A YEAR OF EMOTION ALL AROUND

2016-2017
ANNUAL REPORT

LOTO
QUÉBEC


KINZO


ALEA
Jérémie
21 févr 17
339 345,96 $
espacejeux

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VALUES

Integrity and agility

Integrity guarantees that the chances of winning are the same for everyone, and that the reliability and thoroughness of all processes are ensured. **Agility** allows us to adjust more quickly to market realities, particularly in terms of method, so we can remain competitive in the gaming and entertainment industry.

Overall performance and innovation

Overall performance covers economic, social and environmental issues. It requires efficient and responsible management of the gaming and entertainment offering. **Innovation** means staying ahead of the curve to foster competitiveness. Developing partnerships also helps us expand our capacity for innovation.

Client-centred and creator of emotions

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

Synergy and pleasure

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

MISSION

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

VISION

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

KEY FIGURES OF THE YEAR

AS AT MARCH 31

(In thousands of Canadian dollars)	2017	2016	$ Variation	% Variation
Total revenues	**3,635,627**	**3,560,283**	**75,344**	**2.1**
Lotteries	**1,827,896**	1,797,590	30,306	1.7
Casinos	**838,775**	806,210	32,565	4.0
Gaming establishments	**993,517**	980,333	13,184	1.3
Intersegment transactions	**(24,561)**	(23,850)	(711)	(3.0)
Prizes awarded – lotteries	**987,611**	935,837	51,774	5.5
Prizes awarded – gaming establishments (bingo and Kinzo)	**24,741**	25,006	(265)	(1.1)
Gross margin	**2,235,649**	2,221,443	14,206	0.6
Operational expenses	**991,604**	962,516	29,088	3.0
Net income	**1,230,551**	1,226,994	3,557	0.3
Dividend	**1,205,551**	1,201,994	3,557	0.3
Other amounts contributed to the Québec and Canadian governments	**199,897**	188,303	11,594	6.2
Total assets	**1,216,118**	1,273,297	(57,179)	(4.5)
Shareholder's equity	**129,869**	111,201	18,668	16.8

Total revenues

(In millions of Canadian dollars)	2017	2016	2015	2014	2013
	3,635.6	3,560.3	3,338.0	3,519.1	3,617.7

Net income

(In millions of Canadian dollars)	2017	2016	2015	2014	2013
	1,230.6	1,227.0	1,115.8	1,144.1	1,278.5

ECONOMIC AND SOCIAL CONTRIBUTIONS

$1,205.6M
Dividend to the Government of Québec

$1,012.4M
Prizes awarded to lottery and gaming establishment winners (bingo and Kinzo)

$423.5M
Employee benefits

$367.2M
Purchases from companies conducting business in Québec

$339.9M
Commissions to lottery, casino and gaming establishment network partners

$158.0M
Taxes to governments

$16.9M
Contribution to the Government of Canada

$32.5M
Contributions to prevent problem gambling

$17.4M
Contributions to non-profit organizations

$10.1M
Sponsorships

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

MESSAGE FROM THE CHAIRWOMAN OF THE BOARD OF DIRECTORS

The renewal strategy undertaken in 2014 has once again generated excellent results. The Board of Directors is very pleased with the work that has been achieved. For the year ending March 31, 2017, Loto-Québec's activities have paid a dividend of 1.206 billion dollars to benefit the community. This is an increase of 3.6 million dollars from the previous year and 58.2 million dollars more than the target announced by the government.

Initiatives stemming from the three major orientations of the 2014-2017 strategic plan allowed Loto-Québec to return to a period of growth and remain on the path to success. This positive turnaround results from the vitality demonstrated in every sector of the organization.

The improvement of our offer, with a focus on entertainment, has continued throughout the last year. New products and offers were introduced throughout our lottery retailers, and made available in the establishments and on Espacejeux.com. Online gaming, especially mobile gaming, is becoming increasingly popular, so it is important to continue to channel that offer in a controlled and measured framework.

Loto-Québec's activities are managed with a constant eye on efficiency. Thanks to the drive to continually do better and embrace best practices in every sector, the Corporation has achieved its goal of recurring efficiency gains of 100 million dollars, established in 2014-2015. It is now in an excellent position to confront the challenges of the future.

