



# CREATOR OF EMOTIONS

2017-2018  
ANNUAL REPORT



LOTO  
QUÉBEC



## TABLE OF CONTENTS

<b>1</b>	Mission, Vision and Values
<b>2</b>	Key Figures of the Year
<b>3</b>	Economic and Social Contributions
<b>4</b>	Message from the Chairwoman of the Board of Directors
<b>6</b>	Message from the President and Chief Executive Officer
<b>9</b>	Review of Activities
<b>10</b>	Place the customer at the centre of our decision-making process
<b>16</b>	Develop new growth opportunities combining gaming and entertainment
<b>22</b>	Foster goodwill towards our organization and offerings
<b>26</b>	Improve our agility and our work process
<b>29</b>	Financial Review
<b>34</b>	Supplementary Information
<b>36</b>	Comparative Results
<b>37</b>	Consolidated Financial Statements
<b>38</b>	Management's Report
<b>39</b>	Independent Auditors' Report
<b>40</b>	Consolidated Statement of Comprehensive Income
<b>41</b>	Consolidated Statement of Change in Shareholder's Equity
<b>42</b>	Consolidated Statement of Financial Position
<b>43</b>	Consolidated Statement of Cash Flows
<b>44</b>	Notes to the Consolidated Financial Statements
<b>72</b>	Measuring Efficiency and Performance
<b>74</b>	Follow-up on the Actions Outlined in the 2015-2020 Responsible Commercialization Plan
<b>84</b>	Code of Ethics and Rules of Professional Conduct for Directors and Managers of Loto-Québec and its Subsidiaries
<b>93</b>	Policies and Laws
<b>94</b>	Access to Information and Protection of Personal Information
<b>95</b>	Board of Directors and Corporate Secretariat
<b>100</b>	Board of Directors and Committee Reports
<b>108</b>	Executive Committee
<b>110</b>	Organizational Structure

# MISSION

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

# VISION

To offer Quebecers first-rate entertainment thanks to an appealing, innovative and competitive offering, while remaining a recognized world leader for responsible commercialization.

# VALUES

## INTEGRITY AND AGILITY

**Integrity** guarantees that the chances of winning are the same for everyone, and that the reliability and thoroughness of all processes are ensured.

**Agility** allows us to adjust more quickly to market realities, particularly in terms of method, so we can remain competitive in the gaming and entertainment industry.

## OVERALL PERFORMANCE AND INNOVATION

**Overall performance** covers economic, social and environmental issues. It requires efficient and responsible management of the gaming and entertainment offering.

**Innovation** means staying ahead of the curve to foster competitiveness. Developing partnerships also helps us expand our capacity for innovation.

## CLIENT-CENTRED AND CREATOR OF EMOTIONS

Being **client-centred** means we are able to provide our clients with an unparalleled and satisfying entertainment experience, by applying high standards, listening to their concerns and demonstrating total respect in every interaction. Being a **creator of emotions** in the gaming and entertainment offering means using passion to engage the imagination of clients and generate moments of exhilaration.

## SYNERGY AND PLEASURE

**Synergy** leverages the varied skill sets of all our employees to deliver an integrated offer to clients. It is a matter of fostering teamwork by setting shared and consistent objectives. The **pleasure** derived from our work creates an environment that nurtures respect, appreciation and recognition. It kindles both personal and collective pride.

# KEY FIGURES OF THE YEAR

AS AT MARCH 31

(In thousands of Canadian dollars)	2018	2017	\$ Variation	% Variation
<b>Total revenues</b>	<b>3,769,224</b>	<b>3,635,627</b>	<b>133,597</b>	<b>3.7</b>
Lotteries	1,881,127	1,827,896	53,231	2.9
Casinos	906,948	838,775	68,173	8.1
Gaming establishments	1,006,563	993,517	13,046	1.3
Intragroup transactions	(25,414)	(24,561)	(853)	(3.5)
Prizes awarded - lotteries	1,002,074	987,611	14,463	1.5
Prizes awarded - gaming establishments (bingo and Kinzo)	24,982	24,741	241	1.0
Gross margin	2,330,771	2,235,649	95,122	4.3
Expenses	982,571	991,604	(9,033)	(0.9)
Net income	1,335,467	1,230,551	104,916	8.5
Dividend	1,310,467	1,205,551	104,916	8.7
Other amounts contributed to the Québec and Canadian governments	188,814	199,897	(11,083)	(5.5)
Total assets	1,233,659	1,216,118	17,541	1.4
Shareholder's equity	121,573	129,869	(8,296)	(6.4)

## Total revenues

(In millions of Canadian dollars)	2018	2017	2016	2015	2014
	3,769.2	3,635.6	3,560.3	3,338.0	3,519.1

## Net income

(In millions of Canadian dollars)	2018	2017	2016	2015	2014
	1,335.5	1,230.6	1,227.0	1,115.8	1,144.1

## ECONOMIC AND SOCIAL CONTRIBUTIONS



**\$1,310.5M**

Dividend to the Government of Québec



**\$1,027.1M**

Prizes awarded to lottery and gaming establishment winners (bingo and Kinzo)



**\$436.1M**

Employee benefits



**\$342.5M**

Commissions to lottery and gaming establishment network partners



**\$252.5M**

Purchases from companies conducting business in Québec



**\$146.7M**

Taxes to governments



**\$17.1M**

Contribution to the Government of Canada



**\$33.4M**

Contributions to prevent problem gambling



**\$16.9M**

Contributions to non-profit organizations



**\$9.9M**

Sponsorships

# MESSAGE FROM THE CHAIRWOMAN OF THE BOARD OF DIRECTORS

HÉLÈNE F. FORTIN, FCPA, FCA, ICD.D  
CHAIRWOMAN OF THE BOARD OF DIRECTORS



The Board of Directors is very pleased that Loto-Québec's success continued into 2017-2018. In every sector of the organization, efforts to achieve shared goals have borne fruit, resulting in a significant increase of the dividend paid to the Québec Government; \$1.310 billion, \$104.9 million more than the previous year and \$169.0 more than the target announced by the Government in its March 2017 budget. This significant contribution helps finance public services.

The last fiscal year was highlighted by the adoption of Loto-Québec's 2017-2020 Strategic Plan. The four new orientations it outlines build on the successes of the strategy in place since 2014.

By putting customers at the centre of all its decisions, expanding its gaming-entertainment positioning, maintaining its corporate responsibility process and improving its agility and methods, the Corporation will be able to respond to the issues before it. These include changes in consumer habits, the rapid pace of change in the gaming and entertainment markets, and the public's high expectations concerning responsible gambling.

Throughout the year, Loto-Québec strove to provide an unparalleled client experience, in part through an integrated offer. Regrouping its online activities on the revamped [lotoquebec.com](http://lotoquebec.com) portal was part of this effort.

The Corporation is still benefiting from the growth of the entertainment market. It continued to renew its global offer, for example, by launching entertaining themes centred on socializing in its casinos and gaming halls.

## IN EVERY SECTOR OF THE ORGANIZATION, EFFORTS TO ACHIEVE SHARED GOALS HAVE BORNE FRUIT.

Responsible commercialization is well anchored in Loto-Québec's culture, as its World Lottery Association certifications attest. Its Security Control Standard Certification, which confirms the application of the worldwide best security and integrity practices in its gaming activities, was renewed through 2020. This is in addition to Level 4 responsible gambling certification, the highest international responsible gambling certification, which Loto-Québec has held since 2009.

The action plan concerning its video lottery terminal (VLT) network has also advanced as planned. This plan is designed to tighten control over VLTs in Québec and reduce their number. The Board has monitored this issue closely.

The Board also wants to emphasize, once again, the tight and efficient management of all Loto-Québec projects, achieved in part through optimized and harmonized processes. The creation of hubs of expertise in key areas for the Corporation is one of the initiatives that are fostering convergence among the sectors.

### APPOINTMENTS

Three new directors were appointed by the Government of Québec's Cabinet last March, Marie Côté, Hugo Delorme and Dominique Gauthier. The Board is pleased to be able to count on their extensive experience and competency, and wishes them a warm welcome.

### ACKNOWLEDGMENTS

I want to take this opportunity to thank the four members who have left the Board after several years, Lynda Durand (since 2011), Jean André Élie (since 2011), Mel Hoppenheim (since 2004) and Serge LeBel (since 2003). Thank you for your valuable input.

I also want to mention the excellent work of my fellow directors. Together, we are ensuring that the very highest governance standards are met.

I thank President and Chief Executive Officer Lynne Roiter, as well, for her dedication and leadership. This experienced manager and the other members of the Executive Committee are valuable assets for Loto-Québec.

Finally, the Board of Directors would like to acknowledge the Corporation's entire staff. It is thanks to them that Loto-Québec is performing so well. Thank you!



Hélène F. Fortin, FCPA, FCA, ICD.D  
Chairwoman of the Board of Directors

# MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

**LYNNE ROITER**  
PRESIDENT AND CHIEF EXECUTIVE OFFICER



For the third consecutive year, Loto-Québec reports continued growth. Our total revenues are up 3.7% and our consolidated net income is up 8.5% compared to the previous fiscal year. Our net profit margin climbed 1.6 percentage points to reach 35.4%. This good performance is due to the combined efforts of all our sectors to revitalize our offer and to the efficient management that is well entrenched throughout the entire organization, all the while remaining faithful to our responsible commercialization commitment.

## INCREASES ALL AROUND

For 2017-2018, our lottery sales were up. Grande Vie, a Canada-wide product launched in October 2016, is very popular with Quebecers, as proven by our excellent market share of 33.4%. The other Canada-wide lotteries, Lotto 6/49 and Lotto Max, also performed well in terms of market share and volume of sales for each jackpot level. Instant lotteries and event betting also saw increases.

Our four casinos saw revenue growth, and a steadily increasing number of visitors. Overall traffic increased by 3.1%, nearly 290,000 visits.

The popularity of our online gaming site grows year after year. In the last fiscal year, its total revenue for all games combined were up 37.5%.

The gaming establishment sector posted a slight increase in revenues. Revenues from video lottery terminals (VLTs) in bars and brasseries were quite stable, except in areas targeted by a reduction in the number of terminals, where revenues are slowing. Our two gaming halls continued to do well. Bingo halls followed the downward trend observed industry-wide, but a pilot project for electronic bingo, which will be launched this summer, is expected to counter this trend. Kinzo halls, meanwhile, increased their revenues.

## BUILDING ON OUR SUCCESSES AND GOING EVEN FURTHER

Our excellent results were not a matter of chance. Our renewal strategy has proven to be conclusive, which is why we are continuing along the same path. Our 2017-2020 strategic orientations, adopted during the last fiscal year, will allow us to build on our successes and go even further.

THE CHOSEN RENEWAL  
STRATEGY HAS PROVEN  
CONCLUSIVE, WHICH IS WHY  
WE ARE CONTINUING ALONG  
THE SAME PATH.

## CLIENT-CENTRED APPROACH

Over the course of the year, we continued to revitalize our offer, to meet the expectations of our customers and respond to new consumer trends.

In early 2018, we launched our new lotoquebec.com portal, which puts all our online gaming offers in the same place. We also simplified the navigation between our product families, to offer our customers a unique, simple and user-friendly online experience.

More and more of our products are available in different forms. We offer several of our games both online and in our land-based locations, respecting a “brick and click” strategy. In this way, our customers can enjoy our offer in different ways, which reflects a strong market trend.

We have had an impressive number of winners in all our gaming sectors. We continued to promote them through media releases, press briefings or recorded interviews broadcast on our website and on social media. One of our advertising campaigns featured real lottery winners.

## COMBINED GAMING AND ENTERTAINMENT OFFER

In addition to our jackpots which make customers dream, we are adding features to our offer that foster socializing, interaction and discovery, to create emotions by combining gaming and entertainment.

We have pursued the idea of holding themed activities in our casinos. Multi-game stations were also inaugurated at the Casino de Charlevoix and Casino de Mont-Tremblant. Inspired by the Zone concept in the Casino de Montréal and Casino du Lac-Leamy, they encourage group entertainment.

We also organized fun activities in our two gaming halls, which celebrated their 10<sup>th</sup> anniversary in fall 2017.

Attractive entertainment options can also be found in our lotteries. The instant lottery category was enhanced by the improvement of certain products and the launch of several original new lotteries.

## WELL-ANCHORED CORPORATE RESPONSIBILITY APPROACH

Our corporation responsibility approach is improving our overall performance by contributing positively to the community socially, economically and environmentally. This approach is grounded in the responsible commercialization of our offer.

Our World Lottery Association (WLA) Security Control Standard Certification was renewed, confirming the safety and integrity of our practices. We also hold the highest international responsible gambling certification, WLA Level 4.

The VLT network action plan, designed to tighten control on VLTs and reduce their number, is on track. Some 635 terminals have been removed since the plan was implemented. By December 31, 2018, the network will have fewer than 9,900 VLTs, surpassing our target.

Our employees have been very generous in contributing to various causes, particularly through the *Tous gagnants* campaign, which benefits Centraide, HealthPartners-Québec, the Canadian Red Cross, Québec division, and Moisson partner organisms.

The last fiscal year also saw the beginning of a study/internship program for young adults with intellectual disabilities, in partnership with the Fondation Les Petits Rois. We are very proud to support these young people in their journey to developing their independence and social inclusion.

## WORKING TOGETHER WITH SYNERGY AND PLEASURE HAS CONTRIBUTED TO OUR SUCCESS.

### CONTINUAL IMPROVEMENT OF OUR WORK PROCESSES

The improvement and harmonization of our work processes make us more agile and more efficient, which are essential assets in light of the rapid pace of development in our industry. Our entire staff is involved in the optimization process.

We reviewed the certification management process used for our slot machines to be able to offer new games more quickly without compromising integrity.

The way we market instant lotteries, especially the frequency of new launches, has also been revisited.

Furthermore, we set up hubs of expertise in marketing and advertising, innovation and business intelligence, online gaming as well as in sports betting. These multi-sector collaboration initiatives enhance the convergence and consistency of our initiatives.

### ACKNOWLEDGMENTS

First of all, I would like to thank the government and the Board of Directors for the confidence they showed in me by appointing me as President and Chief Executive Officer of Loto-Québec on May 31, 2017.

The support and collaboration of the Board of Directors, especially Chairwoman Hélène F. Fortin, are especially important for me and for the entire organization. I also want to recognize the four outgoing board members, Lynda Durand, Jean André Élie, Mel Hoppenheim and Serge LeBel, and thank them for their dedication and valuable contributions to the Corporation.

I also take this opportunity to wish a warm welcome to our three new directors, Marie Côté, Hugo Delorme and Dominique Gauthier.

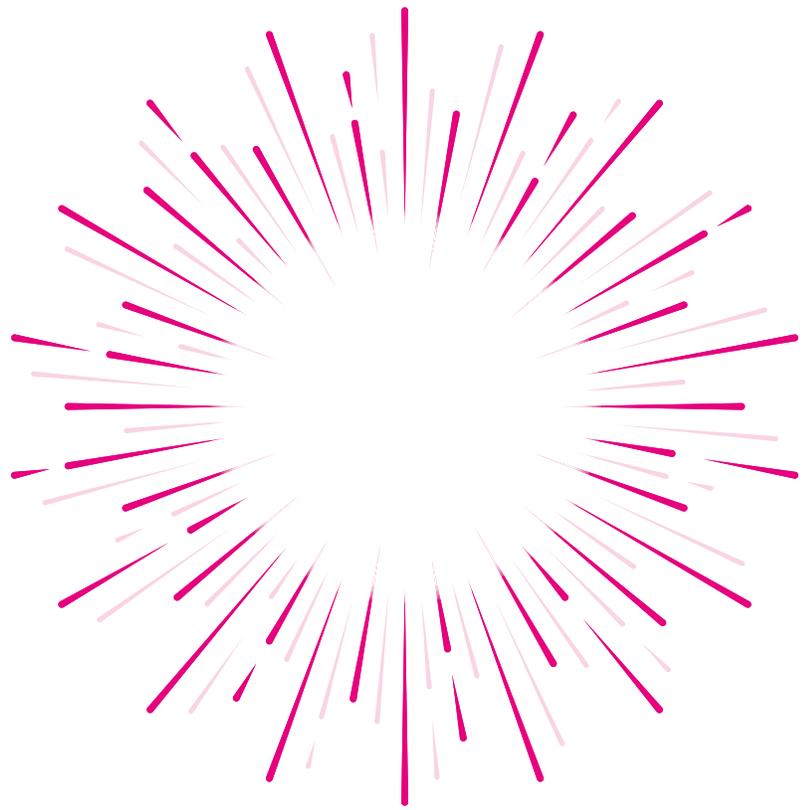
My thanks go, also, to my colleagues on the Executive Committee and to all the members of the staff for their unflagging commitment. Working together with synergy and pleasure has contributed to our success.



Lynne Roiter  
President and Chief Executive Officer



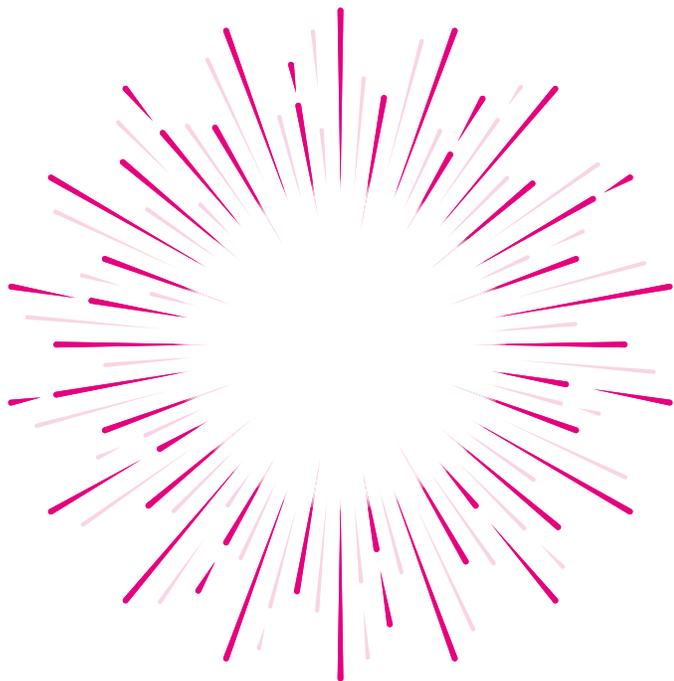
REVIEW OF  
**ACTIVITIES**



ORIENTATION 1

## **PLACE THE CUSTOMER AT THE CENTRE OF OUR DECISION-MAKING PROCESS**

Placing the customer at the centre of all our decisions is an invaluable source of competitive differentiation. Our offer, our commercialization methods, our marketing strategies and our customer service must reflect consumer gaming and entertainment expectations and habits.





## LOTS OF WINNERS

Over the course of the year, we handed out:

- 106 prizes of \$1 million or more, all games combined
- 17,917 lottery prizes of \$1,000 or more, an average of 71 prizes each business day

## ONLINE LUCK

Players at lotoquebec.com won 25 prizes of \$100,000 or more.

## BIGGEST PRIZES ONLINE (POWERBUCKS)

- \$1,222,069 on July 24, 2017
- \$1,152,714 on September 21, 2017
- \$1,000,000 on July 21, 2017

## BIGGEST CASINO PRIZES

- \$1,825,339 at the Grand Prix slot machine
- \$1,737,626 at the Powerbucks slot machine
- The Gagnant à vie! slot machine grand prize was won three times. Two winners chose the lump sum of \$675,000. The third chose \$1,000 per week for life.

## PUBLICATION OF WINNERS' NAMES

We held 16 meetings with lottery winners and the media. On average, one interview was recorded with a winner every week and posted on our website and on social media.

## NEWS THAT CIRCLES THE GLOBE

In March, a young woman won the Gagnant à vie! grand prize with a ticket purchased on her 18<sup>th</sup> birthday. She chose the annuity of \$1,000 per week for life. The news was picked up by the media in some twenty countries, including CNN (United States) and the BBC (United Kingdom).



## BIGGEST GRAND PRIZES WON IN QUÉBEC DURING THE YEAR

PRIZE	LOTTERY	DRAW DATE	WINNER'S PLACE OF RESIDENCE
\$60,000,000	Lotto Max	December 22, 2017	Montréal, Montréal
\$55,000,000	Lotto Max	April 21, 2017	Montréal
\$55,000,000	Lotto Max	June 2, 2017	Estrie
\$23,017,319	Lotto Max	August 4, 2017	Saguenay-Lac-Saint-Jean
\$16,042,016	Lotto 6/49	September 6, 2017	Lanaudière, Montérégie, Montréal
\$15,000,000	Lotto Max	October 27, 2017	Montréal
\$12,715,949	Lotto 6/49	May 24, 2017	Montréal
\$10,000,000	Lotto Max	July 14, 2017	Montréal
\$7,039,870	Lotto 6/49	February 14, 2018	Estrie
\$7,000,000	Lotto 6/49	August 19, 2017	Montréal
\$7,000,000	Grande Vie	February 12, 2018	Montréal, Montréal
\$7,000,000	Grande Vie	March 8, 2018	Lanaudière

## WINNERS FOUND

We issued news releases to find the winners of prizes of \$1 million or more that have not yet been claimed. In all cases, the winners made contact before the end of the claim period.

## CÉLÉBRATION 2018

In the 2018 edition, consumers could take part in extra TV draws by depositing their entry coupons at any of the 107 lottery kiosks, in the casinos and gaming halls or by subscribing online. Nearly 700,000 coupons were submitted, a 136% increase over the previous year's number.

## ONLINE LOTTERIES

Our online lottery sales increased significantly (+34.0%) compared to the previous year. This increase stems in part from sales of event betting, Grande Vie and Lotto 6/49.

## SIMPLIFIED BETTING

Express betting, launched in 2016-2017, generated sales of over \$400,000 in less than a year. Mise-o-jeu's excellent performance can be seen both online and in the retailer network.

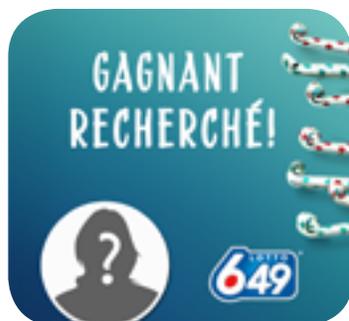
## TICKET DISTRIBUTORS

The lottery sector has started installing adaptive lottery ticket distributors in the bingo and gaming halls.

## LA POULE AUX ŒUFS D'OR

La Poule aux œufs d'or celebrated its 25<sup>th</sup> anniversary. For the occasion:

- The set was revamped.
- A special 60-minute program was aired on September 6, 2017.
- Bonus prizes were offered: cruise packages with hosts Guy Mongrain and Claudia Ébacher.





### ROUE DE FORTUNE CHEZ VOUS!

After 29 seasons, Roue de fortune chez vous! has given 3,642 winners the chance to spin the famous wheel. Over \$151 million has been handed out to winners, including five grand prizes of \$1 million. It's one of the most popular TV shows during the summer season.

### 100 \$ ULTIME

Buoyed by its success in spring 2017, 100 \$ ULTIME was rolled out again in 2018. The marketing campaign focused on the winners of the first edition. The draws for the 2018 edition were broadcast on TVA on April 5. A total of 14 prizes of \$1 million were won, 5 by individuals and 9 by groups.



### SINGLE PORTAL, MULTIPLE OFFER

All our online activities have been gathered together on the lotoquebec.com portal. Thanks to simplified navigation, it is easier for customers to find Loto-Québec's games: lotteries, casino games, sports betting, XP games, poker and bingo.

### BRICK AND CLICK

Our casinos have a huge advantage over their competitors: the "brick and click" experience, which offers complementary physical and virtual gaming. Nearly 40 games are currently offered both in casino and online. In light of its success, this strategy will be developed further.



### PROGRESSIVE ONLINE JACKPOT

The progressive MegaJackpots™ was launched online in August. It is offered with several games and begins at \$500,000. Two other jurisdictions, Ontario and British Columbia, will launch it this year too, which will make the jackpot grow faster.

### US\$1 MILLION TOURNAMENT

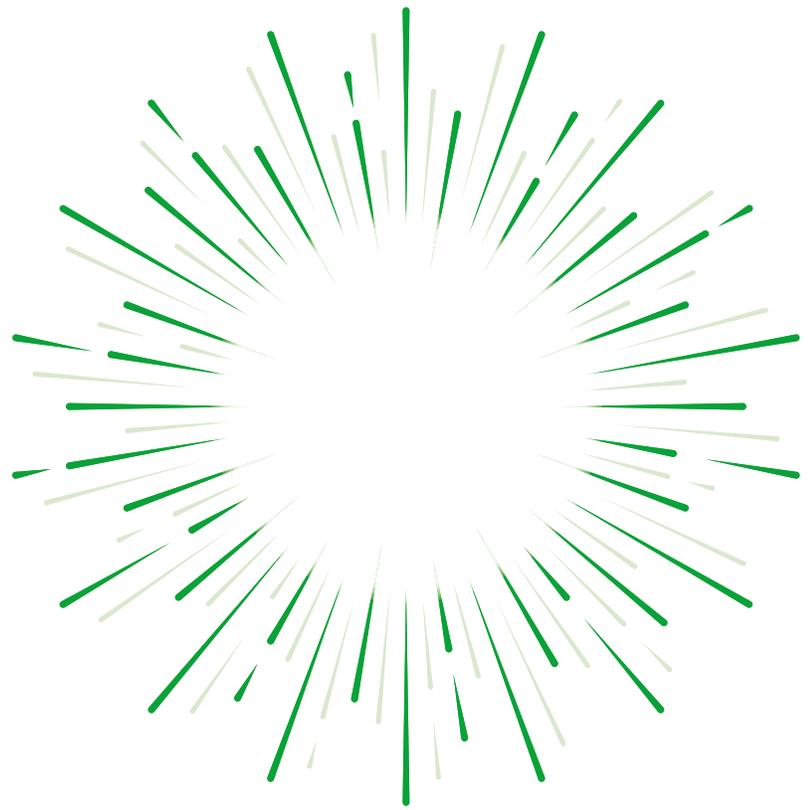
In summer 2017, customers at the four casinos were able to take part in a mega slot machine tournament. The participants had the chance to win a place at the biggest slot machine tournament in North America, the TournEvent of Champions, which has a jackpot of US\$1 million. Four representatives of our casinos headed off to Las Vegas for the occasion.

