



AN

ECONOMIC FORCE

EVOLVING WITH BRIO OVER THE PAST 30 YEARS



Annual Report
2000-2001



THIRTY YEARS AGO, LOTO-QUÉBEC MEANT ONLY LOTTERIES.
TODAY, IT ALSO MEANS...

The Casino de Hull
The Hilton Lac Leamy

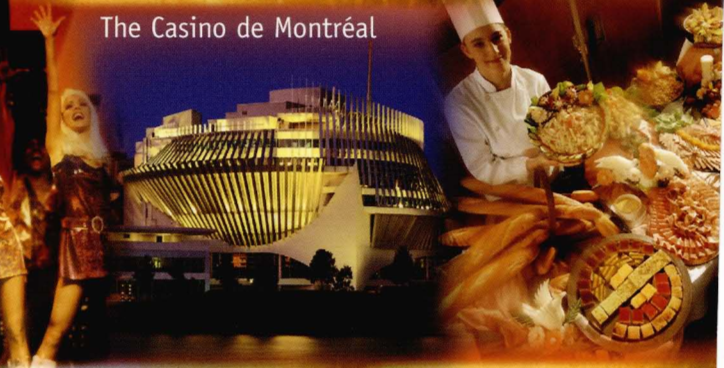


CONVENTION CENTRES

DOGSLEDDING

ENTERTAINMENT

The Casino de Montréal



REGIONAL CUISINE

Video Lotteries



A TERMINAL NETWORK OFFERING
SECURITY, INTEGRITY AND CONTROL

Bingos



REVENUES FOR NON-PROFIT ORGANIZATIONS

Loto-Québec and its 6,000 employees: an economic force evolving with brio over the past 30 years.

The Casino de Charlevoix
Fairmont Le Manoir Richelieu



ALL IN A WARM AND RELAXING ATMOSPHERE

RESORTS

AND ALSO TWO UNIQUE WINDOWS ON THE WORLD...



Ingenio

NEW TECHNOLOGIES AND GAMES



Nter

INFORMATION TECHNOLOGY SOLUTIONS
GAMING CONSULTANTS AND OUTSOURCING

LOTO-QUÉBEC – AN ECONOMIC FORCE

Over the years, Loto-Québec has become an important economic force in Québec. The transformation of the Corporation, the diversification of its activities, and the growth of its sales, which reached \$3.6 billion in 2000-2001, have resulted in a dividend of \$1.3 billion to its sole shareholder. In addition to the \$971.3 million in prizes paid to lottery and bingo winners, the Corporation's activities generate significant economic benefits in several sectors activity and throughout Québec's different regions. In 2000-2001, Loto-Québec spent \$433.8 million on goods and services, while its lottery, video lottery and bingo network partners received \$452.6 million. Loto-Québec paid out \$257.1 million in salaries and benefits, \$163.4 million in government taxes, and \$45.8 million in contributions to the *Fonds d'aide à l'action communautaire* and other designated government accounts.

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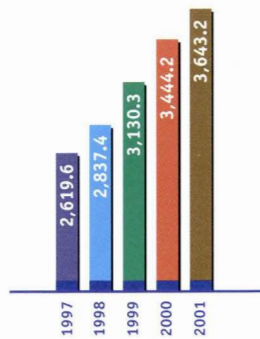
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HIGHLIGHTS

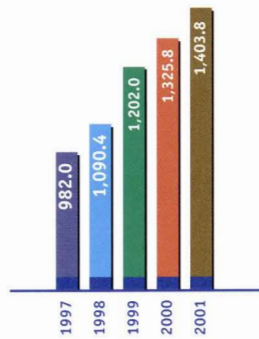
HIGHLIGHTS

| (IN THOUSANDS OF DOLLARS) As at March 31, 2001 | 2001 | 2000 | % Change |
|-----------------------------------------------------------|--------------|--------------|----------|
| Total revenues | \$ 3,643,212 | \$ 3,444,225 | 5.8% |
| Lottery sales | 1,825,528 | 1,768,224 | 3.2 |
| La Société des casinos du Québec inc. | 696,471 | 683,461 | 1.9 |
| La Société des loteries vidéo du Québec inc. | 1,053,047 | 928,412 | 13.4 |
| La Société des bingos du Québec inc. | 41,044 | 40,433 | 1.5 |
| Ingenio, filiale de Loto-Québec inc. | 540 | 323 | 67.2 |
| Resto-Casino inc. | 66,355 | 66,558 | -0.3 |
| Prizes Awarded– Lotteries | 952,674 | 913,752 | 4.3 |
| Prizes Awarded – Bingo Games | 18,600 | 18,265 | 1.8 |
| Gross Profit | 2,160,034 | 2,057,480 | 5.0 |
| Net Income | 1,403,758 | 1,325,791 | 5.9 |
| Dividends | 1,330,500 | 1,251,000 | 6.4 |
| Fonds d'aide à l'action communautaire autonome | 17,572 | 16,348 | 7.5 |
| Contributions to the Québec government | 28,269 | 20,240 | 39.7 |
| Other amounts paid to the Québec and Canadian governments | 127,660 | 117,640 | 8.5 |
| Total assets | 729,501 | 643,075 | 13.4 |
| Shareholder's equity | 160,015 | 132,598 | 20.7 |

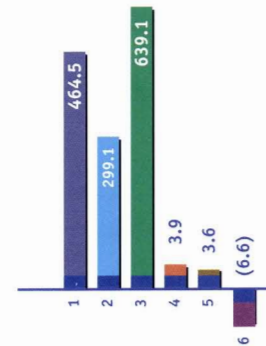
TOTAL REVENUES
in millions of dollars



NET INCOME
in millions of dollars



DISTRIBUTION OF NET INCOME
in millions of dollars

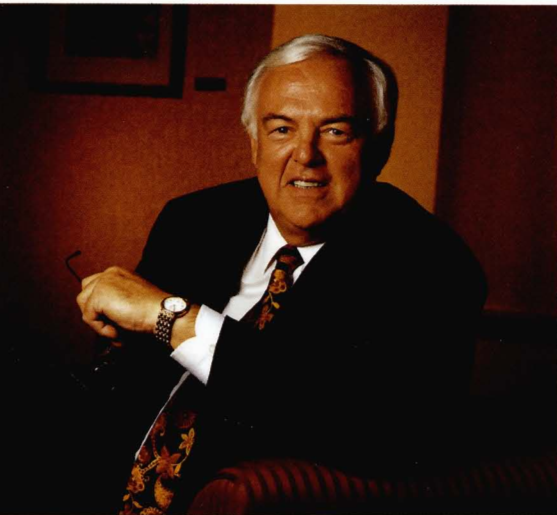


1. La Société des loteries du Québec
2. La Société des casinos du Québec inc.
3. La Société des loteries vidéo du Québec inc.
4. La Société des bingos du Québec inc.
5. Resto-Casino inc.
6. INGENIO, filiale de Loto-Québec inc.

2000-2001: A YEAR OF TRANSITION

In 2000-2001, the 30th anniversary of its founding, Loto-Québec set a new record with sales of \$3.6 billion, resulting in net revenues of \$1.4 billion, an increase of 5.9% over last year. The lottery sector now accounts for 50% of sales, followed by video lotteries at 29%, casinos at 19%, restaurants at 1%, and bingo at 1%.

LOTTERIES Sales in the lottery sector reached \$1.8 billion, representing corporate net revenues of \$465 million. On-line sales rallied this year after having been down for the past few years, the recovery due in large part to *Super 7*. Although somewhat below expectations, instant lotteries also enjoyed a good year. The success of the sale of the first CD-ROM, *Treasure Tower*, provided a better understanding of this product, which is now being exported to foreign markets. The launch of a new instant lottery, *Winner for Life!*, also generated a great deal of interest.



With the upgrading of the lottery terminal network completed this year, the new terminals are greatly facilitating the daily

operations of retailers, and will open up new commercial opportunities for Loto-Québec.

CASINOS Nearly 10 million visitors, \$696 million in sales, and \$299 million in net income... excellent results.

The Casino de Hull led the way, despite major competition from the Rideau-Carleton Casino and Racetrack, it maintained its position.

Moreover, the year saw the start of construction of a \$228-million hotel complex on the site of the Casino de Hull, promising to transform it into a major tourist attraction by opening time in the fall of 2001. Operating under the Hilton banner, the hotel has already booked 20,000 overnight stays scheduled for the next three years and an equal number of reservations are presently in the works. An excellent start for an excellent facility!

The year 2000-2001 was also a profitable one for the Charlevoix Casino, which recorded significant increases in both attendance and net revenues in its first full year of operations following restoration and expansion of the Manoir Richelieu and Casino site. Efforts to attract an international clientele are beginning to bear fruit. For example, in 2000, American visitors accounted for 15% of the Manoir's clientele, compared to 9% in 1999.

The Casino de Montréal also performed well during the past year, increasing its net revenues by 4.3%. As well, the Cabaret enjoyed a stellar year, selling 148,000 show tickets, an increase of 32% over the previous year.

Of particular note is the fact that one in four visitors to the three casinos is from outside Québec. In fact, during the past year alone, the Corporation invested over \$6 million in advertising to external markets.

RESTAURANTS This year, casino restaurants served over 2.3 million meals, an impressive volume of business that did not affect either quality or service. As proof of this, both the *Le baccara* restaurant in Hull and the *Nuances* restaurant in Montréal received a 5-diamond rating from the American Automobile Association (AAA) and the Canadian Automobile Association (CAA/CAA-Québec), a distinction accorded to only one other restaurant in Québec.

VIDEO LOTTERIES Video lotteries also enjoyed a successful year, posting sales of \$1.053 billion and net revenues of \$639 million.

In 2000-2001, the Société des loteries vidéo du Québec issued a public call for tenders to replace, without increasing, its existing video lottery terminal network. The new terminals will feature the latest in advanced technology to counter compulsive gambling.

BINGOS Bingos also enjoyed another good year, with sales of \$41 million and net revenues of \$3.9 million. Some \$9.1 million was paid out to non-profit organizations representing a substantial portion of their financing.

CASILOC In September, our subsidiary, Casiloc, completed the multifunctional Loto-Québec building in Montréal and has been working non-stop on the Casino de Hull hotel complex. The complex is one of the largest construction sites in Québec and will require some 1.5 million work-hours.

INGENIO Ingenio, the subsidiary responsible for the research and development of new multimedia products, has already concluded a number of interesting business agreements.

As the first major product created and developed by Ingenio, the CD-ROM lottery is acquiring international recognition and is now being marketed worldwide. Major customers include Belgium, Switzerland, the states of Iowa and Kentucky, as well as various Canadian provinces.

NTER TECHNOLOGIES Created in the spring of 2000 through a joint venture between Loto-Québec and CGI Inc., Nter Technologies is focused on exporting Québec computer expertise in the area of games of chance and money.

This subsidiary is currently in the process of solidifying its position with lottery corporations in Europe and the United States.

COMPULSIVE GAMBLING Despite all that has been said and written, I am very sensitive to the problems faced by compulsive gamblers, and I am convinced that our 6,000 employees share my concern. It is wrong to claim that Québécois are the biggest gamblers in Canada. In fact, they rank 8th in per capita lottery spending in the country.

I would also like to take this opportunity to point out that Loto-Québec was the first to propose the enactment of a law prohibiting lottery sales to minors. For over 20 years, the Corporation has been investing, of its own initiative, in research and the prevention of compulsive gambling. Our contributions have led to the creation of two world-renowned Centres of Excellence at McGill and Laval universities respectively. Since opening its first casino in 1993, Loto-Québec has pioneered innovative prevention measures that are continuously being improved.

This year, two major advertising campaigns were launched between August 2000 and March 2001, and another awareness campaign was created with the help of Laval University researchers, targeted at all video lottery site owners. This campaign began in February 2001 and is still running.

In 2000-2001, we invested over \$10 million in research and the prevention of compulsive gambling, more, as far as we know, than any other jurisdiction offering games of chance and money.

EVALUATION AND FUTURE PROSPECTS Loto-Québec has now entered a consolidation phase. Last September, at the Parliamentary Commission on Public Finances examining the future direction and management of Loto-Québec operations, I clearly stated that it would not be advisable to increase the number of games of chance and money being offered in Québec.

Our 30th year of operations has been one of transition. Part of our current growth is now focused on developing and exporting products and services and on attracting tourists. In fact, Loto-Québec is firmly committed to enhancing its offerings to tourists, thereby helping to promote Québec as a destination of choice.

During the coming years, we will be focusing our efforts on consolidating our operations in Québec and further developing international markets for our products.

In closing, I would like to congratulate and express my gratitude to each and every member of the Loto-Québec team—our 6,000 employees, 129 wholesalers, 11,411 lottery retailers, 4,085 owners of establishments offering video lottery terminals, 160 bingo hall operators, 2,000 or so non-profit organizations associated with us, and all our other business partners who have contributed to making this year a success. This collective effort has enabled us to pay a dividend of \$1.3 billion to the Government of Québec, thereby contributing to the financing of such key priority sectors as health and education.

I would also like to thank the members of the Board for their excellent work, especially Mr. Socrates Goulakos and Mr. Lorrain Audy, who have completed their term of office with us. Finally, I would like to extend a warm welcome, to our two new members, Mrs. Christiane Bois and Mr. Yvon Martin, and welcome back a former member, Mrs. Francine De Montigny-La Haye.



Michel Crête

Chairman and Chief Executive Officer

Number of lottery retailers

11,411

Commissions paid to retailers

\$124.7 M

Number of non-profit organizations operating kiosks and Lotomatique

1,058

A MAJOR BOOST FOR RETAIL BUSINESSES

LOTTERIES: DIVERSIFICATION AND NEW MARKETS

More and more, the growth of the lottery sector depends on efforts to segment markets and diversify the client base by offering products combining pleasure and entertainment with a certain amount of dreaming. In 2000-2001, sales for this sector reached \$1.826 billion, a \$57 million increase over the previous year. Of this amount, on-line lottery sales account for just over \$1 billion, or almost 60% of all lottery sales.

Super 7 experienced a 28% growth, while *Québec 49* maintained its gains, supported by *Double Play*, which generated increased sales of 15%. The new *Extra Multiple* also enjoyed an average sales growth of 5% since its launch in June.

Loto-Québec marked its 30th anniversary with the successful launch of a \$20 summer lottery, generating overall sales of \$12 million and attracting mainly occasional ticket buyers.

Pierre Martineau
Wholesaler
Boucherville

Pierre Martineau is one of the 129 wholesalers who crisscross the various regions of Québec every week to distribute lottery products to the 11,411 point of sales in our retail network.

Among instant lotteries, the top performers were the entertainment category's \$3 games, especially *Cartes frimées (Wild Card)*, *Cocktail d'argent (Money Cocktail)* and *Pyramide (Pyramid)*. A new family of instant lotteries made its debut with the launch of *Gagnant à vie! (Winner for Life!)*, a traditional \$4 instant lottery that offers participants a chance to win \$1,000 a week for life. In line with its primary objective, this game attracted a new clientele of young adults between the ages of 18 and 34.

Also of note are the televised lottery game *Décision (Decision)* and the second CD-ROM lottery, *Mot Mystère (Mystery Word)*, which was introduced on the market on the heels of the success of the first first game of this kind, *Trésors de la Tour (Treasure Tower)*.