Besides playing a major economic role, Loto-Québec makes a significant social contribution in Québec. This entails the sponsorship of several festivals and events all across Québec, partnerships with the community and employee volunteer activities.

THE POSITIVE TURNAROUND RESULTS FROM THE VITALITY DEMONSTRATED IN EVERY SECTOR.

Preventing problem gambling is a constant priority for Loto-Québec. The quality of its assistance and awareness programs and their continuous improvement have, in fact, earned Loto-Québec for the third time the World Lottery Association's Level 4 certification, the highest international certification in responsible gambling.

Throughout the year, the Board followed the progress of responsible gambling issues, including the video lottery terminal network action plan, which calls for a reduction in terminals, particularly in at-risk areas, and a tightening of oversight measures.

The Board also monitored the 2017-2020 strategic planning process. One of the outcomes of this exercise was an update of Loto-Québec's values. The new values, which reflect the organization of today and tomorrow, were determined through consultation with the entire staff. They will enable the corporate culture to evolve in step with the realities of the gaming and entertainment industry.

Acknowledgements

I would be remiss if I did not mention the passing of Simon Patenaude, acting President and CEO, last October. He truly helped shape Loto-Québec over the years, with his numerous qualities and especially his leadership and global vision.

I want to thank Lynne Roiter, a top-calibre manager who skilfully picked up the reins, and the other members of the Executive Committee for their excellent work in guiding the Corporation's affairs.

I also want to express my thanks to my fellow directors, who always apply the highest standards of governance. Thank you to the two outgoing Board members, Paule Bouchard and André Dicaire, for their involvement over these last few years.

In closing, on behalf of the Board, I wish to congratulate all the employees of Loto-Québec for their valuable contributions in the achievement of the Corporation's objectives. Québec in its entirety is reaping the benefits. Thank you!

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

LYNNE ROITER
PRESIDENT AND CHIEF EXECUTIVE OFFICER

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

In the final year of our 2014-2017 triennial cycle, we continued our renewal strategy successfully, relying on our three strategic orientations of entertainment, efficiency and responsible commercialization. We are very pleased to announce positive results for 2016-2017. Our revenues are up 2.1% compared to last year. Moreover, our net income is also slightly up since last year, exceeding the target announced in the government budget.

Positive results in every sector

Thanks to a series of initiatives, the lottery sector posted an increase in sales in the last year. We revitalized the offer and improved the client experience, in particular by promoting our winners. This allowed us to increase the per-jackpot sales volume, which contributed to an increase in the number of winners in Québec.

The numbers are also positive for our casinos, which all saw their income increase in the last year. The wide variety of entertainment options attracts more and more visitors. Overall traffic has increased by 3.0% from last year.

NET INCOME EXCEEDS TARGET ANNOUNCED IN GOVERNMENT BUDGET.

Espacejeux.com, our online gaming website, posted total revenues of 85.9 million dollars. This is an increase of 29.7%. The increase can be seen in casino games, lotteries and betting. This, again, is more pronounced on mobile devices.

As for the gaming establishment sector, which includes video lottery terminals (VLTs), gaming halls, bingo and

Kinzo, the income from VLTs in the bar and brasserie network was stable, while Kinzo and gaming halls continued to grow. Bingo experienced a decline, partly due to the closure of two bingo halls during the year. To reverse this trend, we are working on an electronic bingo project to be launched this fall.

LAST YEAR WAS AN EXCEPTIONALLY LUCKY ONE FOR QUEBECERS.

A year of winners and even more entertainment!

It is always great to make winners, and last year was an exceptionally lucky one for Quebecers. We paid out a record 104 prizes of 1 million dollars or more, for a total of 122 new millionaires. We also gave away the biggest jackpot in our history—60 million dollars—twice.

We continued to promote our winners with press briefings, in videos on our websites and on social media. This strategy is generating excellent results in terms of visibility and sales.

WE PAID OUT A RECORD 104 PRIZES OF 1 MILLION DOLLARS OR MORE, FOR A TOTAL OF 122 NEW MILLIONAIRES.