### RECORD BAD BEAT JACKPOT

The Texas Hold'em Poker Bad Beat jackpot at the Casino de Montréal increased for over a year to the record sum of \$1,605,642 on March 31, a historic peak in North America. It was finally won in April 2018.

### BINGO+

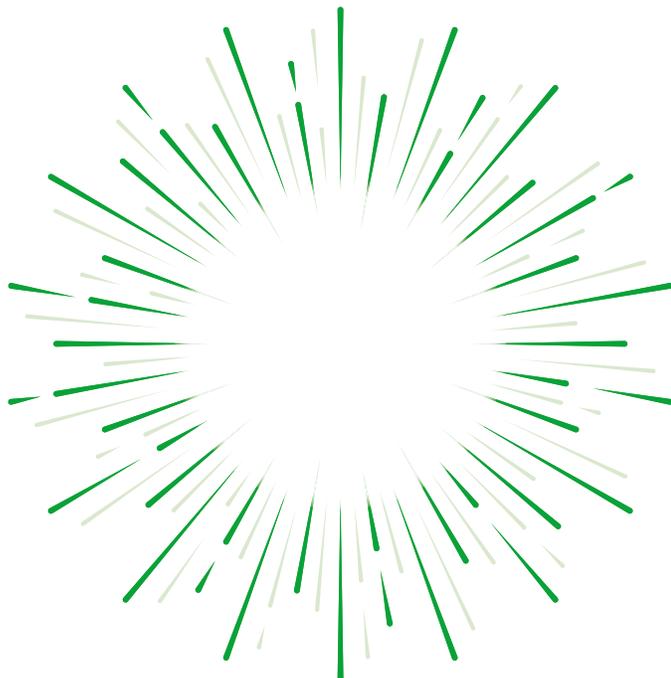
Five bingo halls were chosen for the one-year electronic bingo pilot project, with the hopes that bingo+ can jump-start the industry. The first hall will offer bingo+ in summer 2018 and four others will follow suit.



ORIENTATION 2

## **DEVELOP NEW GROWTH OPPORTUNITIES COMBINING GAMING AND ENTERTAINMENT**

We are stepping up the renewal of our overall offer to create an unparalleled entertainment experience, relying on the extensive expertise we have acquired over the years and establishing relevant partnerships to strengthen our entertainment positioning.





## ENTERTAINING THEMES

Our casinos have continued the strategy of developing theme months for our customers. The decor, free music and dance shows, restaurant offers and promotional activities are all brought into play to create a colourful ambiance.

## PROMOTING THE OFFER

Our casinos have partnered with nearby events to promote their offer to a wide range of audiences. For example, people are invited to continue their celebrations at the casino after:

- Osheaga
- ÎleSoniq
- Festival country de Gatineau
- Tremblant Gourmand

## MULTI-GAME STATIONS

The Casino de Charlevoix and Casino de Mont-Tremblant inaugurated animated multi-game stations that foster group entertainment. Customers can simultaneously play one or more of the many games on offer. These stations are another version of the Zone concept at the Casino de Montréal and Casino du Lac-Leamy.

## THE YEAR'S CASINO THEMES

- Leave in a BMW
- Retro Casino
- It's Country
- Big Win
- Viva Vegas
- Now Boarding

## OD BALI

The Casino de Montréal joined forces with *Occupation Double Bali*, hosting several events related to the reality TV show, which enjoyed great visibility in social media:

- Auditions
- Announcement of the female candidates
- Two VIP nights with eliminated participants
- The final party with the eliminated participants

## THE DISTRICT

The District is a slot machine area in our casinos where there is an extra-festive ambiance thanks to music and multimedia projections. The District has been very successful with customers, who are looking for opportunities to socialize.



## CASINO PACKAGES

Since November, the casinos have been offering a line of gift packages to their clientele. They are on sale at casinos as well as in La Forfaiterie's retail locations and on its website. The packages reflect the variety of entertainment available in the casinos:

- Food and Fun
- Food and Fun Plus
- My evening in the Zone and My Multi-Game evening
- My Private Croupier



## CASINOS, ART DESTINATIONS

The Casino de Montréal and Casino du Lac-Leamy both inaugurated "artistic routes". We asked guest curators to choose which Québec artworks to put on display. The routes make the works of the Collection Loto-Québec more accessible than ever and add to the visitors' experience.

## GRANDE VIE

For its first complete year, the Canada-wide lottery Grande Vie posted good results in Québec, with 33.4% of the market share. The \$1,000 per day for life annuity was won three times during the year, twice in Québec.

## LOTTO MAX

Lotto Max offered 14 draws with a jackpot of \$50 million or more, and Quebecers were very lucky. Of the 16 jackpot-winning tickets, 6 were in Québec. The holders of these six winning tickets, who played alone or as part of a group, shared a total of \$218 million.

## LOTTO 6/49

The best-known of the Québec lotteries celebrated its 35<sup>th</sup> anniversary. The jackpot was won in Québec 11 times out of 43. Several promotions were held over the course of the year, such as super draws and super Wednesdays. To mark the lottery's anniversary, we also broadcast an ad inspired by the 1980s. In 35 years of existence, Lotto 6/49 has given out \$7.7 billion to Quebecers.

## SOCIAL MEDIA

We stepped up our presence in the social media in order to connect with audiences that are hard to reach via traditional methods. For example, a photo safari was held in the Charlevoix region with four web personalities. It generated thousands of views and hundreds of social media engagements.

## CÉLÉBRATION 2018

Sales of the ticket increased by 4.3% in comparison with the previous year. The gala on January 14 was watched by 1,355,000 viewers.

## 10<sup>th</sup> ANNIVERSARY

In the fall, the Québec City and Trois-Rivières gaming halls celebrated their 10<sup>th</sup> anniversary. Both establishments held a celebration event, hosted by Guy Mongrain and Claudia Ébacher.

## GAGNANT À VIE!

Lotteries that offer annuities are undeniably popular. Sales of the scratch ticket increased by 23% in comparison to the previous year.

## TEMPORARY KIOSKS

Temporary lottery kiosks were installed at several events to reach out to the general public. For example:

- Promotion of the holiday collection at the Grand Marché de Noël in Montréal
- Espace Grande Vie at the Salon national de l'habitation in Montréal
- Mise-o-jeu kiosk at sporting events, including boxing galas in casinos





## POPULAR BETTING

Event betting sales increased by 12.3%, the best performance of all Canadian jurisdictions. The two most popular events were:

- Boxing match between Conor McGregor and Floyd Mayweather
- Football final between the Philadelphia and New England teams

In total, 335,000 questions were offered, an increase of 29% over the previous year.

## REVITALIZED CONTENT

The lotteries and Roue de fortune chez vous! Facebook pages exceeded 115,000 and 105,000 subscribers, respectively. They each now feature more entertaining content and generate an excellent engagement rate.



## VIRTUAL REALITY

In the summer, in collaboration with the Jasmin Roy Foundation, we improved the support we give lottery winners. Virtual reality is used to equip winners and make them aware of what to expect after a big win.

## POPULAR ACTIVITIES IN THE GAMING HALLS

Entertaining activities such as comedy nights and themes such as *L'Italie en folie* helped draw in more crowds and generate more revenues in the gaming halls.

## KINZO SUCCESS

Special events in the Kinzo halls pleased the customers, significantly increasing revenues in comparison with the same period the previous year. The Kinzo halls support a lot of non-profit organizations.



## PRIZE-WINNING ADS

Our ads, especially the Lotto 6/49 ads, were very well received and have made their mark in major advertising competitions:

- Créa 2018: 16 awards, including the Grand Créa for the Perseids video
- Prix Média 2017: 4 awards, including media concept of the year
- Concours Strat 2017: Grand prize for best use of media in a marketing initiative

## SCRATCH TICKETS

The scratch ticket portfolio was improved with several new products reaching different audiences, such as the J'aime la poutine, Canadiens and Calendrier de l'avent tickets.

## FUN INNOVATION

A connected collective game, developed in part by our internal teams, was tested at the Festivent de Lévis. The festival-goers played over 7,400 rounds. The winners received the new J'aime la poutine scratch ticket.

## COMEDY NIGHTS

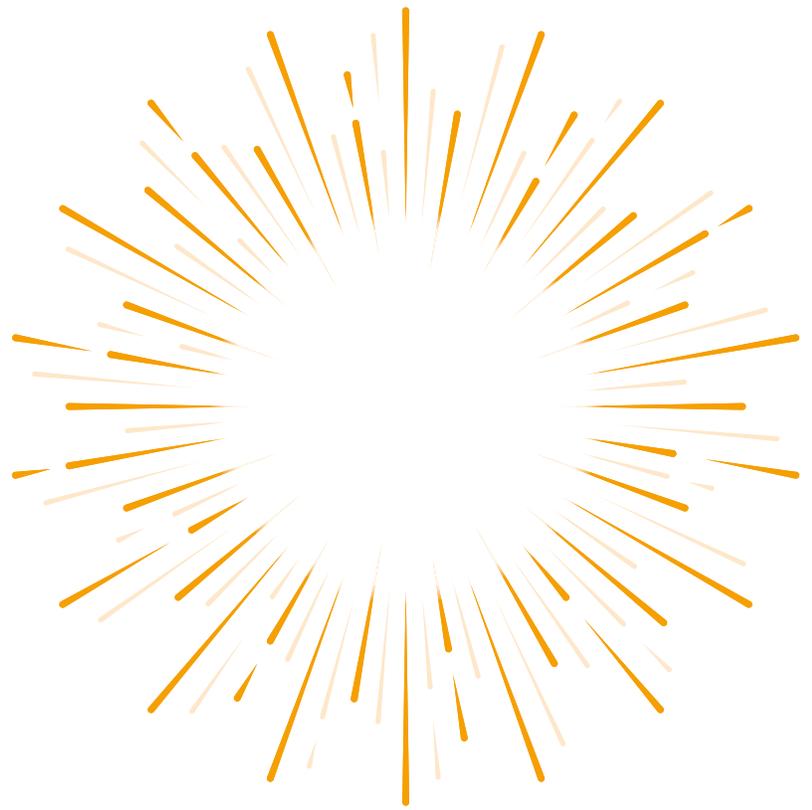
A total of 18 free comedy nights were held in the Casino de Montréal, the Casino de Charlevoix, the Casino de Mont-Tremblant and the Salon de jeux de Trois-Rivières. The shows were presented in partnership with the Festival ComediHa!

## DIGITAL PARTNERSHIPS

We partnered with several major events in the digital entertainment world, including:

- DreamHack Montréal
- eCOM MTL
- Pixel Challenge

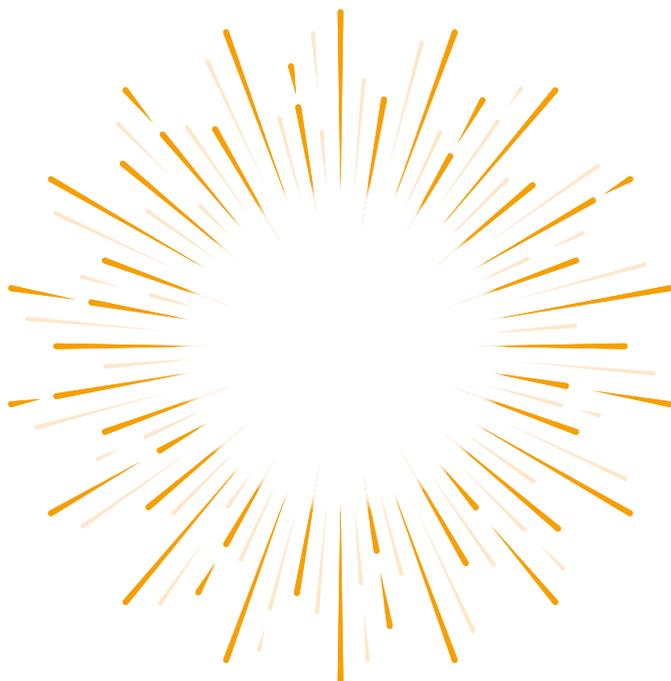
These partnerships provide an opportunity to showcase many independent video game studios in Québec and foster exchanges among industry members.



ORIENTATION 3

## **FOSTER GOODWILL TOWARDS OUR ORGANIZATION AND OFFERINGS**

We are continuing to do everything we can to contribute positively to the Québec community. We are constantly striving to maintain a balance between the economic and social dimensions of our mission. This balance depends on the responsible commercialization of our offer.





### INTERNATIONAL CERTIFICATION

Our World Lottery Association Security Control Standard Certification was renewed. The certificate, valid until June 2020, confirms that we rigorously apply the world's best safety and integrity practices for gaming activities.

### RETAILER TRAINING

A total of 3,874 video lottery retailers and their employees took the *Taking risks is no game* training during the year.

### IT'S ALWAYS JUST UP TO CHANCE

The awareness campaign launched in 2016 was rolled out again in February and March 2018, on the web and in the video lottery bars and brasseries network.

### CENTRES DU HASARD

To optimize the players' awareness of the nature of gambling, a number of improvements were made to the Centres du hasard kiosks in the casinos and gaming halls. The setup of the kiosks was reviewed at the casinos in Charlevoix, Mont-Tremblant and Lac-Leamy, and the training for the hosts in all six kiosks was improved.

### PROMOTION OF THE CENTRES DU HASARD

Periodic activities were held in the gaming halls and casinos to increase interactions with the customers. Over 10,000 interactions were recorded in a few nights thanks to this initiative.

### SUPPORT FOR SELF-EXCLUDED PLAYERS

To encourage self-excluded players to access assistance resources, a telecounselling program was offered as a pilot project at the Casino du Lac-Leamy. In light of the good results the pilot achieved, the program will be expanded to the four casinos and two gaming halls beginning September 2018.

### AWARENESS CONTENT

Content was posted on [lejeudoitresterunjeu.com](http://lejeudoitresterunjeu.com) providing a playful explanation of how slot machines work. It was the first of a series that will be posted online to inform players about the nature of games of chance.



### ANNUAL MOISSON CAMPAIGN

Casino employees collected over 15,000 kg of food and \$24,000 for Moisson Montréal, Moisson Outaouais, Moisson Laurentides and the Service alimentaire et d'aide budgétaire de Charlevoix-Est.

### ECONOMIC SPIN-OFFS OF THE CASINOS

In 2017, the Société des casinos du Québec (SCQ) has passed the milestone of 25 years. The casinos generate significant economic benefits, such as:

- Nearly 8,200 direct, indirect and spin-off jobs
- Tourism expenditures close to \$180 million per year
- Trade supporting 1,900 suppliers in Québec

### SUPPORT FOR NPOS

The commissions paid to the non-profit organizations (NPOs) that manage lottery kiosks amounts to \$9.9 million. Nearly 700 NPOs enjoyed benefits from network bingo. The sum distributed to them during the year was \$6.0 million.

### ICI, ON CARTE!

The *Ici, on carte!* program was maintained. This program, with its mystery shopper visits to lottery retailers, ensures that the law prohibiting the sale of lottery tickets to minors is respected.



### GASTRONOMIQC LAB

The Université Laval and the Institut de tourisme et d'hôtellerie du Québec (ITHQ) created a mixed research unit for the gastronomic sciences, with the financial support of the SCQ. The GastronomiQc Lab, as it is known, will carry out research, creation, training and knowledge-transfer activities in the food, culinary, behavioural and economic sciences. It will also support the development of Québec's gastronomy and restaurants by promoting products from Québec.

### MONTREAL PRIDE

The event provided an opportunity to strengthen our entertainment positioning through our sponsorship program. At both the festival site and the Casino de Montréal, fun activities forged bonds between the LGBTQ community and Loto-Québec.

### INCREASED SURVEILLANCE

To ensure that the Code of Responsible Commercialization is being upheld in the video lottery terminal (VLT) network, the number of compliance visits to the establishments amounts to 5.8 visits per establishment per year, making us a leader in this area.

## VLT REMOVAL

The VLT action plan has led to the removal of 635 VLTs since its implementation. The withdrawals are targeted to ensure that the ratios of establishments and VLTs to inhabitants are respected in the sectors. More terminals will be withdrawn by December 31, 2018, to reduce the number of terminals in the network to fewer than 9,900, surpassing our target.

## FUN WITH SPONSORSHIPS

Events we sponsor give us the opportunity to get closer to our customers. We took advantage of this to present fun activities featuring our offer. For summer 2017, the main activities were:

- Drone races
- Musical bicycles
- Luminous dance
- Giant musical scratch ticket

## GIANT MUSICAL SCRATCH TICKET

At several events we sponsored, the visitors had the chance to test a fun immersive experience. Two competing players had to find the winning icons on their giant musical scratch ticket. The music and lighting reacted to the movements of the players, creating a highly entertaining atmosphere.

## LES PETITS ROIS

We received two groups of “little kings,” adults with moderate to severe intellectual disabilities. They did a workplace study internship at the headquarters and in the employee areas of the Casino de Montréal, to support their path to independence and foster their inclusion in society.

## MOUVEMENT CONTEST

In partnership with Novae, we held the *Mouvement* contest, to showcase the projects of engaged entrepreneurs who are helping build a fairer, more environmentally aware society. The Tero project, an express composter, won the Loto-Québec 2018 award of \$10,000.

## BOMA BEST

The Casino de Mont-Tremblant's excellent eco-responsible management earned it the Gold category of BOMA BEST 3.0 certification. It is the first casino in Canada to receive this certification.

## EMPLOYEE GENEROSITY

Several times, our employees heeded the call to pay it forward. For example:

- \$247,354 raised during the *Tous gagnants* generosity campaign
- \$10,000 raised during the Leucan Shaved Head Challenge
- 407 books given to the Literacy Foundation
- 107 children sponsored through Opération Père Noël
- 311 backpacks filled with supplies for back to school

## LES VIVATS

We acknowledge the sustainable development efforts and creativity leveraged in the event management sector by handing out three awards at *Les Vivats - Les prix Loto-Québec pour les événements responsables*, which is held by the Conseil québécois des événements écoresponsables:

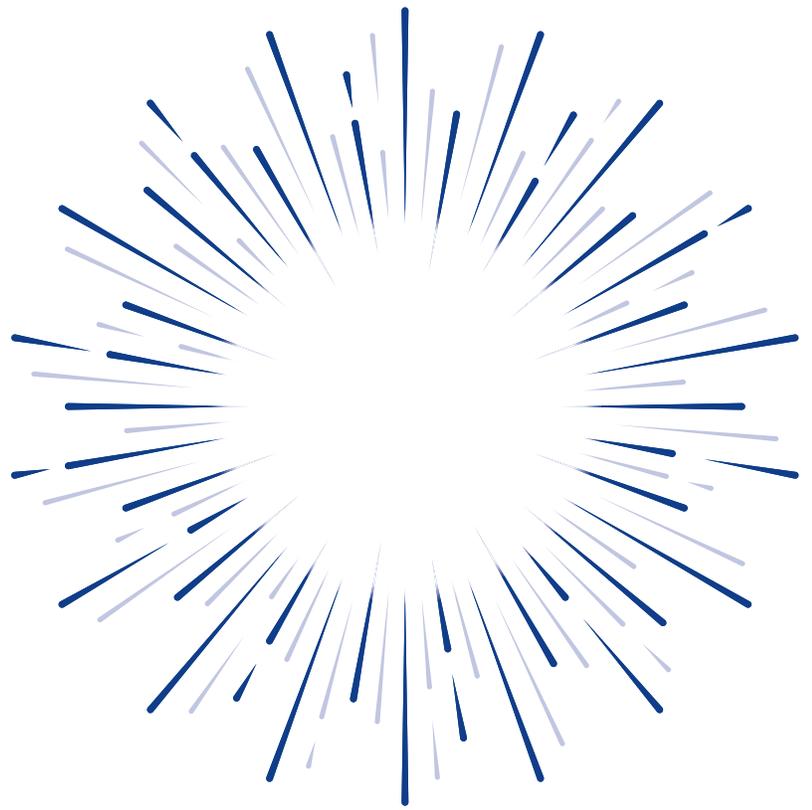
- Grand Vivat, budget over \$500,000: La Transat Québec Saint-Malo from Gestev
- Grand Vivat, budget under \$500,000: Concours de châteaux de sable des Îles
- Vivat, location: ITHQ hotel

## THE GIFT OF ART

We held the *L'art en cadeau* promotion in collaboration with the Contemporary Art Galleries Association. A total of 10 prizes gave winners the chance to acquire an artwork at the Papier fair.

## LEGACY TO THE COMMUNITY

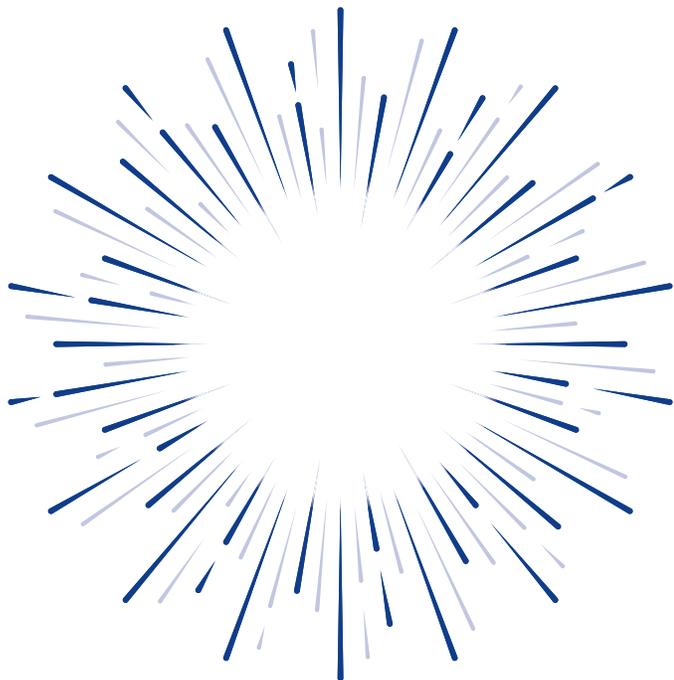
We launched two community legacy projects to make art more accessible to the public. Gatineau and La Malbaie will each receive an artwork created especially for them. The works will be installed outdoors, in locations that are meaningful for these two cities.



ORIENTATION 4

## **IMPROVE OUR AGILITY AND OUR WORK PROCESS**

Improving our agility and our work process makes us ever more flexible and efficient. These are essential assets in the rapidly changing gaming and entertainment markets. The skill, versatility and commitment of our staff contribute to the success of this optimization process.





### ACCOMPANYING OUR CUSTOMERS

A course was developed for slot machine attendants. They are now better equipped to recommend games to customers, based on the experience they are looking for. This course improves customer service and the customers' gaming experience.

### MARKETING SCRATCH TICKETS

We made several changes to the way we manage scratch tickets. One of the big changes is that we reduced the number of tickets in the display stands, which makes new tickets easier to spot. The frequency of new ticket launches was also reduced by half. These changes contributed to the excellent performance in this category during the year (+13.9%).

### IMPROVED TERMINALS

Some of the components of our video lottery terminals unrelated to the games were reinforced, which will reduce maintenance costs and generate savings of nearly \$1 million a year beginning in 2018-2019.

### ONLINE TRAINING

A new online training and information platform for video lottery retailers was launched in December. It allows retailers and employees responsible for video lottery to take the required courses and receive documents addressed to them.

### EXTENDED TELECOMMUNICATIONS NETWORK

The lottery sector is about to deploy a new telecommunications network to serve its 8,411 retailers and 107 kiosks, which are managed by 46 non-profit organizations.



## HUBS OF EXPERTISE

New multisectoral teams were created to foster concertation among our business sectors and kindle innovative initiatives. The hubs are focused on:

- Marketing and advertising
- Innovation and business intelligence
- Online gaming
- Sports betting

## TRANSFORMATION OF INFORMATION TECHNOLOGIES

The IT transformation program that was started the previous year continued. The goal is to modernize the Corporation's technologies to support its business orientations.

## ONLINE GAMING

Besides making navigation smoother, the new lotoquebec.com portal, which groups together Loto-Québec's games, also improves processes for business sectors that sell products online (lotteries, casino games, etc.). It also helps leverage the synergies among the product families.

## EMPLOYEE MOBILIZATION

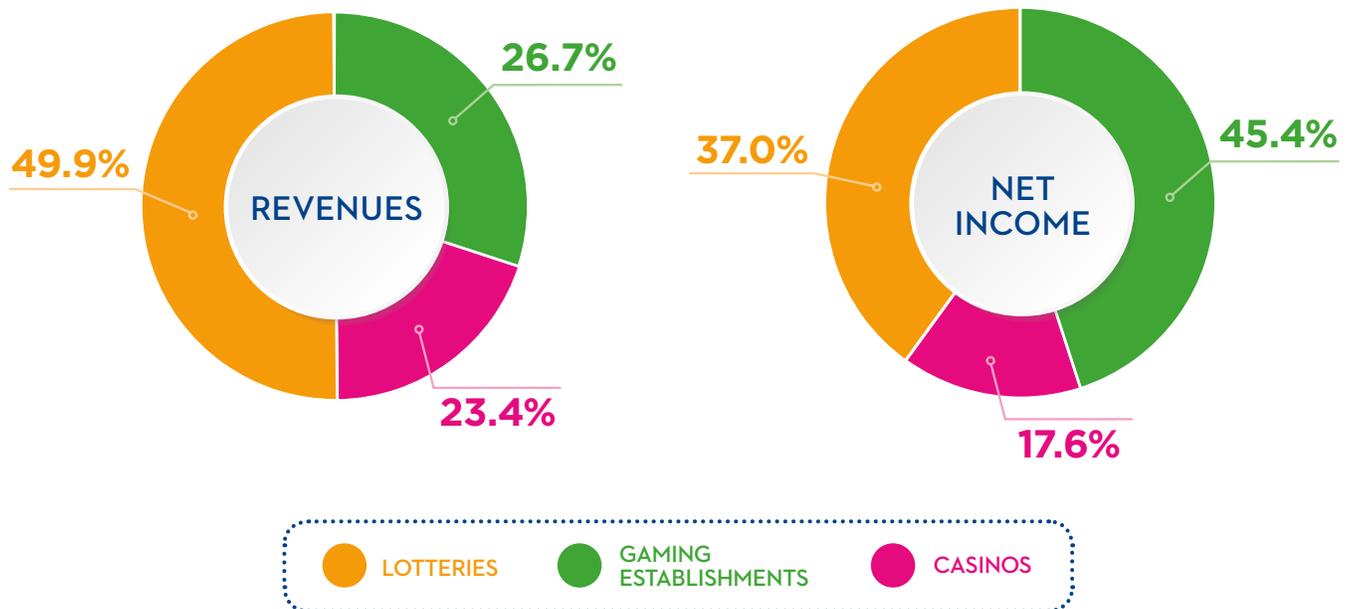
Internal communications campaigns about the Corporation's values and strategic orientations were held to encourage the employees to embrace them.