A HIGH-PERFORMING AND COMMITTED RETAIL NETWORK

The point of sales network is made up of 11,411 retailers, with commissions paid to these retailers reaching \$124.7 million. For the past several years, the sale of Lotomatique subscriptions and the management of lottery kiosks have been entrusted to 1,058 non-profit organizations (NPOs). In 2000-2001, these long-time partners shared over \$10 million in commissions.

Throughout the year, Loto-Québec continued its well-received awareness campaign targeted at retailers, reminding them of their obligation to conform to the law prohibiting lottery sales to minors. Administrative measures were also put into place to deal with retailers who break the law. Repeat offenders now face sanctions, up to and including removal of a terminal. To date, Loto-Québec has received seven complaints, two of which required the issuance of a notice to the retailers concerned.

Our sales network enjoys the support of 129 wholesalers, incorporated as small businesses. These wholesalers crisscross Québec to distribute and market our products. Effective April 1, 2000, the Québec territory underwent a complete redistribution.

Replacement of all 8,256 terminals in the system was completed as planned in June 2000. The new V3000 terminals are equipped with touch-sensitive screens and electronic customer displays to speed up retailers' daily operations. These terminals also offer a range of other benefits, namely for marketing, communication and management. Since September 2000, validation of passive and instant lotteries has been available at the terminals 22 hours a day, from 4:00 A.M. to 2:00 A.M. the next morning.



On August 19, 2000, a group of 18 dressmakers from Thetford Mines collected their *Lotto 6/49* winning prize of \$10 million at Loto-Québec offices in Québec City.

Number of hours worked on the Casino de Hull hotel complex construction site

1,500,000

Number of direct and indirect jobs created during construction

2,700

Number of work-related building and supply contracts

100

A MAJOR BOON TO THE CONSTRUCTION INDUSTRY

THREE CASINOS: THREE INTERNATIONAL TOURIST DESTINATIONS

When the government entrusted Loto-Québec with the mandate of opening casinos, the hope was that the casinos would contribute to the economic growth of Québec by opening up new international tourism markets, specifically through the promotion of services already available to Québécois.

Loto-Québec operates three casinos - in Montréal, Charlevoix and Hull respectively. Last year alone, close to 10 million people visited one or another of the three casinos to play games of chance and money, to take in the shows, or to enjoy some fine dining.

Michel Boutin
Foreman
Pomerleau Decarel

The Pomerleau Decarel joint venture manages the new Casino de Hull hotel complex, construction site a large-scale project generating 100 construction and supply contracts.

In 2000-2001, Loto-Québec's casinos generated total gaming revenues of \$696.5 million, almost 24% of these revenues came from visitors to Québec. This tourist clientele also gave rise to economic spin-offs in direct spending other than gambling estimated at \$95.1 million combined, the casinos provide employment to 4,029 individuals.

THE CASINO DE MONTRÉAL, one of the world's largest in terms of installations, employs 2,612 people and features 118 gaming tables, over 3,000 slot machines, a High Stakes section, a Keno room, four restaurants (*Nuances*, *Via Fortuna*, *La bonne carte* and *L'entre-mise*), *Le Cabaret*, a banquet hall, *L'exécutif* (an executive lounge), and indoor parking for 2,200 cars.

The Casino de Montréal operates 24 hours a day, 7 days a week, and welcomes an average of 17,000 visitors each day. Its gaming table and slot machine tournaments were very popular again this year.

THE CASINO DE CHARLEVOIX employs 348 people and, together with Fairmont Le Manoir Richelieu, plays a leading role in the development of tourism in the region. The Casino de Charlevoix features 780 slot machines, 22 gaming tables, a High Stakes section, a Keno room, and a bar. Its gaming table tournaments are also very popular.

Le Manoir Richelieu benefited from a dynamic marketing strategy that not only highlighted it as a travel destination, but also promoted its year-round activities.

The Manoir's golf course was widely advertised and received many visitors. Le Manoir Richelieu has now become one of the favourite destinations of snowmobilers and American tourists seeking winter fun in Québec, including dogsledding. The growth in tourism from the northeastern United States is the direct result of a huge winter advertising campaign targeted at residents of New York and Boston.

The percentage of American visitors increased from 9% in 1999 to 15% in 2000, and we expect this figure will reach 20% in 2001. The overall number of patrons from outside Québec doubled from 17% in 1999 to 24% in 2000.

THE CASINO DE HULL employs 1,005 people and features 55 gaming tables, 1,410 slot machines, a Keno room, three restaurants (*Le baccara*, *Banco* and *Le Café*), two bars, a banquet hall, a private salon, and an area for local artists to exhibit their works. Currently under expansion, the casino has become a tourist magnet for the region. This major construction project, which began last fall, will house a 350-room hotel, a convention centre, a theatre, and a golf course.



The 350 shows presented every year at the Casino de Montréal continue to achieve great success as shown by the performance of the Cabaret which sold 148,000 tickets.

WE'VE BEEN EXPECTING YOU FOR MORE THAN A CENTURY.

FAIRMONT LE MANOIR RICHELIEU:
THE NORTHERN RESORT, QUÉBEC, CANADA

In the heart of the beautiful, snow-dusted mountains of Charlevoix, near Québec City, Québec, we invite you to visit one of the jewels of the region, Le Manoir Richelieu. A world of pleasure, elegance, and luxury is yours at a price that's hard to believe.

With a host of luxury amenities including world-class golfing, tennis, fishing, and golf, Fairmont Le Manoir Richelieu is an exciting and unforgettable destination. Our winter activities are limited only by your imagination. For more information, visit our website at www.fairmontlemanoir.com.

Don't forget our new winter spa, the SPA, now in use at Le Manoir. So relax, enjoy the view, and indulge in a winter spa treatment at our new SPA.

Golf • Tennis • Fishing • Horseback Riding • Water Skiing

STANDARD PACKAGE: \$499 per person

Includes: 2 nights in a double room with private bathroom, breakfast, and access to all resort amenities.

For more information, visit our website at www.fairmontlemanoir.com.

FAIRMONT LE MANOIR RICHELIEU

1-877-346-2000 • 1-800-234-0000

The Casino de Charlevoix and Fairmont Le Manoir Richelieu represent a major tourist attraction for the ever-growing American tourist clientele.

RESTO-CASINO: SERVING OVER 2 MILLION MEALS ANNUALLY

Operated by our subsidiary, Resto-Casino, casino restaurants employ 672 people in Montréal, 319 in Hull, and 26 in Charlevoix, for a total of 1,017. Each year, over two million meals are served, requiring expenditures of \$23 million for a wide range of supplies.

Through its extensive expertise, Resto-Casino provides high-quality hotel and restaurant services, greatly adding to the enjoyment of the visitors to our entertainment establishments. Whenever possible, casino restaurants use seasonally available local produce. Restaurant revenues account for over \$66 million. In fiscal 2000-2001, Resto-Casino was entrusted with the added responsibility of managing and operating the new hotel under the Hilton banner and convention centre in the Hull complex.



Mr. Alain Labrie, Executive Chef of l'Auberge Hatley, Mr. François Hanchay, Executive Chef of the Casino de Hull, and Mr. Jean-Pierre Curtat, Executive Chef of the Casino de Montréal, officially receiving their "five-diamond" distinction from the AAA and CAA/CAA-Québec.

RESTAURANTS OF DISTINCTION *Le baccara* at the Casino de Hull and the *Nuances* at the Casino de Montréal were honoured with the prestigious "five-diamond" distinction from the American Automobile Association (AAA) and the Canadian Automobile Association (CAA/CAA-Québec).

These restaurants have succeeded in drawing such internationally renowned chefs as Italy's Frédéric Bourse, Rémy Giraud from Val-de-Loire, and Parisian Thierry Breton. Casino gastronomy is achieving a reputation for excellence outside Québec.

On November 4, 2000, Casino de Hull chef François Hanchay also received the President's Trophy, awarded by the Canadian Federation of Chefs for his overall contribution to the profession.



Number of meals served during the year

2,300,100

Quantity of meat purchased in kilograms

491,000

Number of creamers purchased from the industry


7,830,000

A MAJOR BOON FOR THE FOOD INDUSTRY

Robert Tanner
Canam Fruits and Vegetables Inc.
St-Laurent

Canam Fruits and Vegetables Inc. is one of the many food industry suppliers that share in the \$10.5 million of purchases made by Resto-Casino.

Casino de Montréal chef Jean-Pierre Curtat was honoured with the 2000 Gastronomy Star awarded by Charton Hobb's, ambassador and importer of superior quality brands, and was named Chef of the Year. Chef Curtat also participated in a culinary demonstration organized by the agriculture ministers of several countries at the Casino de Catalogne in Spain. This event provided an excellent opportunity to showcase Québec products. More and more, the casino restaurants are playing an important role in disseminating our corporate image and bringing various client groups together.



Amount distributed to bingo hall operators

\$2.3 M

Amount distributed to non-profit organizations

\$9.1 M

Number of bingo hall operators

160

A MAJOR BOOST FOR NON-PROFIT ORGANIZATIONS

BINGO: REVITALIZING A POPULAR GAME

The traditional bingo sector is an important source of funding for hundreds of non-profit organizations (NPOs). This sector generates sales of approximately \$275 million, including \$41 million for network products marketed by the Société des Bingos du Québec (SBQ).

At the close of its third year of operations, the SBQ posted sales of \$41 million and a profit of \$13 million. In accordance with the partnership established in 1997, \$9.1 million of this net profit was distributed to NPOs – \$8.2 million to the 735 non-profit organizations whose bingo games are held in halls connected to the network and \$931,000 divided among those non-profit organizations whose bingo events are held in non-participating halls.

Claude Bougie
Owner-Representative of
Pointe-aux-Trembles Bingo

Claude Bougie is the owner-representative of Pointe-aux-Trembles Bingo, one of the halls linked to the Société des bingos du Québec's on-line network.

At the request of stakeholders, reforms are under way to increase the level of funding to NPOs and to ensure tighter controls. On December 20, 2000, the Government approved a series of measures aimed at improving the situation.

Based on extensive consultations with NPOs, these measures propose sharing responsibilities between the various stakeholders, including the SBQ, in order to take full advantage of the SBQ's expertise and re-energize the sector. This would entail putting tighter controls into place as part of a restructuring plan for the industry.


To do this, the mandate of the SBQ will be modified. Improved management of bingo halls and a greater variety in the games being offered are two keys to revitalizing the industry and achieving the primary goal of increasing NPO revenues for the financing of their philanthropic work.

The SBQ currently offers three bingo products daily: one in the evening, *Le Grand Tour*; one in the afternoon, *Le Petit Tour*; and an optional Keno-type game, *Éclair*, added in 1999.

Again this year, the SBQ has led the way with initiatives aimed at energizing bingo in Québec through active promotion of the game. The Corporation has advertised participating halls and, in collaboration with its partners, offered clients a wide array of entertainment. Among the initiatives generating great interest was *Bingo Show III* with Michel Louvain. Bingo Show events have succeeded in reaching all their goals, generating a 110% increase in attendance, a 179% increase in sales, and generally boosting the popularity of bingo among the public at large.



Mrs. Micheline Asselin is President of Bingo communautaire de l'Est and CEO of La Maison Dalauze, a non-profit organization that is funded in large measure thanks to bingo activities.



Number of licensed video lottery establishments

4,085

Number of terminals

15,251

Amount paid to retailers

\$315.9 M

A MAJOR BOOST FOR SMALL AND MEDIUM-SIZED BUSINESSES ACROSS QUÉBEC

VIDEO LOTTERIES: GREATER SECURITY AND CONTROL

At March 31, 2001, the Société des loteries vidéo du Québec (SLVQ) had recorded revenues of \$1.053 billion and a net profit of \$639.1 million, a 15.7% increase over last year. This growth in the performance of video lottery games, which depend on cutting-edge technology, was the result of tight management of the network of terminals and of a strong partnership between the SLVQ, its 40 employees and private sector partners. These partners, who manage a large part of daily video lottery operations, represent a yearly investment by the SLVQ of some \$16 million in business contracts and agreements, thus contributing to economic activity across Québec and to the creation of permanent jobs in the regions.

Spiro Markessinis
Owner
Restaurant Deli 500

Spiro Markessinis' restaurant is one of the 4,085 licensed establishments that are partners of the Société des loteries vidéo du Québec.

At the end of fiscal 2000-2001, the network had 15,251 terminals in 4,085 establishments licensed by the *Régie des alcools, des courses et des jeux*, or one terminal per 484 persons – one of the lowest rates in Canada. For the last six years, the number of terminals, as well as the number of establishments within the network, has remained substantially unchanged.

Throughout the year, the SLVQ has continued to fine tune the computerization of its terminal network, as well as its procedures for sharing information, billing, maintenance, stock management and security. The SLVQ also launched a public call for tenders to replace its network of video lottery terminals. These terminals are showing signs of wear and tear and the goal is to equip the new terminals with improved controls and player awareness mechanisms. The replacement of the entire network of terminals will be completed in 2002.

SOCIAL RESPONSIBILITY The SLVQ, in collaboration with Laval University's *Centre québécois d'excellence pour la prévention et le traitement du jeu*, offers retailers information sessions on compulsive gambling. The purpose of this initiative is twofold: to ensure that retailers have the necessary information at their disposal so as not to perpetuate the myths generally associated with gaming activities, and to enable them to more readily identify true compulsive gamblers – the 2.1% of the population who have a gambling problem at one time or another in their life – so that they can help these individuals if the need arises. The SLVQ expects that all retailers will have attended an information session by 2002.



The network of 15,251 video lottery terminals in Québec will be replaced in 2002.

INGENIO: INNOVATION IN ACTION

Since its creation two years ago, Ingenio, the newest of Loto-Québec's subsidiaries, has found a unique niche for itself within the lottery industry. A product of Loto-Québec's research and development and backed by the head office's solid reputation as a world leader in the field of gaming and lotteries, Ingenio has quickly made its mark.



Its work has generated international interest due to the quality of its achievements: an international patent, the launch of two CD-ROM games in the Québec market, their adaptation for foreign use (including into German and Dutch) five awards of distinction (including four at the international level), and several concepts currently under development – an impressive record for a team of just 36 employees comprised of supernumeraries, contract employees and freelancers.




To achieve this, Ingenio has relied almost exclusively on Québec multimedia expertise. Products such as *Treasure Tower* and the

multimedia production of *Mystery Word*, are the result of this close collaboration and the international success of these products is helping to showcase Québec know-how in this highly specialized field.

Graphics created for Ingenio products such as *Mystery Word*, help promote Québec's multimedia expertise.

Ingenio's customers are part of a worldwide network of 180 public lottery corporations. An essential part of its work consists in guiding these corporations through a transition process that involves a new clientele and new tools that are unfamiliar to them. Discussions are currently underway with the French National Lottery, for example, to develop new gaming concepts.

A LOTTERY FOR EVERY MARKET Ingenio holds full ownership rights on its creations and offers turnkey gaming solutions based on concepts that can be adapted to most markets. Its marketing strategy is simple: to offer the most original multimedia products developed for occasional adult players. In so doing, Ingenio relies on universal technology that can be integrated smoothly into the existing distribution networks of conventional lotteries.