New products were also introduced, including the terminal lottery Grande Vie. With a jackpot of $1,000 a day for life, this pan-Canadian product is very popular among Quebecers. The 100 $ Ultime scratch ticket also performed well beyond expectations. The 20 one-million dollars prizes were all won. The model used for this ticket will definitely be repeated.

Our casinos and gaming halls once again pulled out all stops to offer unparalleled entertainment. We held many highly popular activities and promotions throughout the year, constantly renewing the overall offer.

In particular, we improved our casino restaurant options by opening an Atelier de Joël Robuchon at the Casino de Montréal and a Rôtisserie St-Hubert at the Casino de Charlevoix. Our clients are very pleased with these two new offerings.

Ever-efficient management

We pursued our efforts to generate savings, which allowed us to achieve recurring efficiency gains of over 100 million dollars by 2016-2017.

One of the major projects in this regard was definitely our new lottery ticket distribution model, which marked its first anniversary in March. This efficient model generates recurring savings of some 10 million dollars per year.

We also moved the activities of our Québec City offices to premises near the Salon de jeux de Québec, allowing us to sell a building we no longer needed. Lottery winners can now claim their prizes in our four casinos and two gaming halls, as well as at our Montréal and Québec City offices.

Synergy among our sectors is a good way to improve efficiency. This plays out mainly through offering different versions of our products and doing cross-promotions. A variety of initiatives of this type were launched this year.

SYNERGY AMONG OUR SECTORS IS A GOOD WAY TO IMPROVE EFFICIENCY.

Responsible commercialization at the heart of our activities

After being the world's first lottery corporation to receive the World Lottery Association's Level 4 certification, we are very proud to have earned, in June 2016, our second renewal of the highest international certification in responsible gambling. This badge of excellence, which we have held since 2009, requires continuous improvement of our responsible gambling practices and programs. It confirms our leadership position in responsible commercialization.

In May 2016, the National Assembly adopted Bill 74 to filter illegal online gaming sites. In conjunction with this, our online gaming site will be improved. Our teams are already working on the required IT advancements.

The VLT network action plan, which was unveiled in December 2016, will tighten the oversight of video lottery and reduce the number of terminals in service. We are also working to encourage integrated entertainment offerings.

New foundations for the future

In the last year, a major review has led us to update our organizational values. This exercise was carried out in collaboration with the Institut de la confiance dans les organisations. We surveyed the entire staff to establish shared values. The excellent participation rate—over 3,800 employees—reveals a high level of engagement.

Four combinations of values were chosen, creating some interesting dynamics: integrity and agility, overall performance and innovation, client-centred and creator of emotions, synergy and pleasure.

In addition to updating our values, we worked on our 2017-2020 strategic plan. In the next three years, we will build on the achievements of our last plan and take our success even further.

A MAJOR REFLECTION PROCESS LED TO AN UPDATE OF OUR ORGANIZATIONAL VALUES.

Acknowledgements

In October 2016, we were deeply saddened by the passing of Simon Patenaude, then President of Operations – Lotteries and acting President and CEO of Loto-Québec. Simon was one of the great builders of Loto-Québec, through both his professional contributions and his human qualities. I am truly grateful for the excellent work he achieved during his brilliant career with us.

I want to sincerely thank my colleagues on the Executive Committee, who managed to stay on course in this difficult situation. Our combined efforts secured the continuity of the Corporation's affairs.

We can also count on the vital cooperation of the Board of Directors, which upholds best governance practices. I also recognize the work of the two outgoing Board members, Paule Bouchard and André Dicaire.

And finally, I would like to offer my heartfelt thanks to all our employees for their contribution to the successes of this past year. Their dedicated involvement allows us to look forward with optimism.

Lynne Roiter
President and Chief Executive Officer

REVIEW OF ACTIVITIES

Three orientations, rooted in entertainment, efficiency and responsible commercialization, form the heart of our strategies.

