval to the Board.

## HUMAN RESOURCES COMMITTEE REPORT

### MANDATE AND COMPOSITION

The Human Resources Committee is responsible for reviewing and recommending human resources management policies and strategic orientations and ensuring their implementation. It also sees to the institution of norms and remuneration scales for Loto-Québec managers and employees, and participates in planning for the new wave of the Corporation's management personnel. This committee also has the role of developing the expertise and experience profile for the appointment of the President and Chief Executive Officer, as well as recommending the remuneration for that individual within the parameters established by the Government. It is responsible for reviewing its mandate's relevance on an annual basis.

The Human Resources Committee is composed of four independent members.

Chairwoman: Hélène F. Fortin, FCA

Members: Marc G. Bruneau, Mel Hoppenheim and Céline Trépanier

### ACTIVITIES

During fiscal 2010-2011, the Human Resources Committee met five times. It also held a closed session without management present at the end of each meeting. Activities at these meetings included the following:

- recommended that the Board of Directors approve the results of the 2009-2010 incentive plan and the methods for administering the 2010-2011 plan for covered employees;
- recommended that the Board of Directors approve the remuneration of the President and Chief Executive Officer and senior executives for 2010-2011;
- revised the expertise and experience profile of the President and Chief Executive Officer;
- recommended that the Board of Directors approve the amendments to the investment policies and the SCQ's pension plan policy;
- monitored the return to work program for retired employees;
- monitored the program to identify the Corporation's emerging leaders;
- recommended to the Board the methods for administering Loto-Québec's new corporate volunteer program, and monitored it;
- recommended to the Board the negotiating mandate for the SPGQ and STTLQ collective agreements;
- recommended to the Board the action plan for persons with disabilities;
- recommended that the Board approve the establishment or modification of various corporate operational policies under its governance;
- conducted the annual review of its mandate and carried out a performance evaluation in relation to its mandate.

After each of its meetings, the Human Resources Committee reported its activities to the Board of Directors.

## REMUNERATION AND BENEFITS OF THE SIX HIGHEST-PAID EXECUTIVES OF THE CORPORATION FOR FISCAL 2010-2011

Name and title	Base salary	Incentive remuneration	Automobile		Additional benefits*	Group insurance plan
			Description	Expenses		
<b>Alain Cousineau</b> President and Chief Executive Officer	\$302,319	\$21,193	Company car	\$11,120	\$7,081	\$3,094
PENSION PLAN AND SUPPLEMENTARY BENEFITS PROGRAM						
Mr. Cousineau participates in the Retirement Plan for Senior Officials – Public Service (RPSO) and in the Supplementary Benefits Program.						
<b>Jean Royer</b> Senior Vice-President and Chief Operating Officer	\$257,942	\$18,185	Provision of a vehicle and parking	\$8,147	\$2,500	\$4,454
<b>Claude Poisson</b> President of Operations, Société des casinos du Québec	\$246,386	\$14,980		\$11,846	\$2,500	\$4,391
<b>Robert Ayotte</b> President of Lottery Operations	\$235,144	\$18,717		\$6,813	\$2,500	\$4,330
<b>Marcel Croux</b> Senior Vice-President of Corporate Affairs	\$235,144	\$16,437		\$11,999	\$2,500	\$3,085
<b>Gille Dufour</b> Senior Vice-President of Financial Affairs	\$235,144	\$15,731		\$8,366	\$2,500	\$4,330

## PENSION PLAN AND SUPPLEMENTARY BENEFITS PROGRAM

**Basic pension plan**

- Mr. Royer participates in the Retirement Plan for Senior Officials – Public Service (RPSO).
- Messrs. Poisson, Ayotte, Croux and Dufour participate in the Québec Government Pension Plan for Management Personnel (PPMP). The contribution and benefits are calculated in accordance with the standard provisions of the plan in which they participate.

**Supplementary pension plan**

- Messrs. Royer, Poisson, Ayotte, Croux and Dufour participate in Loto-Québec's Supplementary Pension Plan for Executive Management.
- The retirement benefit is calculated using the basic pension plan benefit formula without regard for the limits prescribed in the Income Tax Act, and by using a percentage credited for each year of service of 2.0% for Messrs. Poisson and Ayotte, and 2.5% for Messrs. Royer, Croux and Dufour. This benefit is deducted from that offered by the basic plan.

\*Health assessment, financial and estate planning, sports club membership and the Cercle des gens d'affaires

## GOVERNANCE AND ETHICS COMMITTEE REPORT

### MANDATE AND COMPOSITION

The Governance and Ethics Committee assists the Board of Directors in applying the highest standards of ethics and corporate governance. It also proposes the rules of governance and the codes of ethics that apply to the Corporation's Directors, executives and personnel. The Committee ensures that the Corporation's policies are reviewed on an annual basis by the appropriate Board committees. It also develops and offers the Board expertise and experience profiles for the appointment of Board members, with the exception of the President and Chief Executive Officer. It is responsible for reviewing its mandate's relevance on an annual basis.