Value of contracts awarded to Québec multimedia firms

\$494,073

Number of Ingenio multimedia business partners

A MAJOR BOON TO THE MULTIMEDIA INDUSTRY

Luc Larouche (left)
President
Alain Limouzin
CEO
Les Studios Sidecity Inc.

Les Studios Sidecity is one of the many Québec-based multimedia firms that collaborate with Ingenio in developing new products.

In October 2000, *Treasure Tower* generated a flurry of interest in Europe when French, German and Dutch CD-ROM versions of the game were added to the panoply of lotteries operated by the Belgium National Lottery. One month later, the Iowa State Lottery successfully embarked on the CD lottery adventure, marking the American debut of *Treasure Tower*. Additional agreements have been reached for upcoming CD launches in other U.S. states, Canadian provinces, as well as in Switzerland.

NTER TECHNOLOGIES: EXPORTING KNOW-HOW

Nter Technologies is a joint venture of Loto-Québec and CGI Inc. Thanks to this co-operative partnership, unique solutions are now being made available to gaming corporations around the world.

The complete and immediate synergy of these two companies has allowed Nter to gain a firm foothold in the European and American markets in its very first year of operation, with the company now receiving calls for tenders for casino management systems, televised game concepts, and the launch of lottery games. At the end of its first fiscal year, Nter has recorded a profit, owing in large part to the talent and dedication of its 181 employees.

Nter Technologies' mission is to become a world leader recognized for its integrated and innovative services. By relying on the quality, creativity, innovation and evolution of cutting-edge technologies, Nter hopes to significantly help extend Québec know-how on the international scene.

To achieve this goal, Nter is offering the following products and services:

Mr. Simon Brodeur, President and Chief Executive Officer of Nter Technologies, pictured here with Mr. Gaétan Roy, Executive Vice-President, Information Technology.

- a complete management system for on-line lottery games adapted to modern technologies and designed for durability, integrity, performance, security and reliability
- specifically-developed applications for the casino, bingo and video lottery sectors
- consulting services in business development and marketing
- operational set-up of chance and money games

Since its creation, the new enterprise has undertaken the task of designing an entirely new and sophisticated system of lottery management to meet Loto-Québec's future needs. This integrated, innovative and flexible solution will most certainly have star billing among the products marketed internationally by Nter Technologies.



CASILOC: EFFECTIVE REAL ESTATE MANAGEMENT

Casiloc, our subsidiary responsible for real estate project management, acquisitions and leasing of casino facilities, saw a significant increase in its activities in 2000-2001, having become one of the major suppliers of work in Québec, while contributing to the local construction industry's reputation for excellence and efficiency.

Once the Casino de Hull hotel complex opens, Casiloc will have managed eight large projects since 1993, representing a combined value of \$820 million and an average of more than \$100 million a year.

At the end of September 2000, Casiloc completed the Loto-Québec multi-purpose complex located at the corner of Mill and Bridge Streets in Montréal. The 22,000 ft² complex, whose construction generated over 500,000 hours of work, includes five warehouses, numerous workshops, the Corporation's archives, several training rooms, and houses the first 24-hour daycare centre in Québec for the children of Casino de Montréal employees.

In fiscal 2000-2001, Casiloc also moved forward with construction of the Casino de Hull hotel complex.


When completed, this \$228-million urban resort complex will include a 350-room hotel operated under the Hilton banner, a 2,200 m² convention centre with room for 1,800 people, a 1,000-seat theatre, and a golf course.

Work is progressing on schedule, with the hotel, convention centre and theatre set to open at the beginning of fall 2001, the golf course will be inaugurated at a later date.

The Casino de Hull hotel complex is one of the largest construction sites currently in Québec. It will require more than 1,500,000 work-hours and provide construction and supply contracts to more than 100 businesses and supply companies.



The daycare centre of the Mill Street multi-purpose complex in Montréal was the first in Québec to operate 24 hours a day, 7 days a week.



Number of cheques issued this year to lottery winners

33,174

Number of works of art acquired by the Loto-Québec Collection

2,200

Number of events sponsored for the benefit of the Québec population

171

Photo: Bernard Brault, La Presse

A MAJOR IMPACT ON ACCESS TO CULTURE AND ENTERTAINMENT

COMMUNICATIONS: EXPANDING LINKS WITH THE COMMUNITY

The Corporate Communications and Public Affairs Vice-Presidency conducts draws, greets and pays winners, responds to requests for information from the public and the media, and establishes links with the community through sponsorships and the promotion of works of art included in the Loto-Québec Art Collection.

TRANSPARENT DRAWS Daily draws are conducted in an atmosphere of complete transparency and credibility by a team highly trained in the proper procedures. In addition to the hundreds of regular draws, the broadcast of televised games requires close collaboration between the Loto-Québec team and external auditors. Consistently high ratings confirm the popularity of these televised draws, and France and other countries are now adopting the same formula.

Charles Dutoit
Artistic Director
Montréal Symphony Orchestra

The Montréal Symphony Orchestra has been giving free concerts in Québec parks for many summers thanks to the contribution of Loto-Québec sponsorships.

\$300 MILLION IN CHEQUES Some \$300 million in prize money from draws was claimed at our Montréal and Québec City offices in prizes of all sizes. In 2000 alone, 48 cheques of \$1 million or more were issued, not counting the \$15 million won by a resident of Saint-Constant.

A POPULAR WEB SITE Started up in 1996, Loto-Québec's Web site is among the 10 most visited Québec sites on the Internet. In March 2001, the site registered a record number of 914,000 visits, up 66% from last year and fuelling expectation that there may soon be more than a million visits a month.

SPONSORSHIP SUPPORT Through a far-reaching sponsorship program, organizing committees of some 100 socio-cultural, artistic and sporting events across Québec receive a helping hand to make their events more accessible to the public.

Montréal is the beneficiary of important sponsorship support for the Air Canada Grand Prix and the Just for Laughs Comedy Festival. In fact, Loto-Québec contributions enable the comedy fest to put on 2,000 free street shows. The Corporation's sponsorship dollars also help offset the cost of the Montréal Symphony Orchestra's summer concerts in the parks and support other symphony orchestras as well, including those of Lac-Saint-Jean, Sherbrooke, Trois-Rivières, Laval and Québec City. In addition, Loto-Québec serves as a major sponsor of *la Soirée des Masques* and the *Mosaïcultures internationales de Montréal*.

A UNIQUE COLLECTION OF CONTEMPORARY ART For the past 22 years, the Loto-Québec Art Collection has helped to promote Québec artists, to stimulate local creativity through the acquisition of works of art, and to encourage the exposure and recognition of talented Québécois. With the latest addition of 200 new items, the Collection now includes 2,200 works by 650 Québec artists.

Since 1979, Loto-Québec has invested more than \$2.9 million in Québec art. In order to allow the public to enjoy the jewels of this collection, exhibitions were held this past year at the *Centre d'Art d'Orford* and the *Musée d'Art de Saint-Laurent*.



The press conference announcing the Casino de Hull hotel complex construction project was held in the presence of Mr. Bernard Landry, current Premier of Québec, and Mr. Michel Crête, Chairman and Chief Executive Officer of Loto-Québec.

HUMAN RESOURCES: ASSURING TRAINING AND QUALITY OF LIFE

The Corporate Human Resources Vice-Presidency oversees a broad range of operational, consulting and developmental services designed to meet the strategic objectives of all areas of the Corporation's activities.

An important focus of Human Resources is training and development. Daycare centres have been set up under the aegis of Small Children Centres for children of employees of the casinos in Montréal and Hull, corporate head office on Sherbrooke Street, and the multi-purpose complex on Mill Street. Two of these daycare centres are open 24 hours a day, 7 day a week – a first in Québec.



The training program for croupiers offered at the multi-purpose complex on Mill Street in Montréal is among Loto-Québec's many employee development activities.

Among its other initiatives, Human Resources issued a Corporation-wide training and development policy to promote the professional and academic advancement of employees. For example, a training program has been set up in the casinos, involving over 80 trainers working on-site.

During the past year, considerable effort was devoted to reviewing and consolidating the various elements of the current framework of policies, programs and processes and identifying training opportunities tied in with phase one of the rebuilding plan.

Because training is a constant concern, an amount equal to 2.8% of global salaries across the Corporation was earmarked to train some 6,000 employees.

Moreover, in the past year, over 7,100 candidates showed an interest in the 86 jobs posted. As a result, 73 positions were filled.

The signing of a 5-year collective agreement with the union of Loto-Québec employees marked a key point in labour relations. Significant efforts were made

Salaries and benefits paid to our employees

\$257.1 M

Number of employees who received training during the year

3,646

Number of children in our daycare centres

214

A MAJOR IMPACT ON EMPLOYEE QUALITY OF LIFE

Bountheung Sombouning
Educator
Casinours

Casinours is a daycare centre that provides a permanent service to parents working at the Casino de Montréal, enabling them to better balance their family life and work schedule.

to review and consolidate portions of the group insurance and retirement plans through various consultations with the representatives of the 15 unions within the Corporation.

The occupational health and safety policy was also updated, which should greatly improve how the program is managed.

INFORMATION TECHNOLOGY: SECURITY AND DEVELOPMENT SUPPORT

The Information Technology Vice-Presidency operates and develops the lottery and lottery management systems and advises senior management on advances in support systems for business operations.

RELIABILITY In fiscal 2000-2001, the overall availability rate of lottery systems was 99.94%.

Over 458 million transactions were processed during this period, setting a new record for a single year.

DEVELOPMENT Developing new products and maintaining existing lotteries in the information technology sector require vast resources to ensure that our rigorous standards of quality and integrity are met. Technical support is provided for both lottery products, such as *Extra Multiple*, *Double Jeu* and *Banco Spécial*, and the casino sector for which the new Mega Keno and on-line Keno were developed.

The deployment of V3000 lottery terminals and the move to digital technology for network transmission of gaming data were completed as planned. The new generation of terminals has brought about major improvements in the quality of the printing of lottery tickets. This large-scale project was made possible with the participation of Québec companies that manufactured and installed the terminals and made improvements to the telecommunication network.

The method used to broadcast draw results received a mention in the security category at the first e-commerce gala held on November 20, 2000, at the Casino de Montréal's Cabaret. Using the Internet, this computer application provides information outlets such as newspapers, radio and television with secure access to draw results, while guaranteeing the integrity of the data.

RENEWING GAMING SYSTEMS Projects to renew gaming platforms and lottery management were also initiated during the past year.

For example, the ServerNet project is specifically aimed at modernizing the Corporation's computers and operating software. This will result in systems that perform better, respond faster, and adapt more readily to changing needs.

FINANCE AND ADMINISTRATION: ENSURING STRICT CONTROL

The large volume of sales and wide variety of activities carried out by the Corporation demand strict administrative and financial procedures. The Corporate Finance and Administration Vice-Presidency is responsible for providing the appropriate operational support and controls required.

TRANSPARENCY IN THE AWARDING OF CONTRACTS In the area of procurement, the purchase of goods and choice of suppliers are determined with transparency and integrity in accordance with precise rules. While always looking for the best quality/price ratio to meet the required standards of efficiency, the Corporation favours buying made-in-Québec goods and encourages the development of Québec companies. Throughout the year, Loto-Québec scrupulously applied existing policies in awarding contracts.

Over the past year, Finance and Administration was kept particularly busy with several projects, including ORACLE, a new integrated financial software package. The new program will replace a dozen or so systems dating back to the 1980s that were no longer meeting the Corporation's needs. As well as providing access to a database that provides complete and integrated information, the new technology will solidify the Corporation's move into e-commerce.

Finally, Building Services welcomed 280 casino and lottery employees to their new premises in the multi-purpose complex on Mill Street.

CORPORATE AFFAIRS: DISPENSING BROAD LEGAL EXPERTISE

The Corporate Affairs Vice-Presidency is comprised of three departments: Legal Affairs, the Office of the Corporate Secretary, Research and Prevention and Compulsive Gambling. Corporate Affairs has an important role to play, offering legal and secretariat expertise and ongoing support to the various spheres of activity sectors within the Loto-Québec Group.

This past fiscal year, Corporate Affairs took part in several major decisions, including the purchase and leasing of real estate for the Casino de Hull hotel complex, the signing of agreements governing the 24-hour operation of the two daycare centres, and the establishment of Nter Technologies, created in partnership with CGI Inc. In cooperation with the Office de la langue française, Corporate Affairs also developed and adopted a language policy to be applied throughout Loto-Québec and its subsidiaries.

Moreover, during fiscal 2000-2001, Corporate Affairs was actively involved in the preparation of documents used during the Parliamentary Commission held in September 2000 which conducted a review of the activities of Loto-Québec and its subsidiaries. In addition, Corporate Affairs is responsible for obtaining all patents and trademarks required for the protection of the Corporation's intellectual property internationally, as well as for granting licenses to market products worldwide.

Along with executing mandates related to Loto-Québec's current activities, Corporate Affairs manages a documentation centre that houses more than 2,400 books and an impressive collection of gaming magazines and serves as a rich source of information for lottery corporations around the world.

COMPULSIVE GAMBLING: INCREASED FOCUS ON PREVENTION

For over 20 years, Loto-Québec has been pro-active in supporting scientific research into the prevention of compulsive gambling, committed to raising public awareness of the problem. In 2000-2001, the Corporation invested more than \$10 million towards this end.

A highpoint of last year was the National Assembly's adoption in February 2000 of a law prohibiting lottery sales to minors, an initiative first proposed by Loto-Québec. The Corporation adopted a series of measures to support the law, aimed specifically at wholesalers, retailers and consumers. New administrative procedures were also implemented, outlining sanctions to be taken against retailers who do not comply with the law.



Spokespersons for the English advertising campaign publicizing the Help Line.

BROAD-BASED ADVERTISING CAMPAIGNS The application of these measures was accompanied by an extensive advertising campaign targeted at the general public to inform Québécois of the new legislation. The messages were carried on television, in newspapers, and on billboards.

This was followed by a second, more general campaign reminding the public that games of chance and money are reserved for adults only and encouraging them to play with moderation. Loto-Québec added a third, more direct campaign to promote a telephone Help Line for individuals who may show signs of compulsive gambling.

TARGETED PROGRAMS In addition to the contributions made to the Ministry of Health and Social Services, Loto-Québec also continued to subsidize several prevention and treatment programs for compulsive gamblers.

The information and educational program, *Count Me Out*, created for adolescents and presented in schools, was already in its third year and underwent changes midway through 2000.

In 2000-2001, Loto-Québec increased its financial support to the *Gaming Help and Referral* telephone hot line. This service is now available 24 hours a day, 7 days a week, and provides dedicated support from professional experts.

An interactive terminal service was also set up in the Hull and Charlevoix casinos. This animated program is based on a concept that allows players to recognize and assess their own behaviour in dealing with games of chance and money. These terminals have been in place at the Casino de Montréal since 1999. To date, more than 25,000 people have taken advantage of the service.

Additional improvements were made to self-exclusion programs in each of the three casinos. As of March 31, 2001, some 3,331 self-exclusion contracts were in force. These contracts allow players to exclude themselves voluntarily from casinos for periods ranging from six months to five years.