ORIENTATION 1

TO OFFER QUEBECERS FIRST-RATE ENTERTAINMENT: APPEALING, INNOVATIVE AND COMPETITIVE

Record number of winners

Fiscal year 2016-2017 brought us a record number of prizes of $1 million or more. Last year's record of 96 was exceeded. This year, 104 prizes of that size were awarded, creating 122 new millionaires. In all, we distributed $987.6 million to lottery winners, a significant increase from the $935.8 million won last year. The most remarkable wins included:

- the two biggest jackpots in Loto-Québec history, at $60 million each
- the twenty $1-million prizes won in the 100 $ Ultime draw lottery
- the first two $1,000-a-day lifetime annuity Grande Vie prizes won in Québec

Biggest grand prizes won in Québec this year

PRIZE	LOTTERY	DRAW DATE	WINNER'S PLACE OF RESIDENCE
$60,000,000	Lotto Max	January 6, 2017	Centre-du-Québec, Montérégie
$60,000,000	Lotto Max	February 10, 2017	Capitale-Nationale, Saguenay–Lac-Saint-Jean
$50,000,000	Lotto Max	May 6, 2016	Montérégie
$37,499,701	Lotto Max	September 30, 2016	Montréal
$32,707,357	Lotto 6/49	November 9, 2016	Montréal
$25,000,000	Lotto 6/49	January 21, 2017	Laurentides, Montréal, Outaouais
$12,371,981	Lotto 6/49	December 3, 2016	Outaouais
$7,000,000	Lotto 6/49	June 25, 2016	Laurentides, Montérégie
	Grande Vie	December 26, 2016	Montréal
	Grande Vie	March 13, 2017	Laval, Mauricie
$5,000,000	Lotto 6/49	July 20, 2016	Montréal
	Lotto 6/49	September 7, 2016	Laval, Montréal
	Lotto 6/49	December 7, 2016	Montérégie
	Célébration 2017	January 15, 2017	Montréal

Many **winners** met with the press when they received their cheques. There were 19 press briefings, including the one to award the first $60-million jackpot in Loto-Québec's history. This festive event, which brought together 28 winners, enjoyed extensive media coverage.

Quebecers were lucky in the lottery this year, and the statistics prove it. They purchased about 17% of pan-Canadian lottery tickets and this is what they won:

LOTTERY	PERCENTAGE OF PRIZES WON IN QUÉBEC
Lotto Max	30% of jackpots
	16% of Maxmillions
Lotto 6/49	28% of jackpots
	22% of guaranteed prizes
Grande Vie	33% of $1,000-a-day-for-life prizes
	43% of $25,000-a-year-for-life prizes

Since our first draw, on March 14, 1970, the lottery has paid out nearly 1,600 prizes of $1 million or more. In 2016-2017, we awarded an average of 68 prizes of $1,000 or more each day. More than 30,000 cheques worth a total of $534 million were issued this year from all claim centres combined. Claim centres located at casinos and gaming halls were very popular.

Fun games for every taste

The well-loved **Gagnant à vie!** lottery was launched as a slot machine in our four casinos and two gaming halls. An Expérience game was also introduced on Espacejeux.com. The $1,000-a-week lifetime annuity prize—or the lump sum option of $675,000—was won 19 times this year: 3 times at casinos, once on Espacejeux.com, once at the Salon de jeux de Québec and the other times with scratch tickets. Interesting tidbit: two of the prizes were won on June 24! Gagnant à vie! is a popular product with young adults. Several of the winners were under 30.

The lottery sector enjoyed several successes in the year ended March 31, 2017, including the **100 $ Ultime** ticket launched on February 6 and available for a period of eight weeks. It generated unprecedented sales. At the time of the draws, on March 30, 98% of the 500,000 tickets had been purchased. An advertising campaign and public relations initiatives were rolled out to create a strong sense of interest. Many groups were formed to purchase individual tickets. The draw results were broadcast in videos hosted by Anouk Meunier on TVA, from the Casino du Lac-Leamy.

The **Grande Vie** draw lottery, launched in October, generated good results starting in December, when a $1,000-a-day lifetime annuity prize was won in Québec for the first time. On several occasions, Québec had a bigger Grande Vie market share than Ontario. Online sales of this product were also higher than those of similar lotteries.

The **Lotto Poker** Quick Play game was tweaked this year to improve the game experience. By choosing the Plus option, players can win a progressive jackpot that increases in real time, based on sales, until someone wins it. Sales of the product increased by 45.1% compared to the same period last year. The progressive jackpot was won five times when it was worth more than $100,000.