**FINANCIAL**  
**REVIEW**

## FINANCIAL REVIEW

AS AT MARCH 31, 2018



Loto-Québec posted consolidated revenues of \$3.769 billion in 2017-2018, an increase of \$133.6 million (+3.7%) compared to the previous year.

The consolidated gross profit totalled nearly \$2.331 billion, compared to \$2.236 billion in 2016-2017, an increase of \$95.1 million (+4.3%). Total expenses, including net financial expenses, amounted to \$995.3 million, down \$9.8 million (-1.0%). The consolidated net income was \$1.335 billion, up \$104.9 million (+8.5%) from the preceding fiscal year.

### LOTTERIES

With revenues of \$1.881 billion, the lottery sector posted an increase of \$53.2 million (+2.9%) compared to the previous year. Thanks to the winner promotion strategy, revenues increased for the third consecutive year. Revenues from the sale of online lotteries amounted to \$53.7 million, an increase of \$13.6 million (+34.0%) over 2016-2017.

The increase in revenues stems mainly from the instant lottery category (+\$54.4 million), with Canada-wide games and permanent games experiencing particular success. The changes made in product management allowed us to reposition this category, which had seen a lag in sales in recent years. To reverse this trend, we developed new visuals and themes, and reduced the number of games launched each year.

The draw lottery category posted a decrease of \$10.7 million (-0.8%), due mainly to Lotto Max and the special editions.

Lotto Max sales fell \$30.3 million (-8.6%). In 2017-2018, there were 8 fewer major jackpots than in 2016-2017, for a total of 14 jackpots of \$50 million or more and 112 Maxmillions. In 2016-2017, there were 22 jackpots of \$50 million or more and 290 Maxmillions. It should be noted that our market share for this Canada-wide lottery rose from 18.1% in 2016-2017 to 19.7% in 2017-2018.

The decrease in the sales of the special editions (-\$31.8 million) stems mainly from the 100 \$ ULTIME, which was held for the first time on March 30, 2017. The draw for the 2018 edition was on April 5, during the 2018-2019 fiscal year.

These decreases were partly compensated by the new Canada-wide lottery Grande Vie (+\$35.2 million), launched on October 18, 2016, for which our market share was 33.4%, higher than Ontario's.

Lottery gross profit was \$716.7 million, up \$25.5 million (+3.7%) from the previous year, mainly thanks to the increase in revenues.

In all, \$1.002 billion in prizes was awarded to winners, while \$138.6 million went to retailer commissions.

## REVENUES

### AS AT MARCH 31

(In thousands of Canadian dollars)

	2018	2017	\$ Variation	% Variation
<b>Draw lotteries</b>				
Lotto 6/49	332,320	327,380	4,940	1.5
Lotto Max	321,489	351,785	(30,296)	(8.6)
Grande Vie	67,843	32,616	35,227	108.0
Québec 49	61,737	61,849	(112)	(0.2)
Québec Max	40,983	44,898	(3,915)	(8.7)
Extra	142,151	135,988	6,163	4.5
Banco	163,693	160,496	3,197	2.0
Quotidienne	43,228	42,961	267	0.6
Tout ou rien	7,001	5,256	1,745	33.2
Astro	3,411	3,319	92	2.8
Triplex	2,970	3,097	(127)	(4.1)
Lotto Poker	30,792	29,495	1,297	4.4
Sprinto	3,277	3,160	117	3.7
Lotto :D	3,953	3,751	202	5.4
Lotto Hockey	–	491	(491)	(100.0)
Roue de fortune Éclair	12,740	7,820	4,920	62.9
Plinko	–	1,551	(1,551)	(100.0)
Eldorado	–	627	(627)	(100.0)
La Mini	9,026	7,909	1,117	14.1
Téléactives	53,234	54,274	(1,040)	(1.9)
Special editions	49,705	81,483	(31,778)	(39.0)
<b>Total for draw lotteries</b>	<b>1,349,553</b>	<b>1,360,206</b>	<b>(10,653)</b>	<b>(0.8)</b>
Instant lotteries	445,405	390,966	54,439	13.9
Event betting	86,169	76,724	9,445	12.3
<b>Total</b>	<b>1,881,127</b>	<b>1,827,896</b>	<b>53,231</b>	<b>2.9</b>
<b>Online gaming</b> (Included in the table above)	<b>53,734</b>	<b>40,105</b>	<b>13,629</b>	<b>34.0</b>

## CASINOS

For the casino sector, revenues amounted to \$906.9 million, up \$68.2 million (+8.1%) compared to the previous year. This increase is mainly due to the promotion of the varied entertainment offering in the casinos, the increase in visitor traffic and the strength

of the online gaming offer. The casinos received nearly 290,000 more visits (+3.1%) than in 2016-2017, when the figure was also 3.0% higher than in 2015-2016.

## REVENUES

### AS AT MARCH 31

(In thousands of Canadian dollars)	2018	2017	\$ Variation	% Variation
Casino de Montréal	511,433	479,443	31,990	6.7
Casino de Charlevoix	42,671	39,376	3,295	8.4
Casino du Lac-Leamy	270,560	257,405	13,155	5.1
Casino de Mont-Tremblant	17,976	16,797	1,179	7.0
Online gaming	64,308	45,754	18,554	40.6
<b>Total</b>	<b>906,948</b>	<b>838,775</b>	<b>68,173</b>	<b>8.1</b>

## GAMING ESTABLISHMENTS

The gaming establishment sector, which includes video lottery terminals in bars and brasseries, gaming halls as well as bingo and Kinzo halls, posted revenues of \$1.007 billion in 2017-2018. Compared to the previous year, this represents an increase of \$13.0 million (+1.3%). The increase in revenues is due mainly to the gaming halls, which saw their revenues increase by \$7.6 million (+14.1%). The promotional activities held in the gaming halls are as popular as ever, as the increasing numbers of people prove. Gaming halls welcomed some 42,000 more visitors (+5.0%) than in 2016-2017.

Revenues have remained stable in the bars and brasseries network, but there has been an increase in the order of 6.6% in the restaurant sector where we have terminals. Furthermore, the 0.7% growth comes from sectors that meet all the socio-economic criteria. In the areas targeted for the removal of terminals, revenues are slowing down.

Commissions paid to gaming establishment operators totalled \$203.9 million. The sum of \$6.0 million was turned over to non-profit organizations that hold a bingo licence.

## REVENUES

### AS AT MARCH 31

(In thousands of Canadian dollars)	2018	2017	\$ Variation	% Variation
Bars and brasseries	901,797	895,801	5,996	0.7
<b>Gaming halls</b>				
Salon de jeux de Québec	45,518	39,799	5,719	14.4
Salon de jeux de Trois-Rivières	15,805	13,944	1,861	13.3
<b>Total for gaming halls</b>	<b>61,323</b>	<b>53,743</b>	<b>7,580</b>	<b>14.1</b>
Bingo	26,316	27,470	(1,154)	(4.2)
Kinzo	17,127	16,503	624	3.8
<b>Total</b>	<b>1,006,563</b>	<b>993,517</b>	<b>13,046</b>	<b>1.3</b>

## ONLINE GAMING

For 2017-2018, the total revenues (lotteries and casinos) generated by our online gaming site, lotoquebec.com, amounted to \$118.0 million, an increase of 37.5% compared to 2016-2017.

## OPERATING EXPENSES

Expenses amounted to \$982.6 million, a decrease of \$9.0 million (-0.9%) compared to the previous year.

This improvement stems from the three-year optimization plan (2014-2015 to 2016-2017). Our daily management efforts focus on reviewing our processes, projects and programs, to ensure maximum efficiency in the entire organization. The effect of these changes is reflected in the payroll (other than social benefits) which, after more than four years, is 1.6% lower than in 2013-2014, despite costs related to collective agreements. Over this same period, staff was reduced by 7.0%, despite the increase in traffic and the broader entertainment offering in the casinos.

Compared to 2013-2014, the Corporation's total expenses on March 31, 2018, including net financial expenses, were 2.2% lower for similar activities.

## NET FINANCIAL EXPENSES

Net financial expenses amounted to \$7.9 million, a decrease of \$0.6 million compared to the previous year, due to a lower volume of borrowing in 2017-2018.

## CONTRIBUTIONS TO GOVERNMENTS

Loto-Québec's contribution to the Finance Minister in the form of dividend stood at \$1.310 billion, \$104.9 million more than in the previous fiscal year. An additional \$25.0 million was paid into the Government of Québec's various designated funds, along with \$98.1 million to the Ministère du Revenu in Québec Sales Tax. Loto-Québec's total contributions to the Government of Québec equalled nearly \$1.434 billion (2017: \$1.336 billion). The Corporation also paid \$17.1 million to the Government of Canada as compensation for the federal government's withdrawal from the lottery sector and \$48.6 million in Goods and Services Tax, for a total of \$65.7 million (2017: \$69.7 million).

## CONTRIBUTIONS TO GOVERNMENTS

### AS AT MARCH 31

(In millions of Canadian dollars)

	2018	2017
<b>Government of Québec</b>		
Dividend	1,310.5	1,205.6
Designated funds	25.0	25.0
Québec Sales Tax	98.1	105.2
<b>Total to Government of Québec</b>	<b>1,433.6</b>	<b>1,335.8</b>
<b>Government of Canada</b>		
Compensation - withdrawal from the lottery sector	17.1	16.9
Goods and Services Tax	48.6	52.8
<b>Total to Government of Canada</b>	<b>65.7</b>	<b>69.7</b>
<b>Total</b>	<b>1,499.3</b>	<b>1,405.5</b>

## SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED MARCH 31

(In thousands of Canadian dollars)

Business segments	2018				Consolidated figures
	Lotteries	Casinos	Gaming establishments	Elimination of intragroup transactions	
<b>Revenues</b>					
Games	1,881,127	802,879	1,006,563	–	3,690,569
Restaurants	–	84,154	–	(25,414)	58,740
Accommodation	–	19,915	–	–	19,915
	<b>1,881,127</b>	<b>906,948</b>	<b>1,006,563</b>	<b>(25,414)</b>	<b>3,769,224</b>
<b>Cost of sales</b>					
Prizes awarded	1,002,074	–	24,982	–	1,027,056
Commissions	138,588	–	203,939	–	342,527
Royalties	860	15,975	192	–	17,027
Printing	22,862	–	1,354	–	24,216
Food and beverages	–	27,627	–	–	27,627
	<b>1,164,384</b>	<b>43,602</b>	<b>230,467</b>	<b>–</b>	<b>1,438,453</b>
<b>Gross profit</b>	<b>716,743</b>	<b>863,346</b>	<b>776,096</b>	<b>(25,414)</b>	<b>2,330,771</b>
<b>Expenses</b>					
Employee benefits	64,875	342,099	36,318	(7,198)	436,094
Depreciation, amortization and net impairment losses	13,364	76,686	36,514	–	126,564
Special payments	17,090	–	3,847	–	20,937
Goods and Services Tax	11,472	7,414	13,713	–	32,599
Québec Sales Tax	23,055	14,981	27,538	–	65,574
General operating, administrative and other expenses	91,224	179,285	48,510	(18,216)	300,803
	<b>221,080</b>	<b>620,465</b>	<b>166,440</b>	<b>(25,414)</b>	<b>982,571</b>
<b>Income from operating activities</b>	<b>495,663</b>	<b>242,881</b>	<b>609,656</b>	<b>–</b>	<b>1,348,200</b>
Financial income	(948)	(551)	(166)	–	(1,665)
Financial expenses	3,090	3,132	3,385	–	9,607
<b>Net financial expenses</b>	<b>2,142</b>	<b>2,581</b>	<b>3,219</b>	<b>–</b>	<b>7,942</b>
Share of net loss of entities accounted for using the equity method and payments to partners	–	4,791	–	–	4,791
<b>Net income</b>	<b>493,521</b>	<b>235,509</b>	<b>606,437</b>	<b>–</b>	<b>1,335,467</b>

(In thousands of Canadian dollars)

2017

<b>Business segments</b>				<b>Elimination of intragroup transactions</b>	<b>Consolidated figures</b>
	<b>Lotteries</b>	<b>Casinos</b>	<b>Gaming establishments</b>		
<b>Revenues</b>					
Games	1,827,896	744,773	993,517	–	3,566,186
Restaurants	–	75,474	–	(24,561)	50,913
Accommodation	–	18,528	–	–	18,528
	<b>1,827,896</b>	<b>838,775</b>	<b>993,517</b>	<b>(24,561)</b>	<b>3,635,627</b>
<b>Cost of sales</b>					
Prizes awarded	987,611	–	24,741	–	1,012,352
Commissions	127,694	–	202,603	–	330,297
Royalties	604	8,867	109	–	9,580
Printing	20,721	–	1,448	–	22,169
Food and beverages	–	25,580	–	–	25,580
	<b>1,136,630</b>	<b>34,447</b>	<b>228,901</b>	<b>–</b>	<b>1,399,978</b>
<b>Gross profit</b>	<b>691,266</b>	<b>804,328</b>	<b>764,616</b>	<b>(24,561)</b>	<b>2,235,649</b>
<b>Expenses</b>					
Employee benefits	65,618	328,430	36,791	(7,331)	423,508
Depreciation, amortization and net impairment losses	17,259	76,522	38,837	–	132,618
Special payments	16,934	–	4,265	–	21,199
Goods and Services Tax	11,830	7,971	15,200	–	35,001
Québec Sales Tax	23,605	15,928	30,325	–	69,858
General operating, administrative and other expenses	86,003	162,544	78,103	(17,230)	309,420
	<b>221,249</b>	<b>591,395</b>	<b>203,521</b>	<b>(24,561)</b>	<b>991,604</b>
<b>Income from operating activities</b>	<b>470,017</b>	<b>212,933</b>	<b>561,095</b>	<b>–</b>	<b>1,244,045</b>
Financial income	(707)	(949)	(114)	–	(1,770)
Financial expenses	3,564	2,692	4,029	–	10,285
<b>Net financial expenses</b>	<b>2,857</b>	<b>1,743</b>	<b>3,915</b>	<b>–</b>	<b>8,515</b>
Share of net loss of entities accounted for using the equity method and payments to partners	–	4,979	–	–	4,979
<b>Net income</b>	<b>467,160</b>	<b>206,211</b>	<b>557,180</b>	<b>–</b>	<b>1,230,551</b>

# COMPARATIVE RESULTS

FOR THE YEAR ENDED MARCH 31

(In thousands of Canadian dollars)	2018	2017	2016	2015	2014
Consolidated results					
<b>Revenues</b>	<b>3,769,224</b>	<b>3,635,627</b>	<b>3,560,283</b>	<b>3,338,016</b>	<b>3,519,084</b>
<b>Cost of sales</b>					
<b>Lotteries</b>					
Prizes awarded	1,002,074	987,611	935,837	867,766	959,390
Commissions	138,588	127,694	123,993	114,541	122,254
Royalties	860	604	771	982	652
Printing	22,862	20,721	20,825	21,812	26,483
	<b>1,164,384</b>	<b>1,136,630</b>	<b>1,081,426</b>	<b>1,005,101</b>	<b>1,108,779</b>
<b>Casinos</b>					
Royalties	15,975	8,867	6,589	4,255	3,783
Food and beverages	27,627	25,580	23,324	19,622	21,269
	<b>43,602</b>	<b>34,447</b>	<b>29,913</b>	<b>23,877</b>	<b>25,052</b>
<b>Gaming establishments</b>					
Prizes awarded (bingo and Kinzo)	24,982	24,741	25,006	20,557	20,019
Commissions	203,939	202,603	200,888	197,805	204,146
Royalties	192	109	–	–	–
Printing	1,354	1,448	1,607	1,293	1,948
	<b>230,467</b>	<b>228,901</b>	<b>227,501</b>	<b>219,655</b>	<b>226,113</b>
<b>Total</b>	<b>1,438,453</b>	<b>1,399,978</b>	<b>1,338,840</b>	<b>1,248,633</b>	<b>1,359,944</b>
<b>Gross profit</b>	<b>2,330,771</b>	<b>2,235,649</b>	<b>2,221,443</b>	<b>2,089,383</b>	<b>2,159,140</b>
<b>Operating expenses</b>					
Lotteries	173,189	168,555	177,213	171,801	182,195
Casinos	495,970	466,413	455,638	448,047	473,890
Gaming establishments	88,675	119,159	94,579	97,787	95,774
Depreciation, amortization and net impairment losses	126,564	132,618	136,499	138,864	136,010
Goods and Services Tax	32,599	35,001	32,902	32,779	34,674
Québec Sales Tax	65,574	69,858	65,685	65,397	69,186
	<b>982,571</b>	<b>991,604</b>	<b>962,516</b>	<b>954,675</b>	<b>991,729</b>
<b>Income from operating activities</b>	<b>1,348,200</b>	<b>1,244,045</b>	<b>1,258,927</b>	<b>1,134,708</b>	<b>1,167,411</b>
<b>Net financial expenses</b>	<b>7,942</b>	<b>8,515</b>	<b>12,372</b>	<b>13,560</b>	<b>18,053</b>
Share of net loss of entities accounted for using the equity method and payments to partners	4,791	4,979	5,075	5,345	5,213
Writedown - other receivables	–	–	14,486	–	–
<b>Net income</b>	<b>1,335,467</b>	<b>1,230,551</b>	<b>1,226,994</b>	<b>1,115,803</b>	<b>1,144,145</b>



CONSOLIDATED  
**FINANCIAL  
STATEMENTS**

## MANAGEMENT'S REPORT

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The consolidated financial statements of Loto-Québec have been prepared by management, which is responsible for their preparation and presentation, including significant estimates and judgments. This responsibility involves the selection of appropriate accounting policies in accordance with International Financial Reporting Standards (IFRS). All financial information contained in the annual report on activities is consistent with that appearing in the consolidated financial statements.

To fulfil its responsibilities, management develops, establishes and maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded on a timely basis and in a manner suitable for preparing reliable consolidated financial statements. Corporate Management of Internal Audit carries out periodic audits to ensure that internal controls are adequate, consistent and applied uniformly by Loto-Québec.

Loto-Québec acknowledges its responsibility for conducting its affairs in accordance with its governing statutes and regulations.

The Board of Directors of Loto-Québec oversees management in the performance of its financial reporting responsibilities and approves the consolidated financial statements, assisted by its Audit Committee consisting solely of independent members. The Audit Committee meets with management, Corporate Management of Internal Audit, the Auditor General of Québec and 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 accordance with Canadian generally accepted auditing standards, and their independent auditors' report states the nature and scope of this audit and expresses their opinion. The Auditor General of Québec and KPMG have full and free access to the Audit Committee to discuss any matter related to their audit.

President and Chief Executive Officer,  
Loto-Québec



LYNNE ROITER

Corporate Vice-President  
Finance and Administration, Loto-Québec



JOHANNE ROCK, CPA, CA

MONTRÉAL, QUÉBEC  
MAY 30, 2018

# INDEPENDENT AUDITORS' REPORT

To the Minister of Finance

## REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Loto-Québec, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statements of comprehensive income, changes in shareholder's equity and cash flows for the year then ended, as well as a summary of significant accounting policies and other explanatory information included in the accompanying notes.

### 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 International Financial Reporting Standards (IFRS), 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 the auditor's 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, the auditor considers 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 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, 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### OTHER MATTER

The consolidated financial statements of Loto-Québec for the year ended March 31, 2017 were jointly audited by the Auditor General of Québec and the accounting firm Raymond Chabot Grant Thornton LLP, who expressed an unmodified opinion on those consolidated financial statements on June 1, 2017.

## 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, those standards have been applied on a basis consistent with that of the preceding year.

Auditor General of Québec



KPMG LLP<sup>1</sup>  
MONTRÉAL, QUÉBEC  
MAY 30, 2018




GUYLAINE LECLERC, FCPA AUDITRICE, FCA  
MONTRÉAL, QUÉBEC  
MAY 30, 2018



<sup>1</sup>FCPA auditor, FCA, public accountancy permit No. A110618

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED MARCH 31, 2018

(In thousands of Canadian dollars)	2018	2017
<b>Revenues</b> (Note 5)	<b>3,769,224</b>	3,635,627
<b>Cost of sales</b> (Note 5)	<b>1,438,453</b>	1,399,978
<b>Gross profit</b> (Note 5)	<b>2,330,771</b>	<b>2,235,649</b>
<b>Expenses</b>		
Employee benefits (Note 6)	436,094	423,508
Depreciation, amortization and net impairment losses (Notes 14 and 15)	126,564	132,618
Special payments (Note 7)	20,937	21,199
Goods and Services Tax	32,599	35,001
Québec Sales Tax	65,574	69,858
General operating, administrative and other expenses	300,803	309,420
	<b>982,571</b>	<b>991,604</b>
<b>Income from operating activities</b>	<b>1,348,200</b>	<b>1,244,045</b>
Financial income (Note 8)	(1,665)	(1,770)
Financial expenses (Note 8)	9,607	10,285
<b>Net financial expenses</b> (Note 8)	<b>7,942</b>	<b>8,515</b>
Share of net loss of entities accounted for using the equity method and payments to partners (Note 13)	4,791	4,979
<b>Net income</b>	<b>1,335,467</b>	<b>1,230,551</b>
<b>Other comprehensive income (loss)</b>		
Items that will not be reclassified subsequently to net income:		
Remeasurements of the net defined benefit liability (Note 20)	(8,296)	18,668
<b>Comprehensive income</b>	<b>1,327,171</b>	<b>1,249,219</b>

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

# CONSOLIDATED STATEMENT OF CHANGE IN SHAREHOLDER'S EQUITY

FOR THE YEAR ENDED MARCH 31, 2018

(In thousands of Canadian dollars)	Share capital	Retained earnings	Accumulated other comprehensive income	Total
<b>Balance as at April 1, 2016</b>	<b>170</b>	<b>86,300</b>	<b>24,731</b>	<b>111,201</b>
Dividend	–	(1,205,551)	–	(1,205,551)
Contributions to the Government of Québec (Note 9)	–	(25,000)	–	(25,000)
Transactions with the shareholder	–	(1,230,551)	–	(1,230,551)
Net income	–	1,230,551	–	1,230,551
Other comprehensive income				
Remeasurements of the net defined benefit liability (Note 20)	–	–	18,668	18,668
Comprehensive income	–	1,230,551	18,668	1,249,219
<b>Balance as at March 31, 2017</b>	<b>170</b>	<b>86,300</b>	<b>43,399</b>	<b>129,869</b>
Dividend	–	(1,310,467)	–	(1,310,467)
Contributions to the Government of Québec (Note 9)	–	(25,000)	–	(25,000)
Transactions with the shareholder	–	(1,335,467)	–	(1,335,467)
Net income	–	1,335,467	–	1,335,467
Other comprehensive loss				
Remeasurements of the net defined benefit liability (Note 20)	–	–	(8,296)	(8,296)
Comprehensive loss	–	1,335,467	(8,296)	1,327,171
<b>Balance as at March 31, 2018</b>	<b>170</b>	<b>86,300</b>	<b>35,103</b>	<b>121,573</b>

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2018

(In thousands of Canadian dollars)

	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents (Note 24)	122,222	81,834
Trade and other receivables (Note 10)	110,979	69,308
Inventories (Note 11)	10,297	9,379
Prepaid expenses	25,660	22,298
Current portion of financial assets related to life annuities (Note 12)	1,540	1,413
<b>Total current assets</b>	<b>270,698</b>	<b>184,232</b>
Interests in entities accounted for using the equity method, loans and advance (Note 13)	34,928	33,735
Property, plant and equipment (Note 14)	756,859	824,618
Intangible assets (Note 15)	54,665	63,190
Financial assets related to life annuities (Note 12)	116,509	110,343
<b>Total non-current assets</b>	<b>962,961</b>	<b>1,031,886</b>
<b>Total assets</b>	<b>1,233,659</b>	<b>1,216,118</b>
<b>LIABILITIES</b>		
Bank loans (Note 16)	289,294	391,282
Dividend payable	168,967	65,651
Accounts payable and accrued liabilities (Note 17)	201,496	204,129
Current portion of financial liabilities related to life annuities (Note 12)	1,540	1,413
Provisions (Note 18)	52,941	44,625
Deferred revenues	44,503	10,997
Current portion of long-term debt (Note 19)	100,000	40,000
<b>Total current liabilities</b>	<b>858,741</b>	<b>758,097</b>
Long-term debt (Note 19)	117,832	217,651
Net defined benefit and other long-term benefit liability (Note 20)	19,004	158
Financial liabilities related to life annuities (Note 12)	116,509	110,343
<b>Total non-current liabilities</b>	<b>253,345</b>	<b>328,152</b>
<b>Total liabilities</b>	<b>1,112,086</b>	<b>1,086,249</b>
<b>SHAREHOLDER'S EQUITY</b>		
Share capital authorized, issued and paid: 1,700 shares with a par value of \$100 each	170	170
Retained earnings	86,300	86,300
Accumulated other comprehensive income	35,103	43,399
<b>Total shareholder's equity</b>	<b>121,573</b>	<b>129,869</b>
<b>Total liabilities and shareholder's equity</b>	<b>1,233,659</b>	<b>1,216,118</b>

ON BEHALF OF THE BOARD



HÉLÈNE F. FORTIN, FCPA, FCA  
CHAIRWOMAN OF THE BOARD OF DIRECTORS



LYNNE ROITER  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2018

(In thousands of Canadian dollars)	2018	2017
<b>OPERATING ACTIVITIES</b>		
Net income	1,335,467	1,230,551
Items not affecting cash:		
Depreciation, amortization and net impairment losses	126,564	132,618
Loss on disposal of property, plant and equipment and intangible assets	4,191	9,491
Defined benefit and other long-term benefit expense	27,674	26,636
Share of net loss of entities accounted for using the equity method and payments to partners	4,791	4,979
Interest income on loans to Casinos Développement Europe	–	(631)
Foreign exchange gain on loans to Casinos Développement Europe	–	(122)
Gain on disposal of loans to Casinos Développement Europe	–	(4,466)
Other net financial expenses	7,942	9,945
Net change in non-cash items (Note 24)	(3,496)	29,112
Capitalization of defined benefit obligation	(17,124)	(18,031)
Interest paid	(9,667)	(11,420)
Interest received	1,665	1,139
<b>Cash flows provided by operating activities</b>	<b>1,478,007</b>	<b>1,409,801</b>
<b>INVESTING ACTIVITIES</b>		
Increase in loans and advance	–	(1,300)
Additions to property, plant and equipment (Note 14)	(47,678)	(72,710)
Additions to intangible assets (Note 15)	(10,428)	(16,939)
Proceeds from disposal of property, plant and equipment	326	9,664
Proceeds from disposal of loans to Casinos Développement Europe	–	19,688
Investment, net of distributions, in Manoir Richelieu Limited Partnership and payments to partners	(5,700)	(5,464)
<b>Cash flows used in investing activities</b>	<b>(63,480)</b>	<b>(67,061)</b>
<b>FINANCING ACTIVITIES</b>		
Dividend paid	(1,207,151)	(1,212,094)
Net change in bank loans	(101,988)	(59,718)
Repayment of long-term debt	(40,000)	(49,625)
Contributions to the Government of Québec (Note 9)	(25,000)	(25,000)
<b>Cash flows used in financing activities</b>	<b>(1,374,139)</b>	<b>(1,346,437)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>40,388</b>	<b>(3,697)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>81,834</b>	<b>85,531</b>
<b>Cash and cash equivalents, end of year (Note 24)</b>	<b>122,222</b>	<b>81,834</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2018

(In thousands of Canadian dollars)

## 1

### INCORPORATION AND ACTIVITIES

The Société des loteries du Québec, designated under the name Loto-Québec, is a joint-stock company whose shares form part of the public domain of Québec and are allocated to the Québec Minister of Finance. Under its incorporating statute (CQLR, chapter S-13.1), the functions of Loto-Québec are to conduct and administer lottery schemes and to operate businesses which are incidental to the operation of a State casino. Loto-Québec may also offer, for consideration, consulting and implementation services in matters within its competence. In addition, the *Act respecting mainly the implementation of certain provisions of the Budget Speech of 26 March 2015* amended the incorporating statute of Loto-Québec to ensure it performs the duties conferred on it by Title III.4 of the *Consumer Protection Act* (chapter P-40.1) in relation to online gaming. The amendments in question will come into force on the date to be fixed by the government. Under the *Income Tax Act* (R.S.C. (1985), Ch. 1 (5th supplement)) and the *Taxation Act* (CQLR, chapter I-3), Loto-Québec is exempt from income taxes.