A NEW APPROACH FOR THE FUTURE In accordance with measures announced in the last budget speech, management of all research and public awareness programs has been transferred to those Ministries and Government organizations which have primary responsibility for these areas. As a result of this decision, an amount of \$18 million will be transferred on a yearly basis to the Québec Ministry of Health and Social Services for research into compulsive gambling and for prevention and treatment. An additional \$2 million will be allotted to the Ministry of Public Security to assist it in meeting its mandate. In addition to this financial contribution, the Corporation will continue to show its concern and commitment by acting as a good corporate citizen and by being ever more vigilant in its operations and with its products, focusing on its clientele, its sales network, and its workforce.

SENIOR MANAGEMENT: PLANNING, CONTROLLING AND MONITORING

Three specific corporate functions are the responsibility of senior management and serve to support the overall operations of the Corporation.

STRATEGIC PLANNING Working in close collaboration with all sectors of activity, Strategic Planning oversees the preparation, updating and follow-up of the corporate plan and the operational plans of the subsidiaries and Vice-Presidents' offices. Strategic Planning also maintains up-to-date information on gaming expenses, market trends and gaming products, particularly in Canada and the United States.

Last year, Strategic Planning joined senior management in redefining the Corporation's objectives for the next few years.

CORPORATE SECURITY At Loto-Québec, integrity and security are fundamental values that the Corporation is committed to applying at all levels. To achieve this, Corporate Security has developed security standards and procedures for each of Loto-Québec's facilities and operations of Loto-Québec and those of its subsidiaries and maintains control over these standards. Corporate Security also establishes, coordinates and follows up on preventative measures and plans of action. During the past fiscal year, its efforts were focused primarily on two key areas – physical safety and computer security – in order to provide Loto-Québec with the highest level of security possible, while ensuring that operations can carry on in the event of a disaster

INTERNAL AUDIT Internal Audit also has major responsibilities for protecting the integrity and credibility of Loto-Québec's reputation and is charged with ensuring the smooth operation of all systems used by the Corporation and its subsidiaries.

Employing a work plan based on risk assessment and approved by the Board of Directors' Audit Committee, Internal Audit experts conduct periodic inspections of all control systems, particularly in sensitive areas.

In fiscal 2000-2001, management also paid particular attention to new technologies and their effective integration into the Corporation's systems.

LOTIM: HEAD OFFICE MANAGEMENT

Lotim Inc., another subsidiary of Loto-Québec, is a 50/50 owner with SITQ Immobilier, a subsidiary of the *Caisse de dépôt et placement du Québec*, of the building located at 500 Sherbrooke Street West in Montréal which houses the Corporation's head office.

Over the past few years, the occupancy rate in this facility has gone up significantly, reflecting the current economic growth in Québec and the dynamic rebirth of Montréal.

By the end of fiscal 2000-2001, there was no space available for rent. The two restaurants and other businesses operating in the building have been taking full advantage of the increase in customer traffic.

As a result, returns were up slightly from last year, with net operating revenues generated by the building growing from \$3.2 to \$3.4 million, a 5.5% increase as compared with 1999.

LOTO-QUÉBEC

NO. OF EMPLOYEES

| As at March 31, 2001 | | | | |
|-----------------------------------|-------------------------|----------------------------------------------------|--------------------------------------------|--------------------------------------------|
| | Lotteries/ Corporate | La Société des loteries vidéo du Québec inc. | La Société des bingos du Québec inc. | Ingenio, filiale de Loto-Québec inc. |
| Categories | | | | |
| Management | 96 | 11 | 4 | 4 |
| Professionals | 202 | 9 | 7 | 2 |
| Technicians | 130 | 8 | 5 | 3 |
| Office staff | 254 | 12 | 7 | 7 |
| Multimedia design/representatives | – | – | 1 | 20 |
| Total | 682 | 40 | 24 | 36 |

NO. OF EMPLOYEES

| As at March 31, 2001 | | | | | | | |
|-----------------------|------------------------|-----------------------|-------------------------|-------------------|--------------------------|----------------------|---------------------|
| | Société des casinos | Casino de Montréal | Casino de Charlevoix | Casino de Hull | Resto-Casino Montréal | Resto-Casino Hull | Hilton Lac Leamy |
| Management | 9 | 427 | 41 | 190 | 17 | 4 | 9 |
| Operations management | – | – | – | – | 36 | 22 | – |
| Professionals | 13 | 22 | 4 | 17 | 4 | 1 | 5 |
| Technicians | 10 | 173 | 30 | 114 | 1 | 4 | – |
| Gaming staff | – | 1,024 | 113 | 348 | – | – | – |
| Office support staff | 20 | 432 | 65 | 194 | 18 | 24 | 3 |
| General support staff | 12 | 534 | 95 | 142 | 596 | 264 | – |
| Total | 64 | 2,612 | 348 | 1,005 | 672 | 319 | 17 |

LA SOCIÉTÉ DES CASINOS DU QUÉBEC INC.

CASINO ATTENDANCE AND REVENUES

| (NUMBER OF VISITORS IN THOUSANDS) | | | | |
|-------------------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|
| As at March 31, 2001 | | | | |
| | Montréal | Hull | Charlevoix | Total |
| Markets | | | | |
| Local clientele | 4,387.4 | 770.3 | 56.6 | 5,214.3 |
| Tourist clientele ⁽¹⁾ from Québec | 851.7 | 342.7 | 950.0 | 2,144.4 |
| Tourist clientele from outside Québec | 364.2 | 1,919.6 | 41.9 | 2,325.7 |
| Total | 5,603.3 | 3,032.6 | 1,048.5 | 9,684.4 |
| (IN MILLIONS OF DOLLARS) | | | | |
| Contribution to gaming revenues | | | | |
| Local and tourist clientele from Québec | 454.8 | 74.4 | 38.1 | 567.3 |
| Tourist clientele from outside Québec | 13.6 | 114.2 | 1.4 | 129.2 |
| Total | 468.4 | 188.6 | 39.5 | 696.5 |
| (IN MILLIONS OF DOLLARS) | | | | |
| Contribution to tourism balance ⁽²⁾ (direct expenditures other than gaming) | | | | |
| Tourist clientele from Québec | 20.9 | 3.3 | 26.3 | 50.5 |
| Tourist clientele from outside Québec | 20.5 | 23.7 | 0.4 | 44.6 |
| Total | 41.4 | 27.0 | 26.7 | 95.1 |

(1) Casino clientele from more than 80 kms away (based on Statistics Canada definition)

(2) Based on assumptions made in the study of SCQ economic spin-offs by Yves Rabeau, September 1997

Source: Société des casinos du Québec inc.

RESTO-CASINO INC.

RESTO-CASINO ECONOMIC IMPACT STATISTICS

| (IN THOUSANDS OF DOLLARS) for the year ended March 31, 2001 | | | | |
|-------------------------------------------------------------------------|-----------|------------|-----------|------------|
| SALES | Montréal | Charlevoix | Hull | Total |
| Food | \$ 20,884 | \$ 29 | \$ 8,182 | \$ 29,095 |
| Beverages | \$ 18,575 | \$ 1,282 | \$ 9,415 | \$ 29,272 |
| Cigarettes | \$ 247 | \$ 73 | \$ 159 | \$ 479 |
| Baskets and promotional items | \$ 5,034 | \$ – | \$ 2,392 | \$ 7,426 |
| Discounted items and others | \$ 50 | \$ – | \$ 33 | \$ 83 |
| | \$ 44,790 | \$ 1,384 | \$ 20,181 | \$ 66,355 |
| Number of meals served (including employees' cafeteria) | 1,619,300 | n.a. | 661,800 | 2,281,100 |
| Number of drinks served from juice bars | 6,797,700 | n.a. | 3,764,200 | 10,561,900 |
| Number of club sandwiches sold | 13,800 | n.a. | 10,800 | 24,600 |
| Number of buffet meals sold | 186,900 | n.a. | 144,000 | 330,900 |
| Average sales per casino visitor – restaurants | \$ 3.66 | n.a. | \$ 2.57 | \$ 3.28 |
| Average sales per casino visitor – bars | \$ 0.56 | n.a. | \$ 0.66 | \$ 0.60 |
| PURCHASES | | | | |
| Food | \$ 7,681 | \$ 19 | \$ 2,869 | \$ 10,569 |
| <i>Meat (in kg),</i> | 331,000 | n.a. | 160,000 | 491,000 |
| <i>including smoked meat (in kg)</i> | 45,600 | n.a. | 1,200 | 46,800 |
| <i>Fish (in kg)</i> | 81,700 | n.a. | 42,000 | 123,700 |
| <i>Tomatoes (no. of cans)</i> | 29,800 | n.a. | 6,000 | 35,800 |
| Beverages | \$ 3,975 | \$ 226 | \$ 1,708 | \$ 5,909 |
| <i>Beer (bottles)</i> | 391,000 | n.a. | 255,000 | 646,000 |
| <i>Wine (bottles)</i> | 89,200 | n.a. | 34,000 | 123,200 |
| <i>Single serving cups of cream (units)</i> | 5,430,000 | n.a. | 2,400,000 | 7,830,000 |
| Cigarettes | \$ 249 | \$ 61 | \$ 160 | \$ 470 |
| Baskets and promotional items | \$ 2,517 | \$ – | \$ 712 | \$ 3,229 |
| Dishes, cutlery, glasses and small equipment | \$ 444 | \$ 10 | \$ 166 | \$ 620 |
| Disposable items | \$ 508 | \$ 11 | \$ 223 | \$ 742 |
| Linen and uniforms | \$ 501 | \$ 1 | \$ 183 | \$ 685 |
| Maintenance and cleaning products | \$ 530 | \$ 6 | \$ 189 | \$ 725 |
| Other (menus, flowers, etc.) | \$ 197 | \$ 3 | \$ 120 | \$ 320 |
| | \$ 16,602 | \$ 337 | \$ 6,330 | \$ 23,269 |
| OTHER EXPENSES | | | | |
| Sales expenses (including commissions and credit cards) | \$ 215 | \$ 3 | \$ 196 | \$ 414 |
| Administrative expenses (including legal fees, stationery and training) | \$ 289 | \$ 20 | \$ 229 | \$ 538 |
| | \$ 504 | \$ 23 | \$ 425 | \$ 952 |
| SALARIES AND BENEFITS | | | | |
| | \$ 19,686 | \$ 519 | \$ 9,694 | \$ 29,899 |
| No. of employees | 672 | 26 | 319 | 1,017 |

LOTTERIES

COMMISSIONS PAID TO RETAILERS

| | (in millions of dollars) |
|-----------|--------------------------|
| 1996-1997 | 104.8 |
| 1997-1998 | 107.7 |
| 1998-1999 | 114.0 |
| 1999-2000 | 121.3 |
| 2000-2001 | 124.7 |

DISTRIBUTION OF RETAILERS AND TERMINALS BY REGIONAL CENTRE

| As at March 31, 2001 | | | | |
|----------------------------------|------------------|------------|------------------|------------|
| | No. of retailers | % | No. of terminals | % |
| Montréal and Northwestern Québec | 3,755 | 32.9 | 2,785 | 33.7 |
| Montréal and Southeastern Québec | 3,966 | 34.8 | 2,860 | 34.6 |
| Eastern Québec | 3,690 | 32.3 | 2,611 | 31.7 |
| Total | 11,411 | 100 | 8,256 | 100 |

DISTRIBUTION OF RETAILERS BY TYPE OF BUSINESS

| As at March 31, 2001 | | |
|--------------------------------|---------------|------------|
| | No. | % |
| Tobacco and convenience stores | 5,169 | 45.3 |
| Grocery stores | 2,052 | 18.0 |
| Financial institutions | 1,129 | 10.0 |
| Other service outlets | 1,682 | 14.8 |
| Drug stores | 795 | 7.0 |
| Travelling salespeople | 78 | 0.7 |
| Booths | 139 | 1.2 |
| Others | 367 | 3.0 |
| Total | 11,411 | 100 |

LOTTERIES

| As at March 31, 2001 | | | | | | |
|--------------------------------|----------------------------------|-----------|-------------|-------------------------------------------|-----------|-------------|
| | Sales in thousands of dollars | | % change | Prizes awarded in thousands of dollars | | % change |
| | 2000-2001 | 1999-2000 | | 2000-2001 | 1999-2000 | |
| ONLINE LOTTERIES | | | | | | |
| Lotto 6/49 | 461,956 | 465,440 | -0.7 | 220,478 | 218,771 | 0.8 |
| Super 7 | 243,586 | 189,694 | 28.4 | 141,946 | 106,654 | 33.1 |
| Québec 49 | 64,797 | 61,909 | 4.7 | 30,455 | 29,098 | 4.7 |
| Extra | 156,456 | 142,882 | 9.5 | 69,861 | 63,799 | 9.5 |
| Banco | 107,560 | 109,863 | -2.1 | 52,705 | 53,835 | -2.1 |
| La Quotidienne | 25,829 | 24,514 | 5.4 | 11,623 | 11,032 | 5.4 |
| Subtotal | 1,060,184 | 994,302 | 6.6 | 527,068 | 483,189 | 9.1 |
| INSTANT LOTTERIES | | | | | | |
| Regular and entertainment-type | 579,974 | 554,809 | 4.5 | 318,006 | 303,888 | 4.6 |
| CD lottery | 11,164 | 9,883 | 13.0 | 5,861 | 5,188 | 13.0 |
| Subtotal | 591,138 | 564,692 | 4.7 | 323,867 | 309,076 | 4.8 |
| TELEVISED LOTTERIES | | | | | | |
| Instant televised lotteries | 41,525 | 69,193 | -40.0 | 24,959 | 42,014 | -40.6 |
| Teleactive games | 42,669 | 46,168 | -7.6 | 25,723 | 28,093 | -8.4 |
| Subtotal | 84,194 | 115,361 | -27.0 | 50,682 | 70,107 | -27.7 |
| TRADITIONAL LOTTERIES | | | | | | |
| Mini | 14,894 | 16,852 | -11.6 | 6,555 | 7,416 | -11.6 |
| Special editions | 32,771 | 31,495 | 4.1 | 17,817 | 15,697 | 13.5 |
| Subtotal | 47,665 | 48,347 | -1.4 | 24,372 | 23,113 | 5.4 |
| SPORTS BETTING | 42,347 | 45,522 | -7.0 | 26,685 | 28,267 | -5.6 |
| TOTAL | 1,825,528 | 1,768,224 | 3.2 | 952,674 | 913,752 | 4.3 |

LA SOCIÉTÉ DES BINGOS DU QUÉBEC INC.