In terms of scratch tickets, we offered products combining gaming and entertainment. They surprised and delighted the clients. For example, **The Walking Dead** ticket, inspired by the popular TV series, outperformed the average for $2 scratch tickets. It also reached a younger target audience. The same was true for the vanilla-scented scratch ticket **P’tit gâteau**. The launch campaigns for these two lotteries featured creative initiatives as well as the usual signage.

Fiscal year 2016-2017 was also a good one for event betting. We posted a sales increase of 16.5% compared to last year, the biggest increase of all Canadian jurisdictions. Over 255,000 questions were proposed to **Mise-o-jeu** bettors. We also launched hockey pools and introduced express betting, a simple way to bet at a retailer.

It should come as no surprise that hockey is the most popular sport for Québec bettors, with sales of $26 million for 2016-2017. Soccer also did well, with $14 million in revenues.

Our televised shows earned excellent audience ratings, and also made lots of happy people. In February, one **La Poule aux œufs d’or** participant walked away with $925,000. It was the second biggest jackpot awarded in 24 years. **Roue de fortune chez vous!** offered a $1 million grand prize for the first time in its history. Four lucky people won.

The *Bonus* promotion for the **Célébration 2017** lottery brought a significant increase in traffic to our establishments. The promotion gave ticket holders a chance to win one of five bonus entries for the TV draw by placing their draw coupons in the contest box at a casino, gaming hall or one of the 19 Kinzo halls. Over 40% of the coupons were deposited in Kinzo halls.

WE POSTED A 16.5% SALES INCREASE ON EVENT BETTING COMPARED TO LAST YEAR.

It’s not just lotteries that create millionaires. **Powerbucks**, a new slot machine, also available at Espacejeux.com, offers a progressive jackpot that starts at $1 million. For the first time, a slot machine is connected with other Canadian jurisdictions—British Columbia and Manitoba. This means the jackpot grows faster.

The casinos surprise and delight

Our casinos continued to offer entertaining theme activities that encourage clients to explore them from a new angle. Several themes stood out this year, including:

- **Leave in a BMW:** simultaneous promotions in 3 casinos, 2 gaming halls, 19 Kinzo halls and at Espacejeux.com, features poker and luxury cars
- **It Keeps Going at the Casino:** exclusive activities associated with the big summer events
- **It’s Country at the Casino:** theme activities, including the popular mechanical bull roulette
- **Copacabanashak:** activities and atmosphere that combine tropical exoticism and the traditional sugar shack



OUR CASINOS CONTINUED TO OFFER ENTERTAINING THEME ACTIVITIES THAT ENCOURAGE CLIENTS TO EXPLORE THEM FROM A NEW ANGLE.

Casinos' themes are often the opportunity to invite bloggers and influencers to come and discover the in-house entertainment offering. For *Copacabanashak*, for example, web personalities shared their experiences at the casinos with over 300,000 fans.

The ads for these themes also enjoyed excellent visibility with the general public, sometimes even going viral on social media. Two videos with **Casinos du Québec** spokesperson Gregory Charles are good examples of this: the cowboy clip got more than a million views in 2 weeks, and the one where he sings for *Copacabanashak* was viewed 600,000 times.

In spring 2016, the Casino de Montréal and Espacejeux.com hosted the only Canadian portion of the **World Series of Poker** circuit. Over 2,000 players attended at least one tournament. The finals attracted 350 fans when the jackpot went up to $750,000. Professional player Jonathan Duhamel participated in most events as patron of honour.

Two new restaurants opened in our casinos this year. At the beginning of December, the **Casino de Montréal** inaugurated **L'Atelier de Joël Robuchon**. The opening was attended by Mr. Robuchon himself, the highest-rated chef in the world, and some fifty guests. The skill of Éric Gonzalez, executive chef of L'Atelier, and his team has been lauded many times by food critics.

At the **Casino de Charlevoix**, a restaurant from the popular **St-Hubert** chain set up shop. With 120 seats and a take-out counter, the restaurant was quickly embraced by Casino visitors and locals. A multifunction room with a bar also opened up.

Le Baccara restaurant, at the Casino du Lac-Leamy, earned a Five-Diamond rating from the Canadian and American Automobile Associations (CAA-AAA) for the 17th year in a row. The passion and dedication of executive chef Denis Girard and his team are behind this feat.