Loto-Québec is a corporation domiciled in Québec, Canada. Loto-Québec's head office is located at 500 Sherbrooke Street West, Montréal, Québec.

The consolidated financial statements of Loto-Québec include the accounts of Loto-Québec and those of its subsidiaries (collectively called "Loto-Québec" and, individually, the "entities of Loto-Québec") as well as Loto-Québec's interests in joint ventures.

## 2

### BASIS OF PREPARATION

#### a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Board of Directors approved the consolidated financial statements of Loto-Québec and authorized their release on May 30, 2018.

#### b) Basis of measurement

The consolidated financial statements were prepared on a historical cost basis, except for:

- Derivative financial instruments, which were measured at fair value;
- Provisions, which were measured at the best estimate to settle the present obligations;
- The net defined benefit liability, which was measured at the present value of the defined benefit obligation, less the fair value of plan assets;
- Other long-term benefits, which were measured at the present value of the defined benefit obligation.

The methods used to measure fair value are discussed in greater detail in Note 23.

#### c) Functional currency and presentation currency

These consolidated financial statements are presented in Canadian dollars, the functional currency of Loto-Québec. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

#### d) Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to use its judgment in applying the accounting policies and to make assumptions and estimates that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year.

The estimates and underlying assumptions are reviewed on a regular basis, and the impact of any changes is immediately recognized. They are based on experience, economic conditions and general trends, as well as conditions pertaining to the probable outcome of those matters. Actual results could differ from management's best projections.

Information about significant assumptions and uncertainties related to items that are subject to estimates, that have a significant impact on the amounts recognized in the consolidated financial statements and that have a significant risk of causing a material adjustment over the next fiscal year is provided in the following notes:

- Net defined benefit and other long-term benefit liability (Notes 4 f) and 20 b) (iv))
- Fair value of financial assets and liabilities related to life annuities (Note 4 (i))
- Useful lives of property, plant and equipment and intangible assets (Note 4 m) and n))
- Internally generated intangible assets (Note 4 n))
- Impairment (Note 4 o))
- Provisions (Note 4 p))
- Contingent liabilities (Note 22)

### 3 | CHANGES IN ACCOUNTING POLICIES

Information on new standards, amendments and interpretations that are likely to be relevant for Loto-Québec's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued, but are not expected to have a significant impact on Loto-Québec's consolidated financial statements.

#### Amendments to standards that must be applied for the current fiscal year

##### IAS 7, Disclosure initiative

Loto-Québec has applied the amendments that require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The liabilities resulting from Loto-Québec's financing activities comprise bank loans (Note 16) and long-term debt (Note 19). A reconciliation of the opening balance to the closing balance of these items is provided in Note 24. In accordance with the transition rules set out in the amendments, Loto-Québec has not provided comparative information for the previous fiscal year. Except for the additional information provided in Note 24, the application of these amendments had no impact on the consolidated financial statements of Loto-Québec.

#### New standards and interpretations issued but not yet effective

At the date of authorization of these consolidated financial statements, new standards and amendments and interpretations of existing standards have been published, but are not yet effective, and Loto-Québec has not early adopted them. Management anticipates that all of the pronouncements will be applied for the first annual period beginning after the effective date of each pronouncement.

##### IFRS 9, Financial Instruments

In July 2014, the International Accounting Standards Board (IASB) approved and issued the final version of new standard IFRS 9, *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRIC 9, *Reassessment of Embedded Derivatives*.

IFRS 9 provides a logical model for classification and measurement, a single, forward-looking expected loss impairment model and a reformed approach to hedge accounting.

This standard replaces the multiple classification and measurement models for financial assets with a single measurement model comprising only three categories: amortized cost, fair value through other comprehensive income, fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial assets. The standard introduces a new impairment model requiring more timely recognition of expected credit losses. In particular, the new standard requires entities to account for expected credit losses from the date financial instruments are first recognized, and the new model provides for the recognition of full lifetime expected losses.

This new standard is effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Earlier application is permitted. Management of Loto-Québec is currently assessing the impact of the application of this new standard on the consolidated financial statements.

##### IFRS 15, Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15, which replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts*, IFRIC 13, *Customer Loyalty Programmes*, and certain other revenue-related interpretations. This new standard establishes a comprehensive framework for the recognition, measurement and disclosure of revenues.

The new standard:

- Establishes a control-based revenue recognition model;
- Changes the basis for determining whether revenue is recognized at a point in time or over time;
- Provides more detailed guidance on specific topics;
- Expands and improves revenue disclosures.

This new standard is effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Earlier application is permitted. Management of Loto-Québec is currently assessing the impact of the application of this new standard on the consolidated financial statements.

#### IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, which replaces IAS 17, *Leases*, and certain other lease-related interpretations. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low-value assets. In addition, IFRS 16 changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease components, variable lease payments and optional periods; changes the accounting for sale and leaseback arrangements; largely retains IAS 17's approach to lessor accounting for leases and introduces new disclosure requirements.

This new standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted under certain circumstances. Management of Loto-Québec is currently assessing the impact of the application of this new standard on the consolidated financial statements.

## 4

### SIGNIFICANT ACCOUNTING POLICIES

#### a) Principles of consolidation

##### (i) Subsidiaries

The subsidiaries are entities controlled by Loto-Québec. Control exists when Loto-Québec is exposed, or has rights, to variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over those subsidiaries. The financial statements of subsidiaries are integrated into the consolidated financial statements from the date control is obtained until the date control is lost. The accounting policies of the subsidiaries have been harmonized, as required, with those adopted by Loto-Québec.

The consolidated financial statements include the accounts of Loto-Québec and those of its wholly owned subsidiaries, whose places of business are in Québec (Canada), namely:

- Lotim inc.
- Société des casinos du Québec inc.
- Casiloc inc.
- Société des établissements de jeux du Québec inc.
- Société du jeu virtuel du Québec inc.
- 9059-3849 Québec inc.
- Casino Mundial inc.
- Casino Capital 2006 inc.
- Nter Technologies, Limited Partnership
- Nter Technologies inc.

##### (ii) Interests in joint ventures

Manoir Richelieu Limited Partnership (MRLP) and its general partner, 9064-1812 Québec inc., are joint ventures over whose activities Loto-Québec has joint control, established by contractual agreement requiring partners' unanimous consent on strategic financial and operating decisions. MRLP, whose place of business is in Québec (Canada), owns a resort which includes a hotel, restaurants, a golf course, a spa and commercial rental space.

The joint ventures are initially recognized at cost. After their initial recognition, the consolidated financial statements incorporate Loto-Québec's share of the revenues and expenses and changes in equity of the entities accounted for using the equity method, taking into account adjustments made to bring the accounting policies in line with those of Loto-Québec, from the date on which Loto-Québec began to exercise significant influence or joint control until the date on which it ceases to exercise significant influence or joint control. When Loto-Québec's share of the losses exceeds its interest in an entity accounted for using the equity method, the carrying amount of this interest is reduced to zero and additional losses are no longer recognized, unless Loto-Québec has an obligation or has made payments on behalf of the investee.

**(iii) Transactions eliminated in the consolidated financial statements**

Intragroup balances and transactions, and the revenues and expenses arising from intragroup transactions, are eliminated in the preparation of the consolidated financial statements.

**b) Foreign currencies**

Transactions denominated in foreign currencies are initially recognized in the respective functional currencies of the Loto-Québec entities using the exchange rates in effect on the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are converted into the functional currency using the exchange rates in effect at the reporting date.

Foreign exchange gains and losses are reported on a net basis under General operating, administrative and other expenses in the consolidated statement of comprehensive income.

**c) Revenues**

**(i) Games**

Lotteries

Revenues from sales of lottery tickets are recorded on the date of the draw or, in the case of betting lotteries, on the start date of the event.

Revenues from sales of instant lottery tickets are recognized at the time of activation of strips of tickets.

Lottery tickets sold as at March 31 for draws or events subsequent to that date, with the exception of instant lotteries, are recorded as deferred revenues.

In addition to lottery prizes that are payable in cash or merchandise, Loto-Québec awards free tickets. The value allocated to free tickets, equal to their selling price, is recorded as a reduction of revenues at the time of the draw.

Casinos and gaming establishments

Revenues generated from gaming operations in these business segments consist of the difference between wagers made and prizes awarded, with the exception of bingo revenues, which are recorded at the draw date.

**(ii) Restaurants and accommodation**

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

**d) Free offer programs for clients**

Certain programs introduced by a Loto-Québec subsidiary allow clients, in particular, to accrue points for gaming, which are exchangeable for cash or goods and services.

- When clients are awarded points exchangeable for cash, a liability valued at an amount equal to the dollar value of the points is recognized under Accounts payable and accrued liabilities, with a corresponding amount recorded as a reduction of revenues. When clients redeem points exchangeable for cash, the value of the liability is reduced. Points are cancelled after 12 months of client account inactivity. Cancelled points result in an increase in revenues in the consolidated statement of comprehensive income.
- For programs offering points exchangeable for goods and services, each point accrued is recognized in Deferred revenues, with a corresponding amount recorded in General operating, administrative and other expenses in the consolidated statement of comprehensive income. Free offers are available in the client's account for a 180-day period. Cancelled points are reported under General operating, administrative and other expenses in the consolidated statement of comprehensive income.

**e) Cost of sales**

**(i) Prizes awarded**

Prizes awarded for bingo products in the gaming establishments segment and for instant and countrywide products in the lottery segment are measured using a theoretical rate applied to sales.

**(ii) Commissions**

Loto-Québec pays commissions based on a percentage of lottery and bingo revenues and revenues generated from video lottery terminals.

Commissions are recognized in the consolidated statement of comprehensive income when products are sold.

**f) Employee benefits**

**(i) Short-term benefits**

Salaries, government pension plan contributions, vacation, sick leave and bonuses are short-term benefits and are recognized during the year in which employees rendered the related services.

**(ii) Compulsory public plans**

Defined contribution plan accounting is applied to the compulsory public defined benefit plans, namely the Government and Public Employees Retirement Plan (RREGOP) and the Pension Plan of Management Personnel (PPMP), as Loto-Québec is not liable for obligations other than its contributions under these plans.

Contributions payable under those plans are recognized through net income in the years in which the services are rendered by employees, under Employee benefit expense in the consolidated statement of comprehensive income.

**(iii) Defined benefit plans**

The term "Defined benefit plan" means any post-employment benefit plan other than a defined contribution plan.

Pension plans

The net defined benefit liability (asset) recognized in the consolidated statement of financial position is equal to the deficit or surplus of defined benefit plans, i.e., the difference between the present value of the defined benefit obligation at the end of the reporting period and the fair value of plan assets, adjusted to take into account the effect, if any, of the asset ceiling. The net defined benefit liability (asset) is calculated separately for each plan. Actuarial valuations, for accounting purposes, are performed by an actuary at the end of each fiscal year. The asset ceiling equals the present value of any economic benefits available in the form of refunds or decreases in future contributions to the plan. An economic benefit is available for Loto-Québec if it can be realized during the life of the plan or when the plan obligations are settled.

The projected unit credit method is used to determine the present value of the defined benefit obligation, related current service cost and past service cost. This method is used to estimate the future benefits that employees have earned in return for their service in the current and prior fiscal years. These benefit amounts are discounted using a rate representing the yields at the end of the reporting period of high-quality corporate bonds rated AA or higher that have maturities close to the plan's defined benefit obligation and are denominated in the same currency as that in which the benefits will be paid.

Defined benefit expense consists of current service cost, past service cost, net interest and remeasurements of the net defined benefit liability (asset). Past service cost is recognized in net income in the fiscal year in which a plan amendment occurs. Net interest is determined by multiplying the net defined benefit liability by the discount rate. Current service cost, past service cost and net interest are recognized under Employee benefit expense in the consolidated statement of comprehensive income. Remeasurements, comprising actuarial gains and losses on the defined benefit obligations, the effect of any change in the asset ceiling (if any) and the return on plan assets (excluding interest income), are recognized in other comprehensive income in the fiscal year in which they occur and are not subsequently reclassified to net income.

Other long-term benefits

Other long-term benefits consist, among other things, of extended coverage during family and disability leave. The long-term benefit liability consists of the non-pension defined benefit obligation.

The method used to determine the present value of the defined benefit obligation, related current service cost and past service cost of other long-term benefits is the same as that used for pension plans.

Service cost, net interest and remeasurements of the long-term benefit liability are recognized in net income under Employee benefit expense in the consolidated statement of comprehensive income.

**(iv) Termination benefits**

Termination benefits are paid following Loto-Québec management's decision to terminate an employee's employment before the normal retirement date or when an employee accepts voluntary redundancy in exchange for termination benefits. Loto-Québec's management recognizes employment termination benefits when it is no longer entitled to withdraw its offer or when it is demonstrably committed, through a detailed formal plan without possibility of withdrawal, to terminate the employment of certain employees. The termination benefits are recognized under Employee benefit expense in the consolidated statement of comprehensive income.

**g) Commodity taxes**

Loto-Québec remits the goods and services tax (GST) to the Government of Canada, in accordance with the *Games of Chance (GST/HST) Regulations*, enacted under the *Excise Tax Act*, as well as Québec sales tax (QST) to the Government of Québec, in accordance with the *Regulation respecting the Québec sales tax (QST)*, enacted under the *Québec Sales Tax Act*.

Net taxes attributable to non-gaming activities are calculated in the same way as for other entities subject to commodity taxes (GST and QST). 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. Also, Loto-Québec pays additional taxes on the products and services acquired in and attributable to gaming activities which are presented separately in the consolidated statement of comprehensive income. Net taxes attributable to gaming activities represent approximately 30% of taxable gaming expenses.

**h) Financial income and financial expenses**

Financial income is recognized separately in the consolidated statement of comprehensive income and includes interest income on cash and cash equivalents and on loans to a joint venture.

Financial expenses are recognized separately in the consolidated statement of comprehensive income and include, if applicable, interest on bank loans and long-term debt and the effect of the unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualified asset are recognized in net income using the effective interest method.

Interest received and paid is presented in operating activities and the dividend paid is presented in financing activities in the consolidated statement of cash flows.

**i) Financial instruments****(i) Non-derivative financial instruments**

Non-derivative financial instruments include cash and cash equivalents, trade and other receivables, loans and advance to an entity accounted for using the equity method, financial assets related to life annuities, bank loans, the dividend payable, accounts payable and accrued liabilities, winners' prizes payable, salaries payable, the due to MRLP, financial liabilities related to life annuities and long-term debt.

Non-derivative financial instruments are initially recognized at fair value at the transaction date. Subsequent to initial recognition, non-derivative financial instruments are valued as described below.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when a financial asset and all of the risks and benefits of ownership of the financial asset are transferred. A financial liability is derecognized when it is settled, cancelled or expires.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost in the consolidated statement of financial position using the effective interest method, less net impairment losses. Interest income is recognized in Financial income in the consolidated statement of comprehensive income.

Loto-Québec has classified cash and cash equivalents, trade and other receivables, loans and advance to an entity accounted for using the equity method and financial assets related to life annuities as Loans and receivables.

**Financial liabilities**

Bank loans, the dividend payable, accounts payable and accrued liabilities, winners' prizes payable, salaries payable, the due to MRLP, financial liabilities related to life annuities and long-term debt are measured at amortized cost using the effective interest method.

**(ii) Fair value**

Loto-Québec classifies financial instruments recognized at fair value and financial instruments recognized at amortized cost for which fair value is presented using a three-level hierarchy based on the type of inputs used to develop those measurements:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: Inputs for the asset or liability that are not based on market data (unobservable inputs).

The fair value of a financial asset traded in an active market generally reflects the bid price, and the fair value of a financial liability traded in an active market generally reflects the asking price. If the market for a financial instrument is not active, fair value is determined using a valuation technique that makes maximum use of inputs observed from markets. Those valuation techniques include using available information concerning recent market transactions, discounted cash flow analysis and valuation models.

When fair value is determined using valuation models, Loto-Québec uses assumptions regarding the amount and timing of estimated future cash flows and discount rates. Those assumptions are primarily based on external observable market inputs, including factors such as interest rates, credit spreads, currency rates, and price and rate volatilities, as applicable. Assumptions or inputs that are not based on observable market data are used when external data are not available.

**j) Operating leases**

Where Loto-Québec is the lessee and is not transferred substantially all the risks and rewards of ownership, payments under operating leases are recognized as an expense on a straight-line basis over the lease period. Related costs are recognized as an expense when incurred.

**k) Cash and cash equivalents**

Under Loto-Québec's policy, cash and cash equivalents include cash on hand at casinos and bank balances.

**l) Inventories**

Inventories include food and beverages, and lottery tickets and paper stock.

Inventories are valued at the lower of cost and net realizable value. The cost is determined using the average cost method.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**m) Property, plant and equipment****(i) Recognition and measurement**

Property, plant and equipment are recognized at cost less any accumulated depreciation and any accumulated net impairment losses.

Cost includes expenditures directly attributable to the acquisition of the asset. The cost of an asset produced by Loto-Québec for itself includes the cost of raw materials, direct labour, any other costs directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management and capitalized borrowing costs relating to qualifying assets.

Purchased software that is integral to the functionality of the related equipment is recorded as a component of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separated items (main components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between the disposal proceeds and the net carrying amount of the item and are recognized under General operating, administrative and other expenses.

**(ii) Subsequent costs**

The cost of replacing a part of an item of property, plant and equipment is recognized in the item's carrying amount if it is probable that future economic benefits associated with the item will flow to Loto-Québec and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Day-to-day servicing and maintenance costs are recognized under General operating, administrative and other expenses as incurred.

**(iii) Depreciation**

Depreciation is calculated using the cost of the asset less its residual value.

Depreciation is recognized commencing on the date when the property, plant and equipment are available for use for each main component of property, plant and equipment on a straight-line basis over the estimated useful life of each such main component, as this method reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The following rates represent the estimated useful lives:

Buildings	1.82% to 6.67%
Improvements to parking lots	4% and 5%
Improvements to rented parking lots	2.86% to 33.33%
Interior finishing	5% to 20%
Landscaping	5% to 14.29%
Leasehold improvements	3.7% to 12.5%
Equipment and other	6.67% to 33.33%

Loto-Québec reviews the depreciation methods, useful lives and residual values of its property, plant and equipment at each fiscal year-end and adjusts them as needed. Uncertainties in these estimates relate to technical obsolescence, which may affect useful lives.

Property, plant and equipment in progress, land and works of art are not depreciated.

Depreciation is recognized under Depreciation, amortization and net impairment losses in the consolidated statement of comprehensive income.

**n) Intangible assets****(i) Recognition and measurement**

Intangible assets, consisting of software and licences, are measured at cost less any accumulated amortization.

Management must use significant judgment in determining whether software is in the research or development stage.

Costs directly attributable to the development phase of project are recognized as intangible assets, provided that they meet the following criteria:

- Development costs can be measured reliably;
- The project is technically and commercially feasible;
- Loto-Québec intends to complete the project and has sufficient resources to do so;
- Loto-Québec has the capacity to bring the software into use;
- The software will generate probable future economic benefits.

Loto-Québec is required to review costs directly attributable to the development stage for continued compliance with capitalization requirements, as software development is uncertain and can be jeopardized by technical issues arising after recognition.

Research and development costs that do not meet capitalization criteria are recognized as an expense when incurred.

Internally generated intangible assets include development costs of internally developed or modified software, comprising the cost of raw materials and direct labour, any other directly attributable costs necessary to prepare the asset to be capable of operating in the manner intended by management, and capitalized borrowing costs relating to qualifying assets.

The cost of acquired intangible assets includes costs directly related to the acquisition of licences and software and software installation costs.

**(ii) Subsequent costs**

The cost of replacing a part of an item of an acquired intangible asset is recognized in the item's carrying amount if it is probable that future economic benefits associated with the item will flow to Loto-Québec and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. All other expenses are recognized in net income as incurred.

**(iii) Amortization**

Amortization is recognized commencing on the date when the intangible asset is available for use on a straight-line basis over the estimated useful life of the intangible asset, as this method reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The following rates represent the estimated useful lives:

Acquired licences	Term of licence
Acquired software	10% to 25%
Internally generated software	10% to 33.33%

Amortization methods, useful lives and residual values are reviewed at each fiscal year-end and adjusted as needed.

IT projects under development are not amortized.

Amortization is recognized under Depreciation, amortization and net impairment losses in the consolidated statement of comprehensive income.

**o) Impairment****(i) Financial assets**

Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative impact on the estimated future cash flows of that asset.

Financial assets that are individually significant are assessed separately to determine whether there is objective evidence of impairment. Other financial assets are assessed collectively in groups with shared credit risk characteristics.

When the carrying amount of a financial asset measured at amortized cost exceeds the present value of the estimated future cash flows discounted at the original effective interest rate, an impairment loss is recorded in an amount equal to the excess.

All net impairment losses are recognized under General operating, administrative and other expenses in the consolidated statement of comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. The reversal is recognized in net income under General operating, administrative and other expenses in the consolidated statement of comprehensive income.

**(ii) Non-financial assets**

The carrying amount of non-financial assets is reviewed at each reporting date for any evidence of impairment. If any such evidence exists, the asset's recoverable amount is estimated. Whether any evidence of impairment exists or not, an impairment test is performed at the same time every year on intangible assets yet to be commissioned.

The recoverable amount of an asset or a cash-generating unit (CGU) is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted using a rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (CGUs).

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income under Depreciation, amortization and net impairment losses.

All non-financial assets are subsequently remeasured for indication that an impairment loss previously recognized may no longer exist. An impairment loss may be reversed if the recoverable amount of an asset or a CGU exceeds its carrying amount.

**p) Provisions and contingent liabilities**

A provision is a liability of uncertain timing or amount. A provision is recognized if, as a result of a past event, Loto-Québec has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are measured at the estimated expenditure required to settle the obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. The classification of certain provisions as short- or long-term sometimes requires management to use its judgment in determining the most probable timing of cash outflows. If the effect of the time value of money is material, provisions are measured by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The effect of the unwinding of the discount is recognized under Financial expenses in the consolidated statement of comprehensive income. No liability is recognized when an outflow of resources embodying economic benefits arising from a current obligation is not probable. In such case, a contingent liability is disclosed unless the probability of an outflow for settlement is remote.