The Governance and Ethics Committee is composed of five independent members.

Chairman: Serge LeBel

Members: Julie Bernier, André Dicaire, Hélène F. Fortin, FCA and Christiane Jodoin

### ACTIVITIES

Over the course of fiscal 2010-2011, the Governance and Ethics Committee met seven times. It also held a closed session without management present at the end of each meeting. Activities at these meetings included the following:

- recommended that Board members adopt amendments to the Code of Ethics for Employees of Loto-Québec and its subsidiaries;
- recommended that the Board adopt amendments to the Code of Ethics and Rules of Professional Conduct for Directors and Managers of Loto-Québec and its subsidiaries;
- recommended changes to Board members' profiles of expertise and experience as well as the development of a user guide for the Directors;
- proposed that the Board validate compliance to the Corporation's rules of governance and followed its progress. The exercise made it possible to conclude that the documentation and processes fully comply with the Act;
- proposed that the Board adopt amendments to the internal governance regulation;
- recommended a review of how committees are formed and the designation of a replacement for the Chairperson of the Board in the event of that individual's absence;
- approved the change to the program welcoming new Board members and providing professional development, and monitored its application;
- proposed that the Board adopt guidelines on the conduct and operation of closed meetings, which are held after the meetings of the Board and the four Board committees;
- conducted the annual review of the Loto-Québec operational policies under its governance and ensured that each Committee did so as well;
- reviewed its mandate as a committee and asked the other Committees and the Board of Directors to do the same;
- carried out a performance evaluation in relation to its mandate.

The Committee reported its activities to the Board of Directors after each meeting.

## COMMERCIAL AFFAIRS COMMITTEE REPORT

### MANDATE AND COMPOSITION

The Commercial Affairs Committee was formed by the Board of Directors on the recommendation of the Governance and Ethics Committee in fiscal 2008-2009. It has a dual mandate: to discuss the Corporation's commercial affairs and to better equip Directors in their respective roles with customized training on matters concerning the activities of Loto-Québec.

The Commercial Affairs Committee is composed of all members of the Board of Directors.

Chairwoman: Hélène F. Fortin, FCA

Members: Julie Bernier, Paule Bouchard, FCA, Alain Cousineau, Marc G. Bruneau, André Dicaire, Mel Hoppenheim, Christiane Jodoin, Serge LeBel and Céline Trépanier

### ACTIVITIES

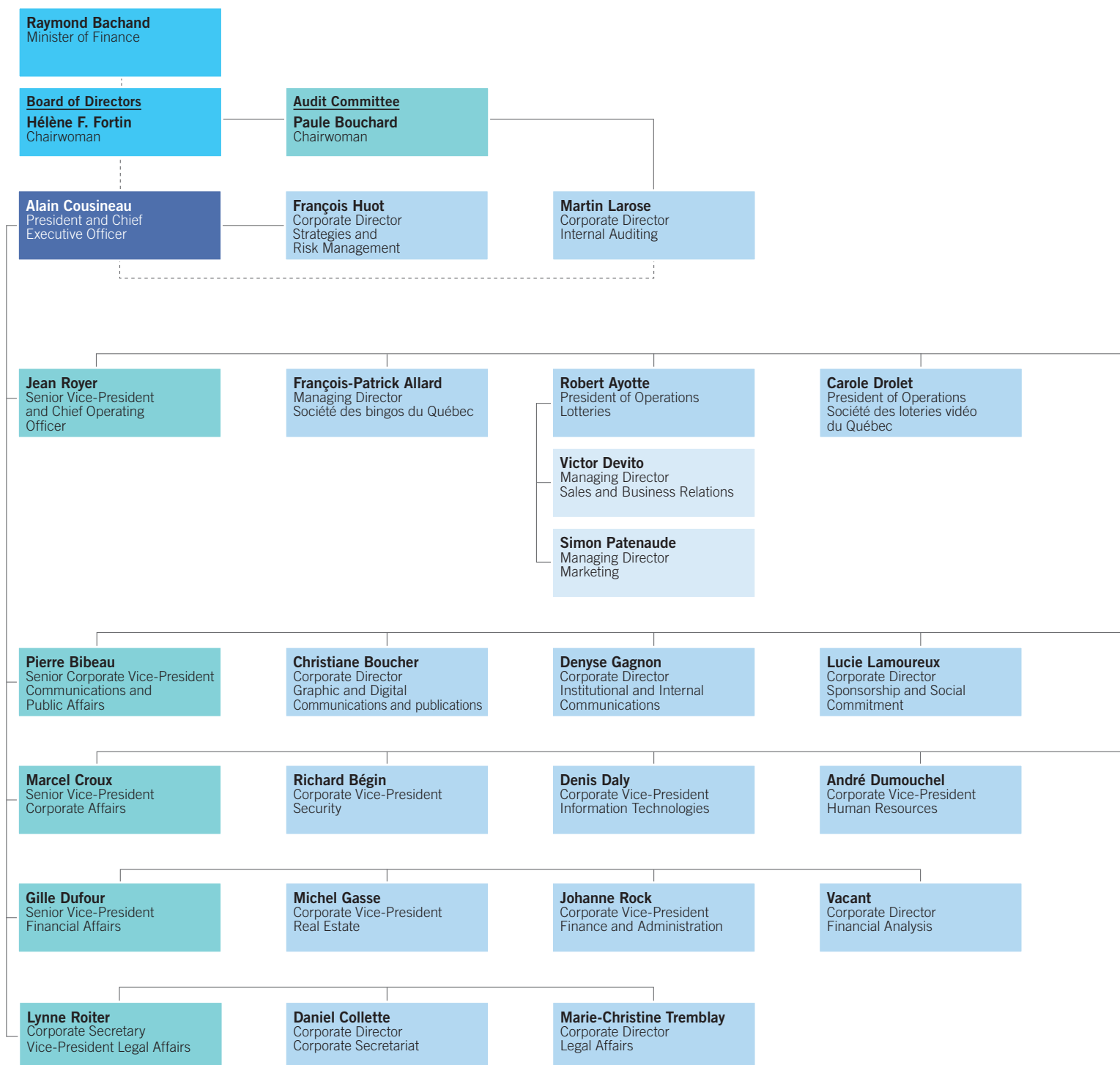
The Commercial Affairs Committee met three times during fiscal 2010-2011. Its main activities involved:

- monitoring and approval of Loto-Québec's 2010-2013 Strategic Plan;
- launch and monitoring of the Corporation's online gaming site, espacejeux.com, and monitoring of the Kinzo pilot project;
- the management process of major construction projects, such as the renovations at the Casino de Montréal and the Corporation's real estate management projects;
- a detailed analysis on the evolution of games of chance.

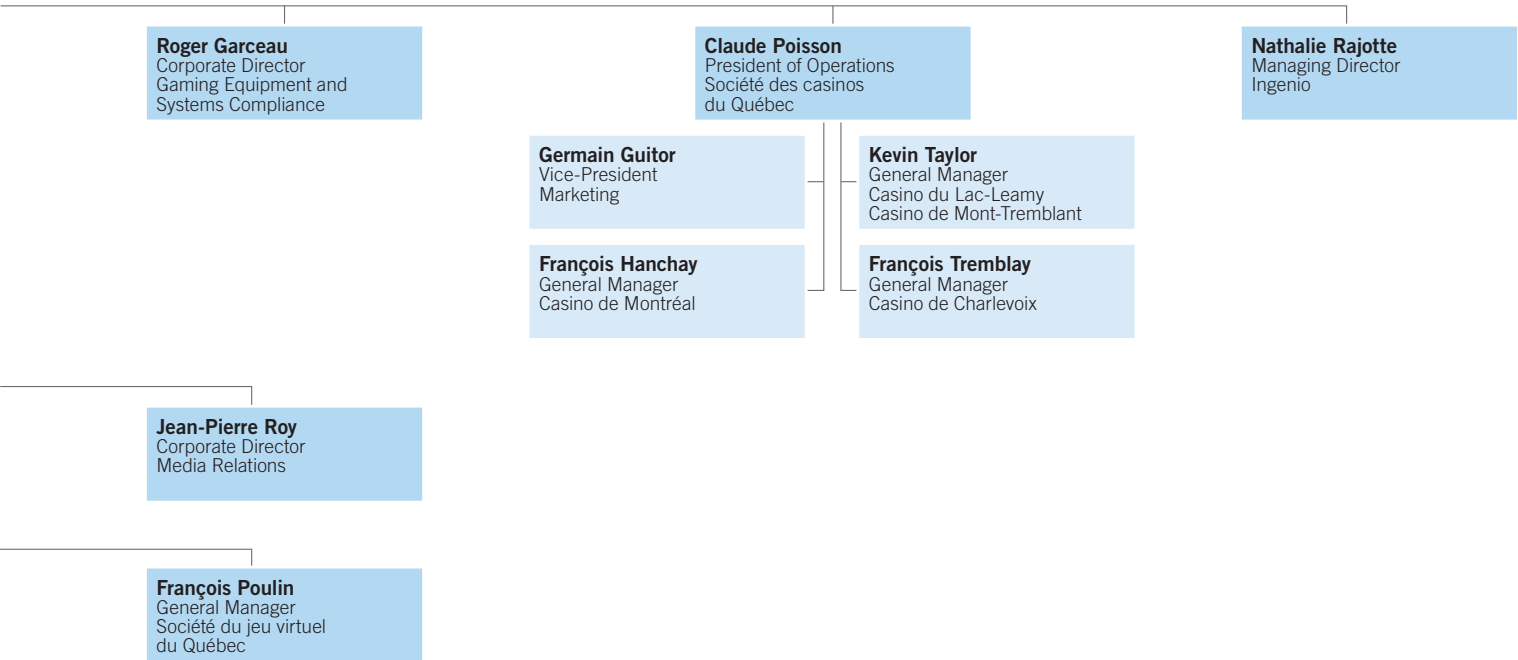


# ORGANIZATIONAL STRUCTURE

As at March 31, 2011



ORGANIZATIONAL STRUCTURE



# CONTACT INFORMATION

## HEAD OFFICE

500 Sherbrooke Street West, Montréal, Québec H3A 3G6  
Telephone: 514-282-8000 · 1-800-350-9033  
Fax: 514-499-8660  
lotoquebec.com

## QUÉBEC CITY OFFICE

955 Grande Allée West, Québec City, Québec G1S 4Y2  
Telephone: 418-686-7575 · 1-800-463-4560  
Fax: 418-643-2690

## SOCIÉTÉ DES CASINOS DU QUÉBEC

500 Sherbrooke Street West, 15<sup>th</sup> Floor, Montréal, Québec H3A 3G6  
Telephone: 514-282-8080 · 1-800-730-5686  
casinosduquebec.com

## SOCIÉTÉ DES LOTERIES VIDÉO DU QUÉBEC

500 Sherbrooke Street West, 16<sup>th</sup> Floor, Montréal, Québec H3A 3G6  
Telephone: 514-282-8090 · 1-800-454-8090  
slvq.com

## SOCIÉTÉ DES BINGOS DU QUÉBEC

500 Sherbrooke Street West, 6<sup>th</sup> Floor, Montréal, Québec H3A 3G6  
Telephone: 514-842-2464 · 1-888-430-2464  
bingos-quebec.com

## INGENIO

500 Sherbrooke Street West, 20<sup>th</sup> Floor, Montréal, Québec H3A 3G6  
Telephone: 514-282-0210  
lotoquebec.com/ingenio