Renewed pleasure in the gaming establishments

In the Kinzo and gaming halls, our promotions are also doing well. The ***Tam Tam* promotion**, held in the Salon de jeux de Trois-Rivières and then in Québec City, attracted lots of participants every week. Clients also really appreciate the shuttle between the Salon de jeux de Québec and the Casino de Charlevoix.

The ***Go South*** promotion in the **Kinzo** halls had a direct effect on traffic and client renewal in the establishments. The *Leave in a BMW* promotion generated a 10% increase in sales in Kinzo halls during the target period.

We also launched a new super jackpot of $25,000 in 40 numbers or less at Kinzo halls. It is put into play every 50 days and should increase the number of winners. Sales are 54% higher, on average, when it is in play.

The pull-tab tickets sold in the bingo halls are also very popular. To renew the offering, we introduced three new games this year: Chasse aux trésors, Porte-chance and Tornade de fruits. And one **network bingo** player walked away with the biggest jackpot in Québec bingo history: $180,000.

We're working now on a pilot project to offer **electronic bingo** in five halls where our network bingo is already played. Electronic bingo is played on a tablet and is more interactive. Several short games can be offered, extending the use of the halls and, by the same token, improving their profitability for the non-profit organizations (NPOs). A technology partner has been selected through a call for tenders. Clients will be able to test the games in fall 2017.

As for **video lotteries**, we introduced new games on the terminals this year. The themes and bonus rounds for each game diversify the offering.

Prestigious awards

Several of our advertising initiatives won awards in 2016-2017. The most striking was definitely the **#YouShouldPlay649** campaign. Besides being recognized in Canadian and American competitions, it won every top honour granted by the Québec advertising industry:

- Grand Prix Créa
- Concept of the Year, Prix Média
- Grand Prix Strat 2016

ONE CAMPAIGN WON EVERY TOP HONOUR GRANTED BY THE QUÉBEC INDUSTRY: *#YOUSHOULDPLAY649*.

During the summer, we played the entertainment card by launching the **#DansLeNuage** sponsorship. At six major events, festivalgoers were encouraged to take part in a video or 3D photo. The content they created could be shared on various social platforms, with the tag #DansLeNuage. The initiative took the top prize at the 2016 Grands Prix de la commandite. It was rolled out at the following festivals:

- Festival d'été de Québec
- Just for Laughs
- Osheaga
- Île Soniq
- Heavy Montréal
- Festival Mode & Design

We also established a partnership with the Festival ComediHa! to present free comedy nights in several of our establishments. In 2016, a total of 18 events were held at the **Salon de jeux de Trois-Rivières**, the **Casino de Mont-Tremblant** and the **Cabaret du Casino de Montréal**. A friendly atmosphere reigns at these evenings, and it gives audiences a chance to discover budding Québec comedians.

Finally, the important role played by the **Casino du Lac-Leamy** in its region was recognized by Tourisme Outaouais. The Casino, which was celebrating its 20th anniversary, picked up the 2016 Tourism Business of the Year award.


ORIENTATION 2

TO GUARANTEE THE EFFECTIVE AND EFFICIENT MANAGEMENT OF RESOURCES

Efficiency gains hit the mark

The in-depth examination undertaken in 2014-2015 to optimize Loto-Québec's organizational efficiency wrapped up in 2016-2017. We achieved efficiency gains of $100.4 million, slightly exceeding the $100 million target. These gains stem from a process review in each sector, as well as the projects and programs underway.

WE ACHIEVED EFFICIENCY GAINS OF $100.4 MILLION, SLIGHTLY EXCEEDING THE $100 MILLION TARGET.

Although our three-year optimization exercise is now over, efficiency will remain a constant concern for our organization.

A new distribution model in place

The end of the last year coincided with the first anniversary of the new lottery ticket distribution model. This model releases our sales force from administrative tasks and lets them refocus on marketing products and expanding the network. Retailers' orders are taken by a team of telephone salespeople and prepared by a team of stock clerks. Then an external transporter delivers the tickets to the retailers. Merchandising experts provide a sales force on the ground. They maintain close business relations with our 8,479 retailers, including 110 lottery kiosks.