## 5 REVENUES, COST OF SALES AND GROSS PROFIT

Business segments	2018				Total
	Lotteries	Casinos	Gaming establishments	Elimination of intragroup transactions	
<b>Revenues</b>					
Games	1,881,127	802,879	1,006,563	–	3,690,569
Restaurants	–	84,154	–	(25,414)	58,740
Accommodation	–	19,915	–	–	19,915
	<b>1,881,127</b>	<b>906,948</b>	<b>1,006,563</b>	<b>(25,414)</b>	<b>3,769,224</b>
<b>Cost of sales</b>					
Prizes awarded	1,002,074	–	24,982	–	1,027,056
Commissions	138,588	–	203,939	–	342,527
Royalties	860	15,975	192	–	17,027
Printing	22,862	–	1,354	–	24,216
Food and beverages	–	27,627	–	–	27,627
	<b>1,164,384</b>	<b>43,602</b>	<b>230,467</b>	<b>–</b>	<b>1,438,453</b>
<b>Gross profit</b>	<b>716,743</b>	<b>863,346</b>	<b>776,096</b>	<b>(25,414)</b>	<b>2,330,771</b>

Business segments	2017				Total
	Lotteries	Casinos	Gaming establishments	Elimination of intragroup transactions	
<b>Revenues</b>					
Games	1,827,896	744,773	993,517	–	3,566,186
Restaurants	–	75,474	–	(24,561)	50,913
Accommodation	–	18,528	–	–	18,528
	<b>1,827,896</b>	<b>838,775</b>	<b>993,517</b>	<b>(24,561)</b>	<b>3,635,627</b>
<b>Cost of sales</b>					
Prizes awarded	987,611	–	24,741	–	1,012,352
Commissions	127,694	–	202,603	–	330,297
Royalties	604	8,867	109	–	9,580
Printing	20,721	–	1,448	–	22,169
Food and beverages	–	25,580	–	–	25,580
	<b>1,136,630</b>	<b>34,447</b>	<b>228,901</b>	<b>–</b>	<b>1,399,978</b>
<b>Gross profit</b>	<b>691,266</b>	<b>804,328</b>	<b>764,616</b>	<b>(24,561)</b>	<b>2,235,649</b>

## 6 EMPLOYEE BENEFITS

	2018	2017
Short-term employee benefits	398,552	386,221
Post-employment benefits	37,979	36,653
Other long-term benefits	(437)	454
Termination benefits	–	180
	<b>436,094</b>	<b>423,508</b>

## 7 SPECIAL PAYMENTS

	2018	2017
Payments to the Government of Canada	17,090	16,934
Payments to non-profit organizations (NPOs)	3,847	4,265
	<b>20,937</b>	<b>21,199</b>

### Payments 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 \$24,000 in 1979 dollars, which represented \$74,120 in today's dollars for the year ended March 31, 2018 (\$73,025 in 2017).

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

### Payments to NPOs

As an agent of Loto-Québec, the Société des établissements de jeux du Québec inc. awards certain charitable or religious organizations that hold bingo licences various percentages of bingo proceeds less the value of prizes awarded to game winners, depending on bingo games.

## 8 NET FINANCIAL EXPENSES

	2018	2017
Interest income	1,665	1,770
<b>Total financial income</b>	<b>1,665</b>	<b>1,770</b>
Interest expense on bank loans <sup>1</sup>	2,587	2,680
Interest expense on long-term debt	7,020	8,404
Foreign exchange gain	-	(799)
<b>Total financial expenses</b>	<b>9,607</b>	<b>10,285</b>
<b>Net financial expenses</b>	<b>7,942</b>	<b>8,515</b>

<sup>1</sup>Interest expense on bank loans includes \$1,303 (\$1,559 in 2017) with the Caisse de dépôt et placement du Québec.

## 9 CONTRIBUTIONS TO THE GOVERNMENT OF QUÉBEC

	2018	2017
Ministère de la Santé et des Services sociaux	22,000	22,000
Ministère de la Sécurité publique	3,000	3,000
	<b>25,000</b>	<b>25,000</b>

The commitments related to these contributions are detailed in Note 22.

## 10 TRADE AND OTHER RECEIVABLES

	2018	2017
Retailers <sup>1</sup>	70,157	38,990
Interprovincial Lottery Corporation	28,434	20,788
Other	12,388	9,530
	<b>110,979</b>	<b>69,308</b>

<sup>1</sup>Under an agreement with its retailers, Loto-Québec has an enforceable legal right to offset accrued liabilities payable to a retailer with trade receivables from the retailer and intends to settle the amounts on a net basis. As at March 31, 2018, gross trade receivables and accrued liabilities offset amounted to \$89,923 (\$48,240 in 2017) and \$19,766 (\$9,250 in 2017), respectively, representing the net amounts of the settlement of \$70,157 (\$38,990 in 2017).

## 11 INVENTORIES

	2018	2017
Food and beverages	3,846	3,678
Lottery tickets and paper stock	6,451	5,701
	<b>10,297</b>	<b>9,379</b>

For the fiscal year, the cost of inventories recognized as an expense amounted to \$50,489 (\$46,301 in 2017).

## 12 FINANCIAL ASSETS AND LIABILITIES RELATED TO LIFE ANNUITIES

Certain products offered by Loto-Québec include a life annuity option as a grand prize. When grand prize winners opt for life annuities instead of lump sums, Loto-Québec engages a third party to issue and administer the annuity, without being legally discharged of its liability in respect of the obligation.

	2018		2017	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
<b>Balance as at April 1</b>	<b>111,756</b>	<b>111,756</b>	88,688	88,688
New annuities issued during the year	7,752	7,752	24,293	24,293
Settlement of annuities during the year and other changes	(1,459)	(1,459)	(1,225)	(1,225)
<b>Balance as at March 31</b>	<b>118,049</b>	<b>118,049</b>	111,756	111,756
Current portion	(1,540)	(1,540)	(1,413)	(1,413)
	<b>116,509</b>	<b>116,509</b>	<b>110,343</b>	<b>110,343</b>

Annuities are initially measured at fair value which is the amount paid to the third party.

Accretion, reported under General operating, administrative and other expenses in the consolidated statement of comprehensive income, is calculated using the effective interest method, whereby the interest rate takes into account winners' life expectancy.

## 13

## INTERESTS IN ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD, LOANS AND ADVANCE

	2018	2017
Interests	26,120	24,927
Loans and advance	8,808	8,808
	<b>34,928</b>	<b>33,735</b>

## INTERESTS

## Interests in and shares of entities accounted for using the equity method and payments to partners

	2018	2017
	MRLP	MRLP
Equity interests		
With voting rights	Class A units: 50%	Class A units: 50%
With participating rights	Class A units: 50%	Class A units: 50%
	Class B units: 33%	Class B units: 33%
Carrying amount of interests	26,120	24,927
Share of Loto-Québec based on its proportion of Class A and B units	(1,066)	(1,151)
Payments to partners, holders of Class C units	(3,725)	(3,828)
Net contribution		
Share of net loss of entities accounted for using the equity method and payments to partners	(4,791)	(4,979)

## MRLP

Pursuant to a guarantee agreement between Loto-Québec and MRLP, and according to the distribution terms and conditions specified in the partnership agreement whereby Class A, B and C units of MRLP carry a participatory interest in the income generated by the different types of operations of MRLP, the net contribution represents the portion of net income generated by the operations of the Casino de Charlevoix payable to MRLP for the partners, holders of Class C units, as well as the share of Loto-Québec, holder of Class A and B units, in net income generated by Manoir Richelieu.

## Casinos Développement Europe

On November 2, 2016, Loto-Québec disposed of its interest and loans in respect of Casinos Développement Europe for a cash consideration of \$19,688. The following table summarizes the consideration received upon disposal of the interest and loans, as well as the gain on disposal recognized under General operating, administrative and other expenses in the consolidated statement of comprehensive income.

	2017
Proceeds from disposal in cash	19,688
Carrying amount of disposed of assets	
Interest	–
Loans	15,222
	15,222
Gain on disposal	<b>4,466</b>

## Summarized financial information excluding the percentage interest held by Loto-Québec

	2018	2017	Casinos Développement Europe
	MRLP	MRLP	
Total current assets	9,013	5,003	16,454
Total non-current assets	89,691	92,235	66,214
Total assets	98,704	97,238	82,668
Total current liabilities	5,219	5,074	8,745
Total non-current liabilities	11,452	11,455	220,640
Total liabilities	16,671	16,529	229,385
Revenues	29,858	29,641	20,630
Net and comprehensive loss - generated by Manoir Richelieu	(3,747)	(4,078)	–
Payments to partners, holders of Class C units	2,879	2,324	–
<b>Net and comprehensive loss</b>	<b>(868)</b>	<b>(1,754)</b>	<b>(677)</b>

The year-end of MRLP is December 31. However, in accounting for its interest using the equity method, Loto-Québec includes this entity's results for the period from April 1 to March 31. The summarized financial information contained in the above table is presented as at December 31.

## LOANS AND ADVANCE

	2018	2017
<b>MRLP</b>		
Loan, fixed rate of 5%, interest payable annually, without terms of repayment	2,508	2,508
Loan, fixed rate of 1.93% (1.05% in 2017), interest payable annually, maturing on May 5, 2021	1,300	1,300
Non-interest bearing advance, maturing on April 13, 2019	5,000	5,000
	<b>8,808</b>	<b>8,808</b>

## 14 | PROPERTY, PLANT AND EQUIPMENT

	Landscaping								Total
	Land	Buildings	Parking lots	Interior and exterior	Leasehold improvements	Equipment and other	Works of art	In progress <sup>1</sup>	
<b>Cost</b>									
Balance as at April 1, 2016	46,101	429,798	123,042	488,123	79,162	642,785	7,875	21,257	1,838,143
Additions	–	744	(3)	14,610	6,910	36,378	–	15,069	73,708
Transfers out of In progress – commissioned	–	7,570	6	13,256	52	–	–	(21,052)	(168)
Disposals	(1,968)	(5,774)	(1,656)	(6,935)	(380)	(51,341)	–	–	(68,054)
<b>Balance as at March 31, 2017</b>	<b>44,133</b>	<b>432,338</b>	<b>121,389</b>	<b>509,054</b>	<b>85,744</b>	<b>627,822</b>	<b>7,875</b>	<b>15,274</b>	<b>1,843,629</b>
Additions	–	235	1,575	7,732	833	32,604	–	1,663	44,642
Transfers out of In progress – commissioned	–	–	346	7,657	656	6,525	–	(15,184)	–
Disposals	–	–	(1,047)	(2,032)	(344)	(44,963)	–	–	(48,386)
<b>Balance as at March 31, 2018</b>	<b>44,133</b>	<b>432,573</b>	<b>122,263</b>	<b>522,411</b>	<b>86,889</b>	<b>621,988</b>	<b>7,875</b>	<b>1,753</b>	<b>1,839,885</b>
<b>Accumulated depreciation</b>									
Balance as at April 1, 2016	–	188,033	87,701	237,483	56,888	382,336	–	–	952,441
Depreciation for the year	–	13,516	4,650	28,623	3,908	64,884	–	–	115,581
Disposals	–	(4,263)	(886)	(5,944)	(379)	(37,539)	–	–	(49,011)
<b>Balance as at March 31, 2017</b>	<b>–</b>	<b>197,286</b>	<b>91,465</b>	<b>260,162</b>	<b>60,417</b>	<b>409,681</b>	<b>–</b>	<b>–</b>	<b>1,019,011</b>
Depreciation for the year	–	13,459	4,596	29,766	4,211	57,109	–	–	109,141
Disposals	–	–	(932)	(776)	(344)	(43,074)	–	–	(45,126)
<b>Balance as at March 31, 2018</b>	<b>–</b>	<b>210,745</b>	<b>95,129</b>	<b>289,152</b>	<b>64,284</b>	<b>423,716</b>	<b>–</b>	<b>–</b>	<b>1,083,026</b>
<b>Net carrying amounts</b>									
As at March 31, 2017	44,133	235,052	29,924	248,892	25,327	218,141	7,875	15,274	824,618
As at March 31, 2018	44,133	221,828	27,134	233,259	22,605	198,272	7,875	1,753	756,859

<sup>1</sup>The allocation of property, plant and equipment in progress by class is as follows:

	2018	2017
Buildings	246	44
Landscaping – Parking lots	144	346
Landscaping – Interior and exterior	502	7,697
Leasehold improvements	848	656
Equipment and other	13	6,531
	<b>1,753</b>	<b>15,274</b>

## 15 | INTANGIBLE ASSETS

	Acquired	Internally generated		Total
	Software and licences	Software	IT projects under development	
<b>Cost</b>				
Balance as at April 1, 2016	53,903	210,756	5,051	269,710
Additions	1,650	7,166	5,624	14,440
Transfers of IT projects under development	–	4,739	(4,739)	–
Disposals	(29)	(1,826)	–	(1,855)
<b>Balance as at March 31, 2017</b>	<b>55,524</b>	<b>220,835</b>	<b>5,936</b>	<b>282,295</b>
Additions	1,444	3,288	5,423	10,155
Transfers of IT projects under development	463	4,605	(5,068)	–
Disposals	(178)	(2,069)	–	(2,247)
<b>Balance as at March 31, 2018</b>	<b>57,253</b>	<b>226,659</b>	<b>6,291</b>	<b>290,203</b>
<b>Accumulated amortization</b>				
Balance as at April 1, 2016	49,266	154,545	–	203,811
Amortization for the year	1,885	15,152	–	17,037
Disposals	(29)	(1,714)	–	(1,743)
<b>Balance as at March 31, 2017</b>	<b>51,122</b>	<b>167,983</b>	<b>–</b>	<b>219,105</b>
Amortization for the year	1,500	15,923	–	17,423
Disposals	(117)	(873)	–	(990)
<b>Balance as at March 31, 2018</b>	<b>52,505</b>	<b>183,033</b>	<b>–</b>	<b>235,538</b>
<b>Net carrying amounts</b>				
As at March 31, 2017	4,402	52,852	5,936	63,190
As at March 31, 2018	4,748	43,626	6,291	54,665

## 16 | BANK LOANS

Current bank loans totalled \$289,294 (\$391,282 in 2017), including \$284,300 (\$295,300 in 2017) from the Caisse de dépôt et placement du Québec, a government body executing fiduciary operations excluded from the Government of Québec's reporting entity. These loans carry interest at fixed rates ranging from 1.35% to 1.68% (0.69% to 0.90% in 2017) (Note 21).

## 17 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018	2017
Accounts payable and accrued liabilities <sup>1</sup>	82,557	85,843
Lottery prizes payable	13,618	16,563
Salaries payable	81,904	74,291
Employee benefits payable	8,361	8,177
MRLP	1,236	2,682
GST	4,519	5,440
QST	9,301	11,133
	<b>201,496</b>	<b>204,129</b>

<sup>1</sup>Accounts payable and accrued liabilities include accrued interest totalling \$1,829 (\$2,092 in 2017) payable to the Financing Fund of the Government of Québec and \$34 (\$8 in 2017) payable to the Caisse de dépôt et placement du Québec.

## 18 PROVISIONS

	2018	2017
<b>Balance as at April 1</b>	44,625	40,472
Provisions made during the year	396,729	532,705
Provisions used during the year	(388,413)	(528,552)
<b>Balance as at March 31</b>	<b>52,941</b>	<b>44,625</b>

Provisions consist of the following:

### Provision for winning prizes

This provision is taken for prizes to be claimed on passive and instant lottery tickets and is determined by applying an assumed payout ratio to revenues less prize payouts. One year after the draw date or the date the tickets were dispensed, this provision is transferred to the provision for unclaimed prizes.

### Provision for unclaimed prizes

This provision is taken for unclaimed prizes on all lottery products excluding countrywide games, which are used to award bonus prizes. Bonus prize payouts are established in accordance with Loto-Québec's marketing plan.

### Provision for progressive jackpots

This provision is taken primarily for progressive jackpots of casino slot machines. The provision grows in accordance with the actual gaming activity of the progressive jackpot in question. The minimum payout is known. The provision expires when the jackpot is actually won, but that date is unknown.

## 19 LONG-TERM DEBT

	2018	2017
Loans from the Financing Fund of the Government of Québec, interest payable semi-annually, repayable according to the following maturities and rates:		
December 1, 2017, fixed rate of 1.952%	–	40,000
December 1, 2018, fixed rate of 1.608%	50,000	50,000
December 19, 2018, fixed rate of 2.171%	50,000	50,000
December 1, 2020, fixed rate of 4.102%	43,375	43,375
September 1, 2023, fixed rate of 3.133%	25,000	25,000
December 1, 2033, fixed rate of 3.720%	25,000	25,000
December 1, 2043, fixed rate of 3.753%	25,000	25,000
	<b>218,375</b>	<b>258,375</b>
Transaction costs	(543)	(724)
	<b>217,832</b>	<b>257,651</b>
Less current portion	(100,000)	(40,000)
	<b>117,832</b>	<b>217,651</b>

## 20 NET DEFINED BENEFIT AND OTHER LONG-TERM BENEFIT LIABILITY

### a) Compulsory public plans

Employees of Loto-Québec, the Société des établissements de jeux du Québec inc. and Nter Technologies, Limited Partnership are members of the RREGOP or the PPMP, both defined benefit plans that include guarantees upon retirement or death.

On January 1, 2018, the employee and employer contribution rate rose to 10.97% (11.05% in 2017) of assessable payroll for the RREGOP, while the rate for the PPMP rose to 12.82% (15.03% in 2017). The employer's contributions are equivalent to employee contributions, except for a compensation amount provided for in the PPMP act of 1.49% as at January 1, 2018 (4.94% as at January 1, 2017) of assessable payroll that must be paid for participating members of the PPMP, and an equivalent amount for employers. Accordingly, Loto-Québec will pay an additional amount for the 2018 calendar year equal to 2.97% of assessable payroll (9.88% in 2017).

Contributions to these compulsory public plans amounting to \$9,868 (\$10,471 in 2017) were recognized as an expense in consolidated income for the year. Loto-Québec's obligations toward these government plans are limited to its employer contributions.

### b) Defined benefit plans

#### (i) Characteristics of pension plans

The Société des casinos du Québec inc. has two defined benefit pension plans, namely the Employee Pension Plan of the Société des casinos du Québec inc. (Employee Plan) and the Executive and Professional Plan of La Société des casinos du Québec inc. (Executive and Professional Plan). Membership in these plans is compulsory for all Société des casinos du Québec inc. employees who meet the eligibility criteria. These plans provide pension benefits 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 and Professional Plan. Benefits paid to pensioners are increased each year by 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. equals that of employees unless the actuary deems that it should be higher to fund the defined benefits and amortize any plan deficit. Surplus assets are 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 of 20% of the balance of surplus assets is used to reduce the contributions of employees and the Société des casinos du Québec inc. equally.

Loto-Québec provides senior management with the Supplementary Pension Plan for Executive Officers of Loto-Québec (Supplementary Plan) to pay lifetime retirement benefits exceeding the limits provided under the *Income Tax Act*.

Plan assets are managed by pension funds legally separated from Loto-Québec. Pursuant to the articles of incorporation of the pension funds, pension committees must act in the best interest of plan members and are responsible for determining investment policies. The investment policies establish, in particular, a benchmark portfolio indicating the plans' target asset allocation between various investment classes, as well as the minimum and maximum thresholds. The manager is mandated to administer the funds entrusted to him or her by the pension committees, seeking optimal returns on their capital while adhering to the investment policies.

Actuarial valuations for funding purposes are prepared to ensure compliance with pension legislation. The most recent actuarial valuations for the Employee Plan and the Executive and Professional Plan were prepared as at December 31, 2015. The next valuations will be prepared as at December 31, 2018 at the latest. The most recent actuarial valuation for the Supplementary Plan was prepared as at March 31, 2017, and the next valuation will be prepared as at March 31, 2018.

**(ii) Risks related to pension plans**

The plans expose Loto-Québec to actuarial risks, such as interest rate risk, investment risk, longevity risk, average age at retirement risk and inflation risk as well as the risk related to the rate of compensation increase.

Interest rate risk

A decline in the market yields on high-quality corporate bonds would increase the defined benefit obligation of pension plans, but it is expected that it would be largely offset by an increase in the fair value of the plans' bond portfolio.

Investment risk

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields on high-quality corporate bonds; if the return on plan assets falls below that rate, a loss will be generated.

Plan assets as at March 31, 2018 consist primarily of Canadian and international equities, bonds and real estate funds. The fair value of plan assets is exposed to their respective markets and returns generated by their respective managers.

Longevity risk

The present value of the defined benefit obligation is determined by reference to the best estimate of the mortality of plan members both during and after employment. Loto-Québec is required to provide benefits throughout the plan member's lifetime. An increase in the life expectancy of plan members would increase the defined benefit obligation.

Average age at retirement risk

The present value of the defined benefit obligation is determined by reference to the expected age of plan members at retirement. As a result, a decline in the plan members' average age at retirement would increase the defined benefit obligation.

Inflation risk

A significant percentage of the defined benefit obligation is linked to inflation. A rise in the rate of inflation would increase the defined benefit obligation. A portion of plan assets consists of inflation-linked debt securities which mitigates certain effects of inflation.

Risk related to the rate of compensation increase

The present value of the defined benefit obligation is determined by reference to future salary increases of plan members. As a result, any rise in the rate of compensation increase of plan members would increase the defined benefit obligation.

**(iii) Explanation of amounts recognized in the financial statements**

The following amounts include the defined benefit obligation of the pension plans and the other long term benefits, and the fair value of pension plan assets at year-end:

	2018	2017
Present value of unfunded defined benefit obligation	11,068	11,505
Present value of funded defined benefit obligation	680,683	582,176
Total present value of defined benefit obligation	691,751	593,681
Fair value of plan assets	672,747	593,523
<b>Net defined benefit and other long-term benefit liability</b>	<b>19,004</b>	<b>158</b>

Changes in the discounted value of the defined benefit obligation and the fair value of plan assets are as follows:

			2018	2017
	Pension plans	Other long-term benefits	Total	Total
<b>DEFINED BENEFIT OBLIGATION</b>				
Balance, beginning of year	582,176	11,505	593,681	523,319
Current service costs	26,313	–	26,313	24,100
Interest expense	23,890	–	23,890	21,887
Past service costs	–	–	–	12
Employee contributions	17,060	–	17,060	16,688
Benefits paid	(10,054)	–	(10,054)	(11,424)
Actuarial (gains) losses	41,298	(437)	40,861	19,099
<b>Balance, end of year</b>	<b>680,683</b>	<b>11,068</b>	<b>691,751</b>	<b>593,681</b>
<b>Fair value of plan assets</b>				
Balance, beginning of year	593,523	–	593,523	513,098
Interest income	23,292	–	23,292	20,967
Return on plan assets excluding interest income	33,002	–	33,002	37,313
Employer contributions	17,124	–	17,124	18,031
Employee contributions	17,060	–	17,060	16,688
Benefits paid	(10,054)	–	(10,054)	(11,424)
Plan administration expenses	(1,200)	–	(1,200)	(1,150)
<b>Balance, end of year</b>	<b>672,747</b>	<b>–</b>	<b>672,747</b>	<b>593,523</b>
<b>Net defined benefit and other long-term benefit liability</b>	<b>7,936</b>	<b>11,068</b>	<b>19,004</b>	<b>158</b>

The allocation of the fair value of pension plan assets as at March 31 was as follows:

	2018		2017	
	Allocation %	Fair value \$	Allocation %	Fair value \$
Cash	1.2	7,808	1.3	7,483
Bonds	49.4	332,035	58.8	348,836
Canadian equities	11.2	75,450	8.5	50,574
International equities	29.9	201,180	23.4	138,952
Real estate funds	7.9	53,384	8.0	47,678
Private investments	0.4	2,890	–	–
	<b>100.0</b>	<b>672,747</b>	<b>100.0</b>	<b>593,523</b>

The fair value of all investments is derived from inputs that can be corroborated by observable market data for the full term of the assets.

Defined benefit expense recognized in the consolidated statement of comprehensive income under Employee benefit expense is detailed as follows:

			2018	2017
	Pension plans	Other long-term benefits	Total	Total
Service costs	26,313	–	26,313	24,112
Net interest expense	598	–	598	920
Plan administration expenses	1,200	–	1,200	1,150
Actuarial (gains) losses related to other long-term benefits	–	(437)	(437)	454
<b>Post-employment and other long-term benefits</b>	<b>28,111</b>	<b>(437)</b>	<b>27,674</b>	<b>26,636</b>

The defined benefit amounts recognized in consolidated other comprehensive income are detailed as follows:

	2018	2017
Actuarial gains arising from changes in demographic assumptions	–	6,382
Actuarial losses arising from changes in financial assumptions	(27,567)	(17,668)
Actuarial losses arising from plan experience	(13,731)	(7,359)
Return on plan assets excluding interest income	33,002	37,313
<b>Remeasurements of the net defined benefit liability</b>	<b>(8,296)</b>	<b>18,668</b>

The weighted averages of the principal actuarial assumptions used at the reporting date are:

	2018		2017	
	Pension plans	Other long-term benefits	Pension plans	Other long-term benefits
<b>Defined benefit obligation as at March 31</b>				
Discount rate	3.60%	3.40%	3.85%	3.40%
Inflation rate	1.70%	1.70%	1.60%	1.60%
Rate of compensation increase	2.70%	2.70%	2.60%	2.60%

For the defined benefit obligation as at March 31, 2018 and March 31, 2017, the mortality assumptions are based on 120% for male Employee Plan members, 100% for female Employee Plan members, 100% for male Executive and Professional Plan and Supplementary Plan members, and 95% for female Executive and Professional Plan and Supplementary Plan members of the mortality rates derived from the Canadian pensioners' mortality (CPM) 2014 Public Sector Mortality Table (CPM2014Publ) and the CPM Improvement Scale B (CPM-B).

Average life expectancy at age 65 as at March 31, 2018 is:

	2018		2017	
	Female	Male	Female	Male
Employee Plan	24.7 yrs	21.6 yrs	24.7 yrs	21.5 yrs
Executive and Professional Plan and Supplementary Plan	25.1 yrs	22.9 yrs	25.1 yrs	22.8 yrs

**(iv) Amount, timing and degree of uncertainty regarding future cash flows**

Net defined benefit and other long-term benefit liability is exposed to uncertainties, particularly with respect to estimating discount rates, inflation rates, rates of compensation increase and mortality rates, which can vary significantly in future valuations of Loto-Québec's defined benefit obligation.

Significant actuarial assumptions used in determining the defined benefit obligation of pension plans consist of the discount rate, inflation rate, rate of compensation increase and mortality rates. The calculation of the defined benefit obligation is sensitive to these assumptions.

The table below summarizes the impact of changes in these actuarial assumptions on the pension plans' defined benefit obligation as at March 31, 2018:

	2018		2017	
<b>Discount rate</b>	Increase to 4.60%	Decrease to 2.40%	Increase to 4.85%	Decrease to 2.40%
(Decrease) increase in defined benefit obligation	(102,642)	120,753	(89,919)	106,218
<b>Inflation rate</b>	Increase to 2.70%	Decrease to 0.70%	Increase to 2.60%	Decrease to 0.60%
Increase (decrease) in defined benefit obligation	28,541	(50,862)	26,968	(50,924)
<b>Rate of compensation increase</b>	Increase to 3.70%	Decrease to 1.70%	Increase to 3.60%	Decrease to 1.60%
Increase (decrease) in defined benefit obligation	6,082	(5,830)	5,156	(4,942)
<b>Mortality rate</b>	Increase to 110% of rates	Decrease to 90% of rates	Increase to 110% of rates	Decrease to 90% of rates
(Decrease) increase in defined benefit obligation	(8,017)	8,708	(6,909)	7,537

In the sensitivity analyses, the present value of the defined benefit obligation is calculated using the projected unit credit method, which is the same method that is applied in calculating the defined benefit obligation recognized in the consolidated statement of financial position. The sensitivity analyses are based on the change in a single assumption. The analysis may not be representative of the actual change in the defined benefit obligation, as it is unlikely that the change in assumptions would occur in isolation of one another, as some assumptions may be correlated.