SALES BY REGION

| REGION | As at March 31, 2001 | | | Net sales | Commissions paid to operators | Amount distributed to participating NPOs | Average sales per event |
|-----------------------------------------------------|------------------------------------|---------------|--------------------------------------|-------------------|-------------------------------|------------------------------------------|-------------------------|
| | Average no. of participating Halls | No. of events | Approx. No. of participating NPOs(*) | | | | |
| Lower St. Lawrence | 7 | 1,103 | 30 | \$ 574,529 | \$ 27,888 | \$ 114,258 | \$ 521 |
| Québec City/North Shore | | | | | | | |
| Chaudière, Appalaches, | 24 | 5,256 | 115 | 5,807,072 | 319,844 | 1,156,178 | 1,105 |
| Saguenay/Lac-Saint-Jean | 9 | 1,097 | 30 | 943,286 | 47,380 | 187,798 | 860 |
| Mauricie/Bois-Francs | 8 | 1,928 | 39 | 2,309,651 | 128,399 | 460,327 | 1,198 |
| Estrie | 4 | 958 | 21 | 1,111,996 | 61,686 | 221,243 | 1,161 |
| Montérégie | 24 | 5,376 | 117 | 7,488,742 | 415,346 | 1,490,599 | 1,393 |
| Montréal | 33 | 8,174 | 170 | 10,603,975 | 605,815 | 2,112,031 | 1,297 |
| Abitibi/Témiscamingue | 8 | 1,058 | 23 | 852,761 | 45,575 | 169,699 | 806 |
| Outaouais | 6 | 1,335 | 27 | 1,156,655 | 63,162 | 230,688 | 866 |
| Laval/Laurentides/ Lanaudière | 31 | 7,220 | 147 | 9,636,444 | 535,100 | 1,919,100 | 1,335 |
| Gaspé | 6 | 661 | 16 | 559,237 | 21,792 | 111,245 | 846 |
| Total (excluding the Fund) | 160 | 34,166 | 735 | 41,044,348 | 2,271,987 | 8,173,166 | 1,201 |
| Fund: Amounts distributed to non-participating NPOs | | | | | | 931,161 | |
| Grand total for NPOs | | | | | | 9,104,327 | |

(*) RAC data is for ten months (April 2000 to January 2001).

LA SOCIÉTÉ DES LOTERIES VIDÉO DU QUÉBEC INC.

VIDEO LOTTERIES

| As at March 31, 2001 | |
|------------------------------------|--------|
| No. of sites | 4,085 |
| No. of terminals | 15,251 |
| No. of terminals per establishment | 3.7 |
| No. of inhabitants per terminal | 1/484 |

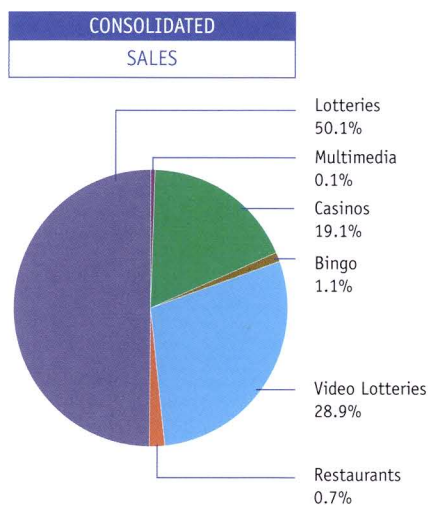
REVENUES AND COMMISSIONS

| (IN MILLIONS OF DOLLARS) As at March 31, 2001 | |
|-----------------------------------------------|---------|
| Money taken in | 4,532.1 |
| Money cashed out | 3,479.0 |
| Net income | 1,053.1 |
| Net profit | 639.1 |
| Commissions paid to retailers | 315.9 |

DISTRIBUTION OF SITES AND TERMINALS BY REGION

| | No. of sites | No. of terminals |
|-----------------------------------------------|--------------|------------------|
| Laval/Lanaudière/Laurentides | 599 | 2,375 |
| Montréal | 966 | 4,322 |
| Québec City/Chaudière/Appalaches | 522 | 1,804 |
| Mauricie/Bois-Francs | 326 | 1,122 |
| Estrie | 282 | 991 |
| Saguenay/Lac-Saint-Jean/North Shore | 272 | 850 |
| Lower St. Lawrence/Gaspé/Îles-de-la-Madeleine | 217 | 602 |
| Abitibi/Northern Québec | 157 | 504 |
| Montérégie | 511 | 1,841 |
| Outaouais | 233 | 840 |
| Total | 4,085 | 15,251 |

For the fiscal year ended March 31, 2001, Loto-Québec posted **consolidated revenues** of \$3.6 billion, representing an increase of \$199 million or 5.8% over the previous year, with the video lottery and traditional lottery sectors accounting for the major share of this growth in sales. During the same period, the Corporation's **operating expenses** totalled \$613.2 million, an increase of less than 2% as compared to the previous reporting period, while **consolidated net income** reached \$1.4 billion, up by 5.9% over fiscal 1999-2000.



REVENUES AND GROSS PROFIT BY SECTOR

The **lottery sector** continued to make the largest contribution to the Corporation's total sales, with revenues of \$1.8 billion representing a 3.2% increase over 1999-2000. This growth was attributable in particular to the *Super 7* lottery, which increased its sales figure by \$53.9 million. Loto-Québec also saw a rise in its gross profits during the past fiscal year, up by \$10 million over the previous year to reach \$712.8 million. A total of \$952.7 million in prizes was awarded to winners during the year, along with \$124.7 million in commissions paid to retailers.

With total revenues of \$696.5 million, the **casino sector** recorded an increase of 1.9% over the previous year. More specifically, the casinos in Montréal and Charlevoix posted increases of 3.1% and 11.6% respectively, while the casino in Hull registered a decrease of \$5.4 million or 2.8%, attributable to the installation of slot machines at the Rideau-Carleton Racetrack. Under a program implemented during the final quarter of last year, a total of \$12.7 million was paid out to casino patrons in the form of promotional discounts.

Posting total revenues of \$66.4 million, the **restaurant sector's** financial results were unchanged from the previous year.

Totalling \$1.053 billion in fiscal 2000-2001, the **video lottery sector's** sales were up by 13.4% over the previous year, with the number of terminals in operation in some 4,100 establishments unchanged since 1997, remaining at approximately 15,200. Commissions paid to retailers operating the sector's equipment on their premises amounted to \$315.9 million.

For its part, the **bingo sector** posted revenues of \$41 million during the past fiscal year, an increase of 1.5% over the previous year. In addition, la Société des bingos du Québec awarded \$18.6 million in prizes to winners, along with \$2.3 million in commissions to operators of bingo halls.

Finally, the Corporation's **multimedia sector** recorded sales of \$540,000 in 2000-2001, a portion of which, for the very first time, originated from foreign markets. In fact, INGENIO's, contracts abroad included delivery of the *Trésors de la Tour* master CD-ROM to *la Loterie nationale de Belgique* and *Treasure Tower* to the Iowa State Lottery in the United States.

OPERATING EXPENSES

Loto-Québec's **operating expenses** rose to \$613.2 million during the past year, a slight increase of less than 2% over the previous fiscal year. These expenses represent a ratio of 16.8% of the Corporation's total sales, as compared to 17.5% in 1999-2000. The principal factors accounting for this rise are salary increases and the depreciation for an entire year of the lottery sector's game terminals which were installed during the first quarter of 2000-2001.

OTHER ITEMS

Other items totalled \$143 million, an increase of \$12.8 million or 9.8% over the previous year, attributable primarily to consumption taxes (GST and QST). These items also include \$9.1 million in contributions to non-profit organizations made by the bingo sector out of its operating income.

CONTRIBUTIONS TO GOVERNMENTS

Loto-Québec's contribution in the form of dividends to the Minister of State for the Economy and Finance amounted to \$1.331 billion in fiscal 2000-2001. An additional \$45.8 million was paid into the Québec Government's various designated funds, as well as \$89.2 million to the Minister of Revenue in tax on capital and Québec Sales Tax (QST). As such, total contributions paid to the Québec Government equalled over \$1.466 billion. Moreover, the Corporation contributed \$13.5 million to the Government of Canada as compensation for its withdrawal from the lottery sector, as well as \$74.2 million in Goods and Services Tax (GST).

MANAGEMENT REPORT

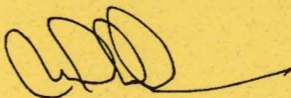
The Board of Directors is responsible for the consolidated financial statements drawn up for the shareholder. It delegates responsibility for preparing them to senior management, while the Audit Committee reviews them.

Management has a system of internal controls to ensure that the financial statements are reliable, and Internal Audit monitors the system to ensure it works properly.

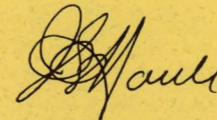
The consolidated financial statements are prepared according to Canadian generally accepted accounting principles which, in certain cases, require judgements on the part of management. The financial information contained within the rest of the annual report corresponds to the information provided in the financial statements.

By law, the Auditor General of Québec audits the books and accounts of Loto-Québec. The Audit Committee and the Auditor General meet with management to discuss questions pertaining to the audit and to the consolidated financial statements. Audit Committee members have no link to Loto-Québec other than as directors.

Upon the recommendation of the Audit Committee, the Board of Directors has approved the consolidated financial statements of Loto-Québec for the fiscal year ended March 31, 2001.



Michel Crête
Chairman of the Board and
Chief Executive Officer



Gérard Houle, CMA
Corporate Vice-President
Finance and Administration

Montréal, May 24, 2001

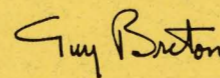
AUDITOR'S REPORT

To the Minister of State for Economy and Finance

I have audited the consolidated balance sheet of Loto-Québec as at March 31, 2001 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Loto-Québec's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Loto-Québec as at March 31, 2001, and the results of its operations and cash flows for the year ended in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., Chapter V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.



Guy Breton, FCA
Auditor General of Québec

Québec City, May 24, 2001

CONSOLIDATED STATEMENT OF INCOME

| (IN THOUSANDS OF DOLLARS) for the year ended March 31, 2001 | | |
|--------------------------------------------------------------------|--------------|--------------|
| | 2001 | 2000 |
| REVENUE | \$ 3,643,212 | \$ 3,444,225 |
| COST OF SALES (note 3) | 1,483,178 | 1,386,745 |
| GROSS PROFIT | 2,160,034 | 2,057,480 |
| OPERATING EXPENSES | | |
| Operating expenditures | 527,742 | 527,214 |
| Depreciation of fixed assets | 77,721 | 68,044 |
| Amortization of patents | 309 | — |
| Amortization of deferred charges | 308 | 308 |
| Interest - net (note 4) | 7,149 | 5,863 |
| | 613,229 | 601,429 |
| INCOME BEFORE THE FOLLOWING ITEMS | 1,546,805 | 1,456,051 |
| Special payments (note 5) | 28,871 | 25,792 |
| Goods and services tax | 53,136 | 48,638 |
| Québec sales tax | 61,040 | 55,830 |
| | 143,047 | 130,260 |
| NET INCOME | 1,403,758 | 1,325,791 |

Segmented information (note 20)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

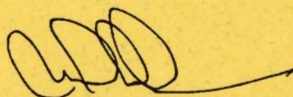
| (IN THOUSANDS OF DOLLARS) for the year ended March, 31 2001 | | |
|--------------------------------------------------------------------|-------------|-------------|
| | 2001 | 2000 |
| BALANCE AT BEGINNING OF YEAR | \$ 132,428 | \$ 94,225 |
| Net income | 1,403,758 | 1,325,791 |
| | 1,536,186 | 1,420,016 |
| Dividends | (1,330,500) | (1,251,000) |
| Fonds d'aide à l'action communautaire autonome (note 6) | (17,572) | (16,348) |
| Contributions to the Québec government (note 7) | (28,269) | (20,240) |
| | (1,376,341) | (1,287,588) |
| BALANCE AT END OF YEAR | 159,845 | 132,428 |

CONSOLIDATED BALANCE SHEET


| (IN THOUSANDS OF DOLLARS) As at March 31, 2001 | 2001 | 2000 |
|-------------------------------------------------------------------------------------------------|----------------|----------------|
| ASSETS | | |
| CURRENT | | |
| Cash on hand – casinos | \$ 33,247 | \$ 28,686 |
| Cash on hand | 27,867 | 26,979 |
| Accounts receivable (note 8) | 67,402 | 53,468 |
| Inventory (note 9) | 8,946 | 7,925 |
| Prepaid expenses | 16,158 | 17,987 |
| | 153,620 | 135,045 |
| Investment | 34,131 | 35,417 |
| Fixed assets (note 10) | 539,482 | 470,764 |
| Patents, amortized | 617 | 926 |
| Deferred charges, amortized (note 11) | 1,651 | 923 |
| | 729,501 | 643,075 |
| LIABILITIES | | |
| CURRENT | | |
| Bank loans (note 12) | 232,025 | 247,923 |
| Prizes payable | 48,225 | 41,774 |
| Accounts payable and accrued liabilities (note 13) | 240,911 | 165,324 |
| Provisions related to prizes (note 14) | 33,757 | 39,238 |
| Deferred income | 14,568 | 16,218 |
| | 569,486 | 510,477 |
| SHAREHOLDER'S EQUITY | | |
| Capital-stock authorized, issued and fully paid: 1,700 shares with a par value of \$100 each | 170 | 170 |
| RETAINED EARNINGS | 159,845 | 132,428 |
| | 160,015 | 132,598 |
| | 729,501 | 643,075 |

Commitments (note 15)

On behalf of the Board of directors



Michel Crête
Chairman of the Board



Robert Crevier, CA
Chairman of the Audit Committee

CONSOLIDATED STATEMENT OF CASH FLOWS

| (IN THOUSANDS OF DOLLARS) for the year ended March 31, 2001 | 2001 | 2000 |
|-------------------------------------------------------------------|--------------------|--------------------|
| OPERATING ACTIVITIES | | |
| Net income | \$ 1,403,758 | \$ 1,325,791 |
| Items not affecting cash flows: | | |
| Depreciation of fixed assets | 77,721 | 68,044 |
| Amortization of patents | 309 | - |
| Amortization of deferred charges | 308 | 308 |
| Net contribution to the Manoir Richelieu LP | 5,762 | 3,125 |
| Share of the earnings of Nter Technologies, LP | (116) | - |
| Changes in assets and liabilities related to operations (note 16) | (6,772) | (1,271) |
| Operating activities cash flows | 1,480,970 | 1,395,997 |
| FINANCING ACTIVITIES | | |
| Dividends paid | (1,265,000) | (1,262,000) |
| Bank loans | (15,898) | 51,274 |
| Contributions to the Québec Government | (28,105) | (19,745) |
| Fonds d'aide à l'action communautaire autonome | (17,572) | (16,348) |
| Financing activities cash flows | (1,326,575) | (1,246,819) |
| INVESTMENT ACTIVITIES | | |
| Acquisitions of fixed assets | (143,129) | (113,919) |
| Deposits for the acquisition of fixed assets | (96) | (360) |
| Acquisition of investments | (62) | (16,578) |
| Distribution to the Manoir Richelieu LP | (5,196) | - |
| Distribution of the Manoir Richelieu LP | 573 | - |
| Acquisition of deferred charges | (1,036) | - |
| Acquisition of patents | - | (165) |
| Investment activities cash flows | (148,946) | (131,022) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 5,449 | 18,156 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 55,665 | 37,509 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR (note 16) | 61,114 | 55,665 |

NOTE 1. AUTHORITY AND OBJECTIVES

The Société des loteries du Québec (the Corporation), also designated as Loto-Québec, is a joint-stock corporation whose shares form part of the public domain and are allotted to the Minister of Finance. Under its act of incorporation (R.S.Q., Chapter S-13.1), its functions are to conduct and administer lottery schemes and to operate businesses which are incidental to the operation of a State casino. It may also offer, for consideration, consulting and implementation services in matters within its competence.

NOTE 2. ACCOUNTING POLICIES

The consolidated financial statements of Loto-Québec have been prepared by management in accordance with Canadian generally accepted accounting principles. These statements comprise amounts based on best judgement and estimates.