## SOCIÉTÉ DU JEU VIRTUEL DU QUÉBEC

P.O. Box 11680, Station Centre-Ville, Montréal, Québec H3C 6G9  
Telephone: 1-877-999-5389  
espacejeux.com

## CASINO DE MONTRÉAL

1 Casino Avenue, Montréal, Québec H3C 4W7  
Telephone: 514-392-2746 · 1-800-665-2274  
casino-de-montreal.com

## CASINO DE CHARLEVOIX

183 Richelieu Street, La Malbaie, Québec G5A 1X8  
Telephone: 418-665-5300 · 1-800-665-2274  
casino-de-charlevoix.com

## CASINO DU LAC-LEAMY

1 Casino Boulevard, Gatineau, Québec J8Y 6W3  
Telephone: 819-772-2100 · 1-800-665-2274  
casino-du-lac-leamy.com

## CASINO DE MONT-TREMBLANT

300 Pléiades Road, Mont-Tremblant, Québec J8E 0A7  
Telephone: 819-429-4150 · 1-800-665-2274 or 1-877-574-2177  
casino-mt-tremblant.com

## QUÉBEC CITY GAMING HALL

250G Wilfrid-Hamel Boulevard, Québec City, Québec G1L 5A7  
Telephone: 418-529-7878 · 1-877-700-5836  
salonsdejeux.com

## TROIS-RIVIÈRES GAMING HALL

1900 Hippodrome Street, Trois-Rivières, Québec G8Z 0A3  
Telephone: 819-693-4774 · 1-877-700-5836  
salonsdejeux.com

## REGIONAL CENTRES

### MONTRÉAL AND NORTHWESTERN QUÉBEC

1945 Maurice-Gauvin Street, Laval, Québec H7S 2M5  
Telephone: 450-682-2525 · 1-800-361-9026

### MONTRÉAL AND SOUTHEASTERN QUÉBEC

325 Bridge Street, Montréal, Québec H3K 2C7  
Telephone: 514-409-3190 · 1-800-361-1244

### QUÉBEC CITY AND EASTERN QUÉBEC

955 Grande-Allée West, Québec City, Québec G1S 4Y2  
Telephone: 418-686-7575 · 1-800-463-4560





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