The Employee Plan and Executive and Professional Plan are funded in accordance with applicable legislation, and their assets are held by an independent trust. The Supplementary Plan is funded as required by plan rules. The minimum contributions to the plans are determined using the plans' most recent actuarial valuations.

Based on the result of the most recent actuarial valuation of each of those pension plans, Loto-Québec expects to make contributions totalling \$18,019 during the next fiscal year.

The weighted average duration of the pension plans' defined benefit obligation as at March 31, 2018 was 15.18 years (16.28 years in 2017)

## 21 | CAPITAL MANAGEMENT

The capital of Loto-Québec includes bank loans, long-term debt, share capital and retained earnings.

The capital structure, as defined by Loto-Québec, is as follows:

	2018	2017
Bank loans	289,294	391,282
Long-term debt	217,832	257,651
Share capital	170	170
Retained earnings	86,300	86,300
	<b>593,596</b>	<b>735,403</b>

Loto-Québec manages its capital to meet its shareholder's requirements and to ensure that its funds are protected at all times. Through a strict management framework, it ensures it effectively meets the objectives set out in its incorporating act.

Loto-Québec assumes full responsibility for financing its activities. Throughout the year, it pays a dividend to its shareholder, the Québec Minister of Finance, in the form of periodic advances. The declared dividend is deducted from shareholder's equity for the year, and corresponds to the net income for the year, from which are deducted the contributions to the Government of Québec. As a result of this distribution method, Loto-Québec must rely on external financing sources.

To do so, Loto-Québec is authorized by the Government of Québec to make short-term borrowings up to a maximum total amount outstanding of \$575,000 from financial institutions or the Québec Minister of Finance, in his capacity as manager of the Financing Fund of the Government of Québec, and long-term borrowings up to a maximum total amount outstanding of \$1,000,000 from the same Fund. Notwithstanding the foregoing, the total amount of Loto-Québec's current and non-current borrowings may at no time exceed \$1,300,000. During the year, Loto-Québec met its capital requirements.

Effective April 1, 2018, Loto-Québec is authorized by the Government of Québec to make short-term borrowings up to a maximum total amount outstanding of \$450,000 for the period from April 1, 2018 to March 31, 2019, \$415,000 for the period from April 1, 2019 to March 31, 2020 and \$300,000 for the period from April 1, 2020 to March 31, 2021 from financial institutions, the Caisse de dépôt et placement du Québec or the Québec Minister of Finance, in its capacity as manager of the Financing Fund of the Government of Québec, and long-term borrowings up to a maximum total amount outstanding of \$1,100,000 from the same Fund. Notwithstanding the foregoing, the total amount of Loto-Québec's current and non-current borrowings may at no time exceed \$1,400,000.

Loto-Québec is not subject to any other requirement regarding external financing sources.

The capital management objectives, policies and procedures have not changed since March 31, 2017.

## 22 | CONTINGENT LIABILITIES AND COMMITMENTS

### a) Contingent liabilities

In the normal course of business, Loto-Québec is subject to claims and lawsuits. Loto-Québec's management disputes those claims and lawsuits. Loto-Québec has not recorded a provision for those contingent liabilities because management considers that any potential settlement resulting from those claims and lawsuits would not materially affect the consolidated financial statements.

### b) Commitments

#### (i) Leases

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

Lease payments due under non-cancellable operating leases are as follows:

	2018	2017
Less than 1 year	30,459	31,252
1 to 5 years	75,059	91,444
More than 5 years	24,786	33,175
	<b>130,304</b>	<b>155,871</b>

#### (ii) Contributions to the Government of Québec

##### Ministère de la Santé et des Services sociaux (MSSS)

At the request and with the authorization of the Government of Québec, Loto-Québec is committed to the MSSS to make an annual contribution of \$22,000 into a specified purpose account of the Government of Québec to fund prevention measures, treatment services, research programs and awareness campaigns to counter compulsive gambling.

Since the Government of Québec has not specified a termination date for the commitment, Loto-Québec is not in a position to assess its total amount.

Ministère de la Sécurité publique (MSP)

At the request and with the authorization of the Government of Québec, Loto-Québec is committed to the MSP to make an annual contribution of \$3,000 into a specified purpose account of the Government of Québec to fund intensive control measures and activities that will be implemented by the Régie des alcools, des courses et des jeux to, among other things, ensure the management of control measures regarding access to video lottery terminals.

Since the Government of Québec has not specified a termination date for the commitment, Loto-Québec is not in a position to assess its total amount.

## 23 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

### Risk management policy

In the normal course of business, Loto-Québec is exposed to credit risk, liquidity risk and market risk arising from exchange rate and interest rate fluctuations. Loto-Québec has implemented policies and procedures that ensure proper management of the risks inherent to financial instruments.

#### a) Credit risk

Credit risk is the risk of financial loss to Loto-Québec if a counterparty to a financial instrument fails to fulfill one of its obligations. The carrying amount of financial assets represents Loto-Québec's maximum exposure to credit risk. There is no credit risk related to cash on hand in casinos as they are not held by a third party. Loto-Québec reduces the credit risk related to cash by dealing with recognized financial institutions. Receivables arise primarily from transactions carried out with a significant number of retailers and with the Interprovincial Lottery Corporation, which is equally owned by each of the Canadian provinces and is mandated by them to conduct and administer the countrywide lotteries. Other financial assets consist of the loans and the advance in an entity accounted for using the equity method and those related to life annuities whose issuance and administration are entrusted to large insurance companies.

Trade and other receivables past due represent 1% of receivables in 2018 (1% in 2017). Loto-Québec's management considers the credit quality of all of the above-mentioned financial assets that are not past due to be sound.

#### b) Liquidity risk

Liquidity risk is the risk that Loto-Québec will be unable to meet its financial obligations as they fall due. Loto-Québec manages liquidity risk by monitoring its operating requirements and using its credit facilities. Loto-Québec prepares budget and cash forecasts to ensure it has sufficient funds to meet its obligations.

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

	2018					
	Carrying amount	Total contractual cash flows	Maturity			
			Less than 12 months	1 to 2 years	2 to 5 years	5 years and over
<b>Financial liabilities</b>						
Bank loans	289,294	289,294	289,294	–	–	–
Dividend payable	168,967	168,967	168,967	–	–	–
Accounts payable and accrued liabilities	82,557	82,557	82,557	–	–	–
MRLP	1,236	1,236	1,236	–	–	–
Lottery prizes payable	13,618	13,618	13,618	–	–	–
Salaries payable	81,904	81,904	81,904	–	–	–
Long-term debt	217,832	269,185	106,320	4,431	53,109	105,325
	<b>855,408</b>	<b>906,761</b>	<b>743,896</b>	<b>4,431</b>	<b>53,109</b>	<b>105,325</b>

2017

	Carrying amount	Total contractual cash flows	Maturity			
			Less than 12 months	1 to 2 years	2 to 5 years	5 years and over
<b>Financial liabilities</b>						
Bank loans	391,282	391,342	391,342	–	–	–
Dividend payable	65,651	65,651	65,651	–	–	–
Accounts payable and accrued liabilities	85,843	85,843	85,843	–	–	–
MRLP	2,682	2,682	2,682	–	–	–
Lottery prizes payable	16,563	16,563	16,563	–	–	–
Salaries payable	74,291	74,291	74,291	–	–	–
Long-term debt	257,651	316,286	47,101	106,320	54,888	107,977
	<b>893,963</b>	<b>952,658</b>	<b>683,473</b>	<b>106,320</b>	<b>54,888</b>	<b>107,977</b>

Loto-Québec considers that it has sufficient assets readily convertible to cash and sufficient credit facilities to ensure it has the necessary funds to meet its current and non-current financial needs at a reasonable cost as they arise.

**c) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect Loto-Québec's net income or the value of its holdings of financial instruments. Market risk management aims to manage and control market risk exposures within acceptable parameters.

**(i) Foreign exchange risk**

Loto-Québec carries out other transactions in foreign currencies, but does not hold or issue financial instruments to manage the foreign exchange risk arising from such transactions. However, this risk has no significant influence on Loto-Québec's results or on its financial position.

**(ii) Interest rate risk**

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Loans, long-term debt and bank loans have fixed interest rates. Loto-Québec considers its exposure to interest rate risk from the loans and long-term debt to be minimal, given that it has no intention to call the loans or repay the debt prior to maturity.

In addition, bank loans are taken out to meet temporary liquidity needs for a period of less than 365 days from financial institutions or the Minister of Finance. Those loans are managed so as to reduce the cash flow risk related to the interest paid.

**d) Fair value**

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of cash and cash equivalents, including cash on hand at casinos, trade and other receivables, bank loans, the dividend payable and accounts payable and accrued liabilities approximates their carrying amount due to their short-term maturities.

The fair value of Loto-Québec's other financial instruments, which are all within Level 2 in the fair value hierarchy, is detailed as follows:

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets related to life annuities	118,049	136,271	111,756	129,900
Loans to MRLP	3,808	3,808	3,808	3,808
Advance to MRLP	5,000	5,000	5,000	5,000
<b>Loans and receivables</b>	<b>126,857</b>	<b>145,079</b>	<b>120,564</b>	<b>138,708</b>
Financial liabilities related to life annuities	118,049	136,271	111,756	129,900
Long-term debt	217,832	229,818	257,651	274,103
<b>Non-derivative financial liabilities</b>	<b>335,881</b>	<b>366,089</b>	<b>369,407</b>	<b>404,003</b>

(i) **Loans and receivables**

The fair value of loans and receivables, including the fair value of financial assets related to life annuities, loans and the advance to MRLP, is based on the value of future cash flows discounted at the market interest rate at year-end.

(ii) **Non-derivative financial liabilities**

The fair value of the non-derivative financial liabilities, including the fair value of financial liabilities related to life annuities and the long-term debt, is based on estimated future cash flows discounted at the market interest rate at the year-end.

## 24 CONSOLIDATED CASH FLOWS

	2018	2017
<b>Cash and cash equivalents as at March 31</b>		
Cash on hand at casinos	80,783	65,645
Cash	41,439	16,189
	<b>122,222</b>	<b>81,834</b>
<b>Net change in non-cash items</b>		
Trade and other receivables	(41,671)	(1,916)
Inventories	(918)	392
Prepaid expenses	(3,362)	642
Financial assets related to life annuities	(6,293)	(23,068)
Accounts payable and accrued liabilities	633	30,801
Financial liabilities related to life annuities	6,293	23,068
Provisions	8,316	4,153
Deferred revenues	33,506	(4,960)
	<b>(3,496)</b>	<b>29,112</b>
<b>Additional information</b>		
Additions to property, plant and equipment funded by accounts payable and accrued liabilities	13,511	16,547
Additions to intangible assets funded by accounts payable and accrued liabilities	1,052	1,325
Share of partners, holders of Class C units, in MRLP included in accounts payable and accrued liabilities	2,966	2,682

Reconciliation of changes in liabilities arising from financing activities:

	Bank loans	Liabilities Dividend payable	Long-term debt	Shareholder's equity Retained earnings	Total
Balance as at March 31, 2017	391,282	65,651	257,651	86,300	800,884
<b>Changes arising from cash flows related to financing activities</b>					
Net change in bank loans	(101,988)	–	–	–	(101,988)
Dividend paid	–	103,316	–	(1,310,467)	(1,207,151)
Repayment of long-term debt	–	–	(40,000)	–	(40,000)
Contributions to the Government of Québec	–	–	–	(25,000)	(25,000)
	(101,988)	103,316	(40,000)	(1,335,467)	(1,374,139)
<b>Other changes related to these liabilities</b>					
Change in transaction costs	–	–	181	–	181
<b>Total changes related to these liabilities</b>	(101,988)	103,316	(39,819)	(1,335,467)	(1,373,958)
<b>Total other changes related to shareholder's equity</b>	–	–	–	1,335,467	1,335,467
<b>Balance as at March 31, 2018</b>	<b>289,294</b>	<b>168,967</b>	<b>217,832</b>	<b>86,300</b>	<b>762,393</b>

## 25 RELATED PARTIES

### a) Related party transactions and balances

Given that the Government of Québec is its sole shareholder, Loto-Québec is related to all Government of Québec departments and special funds as well as all agencies and public enterprises directly or indirectly controlled by the Government of Québec or subject to either joint control or significant influence by the Government of Québec. Except for transactions disclosed in the consolidated financial statements that were initially recognized at fair value, no individually or collectively significant transactions have been entered into by Loto-Québec with those related parties.

### b) Key management personnel compensation

Key management personnel includes members of the Board of Directors and certain officers of Loto-Québec. In addition to their salaries, Loto-Québec typically provides other short-term benefits to officers and contributes on their behalf to post-employment benefit plans, such as pension and other long term benefit plans.

Key management personnel received the following compensation:

	2018	2017
Short-term employee benefits	3,393	3,189
Post-employment and other long-term benefits	521	668
	<b>3,914</b>	<b>3,857</b>

## MEASURING EFFICIENCY AND PERFORMANCE

### BENCHMARKING

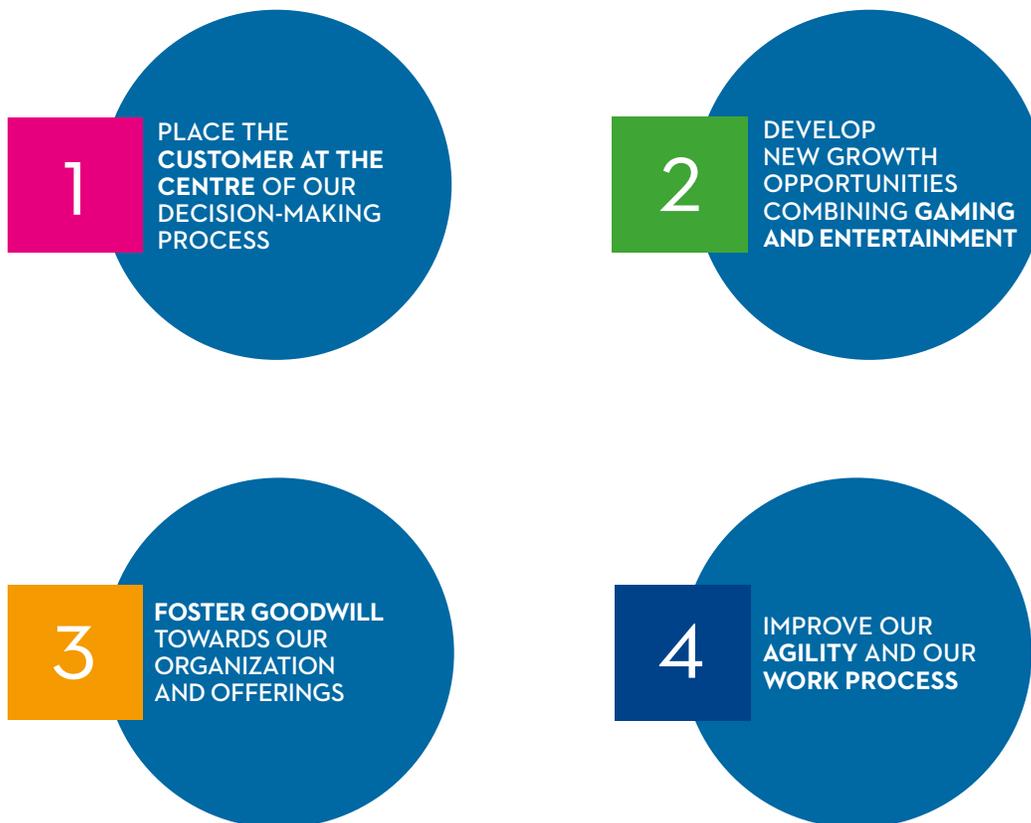
As required by the *Act respecting the governance of state-owned enterprises*, Loto-Québec carries out annual efficiency and performance assessments. The Board of Directors is responsible for ensuring that the steps for measuring efficiency and performance, including benchmarking with similar organizations, are undertaken by the Corporation and that this information is included in the annual report.

The benchmarking exercise involved eight government organizations across Canada: British Columbia Lottery Corporation; Western Canada Lottery Corporation; Alberta Gaming and Liquor Commission; Saskatchewan Liquor and Gaming Authority; Manitoba Liquor and Lotteries Corporation; Ontario Lottery and Gaming Corporation; Atlantic Lottery Corporation; and Nova Scotia Provincial Lotteries and Casino Corporation.

As none of these organizations operate in exactly the same way as Loto-Québec, it is important to take into account the characteristics of their respective game offerings and business model differences.

### LAST YEAR'S RESULTS AND FINDINGS

The 2017-2018 fiscal year marked the beginning of the 2017-2020 strategy planning cycle. In this period, in keeping with the four orientations in our last strategic plan, we continued to improve our offering by focusing on client-centred entertainment and we stayed the course on efficient management and on balancing the social and economic aspects of our mission. The resulting strategy is producing good results, with net income reaching \$1.335 billion for 2017-2018, up 8.5% from the previous year (\$1.231 billion).



## STRATEGIC ORIENTATION 1

### PLACE THE CUSTOMER AT THE CENTRE OF OUR DECISION-MAKING PROCESS

Our efforts in terms of customer service continue to generate excellent results. The customers' general satisfaction rate rose to 8.5, a step up from the previous year (8.3).

Our convergent offering strategy has also borne fruit. The proportion of the adult population who take advantage of our offering in more than one category is up significantly, having risen from 25% in 2016-2017 to 28.9% in 2017-2018.

## STRATEGIC ORIENTATION 2

### DEVELOP NEW GROWTH OPPORTUNITIES COMBINING GAMING AND ENTERTAINMENT

Our shift to entertainment continues to please our customers, as shown by the increased in traffic. Our casinos and gaming halls received 10.4 million visits in 2017-2018, up 3% in comparison with the previous year.

## STRATEGIC ORIENTATION 3

### FOSTER GOODWILL TOWARDS OUR ORGANIZATION AND OFFERINGS

In 2016, our World Lottery Association Level 4 Certification – the highest level awarded for responsible gambling – was renewed, clearly demonstrating our efforts in this regard. The certification is valid until 2019. We are planning to renew this recognition next year.

We continue to place great importance on compliance audits with responsible commercialization codes. In the bars and brasseries network, the number of visits per establishment was 5.8, clearly higher than the number in other jurisdictions that operate video lottery terminals. In the lottery retailer network, 390 visits were conducted. In both cases, the levels are basically the same as in prior years.

Our Centres du hasard kiosks, in our four casinos and two gaming halls, are becoming increasingly popular. The total number of visits was 50,686 for the year, a considerable increase of 33% over the previous year.

In terms of BOMA BEST certifications, we still have nine certified buildings, meeting our certification maintenance goal.

## STRATEGIC ORIENTATION 4

### IMPROVE OUR AGILITY AND OUR WORK PROCESS

Managing our activities soundly and efficiently is central to our priorities, and the ratio of total expenses to revenues shows the extent of the efforts we are making. This ratio is down again, at 26.3%, below the previous year's ratio of 27.5%.

# FOLLOW-UP ON THE ACTIONS OUTLINED IN THE 2015-2020 RESPONSIBLE COMMERCIALIZATION PLAN

## FOR THE 2017-2018 FISCAL YEAR

As required under the *Sustainable Development Act*, this section outlines objectives and activities carried out in 2017-2018 with respect to our 2015-2020 responsible commercialization plan (RCP). The RCP allowed the organization to operationalize the responsible commercialization code.

The RCP involves five horizontal objectives:

1. Provide our employees with a stimulating workplace
2. Optimize responsible gambling measures at every step of our commercialization activities
3. Guarantee the integrity of our games and their distribution channels
4. Continue the drive to improve our overall performance
5. Encourage dialogue with stakeholders based on a vision of complementary roles

We are presenting our results to put our responsible commercialization efforts into perspective based on the objectives and expectations of the Government Sustainable Development Strategy 2015-2020. This follow-up also links with the government terminology, which correspond to that used in the public service.

The definitions related to the contribution to the government strategy – objectives, target outcomes, essential activities and areas of intervention – can be found at the end of this section, on page 83.



OBJECTIVES



TARGET OUTCOMES



ESSENTIAL ACTIVITIES



AREAS OF INTERVENTION

## ORGANIZATIONAL OBJECTIVE 1

### PROVIDE OUR EMPLOYEES WITH A STIMULATING WORKPLACE

#### ACTION 1: Mobilize our employees to achieve our business objectives

**81%**

of respondents connect responsible commercialization with our business objectives.

#### SUB-ACTION 1.1

Communicate our business objectives and strategic priorities, drawing a connection with responsible commercialization

#### INDICATOR

Percentage of employees who connect responsible commercialization and business objectives

#### TARGET

85% of employees

#### FURTHER INFORMATION

Integrating responsible commercialization at every level of the organization requires everyone to understand our approach, so every employee can contribute. We surveyed employees' knowledge of this approach on our intranet. The result drawn from the answers of 363 respondents will be validated after the official survey in April and May 2018, and used to establish the employee mobilization index (EMI).

#### CONTRIBUTION TO GOVERNMENT STRATEGY



#### SUB-ACTION 1.2

Highlight the employees' contribution to the achievement of our results

#### INDICATOR

Number of communications related to the recognition of employees directly involved in responsible commercialization projects

#### TARGET

Twenty annual communications

#### FURTHER INFORMATION

- Recognition of the employees' involvement was communicated many times on our various platforms: 56 posts on the intranet and 26 in other media highlighted their involvement, particularly in active and public transportation, the Centre du hasard kiosks and the partnership between the Fondation Les Petits Rois and Loto-Québec to establish an innovative work integration program.
- The target has been increased to better reflect our capacity to communicate.

#### CONTRIBUTION TO GOVERNMENT STRATEGY



**82**

communications showcased employees.

**ACTION 2:** Anchor responsible commercialization in our organizational culture



**SUB-ACTION 2.1**

Integrate relevant actions from the responsible commercialization plan into the strategic plans and annual action plans of the business units

**INDICATOR**

Percentage of annual action plans that include actions from the responsible commercialization plan

**TARGET**

100% of plans

**FURTHER INFORMATION**

All units concerned, that is the Présidence des opérations – Loteries, the Société des casinos du Québec (SCQ) and the Société des établissements de jeux du Québec (SEJQ), have integrated RCP actions in their 2017-2018 action plans.

**CONTRIBUTION TO GOVERNMENT STRATEGY**



**SUB-ACTION 2.2**

Support responsible commercialization initiatives

**INDICATOR**

Percentage of employees who see concrete responsible commercialization actions in their company

**TARGET**

60% by 2020

**FURTHER INFORMATION**

This sub-action has been reviewed for 2018-2019. We held an official survey in April and May 2018 to determine the percentage of employees who see concrete responsible commercialization actions in the organization. The results of this sub-action will be published in 2018-2019.

We still implemented several measures to contribute to this sub-action:

- We selected eight corporate social responsibility (CSR) analysis criteria, inspired by the Lean process, which are used to evaluate social, environmental and economic impacts: resources, quality, timelines, stakeholders, transportation, inventory, travel and social acceptance. These criteria are being integrated into the SCQ, Supply, Information Technologies (IT) and Real Estate.
- During the year, to meet the expectations of our employees, we will look more closely at the needs of the various sectors to develop the relevant competencies and skills for different positions, to facilitate the deployment of the best eco-responsible practices.

**CONTRIBUTION TO GOVERNMENT STRATEGY**



**SUB-ACTION 2.3**

Continue our responsible gambling awareness and training efforts with our employees

**INDICATOR**

Percentage of employees trained in responsible gambling

**TARGET**

95% of active employees

**FURTHER INFORMATION**

The current training, Level 1 of the problem gambling awareness workshop, is given in the classroom. It will be reviewed and offered online as professional development.

**CONTRIBUTION TO GOVERNMENT STRATEGY**

## ORGANIZATIONAL OBJECTIVE 2

### OPTIMIZE RESPONSIBLE GAMBLING MEASURES AT EVERY STEP OF OUR COMMERCIALIZATION ACTIVITIES

**ACTION 3:** Provide a dynamic and competitive offer including the principles of responsible gambling



#### SUB-ACTION 3.1

Take the principles of responsible gambling into account in the design, approval and evaluation of our games

#### INDICATOR

Implementation of a revised process

#### TARGET

March 2020

#### FURTHER INFORMATION

Since 100% of new games take the principles of responsible gambling into account, we established a new indicator and a new target aimed at improving the process.

CONTRIBUTION TO  
GOVERNMENT STRATEGY



**ACTION 4:** Enforce the responsible commercialization framework with our retailers, raise player awareness of low-risk gaming behaviours in our gaming establishments and take action with players who show signs of gambling problems



#### SUB-ACTION 4.1

Foster the improvement of our retailers' responsible commercialization practices

#### INDICATOR

Percentage of bars and brasseries where at least one employee took part in the *Ici, on carte!* training program

#### TARGET

70% of bars and brasseries

#### FURTHER INFORMATION

- We developed a new course for the owners and employees of bars and brasseries that offer video lotteries. It will be given in 2018-2019.
- We established a new indicator and a new target for this sub-action. They have been in effect since April 1, 2018.

CONTRIBUTION TO  
GOVERNMENT STRATEGY



#### SUB-ACTION 4.2

Increase the reach of our awareness tools within our establishments

#### INDICATOR

Number of contacts made with clients at the Centre du hasard information kiosks

#### TARGET

20% increase by 2020

#### FURTHER INFORMATION

The number of contacts made with clients in 2017-2018 represents a 125% increase over the target.