Consolidation

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

- Lotim inc.
- La Société des casinos du Québec inc.
- Casiloc inc.
- La Société des loteries vidéo du Québec inc.
- Resto-Casino inc.
- Ingenio, filiale de Loto-Québec inc.
- La Société des bingos du Québec inc.
- World Gaming Consultants, inc.
- 9059-3849 Québec inc.

The investments in the Manoir Richelieu Limited Partnership and Nter Technologies, Limited Partnership are entered at their consolidated value.

Revenue*Lotteries*

Gross revenue from the sale of lottery tickets and bingo cards is recorded on the date of the draw, with the exception of revenue from instant lottery ticket sales, which is entered at the time of sale.

With the exception of instant lotteries, lottery tickets sold as at March 31 for draws subsequent to that date are treated as deferred income. Discounts to retailers on these sales are carried as prepaid expenses.

Casinos and Video Lotteries

Revenue from the operation of these activity sectors corresponds to the difference between wagers and prizes awarded.

Multimedia

Revenues represent royalties based on a certain percentage of the total of the CD-ROM/lottery ticket retail price. These revenues are recorded when the printer delivers the CD-ROM/lottery tickets to the lottery corporations.

Prizes Awarded

Prizes awarded from ticket sales for bingo and certain lottery products are based on a theoretical sales rate.

In addition to lottery prizes in cash or merchandise, Loto-Québec also awards free tickets. The value ascribed to these prizes is equal to the selling price and is included with sales as revenue and with prizes as expenditure.

Promotional Allowances

These amounts represent the promotional cash rebates issued to casino customers.

Pension Plans

Cost-based pension plan accounting is applied to inter-company governmental benefit-based pension plans such as the Régime de retraite des employés du gouvernement et des organismes publics (RREGOP) and the Régime de retraite des fonctionnaires (RRF), given that Loto-Québec, La Société des loteries vidéo du Québec inc., La Société des bingos du Québec inc. and Ingenio, filiale de Loto-Québec inc. do not have adequate information to apply benefit-based pension plan accounting practices.

Inventory

Video lotteries

The inventories are valued at the lower of average cost and replacement value.

Restaurants

The inventories are valued at the lower of cost and net realizable value. Cost is estimated as follows:

Food and drink: average cost
Kitchen equipment: base stock

Fixed assets

Fixed assets are presented at acquisition cost and, with the exception of works of art, are depreciated according to their estimated useful life using the straight-line method based on the following annual rates:

| | | | |
|--------------------------------|------------------------------|------------------------|----------------|
| Buildings | 2% to 6 2/3%, 10% and 20% | Landscaping | 10% and 14.29% |
| Parking lot landscaping | 6 2/3% | Leasehold improvements | 10% to 20% |
| Rented parking lot landscaping | 6 2/3% | Office furniture | 10% and 20% |
| Interior design | 10% to 20% | Rolling stock | 30% |
| | | Equipment | 10% to 33 1/3% |

Patents

Patents are presented at cost and are amortized using the straight-line method over a three-year period.

Deferred charges

Deferred charges correspond to the cost of the Pont des Îles, a property of the City of Montréal but paid by a subsidiary of Loto-Québec. These charges are amortized using the straight-line method at an annual rate of 10%.

The start-up costs related to the expansion of the Casino de Hull and development of the adjoining resort complex will be amortized as of the beginning of operations.

NOTE 3. COST OF SALES

| (IN THOUSANDS OF DOLLARS) | 2001 | 2000 |
|---------------------------|------------------|------------------|
| LOTTERIES | | |
| Prizes awarded | \$ 952,674 | \$ 913,752 |
| Commissions to retailers | 124,705 | 121,286 |
| Printing of tickets | 35,048 | 30,115 |
| | 1,112,427 | 1,065,153 |
| CASINOS | | |
| Promotional allowances | 12,720 | 1,177 |
| VIDEO LOTTERIES | | |
| Commissions to retailers | 315,915 | 278,522 |
| Printing | 757 | 703 |
| | 316,672 | 279,225 |
| BINGOS | | |
| Prizes awarded | 18,600 | 18,265 |
| Commissions to operators | 2,272 | 2,220 |
| Printing of cards | 310 | 402 |
| | 21,182 | 20,887 |
| RESTAURANTS | 20,177 | 20,303 |
| | 1,483,178 | 1,386,745 |

FINANCIAL STATEMENTS

Notes to financial statements
March 31, 2001

NOTE 4. INTEREST - NET

| (IN THOUSANDS OF DOLLARS) | | |
|---------------------------|--------------|--------------|
| | 2001 | 2000 |
| Interest on bank loans | \$ 8,567 | \$ 6,985 |
| Interest on term deposits | (1,418) | (1,122) |
| | 7,149 | 5,863 |

NOTE 5. SPECIAL PAYMENTS

| (IN THOUSANDS OF DOLLARS) | | |
|--------------------------------------------------------|---------------|---------------|
| | 2001 | 2000 |
| Compensation to the government of Canada | \$ 13,484 | \$ 13,172 |
| Net contribution to the Manoir Richelieu LP | 5,762 | 3,125 |
| Share of the results of Nter Technologies, LP | (116) | - |
| Special commissions to non-profit organizations (NPOs) | 637 | 453 |
| Compensation to participating NPOs | 8,173 | 8,067 |
| Compensation to non-participating NPOs | 931 | 975 |
| | 28,871 | 25,792 |

Compensation to the government of Canada

Under an agreement reached between the provincial governments and the government of Canada concerning the federal government's withdrawal from the administration of lotteries, the provinces pay the federal government the equivalent of \$24 million, in 1979 dollars, every year. For the year ended March 31, 2001, this amount equalled \$55.2 million (2000: \$53.7 million).

The Québec government's share is payable by the Corporation in accordance with an agreement between the provinces and regional lottery corporations.

Net contribution to the Manoir Richelieu Limited Partnership

Under the terms of the guarantee agreement and in accordance with the distribution methods specified in the partnership agreement, the net contribution represents the minimum share of liquidities generated by the operations of the Casino de Charlevoix that is to be remitted to the partners, after considering Loto-Québec's share in the earnings of the Manoir Richelieu Limited Partnership.

Special commissions to non-profit organizations (NPOs)

Further to a decision by the shareholder, a commission equal to the discount allotted to retailers is paid to non-profit organizations selling lottery tickets through the LOTOMATIQUE subscription system.

Compensation to non-profit organizations (NPOs)

The amended bingo regulations, in effect as of October 15, 1999, establish the following compensation for NPOs:

Participating NPOs

La Société des bingos du Québec inc. allots charitable or religious organizations that hold a bingo licence an amount equal to the higher of 36.4% of bingo ticket sales less the value of prizes paid to game winners (20% of bingo ticket sales before the amendment), or 50% of net income generated by bingo games, not counting compensation to non-participating NPOs.

Non-participating NPOs

La Société des bingos du Québec inc. allots an amount equal to 5.45% of total ticket sales of the *LE GRAND TOUR* game, less the value of prizes awarded to winners of this game, to charitable or religious organizations that hold a bingo licence but do not participate in the Corporation's bingo games (3% of ticket sales of the *LE GRAND TOUR* game before the amendment).

NOTE 6. FONDS D'AIDE À L'ACTION COMMUNAUTAIRE AUTONOME

Under its act of incorporation, each year the Corporation pays into the Fonds d'aide à l'action communautaire autonome, dedicated to supporting independent community and international humanitarian action, sums equivalent to 5% and 1% respectively of net income earned during the previous fiscal year through the operation of the state-run casinos and the businesses which are incidental to them.

NOTE 7. CONTRIBUTIONS TO THE QUÉBEC GOVERNMENT

| (IN THOUSANDS OF DOLLARS) | 2001 | 2000 |
|------------------------------------------------------------------------|---------------|---------------|
| Ministère des Finances ⁽¹⁾ | \$ 19,769 | \$ 11,640 |
| Ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ) | 5,000 | 5,000 |
| Ministère de la Santé et des Services sociaux | 3,000 | 3,000 |
| Ministère des Affaires municipales | 500 | 600 |
| | 28,269 | 20,240 |

(1) Of this amount, with the authorization of the Government, the Corporation contributed a total of \$7.2 million to the Société nationale du cheval de course (SONACC) to enable the organization to increase the funds for its regular racing programs and special events during fiscal 2000-2001.

NOTE 8. ACCOUNTS RECEIVABLE

| (IN THOUSANDS OF DOLLARS) | 2001 | 2000 |
|---------------------------|---------------|---------------|
| Wholesalers | \$ 33,209 | \$ 20,671 |
| Retailers | 21,131 | 15,785 |
| Miscellaneous | 13,062 | 17,012 |
| | 67,402 | 53,468 |

NOTE 9. INVENTORY

| (IN THOUSANDS OF DOLLARS) | 2001 | 2000 |
|---------------------------|--------------|--------------|
| Video lotteries | | |
| Video lottery terminals | \$ 3,530 | \$ 3,010 |
| Restaurants | | |
| Food and drink | 4,257 | 3,739 |
| Kitchen equipment | 1,159 | 1,176 |
| | 5,416 | 4,915 |
| | 8,946 | 7,925 |

NOTE 10. FIXED ASSETS

| (IN THOUSANDS OF DOLLARS) | | | | |
|------------------------------------|-----------|--------------------------|-----------|-----------|
| | 2001 | | | 2000 |
| | Cost | Accumulated Depreciation | Net | Net |
| Land | \$ 32,093 | \$ - | \$ 32,093 | \$ 29,797 |
| Buildings | 227,044 | 49,280 | 177,764 | 159,797 |
| Parking lot landscaping | 85,030 | 31,966 | 53,064 | 48,262 |
| Rented parking lot landscaping | 4,922 | 1,397 | 3,525 | 3,791 |
| Interior design | 76,057 | 48,745 | 27,312 | 31,570 |
| Landscaping | 21,302 | 10,012 | 11,290 | 10,890 |
| Leasehold improvement | 37,472 | 18,364 | 19,108 | 20,758 |
| Office furniture and rolling stock | 24,173 | 14,927 | 9,246 | 7,365 |
| Equipment | 378,006 | 262,520 | 115,486 | 139,950 |
| Works of art | 2,858 | - | 2,858 | 2,502 |
| Construction in progress | 87,736 | - | 87,736 | 16,082 |
| | 976,693 | 437,211 | 539,482 | 470,764 |

NOTE 11. DEFERRED CHARGES AMORTIZED

| (IN THOUSANDS OF DOLLARS) | | |
|---------------------------|----------|------|
| | 2001 | 2000 |
| Start-up costs | \$ 1,036 | \$ - |
| Pont des îles | 615 | 923 |
| | 1,651 | 923 |

NOTE 12. BANK LOANS

Demand bank loans are authorized by the Québec government for a maximum amount of \$400 million and bear interest at market rates.

NOTE 13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| (IN THOUSANDS OF DOLLARS) | | |
|-----------------------------------|------------|------------|
| | 2001 | 2000 |
| Suppliers and accrued liabilities | \$ 115,077 | \$ 105,267 |
| Dividends | 111,500 | 46,000 |
| Manoir Richelieu LP | 5,351 | 5,676 |
| Nter Technologies LP | 1,902 | - |
| Québec sales tax | 3,785 | 4,545 |
| Goods and services tax | 3,296 | 3,836 |
| | 240,911 | 165,324 |

NOTE 14. PROVISIONS RELATED TO PRIZES

| (IN THOUSANDS OF DOLLARS) | 2001 | 2000 |
|-----------------------------------------|---------------|---------------|
| Provision for unclaimed prizes | \$ 6,533 | \$ 12,431 |
| Provision for prize structure variances | 27,224 | 26,807 |
| | 33,757 | 39,238 |

The provision for unclaimed prizes is made up of unclaimed prizes from all Loto-Québec products, excluding Canada-wide games. This amount is used for payment of bonus and retailer prizes.

The provision for prize structure variances in bingo and certain lottery products is made up of all differences between the theoretical amount of prizes to be awarded under the prize structure and the actual amount payable. Monies from this provision are used principally to offset occasional shortfalls arising from prize structures that exceed the forecast amount. With the approval of the Board of Directors, this provision may also be used for bonus prizes or for discharging any claims associated with the games, or it may be included in the results.

NOTE 15. COMMITMENT

Leases

Under an agreement expiring in 2003, the Corporation is committed to paying a minimum of \$16.6 million in total for the rental of the premises occupied by its head office in a building held in joint tenancy with SITQ Bureaux inc., representing a consolidated commitment of \$8.3 million. In addition, the Corporation is committed to renting space for administrative offices under long-term leases expiring on various dates up until 2035. In certain cases, these leases have a two- to five-year renewal option.

The minimum monthly rental payments, in thousands of dollars, are as follows:

| | |
|---------------------|---------------|
| 2002 | 13,800 |
| 2003 | 12,256 |
| 2004 | 8,023 |
| 2005 | 5,065 |
| 2006 | 2,865 |
| 2007 and subsequent | 18,932 |
| | 60,941 |

Video lotteries

In December 1997, the Québec government authorized a subsidiary of Loto-Québec to acquire a central system including site controllers for an amount not exceeding \$20 million, of which \$6 million (2000: \$6 million) was accounted for as at March 31, 2001. At that date, commitments related to this project totalled \$13.3 million (2000: \$13.6 million).

In August 1999, the Québec government authorized that same subsidiary to acquire bar code scanners for the operation of video lottery systems for an amount not exceeding \$7 million, of which \$0.01 million was accounted for as at March 31, 2001. At that date, contractual commitments related to this project totalled \$2.6 million.

In addition, in May 2000, the Québec government authorized this Corporation to acquire video lottery terminals for an amount not to exceed \$219 million.

Expansion of the Casino de Hull and construction of a resort complex

The total budget for this project is \$228 million. As at March 31, 2001, \$94 million (2000: \$12.7 million) was accounted for, and commitments at that date totalled \$70.4 million (2000: \$20.9 million).

Contributions to the Québec government

Ministère des Finances

With the authorization of the Québec government, the Corporation has given its commitment to the Ministère des Finances to pay sums into a designated fund to finance certain projects and activities pertaining to the plan to revitalize the horseracing industry. This temporary contribution is equivalent to the annual commission collected by Québec racetracks for video lottery terminals. The Corporation is unable to assess the total amount of this commitment.

In addition, with the authorization of the Québec government, the Corporation has committed to paying \$12.4 million during fiscal 2001-2002 to the Société nationale du cheval de course (SONACC) to enable that organization to increase the purses for regular racing programs and special events.

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

In view of the decision to terminate the activities of fairground casinos, the Government authorized Loto-Québec to give its commitment to the MAPAQ to pay an annual sum of \$5 million into a designated fund for five years, starting in the 1998 calendar year. Upon expiry, the agreement will be renewable by mutual consent of the parties.