CONTRIBUTION TO  
GOVERNMENT STRATEGY





**SUB-ACTION 4.3**

Continue our efforts to support players with problems

**INDICATOR**

Percentage of new self-excluded clients interested in at least one of our assistance services

**TARGET**

20% of self-excluded clients by 2020

**FURTHER INFORMATION**

To increase the number of self-excluded clients who are open to the available assistance and support, a pilot project was carried out at the Casino du Lac-Leamy. It offered self-excluded clients the opportunity to participate in tele-counselling given by our partner, Gambling: Help and Referral. Given the success of the pilot project, which wrapped up in November 2017, telecounselling will be offered in all four casinos and both gaming halls.

**CONTRIBUTION TO GOVERNMENT STRATEGY**

**ACTION 5:** Develop and communicate relevant information so that players can make informed decisions about their participation in gaming activities and have fun without losing control of their gaming habits



**SUB-ACTION 5.1**

Improve the awareness rate of information about responsible gambling among players

**INDICATOR**

Percentage of players who know the basic messages about responsible gambling

**TARGET**

65% by 2020

**FURTHER INFORMATION**

- The penetration rate was evaluated by a Léger survey in February 2018.
- New awareness content will be posted on the web and in social media in June 2018.
- A new target was set and has been in effect since April 1, 2018.

**CONTRIBUTION TO GOVERNMENT STRATEGY**

**ORGANIZATIONAL OBJECTIVE 3**

**GUARANTEE THE INTEGRITY OF OUR GAMES AND THEIR DISTRIBUTION CHANNELS**

**ACTION 6:** Communicate the rules of all gaming activities and products



**SUB-ACTION 6.1**

Disclose the rules of all our games or products on lottery tickets, on our websites, in our gaming establishments and at our points of sale

**INDICATOR**

Percentage of games for which the rules are available to players (online, at our retailers or in our establishments)

**TARGET**

100% of games

**FURTHER INFORMATION**

The rules for the games and gaming terminals launched in 2017-2018 are available in the casinos, online, in the gaming establishments and at the retailers.

**CONTRIBUTION TO GOVERNMENT STRATEGY**

**ACTION 7:** Implement oversight measures that enforce these rules

We maintained our  
**WLA**  
certification.

**SUB-ACTION 7.1**

Maintain information security management systems (ISMS) and apply best security and integrity practices

**INDICATOR**

World Lottery Association (WLA) Security Control Standard Certification (ISO/IEC 27001 certification)

**TARGET**

Certification maintenance (annual follow-up and renewal every three years)

**FURTHER INFORMATION**

- Action 7 outlines the steps to take to enforce the game and product rules.
- The WLA Security Control Standard Certification was renewed in spring 2017. ISO/CEI 27001 certification is a prerequisite for WLA certification.

CONTRIBUTION TO GOVERNMENT STRATEGY



**100%**  
of our facilities are subject  
to security monitoring  
measures.

**SUB-ACTION 7.2**

Maintain security measures to protect the Corporation's assets and games (surveillance, analysis, monitoring, compliance with official documents)

**INDICATOR**

Monitoring of measures

**TARGET**

100% of our facilities

**FURTHER INFORMATION**

Security monitoring measures that protect our assets and the integrity of our games are in place in all our facilities.

CONTRIBUTION TO GOVERNMENT STRATEGY

**ACTION 8:** Ensure all players are treated equally

**100%**  
of new games are  
compliant.

**SUB-ACTION 8.1**

Have our processes, games and random number generators certified in accordance with the rules and regulations in effect, as well as standards we have adopted, by external independent specialists

**INDICATOR**

Percentage of compliance for new games

**TARGET**

100%

**FURTHER INFORMATION**

A total of 100% of the games and gaming terminals launched in 2017-2018 in the casinos, on lotoquebec.com and at the SEJQ (video lottery terminals in bars and brasseries and in gaming halls) are compliant.

CONTRIBUTION TO GOVERNMENT STRATEGY





**SUB-ACTION 8.2**

Maintain the minimum control standards for key lottery processes, in keeping with Interprovincial Lottery Corporation (ILC) standards

**INDICATOR**

ILC attestation

**TARGET**

Maintenance of the attestation

**FURTHER INFORMATION**

The annual certification process for compliance with the ILC standards was successfully completed in March 2018.

CONTRIBUTION TO GOVERNMENT STRATEGY 

**ORGANIZATIONAL OBJECTIVE 4**

**CONTINUE THE DRIVE TO IMPROVE OUR OVERALL PERFORMANCE**

**ACTION 9:** Contribute to the vitality of communities and improve the performance of our social programs



**SUB-ACTION 9.1**

Optimize the benefits of our sponsorships for our organization and the community

**INDICATOR**

Percentage of events that attain the sustainability threshold

**TARGET**

85% of sponsored events

**FURTHER INFORMATION**

- In total, 95% of the target events attained the sustainability threshold for 2017-2018. This threshold is established based on a score attributed to the measures applied.

- The performance of this indicator reflects the efforts made by the sponsored events to continuously improve their responsible management practices.
- In addition to encouraging eco-responsible events, we renewed our responsible event organization certification (BNQ 9700-253), which classifies and promotes event practices on the basis of five levels of excellence. Again this year, we helped organize the *Les Vivats - Les prix Loto-Québec pour les événements responsables*.

CONTRIBUTION TO GOVERNMENT STRATEGY  



**SUB-ACTION 9.2**

Optimize the presentation of artworks from the Collection Loto-Québec (in connection with Agenda 21 de la culture du Québec)

**INDICATOR**

To be determined

**TARGET**

To be determined

**FURTHER INFORMATION**

- The indicator and the target will be reviewed in 2018-2019, after the Québec's new culture policy is tabled.

- Since the adoption of the RCP in 2015, the means of showing the artworks in the Collection have changed. They are mainly exhibited in the artistic routes in our establishments. We asked guest curators to select the works for these routes, which add to the casinos' entertainment offer. The number of visits directly attributable to the artworks is hard to determine, but the Collection is accessible to all the visitors - tens of thousands of people each year.

CONTRIBUTION TO GOVERNMENT STRATEGY 

**ACTION 10:** Efficiently and effectively manage our resources

**\$12.5 MILLION**  
was saved through responsible commercialization.

**SUB-ACTION 10.1**

Introduce a responsible commercialization continuous improvement system and report on its effects on the environment and society

**INDICATOR**

Dollars saved through the responsible commercialization process

**TARGET**

\$20 million in savings thanks to the responsible commercialization approach by 2020

**FURTHER INFORMATION**

The savings achieved here are included in our overall optimization portfolio. For example, the computer equipment that processes data from the gaming terminals at retailers was recycled. By selling this equipment, we achieved significant savings and gave the equipment a second life. The managers were also made aware of the financial impact of an eco-responsible management.

**CONTRIBUTION TO GOVERNMENT STRATEGY**

**ACTION 11:** Optimize our acquisition, operation and infrastructure management initiatives

**100%**  
of projects were improved.  
**100%**  
of calls for tenders were evaluated.

**SUB-ACTION 11.1**

Develop responsible commercialization criteria for projects and calls for tenders; develop synergies to reduce costs and impacts

**INDICATORS**

- Number of projects improved
- Percentage of calls for tenders for products and services evaluated (excluding calls for tenders for food products and consultation services) to ascertain the possibility of including responsible procurement criteria

**TARGETS**

- 100% of structuring projects
- 100% of call for tenders

**FURTHER INFORMATION**

- The number of structuring projects for 2017-2018 was 19.
- We issued 92 calls for tenders in 2017-2018 (not including calls for tenders for food products and consulting services).

**CONTRIBUTION TO GOVERNMENT STRATEGY**

**1**  
new green ICT improvement was carried out.

**SUB-ACTION 11.2**

Implement an improvement process for our information and communication technologies

**INDICATOR**

Number of improvements implemented based on a known green ICT repository

**TARGET**

10 improvements by 2020

**FURTHER INFORMATION**

The CSR eight-criterion analysis grid is now available to employees of the Corporate IT Department, its project office and Technologies Nter. Nine improvements have been carried out since 2016.

**CONTRIBUTION TO GOVERNMENT STRATEGY**



**SUB-ACTION 11.3**

Strengthen the global performance management system of our infrastructures

**INDICATOR**

BOMA BEST certifications

**TARGET**

Silver certification for target buildings<sup>1</sup>

**FURTHER INFORMATION**

- Two certifications were re-evaluated in 2017-2018: the one for the Pierre De-Coubertin computer centre, which received Silver certification, and the one for the Casino de Mont-Tremblant, which received Gold certification.

- The Casino de Mont-Tremblant is the first casino in Canada to achieve this level of performance in BOMA BEST 3.0. This certification is awarded to buildings and businesses that set themselves apart in the real estate industry in Québec for excellent environmental management, including waste management, water and energy consumption and air quality. The Casino's eco-responsible actions attest to its desire to offer a high-quality environment to customers and employees alike.

**CONTRIBUTION TO GOVERNMENT STRATEGY**

**ACTION 12:** Optimize the publication of our responsible commercialization performance<sup>2</sup>



**SUB-ACTION 12.1**

Highlight our responsible commercialization actions

**INDICATOR**

Development and implementation of the communication strategy of our actions

**TARGET**

March 2019

**FURTHER INFORMATION**

Facing a growing number of communications related to responsible commercialization, we opted for the development and implementation of a distinct strategy.

**CONTRIBUTION TO GOVERNMENT STRATEGY**

<sup>1</sup>The target buildings are the 500 Sherbrooke Ouest building, the Loto-Québec multifunctional complex, the Pierre De-Coubertin computer centre, the Salon de jeux de Trois-Rivières, the Montréal, Charlevoix and Lac-Leamy casinos, and the Hilton Lac-Leamy.

<sup>2</sup>The 12.2 sub-action was withdrawn. The number of visits to the Corporate Responsibility section of our website did not provide a satisfactory sample for measuring the indicator.

## ORGANIZATIONAL OBJECTIVE 5

### ENCOURAGE DIALOGUE WITH STAKEHOLDERS BASED ON A VISION OF COMPLEMENTARY ROLES

#### ACTION 13: Enhance our relationships with our stakeholders<sup>1</sup>

**2**  
new projects in partnership with the health and research fields.

**764**  
employees involved in the *Tous gagnants* collective.

**10**  
new projects related to causes and other stakeholders.

#### SUB-ACTION 13.1

Develop projects to improve our social programs with our stakeholders

#### INDICATORS

- Number of new projects carried out in partnership with the health and research fields
- Number of employees involved in the *Tous gagnants* collective
- Number of new projects related to causes and other stakeholders

#### TARGETS

- 5 by 2020
- 1,200 employees a year
- 5 by 2020

#### FURTHER INFORMATION

- New projects carried out in partnership with the health and research fields are projects on electronic bingo and online gaming.
- A total of 540 employees from Loto-Québec, excluding the SCQ, got involved in the *Tous gagnants* collective. The total for the SCQ amounts to 224 employees as of January 2018. They took part in various activities, including the “Santa Claus” and “backpacks” operations as well as the food drives for the Moisson partner organizations.
- The 10 new projects related to causes and other stakeholders concern the following activities or organizations: Leucan Shaved Head Challenge; Fondation Les Petits Rois at the head office; Fondation Les Petits Rois at the Casino de Montréal; legacy to the community at La Malbaie (Collection Loto-Québec); Papier 2017 fair (Contemporary Art Galleries Association); Festival Chromatic (MASSIVart); Literacy Foundation (*The Gift of Reading* program); Jasmin Roy Foundation; Alice & Smith and Fondation Jean Lapointe; and Institut de tourisme et d’hôtellerie du Québec (analysis of synergies between visual art and contemporary art).

CONTRIBUTION TO  
GOVERNMENT STRATEGY



<sup>1</sup>The previous 13.1 sub-action was withdrawn. Given that we incorporated the concepts of responsible commercialization into a large number of communications, this measure was no longer adequate.

## DEFINITIONS RELATED TO THE CONTRIBUTION TO THE GOVERNMENT STRATEGY



### OBJECTIVES

- 1.1 Strengthen eco-responsible management practices in the public administration
- 1.2 Increase application of sustainability principles by government departments and agencies (GDAs)
- 1.4 Continue developing knowledge and skills related to sustainable development in the public administration
- 2.5 Help consumers make responsible choices
- 5.1 Promote the adoption of healthy lifestyles



### TARGET OUTCOMES

- 1 Eco-responsible actions related to current material resource management and waste management operations
- 4 10% reduction in GHG (greenhouse gas) emissions for GDA buildings in relation to the level assessed in 2009-2010
- 5 Eco-responsible construction and renovation projects
- 7 Eco-responsible products, communications activities and events
- 8 The inclusion of eco-responsible considerations in the internal contract management policy or the development of an eco-responsible acquisition policy
- 9 Significant increase in eco-responsible acquisitions by GDAs
- 10 Implementation of organizational sustainable development accountability processes for GDAs
- 11 Development and use of evaluation and decision-making methods that take sustainable development principles into account
- 16 Training on sustainable development practices
- 17 Promotion and enhancement of knowledge and initiatives conducive to sustainable development in GDAs and outside the public administration
- 30 Dissemination of information and public education about responsible consumption



### ESSENTIAL ACTIVITIES

- 1 Contribution to the achievements of the target eco-responsible management outcomes
- 2 Taking sustainable development principles into account
- 3 Contribution to the government orientation for integrating culture in sustainable development



### AREAS OF INTERVENTION

- 1 Current administrative management activities
- 3 Buildings and infrastructure
- 4 Information and communications technologies
- 6 Public markets

# 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);

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 Société des loteries du Québec* (L.R.Q., c. S-13.1), as amended and modified from time to time
- b) “Association”: a group of persons having a common goal other than that of generating profits for the benefit of its members
- c) “Board”: the Board of Directors of the Corporation or of one of its Subsidiaries
- d) “Code”: this Code of Ethics and Rules of Professional Conduct for Directors and Managers of Loto-Québec and its Subsidiaries
- e) “Committee”: the Board’s Governance and Ethics Committee, as prescribed by the *Act respecting the governance of state-owned enterprises*
- f) “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
- g) “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
- h) “Contract”: a draft agreement
- i) “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
- j) “Corporation”: Loto-Québec and its Subsidiaries
- k) “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
- l) “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

- m) “Manager”: with respect to the Corporation, any contract executive whose conditions of employment are subject to approval by the Board
- n) “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
- o) “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
- p) “Spouse”: husbands and wives, as well as persons living together maritally for more than one year
- q) “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 instill 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, vision and strategic directions set out in its strategic plan.
- 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.

- 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 President and 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 1.n) that has been so employed;
- be employed by the government or a government agency within the meaning of Section 4 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 the governance of state-owned enterprises*.

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; or
- 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) 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; or
- 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.

4.10.1 The Manager shall disclose any Contract for personal purposes he intends to make with an Enterprise he knows to be a supplier of the Corporation, in each of the following cases:

- a) If the Manager or the department to which he is attached within the Corporation has been or is in a business relationship with this supplier;
- b) If he could derive any benefit from his status as a Manager in the context of the negotiation of the Contract with this supplier;
- c) If the making of the Contract could place him in a Conflict of interest situation; or
- d) If, in the exercise of his functions, he is in contact with representatives of this supplier.

Excluded from this disclosure obligation are the usual Contracts made with a utility company, such as electricity service or communications services (residential telephony, television or Internet), and Contracts seeking to obtain professional services.

The Manager shall make the disclosure required above in writing to the President and Chief Executive Officer before concluding the Contract with the supplier, specifying the name of the supplier concerned, the nature of the Contract and its value. However, if the Manager concerned is the President and Chief Executive Officer, the disclosure shall be made to the Chairman of the Board.

- 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 name of any and all Enterprises in which he or a Related person living under the same roof:
  - holds, directly or indirectly, securities or assets, including shares, specifying the nature and quantity in number and in proportion of the securities held and the value of the assets, but excluding publicly-traded Enterprises for which he or a Related person living under the same roof holds less than five percent of the securities;

- assumes or holds a position as employee, director, manager or any analogous position; or
  - has a direct or indirect interest, in the form of a claim, right, priority, mortgage or significant financial or commercial benefit.
- b) To his knowledge, the name of any and all Enterprises in which any Related person:
- holds, directly or indirectly, securities or assets, including shares, specifying the nature and quantity in number and in proportion of the securities held and the value of the assets, but excluding publicly-traded Enterprises for which the Related person holds less than five percent of the securities;
  - assumes or holds a position as employee, director, manager or any analogous position; or
  - has a direct or indirect interest, in the form of a claim, right, priority, mortgage or significant financial or commercial benefit.
- c) To his knowledge, the nature of any relationship between the Enterprises contemplated in the foregoing paragraphs and the Corporation; and
- 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 may not accept fees from the Corporation or from any of its Subsidiaries 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 law 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 5.4, 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 AND LAWS

### 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.

### ACT TO FACILITATE THE DISCLOSURE OF WRONGDOINGS RELATING TO PUBLIC BODIES

In keeping with the *Act to facilitate the disclosure of wrongdoings relating to public bodies*, Loto-Québec has adopted a policy to facilitate the disclosure of wrongdoings. This policy is in addition to the mechanisms already in place in this regard within the Corporation, such as the codes of ethics and the reporting line. No statements were filed during the year.

### ACT RESPECTING WORKFORCE MANAGEMENT AND CONTROL WITHIN GOVERNMENT DEPARTMENTS, PUBLIC SECTOR BODIES AND NETWORKS AND STATE-OWNED ENTERPRISES

On December 5, 2014, the Government of Québec adopted the *Act respecting workforce management and control within government departments, public sector bodies and networks and state-owned enterprises* (hereinafter, the "Act").

As the title suggests, the Act seeks to strengthen the mechanisms for managing and controlling the staff of public bodies, particularly by means of workforce planning, as well as the control of staffing and service contracts.

In 2014-2015, in keeping with the Act, Loto-Québec adopted a directive on service contracts and submitted it to the Conseil du trésor. Under this directive, in 2017-2018, the President and Chief Executive Officer of Loto-Québec authorized 57 service contracts for over \$25,000, with a total value of \$15,183,204. None of these contracts was concluded with a natural person.

### LOTO-QUÉBEC WORKFORCE\* AS AT MARCH 31, 2018

Category	Paid hours			Number of employees
	Hours worked	Overtime	Total	
Management staff	196,175	953	197,128	110
Professional staff	920,181	19,883	940,064	519
Office, technical and similar staff	583,076	13,812	596,887	336
Labourers, maintenance and service staff	40,630	1,972	42,603	21
Students and interns	12,356	52	12,408	6
<b>Total</b>	<b>1,752,418</b>	<b>36,672</b>	<b>1,789,090</b>	<b>992</b>

\*Excluding subsidiaries

For the period from April 1, 2017, to March 31, 2018, the staffing level did not exceed the target set by the government.

# ACCESS TO INFORMATION AND PROTECTION OF PERSONAL INFORMATION

## ACCESS TO INFORMATION

Total number of requests received from April 1, 2017, to March 31, 2018

171

### NUMBER OF REQUESTS PROCESSED, BY TYPE AND PROCESSING TIME

	Request for access			
	Administrative documents	Personal information	Correction	
<b>Processing time</b>				
0 to 20 days	4	78	0	
21 to 30 days	57	25	0	
31 days or more (if required)	5	1	0	
<b>Total</b>	<b>66</b>	<b>104</b>	<b>0</b>	<b>170<sup>1</sup></b>

### NUMBER OF REQUESTS PROCESSED, BY TYPE AND DECISION RENDERED

	Request for access			Provisions of the law invoked
	Administrative documents	Personal information	Correction	
<b>Decision rendered</b>				
Accepted (entirely)	25	58	0	
Partially accepted	19	9	0	21, 22, 23, 24, 28, 29, 32, 37, 39, 42, 53, 54, 57, 87.1, 137.1, S. 9 of the Charter of Rights and Freedoms
Rejected (entirely)	7	17	0	
Other	15	20	0	

Number of notices of review received from the Commission d'accès à l'information

5

Number of requests for access subject to reasonable accommodation measures

0

The statistics presented above relate only to requests made under the *Act respecting Access to documents held by public bodies and the Protection of personal information*. Requests for information by summons, ordinance or by virtue of a power conferred by a law are not included.

In 2017-2018, the Corporation, in compliance with the *Regulation respecting the distribution of information and the protection of personal information*, voluntarily disclosed information on its website.

## PROTECTION OF PERSONAL INFORMATION

Under the stewardship of the information management committee, the principles of the protection of personal information were communicated through training courses, memos to employees and in relation to specific cases. The related guidelines were also reviewed.

<sup>1</sup>Requests processed are those for which a response was provided during the fiscal year. The processing time of an application can be spread over 30 days.

## BOARD OF DIRECTORS AND CORPORATE SECRETARIAT



**HÉLÈNE F. FORTIN, MONTRÉAL**  
FCPA, FCA, ICD.D

Chairwoman of the Board of Directors of Loto-Québec  
Partner  
LF&B CPA inc.

**Mandate renewed: June 27, 2017**  
**End of term: June 26, 2021**

*Chairwoman of the Commercial Affairs Committee and the Audit Committee and member of the Human Resources Committee, and the Governance and Ethics Committee*

.....

Holding a graduate degree in Public Accounting with honours from McGill University, Hélène F. Fortin also earned a *magna cum laude* 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. She has been practising public accounting for more than 30 years. A member of the Ordre des comptables professionnels agréés du Québec (OCPAQ), she was a member of the Auditing and Assurance Standards Board of the Canadian Institute of Chartered Accountants from 2006 to 2009, and has assisted the association's Interprovincial Board of Evaluators for more than 30 years, all the while teaching accounting and certification in several Québec universities. She sits on numerous boards of major corporations and a variety of organizations, including Concordia University, the Institute of Corporate Directors (Québec section), the USB Bank and VoiceAge, as a chairwoman or presiding over the Auditing, Governance, Human Resources, Finance 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 workshop leader. Ms. Fortin earned the title of Fellow of the OCPAQ in February 2010.



**LYNNE ROITER, MONTRÉAL**

President and Chief Executive Officer of Loto-Québec

**Appointment: August 8, 2016**  
**End of term: May 31, 2019**

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 practised her profession as lawyer at the Commission des droits de la personne, the Régie de l'assurance automobile du Québec and in private practice. From November 1996 to May 31, 2017, she has served as Loto-Québec's Corporate Secretary and Vice President of Legal Affairs. Ms. Roiter has been President and Chief Executive Officer since May 31, 2017, a post that she had occupied transitionally since August 2016. She is also Corporate Secretary of the World Lottery Association, an organization comprised of more than 140 public lottery corporations from some 80 different countries around the world.



**ALAIN ALBERT, MAGOG**

Corporate Director

**Mandate renewed: June 7, 2017**

**End of term: June 6, 2021**

*Chairman of the Human Resources Committee and member of the Commercial Affairs Committee*

Alain Albert holds a Master's degree in Counselling from the University of Maine, a Bachelor's degree with specialization in educational and career counselling from the Université du Québec à Montréal and a Bachelor of Arts degree from the Université de Montréal. A retired director, Mr. Albert has accumulated over 30 years of experience in the Québec civil service. From 1981 to 2005, he worked at the Commission de la santé et de la sécurité du travail (now the Commission des normes, de l'équité, de la santé et de la sécurité du travail), notably as Vice President of Partner Relations and Expertise during his last 11 years there. From 2007 to 2017, he was a member of the Board of the Société de l'assurance automobile du Québec, where he chaired the Human Resources and Customer Service committees, and sat on the Governance and Ethics Committee.



**DONALD M. BASTIEN, MONTRÉAL**

Corporate Director

**Mandate renewed: June 7, 2017**

**End of term: June 6, 2020**

*Chairman of the Governance and Ethics Committee (since April 17, 2018) and member of the Human Resources Committee, and the Commercial Affairs Committee*

After studying marketing at the Manitoba Institute of Technology, Donald M. Bastien began his career in the telecommunications sector. From 1972 to 2012, he successively occupied the positions of Radio and Television Sales Director, Vice President and Senior Vice President of Sales as well as Senior Vice President and General Manager at the CTV Television Network. In addition to being a founding member and Chairman of the Board of Directors and member of the Executive Committee of the Mental Illness Foundation, Mr. Bastien sits on the Board of Directors and the Board of Governors of St. Mary's Hospital Foundation. He was also chairperson of RC média's Advisory Board and sat on the boards of directors of numerous television networks including Canada Live News Agency from 2002 to 2012, TQS from 2001 to 2008 and Canal Évasion from 2001 to 2005.



**MARIE CÔTÉ, MONTRÉAL**  
ASC

Advisor, Business Development

**Appointment: March 14, 2018**

**End of term: March 13, 2022**

*Member of the Audit Committee and the Commercial Affairs Committee (since March 14, 2018)*

.....

Holding the title of Administratrice de sociétés certifiée (ASC) (certified corporate director) from Université Laval's Collège des administrateurs de sociétés, Marie Côté earned an honorary degree from the Faculty of Arts and Science at the Université de Montréal in 2010. She has held several management positions in large media and entertainment corporations, including Rodeo FX, the Société Radio-Canada and the Cirque du Soleil.



**HUGO DELORME, MONTRÉAL**

President  
Mercure conseil

**Appointment: March 14, 2018**

**End of term: March 13, 2022**

*Member of the Governance and Ethics Committee and the Commercial Affairs Committee (since March 14, 2018)*

.....

Hugo Delorme completed a Masters in Management Science at HEC Montréal in 2010 and received a diploma from the EMBA McGill - HEC program in 2016. He was both Partner and Director at NATIONAL Public Relations where he worked for over 10 years. Mr. Delorme then moved on to the Canadian National Railway (CN) where he worked as Senior Director of Corporate Services. In 2018, he created his own consulting firm, Mercure conseil. He sits on the board of the Société de la Place des Arts de Montréal and is Vice President of the Fondation de la Place des Arts.



**DOMINIQUE GAUTHIER, QUÉBEC**  
ASC

Corporate Director

**Appointment: March 14, 2018**  
**End of term: March 13, 2022**

*Member of the Human Resources Committee and the Commercial Affairs Committee (since March 14, 2018)*

.....

Dominique Gauthier holds a Masters degree in Industrial Relations from the Université Laval. A retired director, she began her career as a manager in the fisheries sector. She has nearly 30 years of experience in Québec's public sector. From 1988 to 2016, she worked for the Secrétariat du Conseil du trésor where she rose to become Associate Secretary for inter-sectoral negotiations coordination in the public, para-public and near-public sectors. In 2014, Ms. Gauthier received the title of Administratrice de sociétés certifiée (ASC) (certified corporate director) from Université Laval's Collège des administrateurs de sociétés. Recognized by the Government of Québec, she may sit on boards to settle disputes in the municipal sector.



**NATHALIE GOODWIN, MONTRÉAL**  
LL. B., ASC

Attorney and Partner  
Agence Goodwin

**Mandate renewed: June 7, 2017**  
**End of term: June 6, 2021**

*Member of the Human Resources Committee, the Commercial Affairs Committee and the Audit Committee*

.....

A Université de Montréal law graduate and member of the Québec Bar since 1990, Nathalie Goodwin is a partner at Agence Goodwin, a company she founded with two associates and which specializes in representing artists who work in various fields on all continents. The company also launches projects internationally in a wide range of artistic endeavours. Ms. Goodwin provides legal advice on representation, development and negotiations. She is also a shareholder and director of Goodwin Management. She was a member of the Board of Directors of the Association Littéraire et Artistique Internationale (ALAI Canada) from 1995 to 1998 and, from 2009 to 2010, of the Société générale de financement. From 2008 to 2012, she has served on the Board of Directors of Alliance Films inc. and has chaired the company's Human Resources Committee. In 2013, she received the title of Administratrice de sociétés certifiée (ASC) (certified corporate director) from Université Laval's Collège des administrateurs de sociétés. Since July 2017, she is a member of the Board of Directors of the Théâtre Outremont.



**ANIE PERRAULT, SAINT-BRUNO-DE-MONTARVILLE**  
LL. L., ASC

Executive Manager  
BIOQuébec

**Mandate renewed: June 7, 2017**  
**End of term: June 6, 2020**

*Member of the Human Resources Committee (until April 19, 2018), the Governance and Ethics Committee (since April 19), and the Commercial Affairs Committee*

.....

Anie Perrault graduated from the University of Ottawa with a law degree in 1992 and she practised at Phillips & Vineberg (now Davies, Ward, Phillips & Vineberg) from 1992 to 1995, mainly in civil and commercial litigation and labour law. She has more than 20 years of professional experience in both the public and private sectors. Her career focused on communications and public affairs in relation to genomics research and biotechnology. She held many strategic national-level positions over the years. From 2001 to 2006, she was Vice President at Genome Canada. Currently Executive Manager of BIOQuébec and an administrative judge on the Canadian Human Rights Tribunal, Ms. Perrault is also a member of various boards of directors including Génome Québec, the Université de Sherbrooke and the Fondation Jeanne-Mance. She also sat on the Research Ethics committee at Génome Québec. In 2013, Ms. Perrault became an Administratrice de sociétés certifiée (ASC) (certified corporate director) from Université Laval's Collège des administrateurs de sociétés. She was elected to the municipal council of the municipality of Bromont in 2009, a position she held for more than five years. She was also Vice President of the Réseau des élués municipales de la Montérégie-Est, which aims to encourage women in municipal politics. From 1998 to 2000, Ms. Perrault was Press Officer, Director of Communications and Senior Advisor to the Right Honourable Joe Clark.



**MARIE-CHRISTINE TREMBLAY, MONTRÉAL**  
LL. L.

Corporate Secretary and Vice President of Legal Affairs

.....

After earning a Bachelor's degree in Mathematics from McGill University, Marie-Christine Tremblay chose to pursue a law degree. She was hired by the Ministère de la Justice, where she practised law for a few years. Ms. Tremblay joined Loto-Québec in 1988 as Legal Counsel in the Corporate Legal Affairs Department. She was named Head of the Corporate Secretariat Department in 1998, and of Legal Affairs in 2006. In 2017, she was appointed Corporate Secretary and Vice President of Legal Affairs.

## BOARD OF DIRECTORS AND COMMITTEE REPORTS

### MANDATE

The Loto-Québec Board of Directors (the “Board”) is responsible for overseeing Loto-Québec’s operations 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 the Corporation. The Board ensures that Loto-Québec takes the necessary measures to achieve the objectives arising from its mission. To do so, it adopts gaming regulations and approves Loto-Québec’s principal policies, orientations and annual business plan and also monitors the progress of the organization’s corporate responsibility actions and establishes the risk management oversight policies related to its operations.

The Board is supported by three permanent committees: the Audit Committee, the Governance and Ethics Committee, and the Human Resources Committee, and it is empowered to form other committees, as needed. As such, it created the Commercial Affairs Committee in 2008-2009. Each of these committees makes recommendations to the Board in its area of expertise.

The permanent committees are mandated to conduct an annual review of the Corporation’s operational policies in their respective areas of governance and, where warranted, to recommend required policy amendments for approval by the Board.

### COMPOSITION

As of March 31, 2018, the Board had nine members – six women and 3 men –, appointed by the Government of Québec. All are independent members, except for the President and Chief Executive Officer.

### ATTENDANCE

Regular meetings of the Board are scheduled at the beginning of the fiscal year, while special meetings are held as needed over the course of the year. The manner in which advance notice is given to members for committee meetings varies according to individual committee requirements.

During the 2017-2018 fiscal year, the Board held eight regular meetings, in person or by conference call. A closed session without management present was held at the end of each Board and committee meeting.

### DIRECTOR ATTENDANCE REPORT AS OF MARCH 31, 2018

Members	Board of Directors	Audit Committee		Governance and Ethics Committee	Human Resources Committee	Commercial Affairs Committee
	Regular 8	Regular 5	Special 1	Regular 4	Regular 4	Regular 2
Hélène F. Fortin	8/8	5/5	1/1	4/4	4/4	2/2
Alain Albert	8/8	–	–	–	4/4	2/2
Donald M. Bastien	8/8	–	–	–	4/4	2/2
Marie Côté	1/1	–	–	–	–	–
Hugo Delorme	1/1	–	–	–	–	–
Lynda Durand	6/6	–	–	4/4	–	1/1
Jean André Élie	6/7	5/5	1/1	–	–	2/2
Dominique Gauthier	1/1	–	–	–	–	–
Nathalie Goodwin	7/8	5/5	1/1	–	4/4	2/2
Mel Hoppenheim	4/7	–	–	1/4	2/3	1/2
Serge LeBel	6/7	4/5	1/1	4/4	–	2/2
Anie Perrault	8/8	–	–	–	4/4	2/2

Excused absences.

## REMUNERATION

Independent Directors of Loto-Québec are remunerated pursuant to the Order in Council 610-2006, which was adopted by the Government of Québec on June 28, 2006. Remuneration is also indexed in accordance with this order.

### REMUNERATION OF THE INDEPENDENT DIRECTORS

Directors	Total Remuneration
Hélène F. Fortin <sup>1, 2, 3, 4 and 5</sup>	\$52,339.00
Alain Albert <sup>3 and 4</sup>	\$19,025.06
Donald M. Bastien <sup>2, 3 and 4</sup>	\$20,083.00
Marie Côté <sup>1 and 4</sup>	\$1,063.25
Hugo Delorme <sup>2 and 4</sup>	\$1,063.25
Lynda Durand <sup>2, 4 and 5</sup>	\$16,241.25
Jean André Élie <sup>1 and 4</sup>	\$17,272.99
Dominique Gauthier <sup>3 and 4</sup>	\$872.54
Nathalie Goodwin <sup>1, 3 and 4</sup>	\$20,674.00
Mel Hoppenheim <sup>2, 3 and 4</sup>	\$13,726.99
Serge LeBel <sup>1, 2 and 4</sup>	\$19,045.99
Anie Perrault <sup>3 and 4</sup>	\$17,719.00
	<b>\$199,126.32</b>

## ACTIVITIES

### STRATEGIC PLANNING AND BUSINESS PLAN

At each meeting of the Board, Loto-Québec management reported on the progress of the Corporation's business in relation to the 2017-2018 business plan and principal current projects. This year, the Board also approved the 2016-2017 annual report<sup>6</sup> and the 2018-2019 action plan.

Here is an overview of the topics it dealt with in the last year:

- Video lottery terminal network action plan
- Provisions for the filtering of illegal online gaming sites and improvement of the Loto-Québec's site
- The G7 summit in Charlevoix
- The pilot project for electronic bingo
- Internal work on tomorrow's clientele
- Creation of four hubs of expertise
- Monitoring of information technologies (IT) developments

In addition, during the last fiscal year, the Board approved game rules for the lottery, casino and gaming establishments sectors, including online gaming.

A progress report on the corporate responsibility initiatives set out in the 2015-2020 responsible commercialization plan was made at every Board meeting.

For the 2017-2018 fiscal year:

<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 for employees and for executive and professional staff of the Société des casinos du Québec (SCQ)

<sup>6</sup>The Board approved the 2017-2018 annual report at its meeting of May 30, 2018.

## FINANCIAL RESULTS AND INTERNAL CONTROLS

At each of its meetings, the Board reviewed a presentation on the financial results and their highlights. On the recommendation of the Audit Committee, the Board approved the financial statements for the year ended March 31, 2017,<sup>1</sup> as well as the 2018-2019 operating budgets.

On the recommendation of the Audit Committee, the Board recommended to the Government of Québec to retain KPMG LLP as external co-auditor for the fiscal years ending March 31, 2018, 2019 and 2020.

Also on the recommendation of the Audit Committee, the Board approved changes to various internal operating policies related to the committee's areas of competency.

After every Audit Committee meeting, the Board received a verbal report on the committee's activities.

## CORPORATE GOVERNANCE

During the 2017-2018 fiscal year, the Board ensured the Corporation's compliance with its governance regulations and policies. It received confirmation, after a review by the Governance and Ethics Committee, that no changes were required to the Corporation's governance rules, the Code of Ethics and Rules of Professional Conduct for Directors and Managers of Loto-Québec and its Subsidiaries or the new director intake program.

On the recommendation of the Governance and Ethics Committee, the Board reviewed the makeup of the committees and conducted the annual review of its operations.

After every Governance and Ethics Committee meeting, the Board received a verbal report on the committee's activities.

## HUMAN RESOURCES MANAGEMENT

Throughout the 2017-2018 fiscal year, the Board monitored various policies relating to personnel management, in cooperation with the Human Resources Committee.

On the recommendation of the Human Resources Committee, the Board approved the remuneration parameters for non-union personnel and managers at Loto-Québec and its subsidiaries for 2018-2019. It also approved the compensation of the President and Chief Executive Officer and the senior executives. The Board also ratified the results of the incentive program for 2016-2017 and the program's terms of application for 2017-2018, for all target employees.

Also on the recommendation of the Human Resources Committee, the Board approved the terms of the negotiation mandate for the collective agreements of the CSN union locals.

The Board recommended to the Government of Québec the appointment of Lynne Roiter as President and Chief Executive Officer of Loto-Québec. It also approved, on the recommendation of the Human Resources Committee, the appointment of the Corporate Secretary and Vice President of Legal Affairs.

A member of the Board continued to sit on the SCQ's employee and executive and professional pension plan committees to represent the Board.

The Board also approved the 2017-2018 action plan for individuals with disabilities.

On the recommendation of the Human Resources Committee, the Board approved changes to various internal operational policies related to the committee's areas of competency.

After every Human Resources Committee meeting, the Board received a verbal report on the committee's activities.

<sup>1</sup>At its meeting of May 30, 2018, and upon recommendation by the Audit Committee, the Board approved the financial statements of the Corporation for the year ended March 31, 2018.

# AUDIT COMMITTEE REPORT

## MANDATE AND COMPOSITION

The Audit Committee supports the Board in monitoring the integrity of financial reporting and the Corporation's internal controls. It monitors the integrated risk management practices, oversees the establishment of effective and adequate internal control mechanisms and supervises the Internal Auditing activities. It acts as a communications link between the external co-auditors, Internal Auditing and the Board. Every year, it reviews its charter to recommend any appropriate changes to the Board.

As of March 31, 2018, the Audit Committee was composed of three independent members.

**Chairwoman:** H el ene F. Fortin, FCPA, FCA

**Members:** Marie C ot e and Nathalie Goodwin

All the members have the requisite experience and skills in accounting or finance. The Chairwoman holds the title of Fellow of the Ordre des comptables professionnels agr e s du Qu ebec.

## ACTIVITIES

During the last fiscal year, the Audit Committee met six times, in person or by conference call, and held a closed session without management present at the end of each meeting. At these meetings, the committee:

- Approved Loto-Qu ebec's quarterly financial statements and monitored the budget
- Reviewed the Corporation's 2016-2017 financial statements with the co-auditors, namely the Auditor General of Qu ebec and Raymond Chabot Grant Thornton LLP, and recommended their approval to the Board
- Recommended that the Board propose that the government retain KPMG LLP as external co-auditor for the fiscal years ending March 31, 2018, 2019 and 2020.<sup>1 and 2</sup>
- Conducted a follow-up on the application of the International Financial Reporting Standards (IFRS)
- Recommended that the Board authorize the payment of bonuses for 2016-2017
- Took note of changes in the cost of the SCQ pension plans
- Approved the resource optimization audit approach and ensured that resource optimization was incorporated into the auditing mandates
- Ensured that the Internal Auditing Department was able to perform its role independently of Loto-Qu ebec management
- Approved and monitored Internal Auditing's 2017-2018 annual work plan
- Monitored:
  - The internal control certification programs
  - The integrated business risk management program and the crisis management plan
  - The FINTRAC compliance program
  - The Corporation's insurance coverage
- Monitored the activities of the groups responsible for IT and security
- Reviewed the operational policies it is responsible for and recommended that the Board approve the required changes
- Carried out the annual review of its mandate
- Reported its accomplishments to the Board

After each of its meetings, the Committee made a verbal report on its activities to the Board.

<sup>1</sup>The proposal to retain KPMG LLP was made after a call for tenders for the audit of the financial statements for the years ending March 31, 2018, 2019 and 2020. The firm's audit fees for the 2017-2018 financial statements came to \$399,997, in compliance with its proposal.

<sup>2</sup>At its meeting of May 30, 2018, the Audit Committee reviewed the 2017-2018 financial statements with the external co-auditors and recommended their approval to the Board.

# GOVERNANCE AND ETHICS COMMITTEE REPORT

## MANDATE AND COMPOSITION

The Governance and Ethics Committee assists the Board in developing and applying the best ethics and corporate governance practices. 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 Loto-Québec's policies are reviewed on an annual basis by the appropriate Board committees. It also develops expertise and experience profiles for the appointment of Board members, with the exception of the President and Chief Executive Officer, and recommends them to the Board. Every year, it reviews its charter to recommend any appropriate changes to the Board.

As of March 31, 2018, the Governance and Ethics Committee was composed of three independent members.<sup>1</sup>

**Chairman:** Donald M. Bastien

**Members:** Hugo Delorme and Hélène F. Fortin, FCPA, FCA

## ACTIVITIES

During the last fiscal year, the Governance and Ethics Committee met four times, in person or by conference call, and held a closed session without management present at the end of each meeting. At these meetings, the committee:

- Conducted an exercise to ascertain compliance with the governance rules, which led to the conclusion that everything was in compliance
- Reviewed the Code of Ethics for Employees of Loto-Québec and its Subsidiaries and the Code of Ethics and Rules of Professional Conduct for Directors and Managers of Loto-Québec and its Subsidiaries
- At each of its meetings, reviewed complaints received by the Corporate Secretary and the measures put in place for the reporting line, as well as investigating and making any required recommendations
- Reviewed:
  - The declaration of interest of the directors and senior managers and followed up on it
  - The new director intake program and the members' professional development program
  - The members' competency and experience profiles
  - The composition of the committees, and recommended that the Board appoint members for each committee
- Conducted the annual review of the operational evaluation criteria that apply to the Board, its committees and members, the process used and the evaluation form
- Conducted the annual review of the Board's operations
- Reviewed the operational policies under its governance and ensured that all other committees did so as well
- Carried out the annual review of its mandate
- Reported its accomplishments to the Board

After each of its meetings, the Committee made a verbal report on its activities to the Board.

<sup>1</sup>Anie Perrault joined the Governance and Ethics Committee on April 19, 2018.

# HUMAN RESOURCES COMMITTEE REPORT

## MANDATE AND COMPOSITION

The Human Resources Committee is charged with examining the human resources policies and strategic orientations and making the required recommendations to the Board, as well as monitoring the implementation of the related actions. It also sees to the implementation of remuneration norms and scales for Loto-Québec managers and employees and helps with succession planning for the management personnel. The committee is also tasked with developing the competency and experience profile and assessment criteria for the President and Chief Executive Officer, as well as recommending the remuneration for the position, within the parameters established by the government. Every year, it reviews its charter to recommend any appropriate changes to the Board.

As of March 31, 2018, the Human Resources Committee was composed of six independent members.

**Chairman:** Alain Albert

**Members:** Donald M. Bastien, Hélène F. Fortin, FCPA, FCA, Dominique Gauthier, Nathalie Goodwin and Anie Perrault

## ACTIVITIES

During the last fiscal year, the Human Resources Committee met four times, in person or by conference call, and held a closed session without management present at the end of each meeting. At these meetings, the committee:

- Recommended that the Board approve:
  - The remuneration parameters for non-union personnel and managers at Loto-Québec and its subsidiaries for 2018-2019
  - The compensation of the President and Chief Executive Officer and the senior executives for 2018-2019
  - The results of the incentive program for 2016-2017 and its terms of application for 2017-2018, for all target employees
  - The terms of the negotiation mandates for the collective agreements of the CSN union locals
  - The appointment of the Corporate Secretary and Vice President of Legal Affairs
  - The 2017-2018 action plan for individuals with disabilities
- Took note of changes in the cost of the SCQ pension plans
- Monitored:
  - The employee mobilization initiative
  - The succession identification program
  - The talent development plan
  - The corporate volunteer program
- Reviewed the operational policies it is responsible for and recommended that the Board approve the required changes
- Carried out the annual review of its mandate
- Reported its accomplishments to the Board

After each of its meetings, the Committee made a verbal report on its activities to the Board.

**REMUNERATION AND BENEFITS OF THE FIVE HIGHEST-PAID EXECUTIVES OF THE CORPORATION  
FOR THE FISCAL YEAR ENDING ON MARCH 31, 2018**

<b>Name and title</b>	<b>Salary received</b>	<b>Incentive remuneration</b>	<b>Vehicle</b>	<b>Additional benefits<sup>1</sup></b>	<b>Group insurance plan</b>
<b>Lynne Roiter<sup>2</sup></b> President and Chief Executive Officer	\$353,995	\$59,110	\$3,352	\$2,500	\$2,860
<b>Kevin G. Taylor</b> President of Operations Société des casinos du Québec	\$288,949	\$78,793	\$12,538	\$2,500	\$8,360
<b>Isabelle Jean</b> President of Operations - Lotteries Vice President of Public Affairs	\$265,693	\$75,366	\$8,033	\$2,500	\$5,804
<b>François Tremblay</b> President of Operations Société des établissements de jeux du Québec	\$248,643	\$64,670	\$13,252	\$2,500	\$7,055
<b>André Dumouchel</b> Corporate Vice President Human Resources	\$240,259	\$64,758	\$10,113	\$2,500	\$3,252

**Basic pension plan**

These managers are members of the Government of Québec's Pension Plan for Management Personnel. The contribution and pension are calculated based on the usual provisions of their membership plans.

**Supplementary pension plan**

These managers are also members of the Supplementary Pension Plan for Executive Officers of Loto-Québec, which provides a pension based on the average salary of the three best years of service, with an accumulation rate of 2.5% a year. This pension is reduced by the benefit offered under the basic plan.

<sup>1</sup>The additional benefits may include amounts paid for the following: medical check-up, financial and estate planning, sports club and business group.

<sup>2</sup>Lynne Roiter held the position of Acting President and Chief Executive Officer of Loto-Québec until May 31, 2017. For this, she received 10% of her salary as Corporate Secretary and Vice President of Legal Affairs. She was confirmed in the position of President and Chief Executive Officer on May 31, 2017.

# COMMERCIAL AFFAIRS COMMITTEE REPORT

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## MANDATE AND COMPOSITION

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The Commercial Affairs Committee was formed in 2008-2009, on the recommendation of the Governance and Ethics Committee. All members of the Board initially sat on this committee, which had a dual mandate: discuss the Corporation's commercial activities and better equip directors in their respective roles with customized training on matters concerning Loto-Québec's activities. At the end of the 2011-2012 fiscal year, again on the recommendation of the Governance and Ethics Committee, the Board reviewed the composition and mandate of the Commercial Affairs Committee. It must now be made up of at least three independent members. Its new mandate consists of handling the Corporation's main strategic affairs, conducting in-depth discussions on matters related to commercial practices or important operational issues and handling any other business that the Board may refer to it.

As of March 31, 2018, the Commercial Affairs Committee was composed of eight independent members.

**Chairwoman:** Hélène F. Fortin, FCPA, FCA

**Members:** Alain Albert, Donald M. Bastien, Marie Côté, Hugo Delorme, Dominique Gauthier, Nathalie Goodwin and Anie Perrault

## ACTIVITIES

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In the last fiscal year, the Commercial Affairs Committee met twice, in person or by conference call. At these meetings, the discussions centred on the IT transformation program and IT risk management.

## EXECUTIVE COMMITTEE

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### BACK ROW:

- Denis Daly, Corporate Vice President of Information Technologies
- Marie-Christine Tremblay, Corporate Secretary and Vice President of Legal Affairs
- Michel Gasse, Corporate Vice President of Real Estate

### FRONT ROW:

- André Dumouchel, Corporate Vice President of Human Resources
- Lynne Roiter, President and Chief Executive Officer



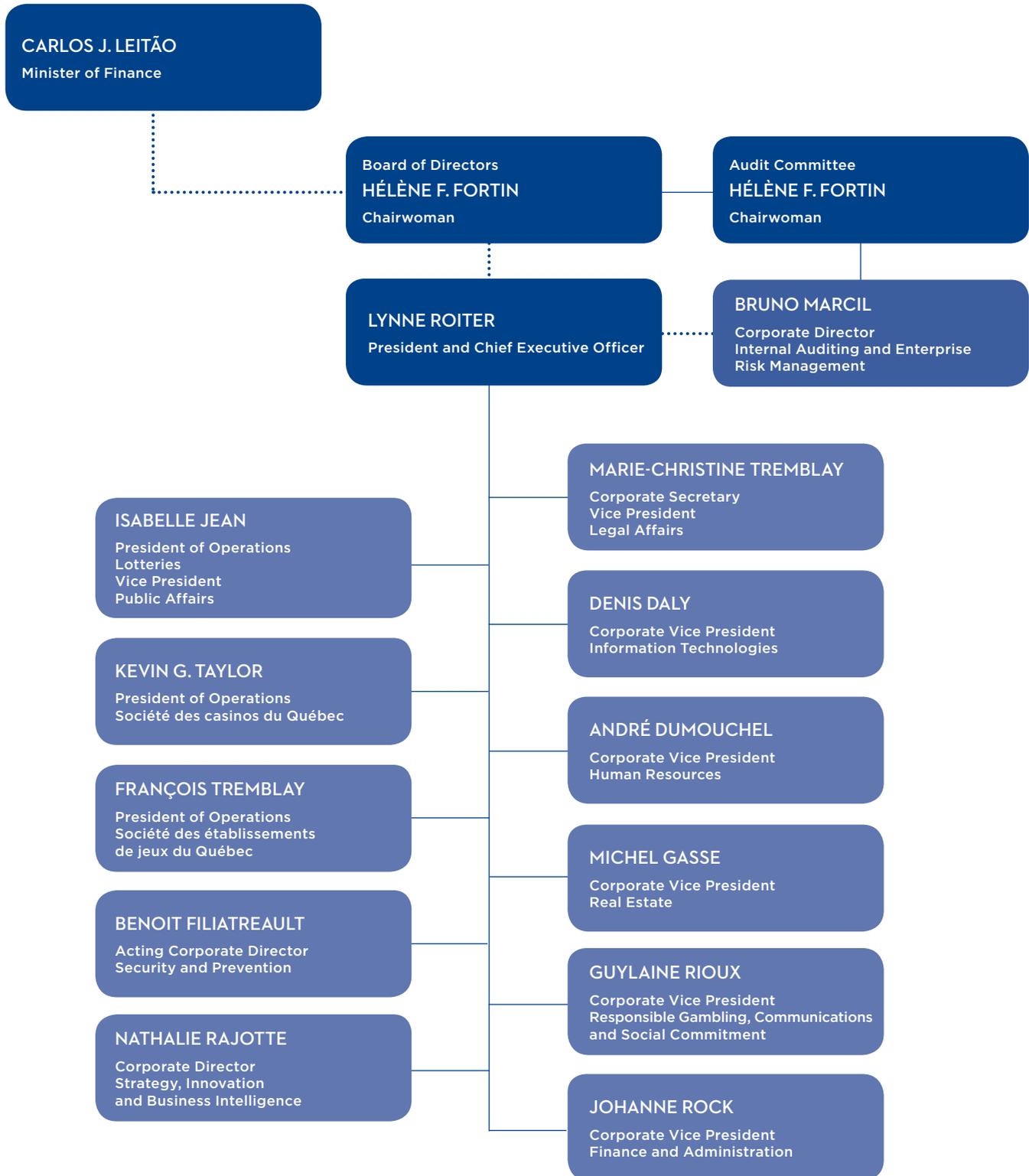
#### BACK ROW:

- François Tremblay, President of Operations of the Société des établissements de jeux du Québec
- Guylaine Rioux, Corporate Vice President of Responsible Gambling, Communications and Social Commitment
- Kevin G. Taylor, President of Operations of the Société des casinos du Québec

#### FRONT ROW:

- Johanne Rock, Corporate Vice President of Finance and Administration
- Isabelle Jean, President of Operations - Lotteries and Vice President of Public Affairs

# ORGANIZATIONAL STRUCTURE



Loto-Québec's 2017-2018 Annual Report is produced  
by the Corporate Department of Communications.

*Une version française de ce document  
est disponible sur le site Web de Loto-Québec.*

Legal Deposit  
Bibliothèque et Archives nationales du Québec, 2018  
ISBN: 978-2-550-81342-2 (printed version)  
ISBN: 978-2-550-81341-5 (digital version)  
ISSN: 0709-5740



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**CERTIFIED - LEVEL 4**  
RESPONSIBLE GAMING FRAMEWORK  
2016 - 2019

**CERTIFIED**  
SECURITY CONTROL STANDARD  
VALID UNTIL JUNE, 2020