Ministère de la Santé et des Services sociaux

With the authorization of the Québec government, the Corporation has given its commitment to the Ministère de la Santé et des Services sociaux to pay sums totalling \$75 million into a designated fund over a six-year period to finance prevention activities, treatment services, research programs, and information campaigns to help compulsive gamblers. For the coming years, the payments related to the balance of this commitment, in thousands of dollars, are as follows:

| | |
|------|---------------|
| 2002 | 18,000 |
| 2003 | 17,000 |
| 2004 | 17,000 |
| 2005 | 17,000 |
| | <u>69,000</u> |

Ministère de la Sécurité publique

With the authorization of the Québec government, the Corporation has given its commitment to the Ministère de la Sécurité publique to pay sums totalling \$11 million into a designated fund over a four-year period to finance a series of rigorous control activities and measures to be implemented by the Régie des alcools, des courses et des jeux related, in particular, to overseeing access to video lottery terminals. For the coming years, the payments related to this commitment, in thousands of dollars, are as follows:

| | |
|------|---------------|
| 2002 | 2,000 |
| 2003 | 3,000 |
| 2004 | 3,000 |
| 2005 | 3,000 |
| | <u>11,000</u> |

Ministère des Affaires municipales

In view of the decision to terminate the activities of temporary casinos, the Government authorized Loto-Québec to give its commitment to the Ministère des Affaires municipales to pay a sum of \$2.6 million into a designated fund over a five-year period to finance certain organizations, projects and activities in the field of sports and recreation. For the coming years, the payments related to the balance of this commitment, in thousands of dollars, are as follows:

| | |
|------|------------|
| 2002 | 400 |
| 2003 | 300 |
| | <u>700</u> |

NOTE 16. CONSOLIDATED CASH FLOWS

| (IN THOUSANDS OF DOLLARS) | 2001 | 2000 |
|----------------------------------------------------------------|----------------|-----------|
| Cash and cash equivalents | | |
| Cash on hand – Casinos | \$ 33,247 | \$ 28,686 |
| Cash on hand | 27,867 | 26,979 |
| | 61,114 | 55,665 |
| Changes in assets and liabilities related to operations | | |
| Accounts receivable | (13,934) | (2,382) |
| Inventory | (1,021) | 576 |
| Prepaid expenses | 487 | 1,605 |
| Prizes payable | 6,451 | 6,624 |
| Accounts payable and accrued Liabilities | 8,376 | 11,945 |
| Provisions related to prizes | (5,481) | 913 |
| Deferred income | (1,650) | (20,552) |
| | (6,772) | (1,271) |
| Supplementary information | | |
| Interest paid | 8,282 | 7,003 |
| Prepaid expenses transferred to fixed assets | 1,438 | 14,359 |

NOTE 17. PENSION PLANS

Employees of the parent corporation, La Société des loteries vidéo du Québec inc., La Société des bingos du Québec inc., and Ingenio, filiale de Loto-Québec inc. participate in the Régime de retraite des employés du gouvernement et des organismes publics (RREGOP) and the Régime de retraite des fonctionnaires (RRF). These are benefit-based pension plans and contain guarantees upon retirement or death. Up until December 31, 1999, the employer's level of contribution for regular service under the RREGOP equalled 5.22% of the admissible salary of participants who could be unionized (5.02% for participants who cannot be unionized). Subsequent to certain modifications to the plan, as of January 1, 2000, the employer's level of contribution for regular service equals 3.51% of the admissible salary of participants who could be unionized (0.79% for participants who cannot be unionized). Contributions charged to consolidated earnings for the fiscal year for these plans total \$1.4 million (2000: \$1.8 million). The employer's obligations towards these government plans are limited to its contributions for current services.

La Société des casinos du Québec inc. and Resto-Casino inc. offer their employees a cost-based pension plan, paying an amount equal to the employee's contribution, up to 5% of the annual base salary. The employer's contribution is vested to the employee upon payment. Contributions charged to consolidated earnings for the fiscal year under this plan total \$6.3 million (2000: \$6 million).

NOTE 18. RELATED PARTY TRANSACTIONS

Over the course of the fiscal year, the Corporation received the consulting and management services of a limited partnership for a total of \$10.4 million.

In addition to the related party transactions already outlined and accounted for at exchange value, Loto-Québec is related to all Québec government departments and special funds, as well as all agencies and enterprises controlled directly or indirectly by the Government, or subject either to joint control or to significant mutual influence on the part of the Government. The Corporation has not concluded any business transaction with these related parties other than within the normal course of its activities and on regular business terms. These transactions are not disclosed separately in the financial statements.

NOTE 19. COMPARATIVE FIGURES

Certain figures for the year 2000 have been reclassified in order to conform to the 2001 presentation.

FINANCIAL STATEMENTS

Notes to financial statements
March 31, 2001

NOTE 20. SEGMENTED INFORMATION

| (IN THOUSANDS OF DOLLARS) | 2001 | | | | | | | |
|---------------------------------------------|----------------------------------------|----------------|--------------------|--------------|----------------|--------------|----------------------------------|-------------------------|
| Activity sectors | Lotteries/ corporate ⁽¹⁾ | Casinos | Video lotteries | Bingos | Multimedia | Restaurants | Inter- company elimination | Consolidated figures |
| Revenue | 1,825,528 | 696,471 | 1,053,047 | 41,044 | 540 | 66,355 | (39,773) | 3,643,212 |
| Cost of sales | 1,112,727 | 12,720 | 316,672 | 21,182 | – | 20,177 | (300) | 1,483,178 |
| Gross profit | 712,801 | 683,751 | 736,375 | 19,862 | 540 | 46,178 | (39,473) | 2,160,034 |
| OPERATING EXPENSES | | | | | | | | |
| Operating expenditures ⁽¹⁾ | 161,419 | 320,537 | 35,644 | 5,211 | 6,680 | 37,724 | (39,473) | 527,742 |
| Depreciation of fixed assets | 23,749 | 39,647 | 8,715 | 698 | 120 | 4,792 | – | 77,721 |
| Amortization of patents | – | – | – | – | 309 | – | – | 309 |
| Amortization of deferred charges | – | 263 | – | – | – | 45 | – | 308 |
| Interest – net | 8,236 | (948) | (110) | (15) | (14) | – | – | 7,149 |
| | 193,404 | 359,499 | 44,249 | 5,894 | 7,095 | 42,561 | (39,473) | 613,229 |
| Income (loss) before the following items | 519,397 | 324,252 | 692,126 | 13,968 | (6,555) | 3,617 | – | 1,546,805 |
| Special payments ⁽¹⁾ | 14,005 | 5,762 | – | 9,104 | – | – | – | 28,871 |
| Goods and services tax ⁽¹⁾ | 18,988 | 9,011 | 24,693 | 444 | – | – | – | 53,136 |
| Québec sales tax ⁽¹⁾ | 21,893 | 10,330 | 28,308 | 509 | – | – | – | 61,040 |
| | 54,886 | 25,103 | 53,001 | 10,057 | – | – | – | 143,047 |
| Net income (loss) | 464,511 | 299,149 | 639,125 | 3,911 | (6,555) | 3,617 | – | 1,403,758 |

(1) Indirect costs were paid by the lotteries/corporate sectors and charged back to other activity sectors in accordance with the extent of their use. An amount of \$45.4 million was charged towards the casino sector's results, an amount of \$55 million to those of the video lotteries sector, and \$1.8 million to the bingo sector.

FINANCIAL STATEMENTS

Notes to financial statements
March 31, 2001

NOTE 20. SEGMENTED INFORMATION

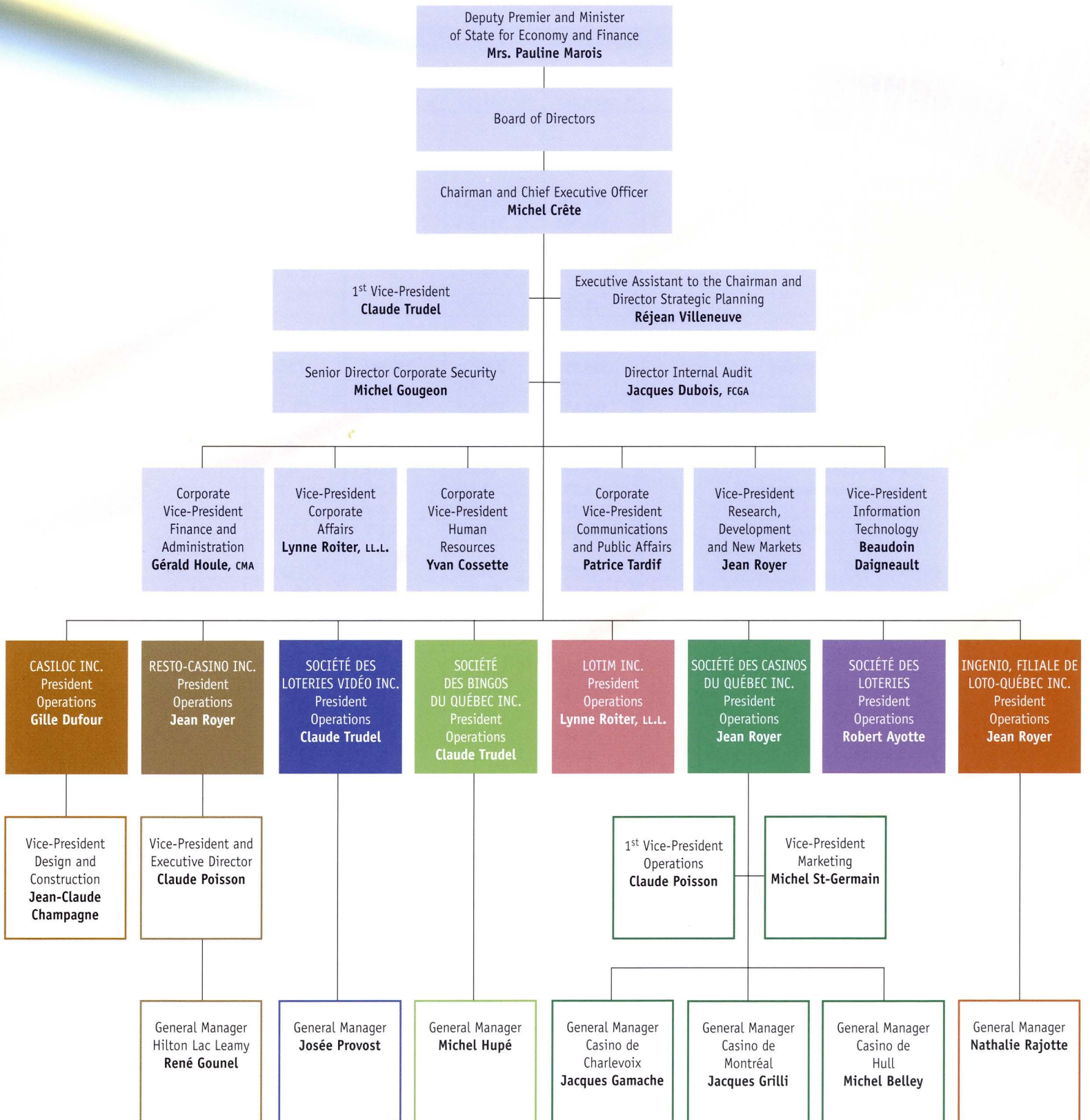
| Activity sectors | (IN THOUSANDS OF DOLLARS) | | | | | | | 2000 | |
|---------------------------------------------|----------------------------------------|----------------|--------------------|--------------|----------------|--------------|----------------------------------|-------------------------|--|
| | Lotteries/ corporate ⁽¹⁾ | Casinos | Video lotteries | Bingos | Multimedia | Restaurants | Inter- company elimination | Consolidated figures | |
| Revenue | 1,768,224 | 683,461 | 928,412 | 40,433 | 323 | 66,558 | (43,186) | 3,444,225 | |
| Cost of sales | 1,065,476 | 1,177 | 279,225 | 20,887 | – | 20,303 | (323) | 1,386,745 | |
| Gross profit | 702,748 | 682,284 | 649,187 | 19,546 | 323 | 46,255 | (42,863) | 2,057,480 | |
| OPERATING EXPENSES | | | | | | | | | |
| Operating expenditures ⁽¹⁾ | 162,957 | 321,446 | 36,776 | 5,299 | 4,488 | 39,111 | (42,863) | 527,214 | |
| Depreciation of fixed assets | 12,729 | 37,239 | 12,123 | 950 | 70 | 4,933 | – | 68,044 | |
| Amortization of deferred charges | – | 263 | – | – | – | 45 | – | 308 | |
| Interest – net | 6,771 | (786) | (104) | (12) | (6) | – | – | 5,863 | |
| | 182,457 | 358,162 | 48,795 | 6,237 | 4,552 | 44,089 | (42,863) | 601,429 | |
| Income (loss) before the following items | 520,291 | 324,122 | 600,392 | 13,309 | (4,229) | 2,166 | – | 1,456,051 | |
| Special payments ⁽¹⁾ | 13,625 | 3,125 | – | 9,042 | – | – | – | 25,792 | |
| Goods and services tax ⁽¹⁾ | 17,458 | 8,339 | 22,362 | 479 | – | – | – | 48,638 | |
| Québec sales tax ⁽¹⁾ | 20,085 | 9,559 | 25,637 | 549 | – | – | – | 55,830 | |
| | 51,168 | 21,023 | 47,999 | 10,070 | – | – | – | 130,260 | |
| Net income (loss) | 469,123 | 303,099 | 552,393 | 3,239 | (4,229) | 2,166 | – | 1,325,791 | |

(1) Indirect costs were paid by the lotteries/corporate sectors and are charged back to other activity sectors in accordance with the extent of their use. An amount of \$37.5 million was charged towards the casino sector's results, an amount of \$49.2 million to those of the video lotteries sector, and \$1.9 million to the bingo sector.

COMPARATIVE SUMMARY
of earnings

| (IN THOUSANDS OF DOLLARS) | 2001 | 2000 | 1999 | 1998 | 1997 |
|------------------------------------------|------------------|------------------|------------------|------------------|------------------|
| CONSOLIDATED EARNINGS | | | | | |
| Revenue | \$ 3,643,212 | \$ 3,444,225 | \$ 3,130,279 | \$ 2,837,442 | \$ 2,619,613 |
| COST OF SALES | | | | | |
| LOTTERIES | | | | | |
| Prizes awarded | 952,674 | 913,752 | 859,155 | 805,233 | 781,110 |
| Discounts to retailers | 124,705 | 121,286 | 114,015 | 107,677 | 104,813 |
| Printing of tickets | 35,048 | 30,115 | 25,217 | 23,197 | 22,389 |
| Lotteries subtotal | 1,112,427 | 1,065,153 | 998,387 | 936,107 | 908,312 |
| CASINOS | | | | | |
| | 12,720 | 1,177 | | | |
| VIDEO LOTTERIES | | | | | |
| Commissions to retailers | 315,915 | 278,522 | 230,388 | 175,627 | 139,884 |
| Printing | 757 | 703 | 646 | 511 | 532 |
| Video lotteries subtotal | 316,672 | 279,225 | 231,034 | 176,138 | 140,416 |
| BINGO GAMES | | | | | |
| Prizes awarded | 18,600 | 18,265 | 18,572 | 6,556 | |
| Commissions to operators | 2,272 | 2,220 | 2,256 | 795 | |
| Printing of cards | 310 | 402 | 444 | 102 | |
| Bingo games subtotal | 21,182 | 20,887 | 21,272 | 7,453 | |
| RESTAURANTS | | | | | |
| | 20,177 | 20,303 | 16,944 | 14,812 | 13,658 |
| Total | 1,483,178 | 1,386,745 | 1,267,637 | 1,134,510 | 1,062,386 |
| GROSS PROFIT | 2,160,034 | 2,057,480 | 1,862,642 | 1,702,932 | 1,557,227 |
| OPERATING EXPENSES | | | | | |
| Lotteries | 161,419 | 162,957 | 137,742 | 128,664 | 118,545 |
| Casinos | 281,064 | 278,583 | 251,050 | 239,611 | 228,468 |
| Video lotteries | 35,644 | 36,776 | 30,242 | 38,244 | 33,303 |
| Bingo games | 5,211 | 5,299 | 4,934 | 2,600 | |
| Multimedia | 6,680 | 4,488 | | | |
| Restaurants | 37,724 | 39,111 | 32,791 | 30,383 | 28,387 |
| Depreciation of fixed assets | 77,721 | 68,044 | 74,451 | 72,375 | 67,124 |
| Amortization of patents | 309 | | | | |
| Amortization of deferred charges | 308 | 308 | 4,386 | 4,588 | 6,904 |
| Interest – net | 7,149 | 5,863 | 4,796 | 6,616 | 10,512 |
| | 613,229 | 601,429 | 540,392 | 523,081 | 493,243 |
| INCOME BEFORE THE FOLLOWING ITEMS | 1,546,805 | 1,456,051 | 1,322,250 | 1,179,851 | 1,063,984 |
| Special payments | 28,871 | 25,792 | 25,296 | 16,789 | 13,474 |
| Goods and services tax | 53,136 | 48,638 | 44,139 | 35,753 | 34,282 |
| Québec sales tax | 61,040 | 55,830 | 50,812 | 36,899 | 34,179 |
| | 143,047 | 130,260 | 120,247 | 89,441 | 81,935 |
| NET INCOME | 1,403,758 | 1,325,791 | 1,202,003 | 1,090,410 | 982,049 |

CORPORATE STRUCTURE





- | | | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|------------------------------------------------------------------------|
| <p>1 MICHEL CRÊTE Mont-Royal Chairman of the Board Chief Executive Officer Loto-Québec</p> | <p>2 LYNNE ROITER, L.L.L. Westmount Vice-President Corporate Affairs Corporate Secretary</p> | <p>3 ROGER BLAIS Gatineau Engineer Physical Engineering</p> | <p>5 YVON MARTIN ▲ Montréal President Les Placements Solicom inc.</p> | <p>7 ROBERT CREVIER, CA ▲ ■ Montréal Management Consultant</p> |
| <p>4 FRANCINE DE MONTIGNY - LA HAYE Montréal Partner-Director of Cabinet de relations publiques National inc. Montréal</p> | <p>6 JOSEPH BENARROSH ▲ Montréal President JJDS Capital inc.</p> | <p>8 CHRISTIANE BOIS Québec Managing Director Société historique de Québec</p> | <p>▲ Member of the Audit Committee ■ Member of the Security Committee</p> | |

SENIOR MANAGEMENT

- | | | | | |
|-------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>MICHEL CRÊTE Chairman of the Board Chief Executive Officer Loto-Québec</p> | <p>GILLE DUFOUR President Operations Casiloc inc.</p> | <p>LYNNE ROITER, L.L.L. Vice-President Corporate Affairs Corporate Secretary President Operations Lotim inc.</p> | <p>JEAN ROYER President Operations La Société des casinos du Québec inc. President Operations Resto-Casino inc. President Operations INGENIO, filiale de Loto-Québec inc. Vice-President Research, Development and New Markets</p> | <p>CLAUDE TRUDEL President Operations La Société des bingos du Québec inc. President Operations La Société des loteries vidéo du Québec inc. 1st Vice-President Loto-Québec</p> |
| <p>ROBERT AYOTTE President Operations La Société des loteries du Québec</p> | <p>GÉRALD HOULE, CMA Corporate Vice-President Finance and Administration</p> | <p>BEAUDOIN DAIGNEAULT Vice-President Information Technology</p> | <p>PATRICE TARDIF Corporate Vice-President Communications and Public Affairs</p> | |
| <p>YVAN COSSETTE Corporate Vice-President Human Resources</p> | <p>RÉJEAN VILLENEUVE Executive Assistant to the Chairman and Director Strategic Planning</p> | | | |

STRATEGIC PLANNING: THE CORNERSTONE OF COHERENT EXPANSION

Orientation of actions programs and the initiatives of administrative units and subsidiaries in accordance with action corporate values, priorities and objectives

CORPORATE SECURITY: INTEGRITY OF PERSONNEL AND OPERATIONS, AND PROTECTION OF FACILITIES AND EQUIPMENT

Development and implementation of specific security standards and procedures for each of Loto-Québec's facilities and operations and those of its subsidiaries

Establishment, coordination and follow-up of preventative measures and plans of action

Strengthening of computer security

FINANCE AND ADMINISTRATION: OPERATIONS CONTROL AND SUPPORT

Entry of all corporate transactions and those of the Corporation's subsidiaries

Financial analyses and information required for decision making

Overall operational and budgetary control of operations

Cash flow management and optimization of corporate funds

Management of insurance portfolio

Procurement of goods and services

Building management and general services

INTERNAL AUDIT: METHODOICAL, ONGOING EVALUATION OF CONTROL SYSTEMS

Evaluation of current and potential risks

Consulting expertise and support for senior management in its efforts to optimize resources

Inclusion of managers in the activity evaluation process

CORPORATE AFFAIRS: UPHOLDING OF INTEGRITY AND CREDIBILITY AND MAXIMIZING INTERNATIONAL INFLUENCE

Corporate Secretariat for Loto-Québec and its subsidiaries

Corporate legal services

Formulation and follow-up of application of Code of Ethics and corporate policies

Formulation and implementation of corporate program for scientific research and prevention of compulsive gambling

Management of documentary resources

Administration of Lotim subsidiary

Maintenance of General Secretariat of World Lottery Association (WLA)

HUMAN RESOURCES: DEVELOPMENT AND RECOGNITION OF SKILLS

Formulation, implementation and follow-up of policies, programs and management systems for all Loto-Québec personnel and subsidiary employees

Workforce planning; hiring, integration and training of employees

Labour relations

Payroll and management information

Financial aspects of occupational health and safety

Employee assistance; retirement planning

Career planning and management

Succession planning

INFORMATION TECHNOLOGY: EVOLUTION AND RELIABILITY OF SYSTEMS

Development, management and operation of lottery and lottery management systems, as well as administrative systems of Loto-Québec

Planning and control of technological infrastructure development

Monitoring of technological developments; consulting expertise to senior management

Adaptation of systems to customer requirements

Maintenance of maximum availability of gaming systems

Technical support for retailers and wholesalers in the network and internal users of computer technology

Technical assistance and support for subsidiaries

RESEARCH, DEVELOPMENT AND NEW MARKETS: DIVERSIFICATION OF PRODUCTS AND EXPANSION OF ACTIVITIES

Development of products fostering growth and profitability of the gaming sectors
Creation of bridges between the worlds of entertainment and gaming
Development of a testing ground for new groups of games
Formation of partnerships with the private sector
Exploration of the commercial potential of products developed for Loto-Québec and its subsidiaries

COMMUNICATIONS AND PUBLIC AFFAIRS: PROMOTING THE CORPORATE REPUTATION FOR EXCELLENCE, TRANSPARENCY OF COMMUNICATIONS, AND COMMUNITY PRESENCE

Customer service
Responsibility for conducting of sports betting operations, draws and televised games
Promotion of corporate image
Dissemination of information about Loto-Québec and its subsidiaries
Media relations
Internal communications
Sponsorships
Loto-Québec Art Collection

LANGUAGE POLICY

QUALITY OF LANGUAGE: A CHERISHED VALUE In accordance with the Government's policy on the use and quality of French in the public administration, the Corporation has adopted a language policy that reflects its mission and takes into account the commercial nature of its operations.

The policy covers the use and quality of French, both in communications within the Corporation and its subsidiaries and in corporate communications and relations with the public, its partners, and its suppliers.

AWARDING OF CONTRACTS: INTEGRITY AND TRANSPARENCY

In order to ensure the integrity and transparency of its operations, Loto-Québec continues to pay scrupulous attention to the application of its policies in awarding contracts. Continued growth and an increasing variety of mandates has led the Corporation, over the past fiscal year, to acquire new tools to better meet the needs of its different activity sectors and to respond to the changing realities of doing business within these sectors.

In view of the *Regulation respecting the ethics and professional conduct of public office holders*, the members of Loto-Québec's Board of Directors have established a Specific Code of Ethics and Rules of Professional Conduct.

The values contained in this Code, notably integrity, loyalty and transparency, are values which Loto-Québec has always emphasized and which all senior executives of the Corporation are required to respect. During the last fiscal year, the provisions of the Code have been fully adhered to by all those to whom it applies.

1 DEFINITIONS

1. In this Code, unless the context indicates otherwise:
 - a) "*director*" means a member of the Board of Directors of Loto-Québec or any of its subsidiaries, whether or not working full-time within Loto-Québec or any of its subsidiaries
 - b) "*Board*" means the Board of Directors of Loto-Québec or any of its subsidiaries
 - c) "*executive*" means any contractual manager whose employment conditions are subject to the approval of the Board
 - d) "*enterprise*" means any form that can be taken by the organization for the production of goods or services or any other business of a commercial, industrial or financial nature or any group seeking to promote certain values, interests or opinions or to exercise an influence on public officials; however this does not include the Corporation or a non-profit association or group that has no financial link with the Corporation or is not incompatible with the objects of the Corporation
 - e) "*subsidiary*" means a wholly owned subsidiary of Loto-Québec
 - f) "*Act*" means the Act constituting the *Société des loteries du Québec*, (R.S.Q. c. S-13.1), as amended from time to time
 - g) "*Chairman of the Board*" means the Chairman and Chief Executive Officer of Loto-Québec
 - h) "*Corporation*" means Loto-Québec

2 ETHICAL PRINCIPLES AND GENERAL RULES OF PROFESSIONAL CONDUCT

- 2.1 This Code applies to the directors and executives of the Corporation and its subsidiaries, who are bound to comply with its provisions.
- 2.2 A director or executive is appointed to contribute to the achievement of the mission of the Corporation in the best interest of Québec. Accordingly, he is expected to use his knowledge, abilities, experience and integrity in a way that will promote the fair and efficient accomplishment of the objectives assigned to the Corporation by the Act and the good administration of the property it owns as mandatary of the State.

- 2.3 A director or executive shall, in the performance of his or her duties, comply with the Corporation's mission and the following objectives:
 - Performance: by offering the best possible entertainment products and services in the lottery, casino, video lottery and bingo sectors and by increasing the public funds entrusted to it
 - Integrity and credibility: by demonstrating steadfast vigilance to ensure the integrity, transparency and credibility of the Corporation's activities
 - Expansion: by developing new markets through associations and partnerships, which will allow it to considerably enhance the traditional lottery games, casinos and video lotteries it offers
 - Competence and expertise: by promoting the development of the skills essential to the Corporation and establishing programs that ensure respect for human resources
 - Social role: by expanding the ways of sharing the fruit of its operations with the various communities and regions and increasing its activities in the prevention of compulsive gambling
- 2.4 A director or executive who, at the request of Loto-Québec or any of its subsidiaries, serves as director or executive of another undertaking or company, or as a member, is held to the same standards
- 2.5 A director or executive shall seek, in the performance of his duties, only the interest of the Corporation to the exclusion of his own interest or that of others
- 2.6 A director is required, in the performance of his or her duties, to comply with the ethical principles and rules of professional conduct prescribed by the *Regulation respecting the ethics and professional conduct of public office holders*; an executive is also required to respect these rules to the extent that they are applicable to him or her.

3 DUTIES AND OBLIGATIONS OF DIRECTORS AND EXECUTIVES WITH RESPECT TO CONFLICTS OF INTEREST

3.1 PREVENTION OF CONFLICTS OF INTEREST

3.1.1 A director or executive shall avoid placing himself in a situation in which his or her personal interest is in conflict with the duties of his or her position.

3.1.2 To be referred to by this Code, the interest held by a director or executive in another enterprise must be such that it is likely to conflict with the performance of his or her duties within the Corporation or any of its subsidiaries. A director or executive who has an interest in an enterprise is in a situation of "conflict of interest" in the following cases, among others:

- if Loto-Québec or any of its subsidiaries has or is likely to have a significant business relationship with the enterprise, the significance of that relationship being both for Loto-Québec and for the enterprise
- if the enterprise is a listed company and its business relationship with Loto-Québec or any of its subsidiaries is likely to have an effect on listed shares
- if the interest of the director or executive in the enterprise that has a business relationship with Loto-Québec or any of its subsidiaries, is such that it may influence the enterprise's affairs
- if the enterprise has signed a contract with Loto-Québec or any of its subsidiaries and this contract is such that it has an impact on the enterprise's assets
- if the enterprise is awarded a contract for which the director or executive has been involved in the choice of supplier

3.1.3 A director who is party to a contract with Loto-Québec or any of its subsidiaries, or an executive who is party to a contract with Loto-Québec or any of its subsidiaries other than his or her contract of engagement, is also considered to be in conflict of interest.

3.2 DISCLOSURE AND ABSTENTION

3.2.1 A director or executive who:

a) has a direct or indirect interest in an enterprise that places him or her in a situation of conflict of interest under section 3.1.2 of this Code

or

b) is party to a contract with the Corporation or a subsidiary under section 3.1.3

shall disclose the nature and extent of his or her interest in writing to the Chairman of the Board; a director shall also abstain from deliberating or voting on any question linked to this interest and avoid trying to influence the related decision; he or she shall withdraw from the meeting while deliberations and voting on this question continue.

3.2.2 A director or executive shall make the disclosure required in section 3.2.1 as soon as he or she has knowledge that he or she is in a conflict of interest under sections 3.1.2 and 3.1.3. In the case of a director, this disclosure of interest shall be recorded in the minutes of the proceedings of the Board of Directors of which he or she is a member.

3.2.3 A director or executive shall notify the Chairman of the Board in writing of any rights that he or she may invoke against the Corporation or any of its subsidiaries, indicating their nature and value, as soon as these rights come into existence or when he or she acquires knowledge of them.

3.2.4 A director or executive shall also submit to the Chairman of the Board, by June 1 of each year in which he or she remains in office, an attestation in the form provided.

3.2.5 The Chairman of the Board submits the attestations referred to by these sections to the Secretary of the Corporation, who keeps them at the disposal of the members of the Board and the executives. The attestations are treated as confidential.

3.3 WAIVER

3.3.1 This Code does not apply:

- a) to owning securities when the size of the holding probably does not place the director or executive in a conflict of interest
- b) to owning an interest by way of a mutual fund in whose management the director or executive plays no role directly or indirectly
- c) to owning interests through a blind trust whose beneficiary may not know its make-up
- d) to owning a minimum number of shares required to be eligible as director of a corporation
- e) to an interest which, by its nature and extent, is common to the public at large or a particular sector in which the director or executive operates
- f) to a directors' liability insurance agreement
- g) to the owning of shares issued or guaranteed by a government or municipality under the same conditions for everyone

4 EFFECTIVE DATE

4.1 This Code takes effect September 1, 1999.

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