During the normal breaking-in period for the new model, a number of improvements were made to further optimize the process. As planned, the new distribution model is generating recurring annual savings of nearly $10 million.

It also works well for the retailers, for a variety of reasons, including:

- lower inventory costs and fewer ticket shortages
- better terms of payment and collection

Our clients appreciate the improvements

In fall 2016, our **Québec City office** moved to the Fleur de Lys shopping centre. Its activities, including payments to winners, now take place in premises located next to the **Salon de jeux de Québec**, so we continue to offer nearby, high-quality service to our clients. The move also freed up recurring annual savings of about $500,000, as well as concentrating all our activities in a single location.

WE CONTINUE TO OFFER NEARBY, HIGH-QUALITY SERVICE TO OUR CLIENTS.

Since December 2016, lottery fans can subscribe to Lotto 6/49, Lotto Max and Grande Vie online. This function allows them to plan **automatic purchases** for draws meeting their criteria, such as draws for jackpots having reached a specified amount. This new service is great for people who leave the province for several months of the year. It also means fewer selection sheets.

In fall 2016, we launched the new **Casino Privilèges** program, which gives members special offers and discounts. The new, improved program lets employees give members customized offers, based on their profile and interests.

Several of our websites were overhauled this year, including our corporate website and our casino, gaming hall, Kinzo and responsible gambling websites. These new websites now share one platform. Besides making developments and updates easier, the new platform gives these separate sites a certain visual continuity. The technology also allows for more dynamic content, adapted to the users' devices (computer, tablet, smartphone).

What's new inside

A new integrated human resources management system was unveiled to the employees this past year. The system significantly increases our operational efficiency, in part by centralizing human resources information (e.g., information about employees, training, recruitment). Its deployment will continue in 2017.

We launched a transformation plan for our IT systems. It will allow us to align our technologies with our business model as it progresses. We will be more flexible and better able to meet the expectations of today's and tomorrow's clients. Work organization was also revamped to improve the overall efficiency of the Information Technologies sector.

Efforts to combine online activities, begun in 2015-2016, continued. The **Espacejeux.com** team is working to make the client experience more fluid when navigating among product families. To this end, a unique virtual store is scheduled to be launched in October 2017. A single environment will offer lotteries, poker and slot machines.

Converging initiatives

Efficiency is also a matter of combining the initiatives of our business sectors. As we already mentioned, some of our products are now available in different forms, which allows us to reach our clients wherever they are: online, in our establishments or at a retailer.


Gagnant à Vie!
MD
MAINTENANT
3 FAÇONS DE GAGNER
Billet à gratter • Machine à sous • Jeu en ligne
NEW! 3 WAYS TO WIN
Scratch ticket • Slot machine • Online game
Gros Lot
1000$


CASINO
PRIVILÈGES


CIRQUE DU SOLEIL
L'EXPÉRIENCE
CIRQUE
AU BOUT DES DOIGTS


Célébration
2017
5millions$
5 x 1 MILLION $
1 MILLION $
50
31
25
DÉPOSEZ VOTRE COUPON ICI
ET AUGMENTEZ VOS CHANCES
DE GAGNER UN MILLION À LA TÈLÈ !
2 FAÇONS DE VOUS INSCRIRE :
4
1
salon DE JEUX
TROIS-RIVIÈRES


YOU MIGHT THINK GAZING INTO A CRYSTAL BALL
WORKS, BUT IT'S ALWAYS JUST UP TO CHANCE.
LOTO QUÉBEC
agameshouldremainagame.com

ORIENTATION 3

TO PRESERVE THE BALANCE BETWEEN A RESPONSIBLE APPROACH AND THE DYNAMIC AND COMPETITIVE COMMERCIALIZATION OF ITS PRODUCTS

International recognition

In June 2016, our World Lottery Association Level 4 **responsible gambling** certification was renewed. This certification is granted by an independent evaluation committee. The committee members come from different countries and are recognized for their expertise in the field of corporate social responsibility. Level 4 was first granted to us in 2009, and then, a second time, in 2012.

To clearly demonstrate our continuous improvement processes, we created dashboards that allow us to track our responsible gambling results indicators.

OUR WORLD LOTTERY ASSOCIATION LEVEL 4 RESPONSIBLE GAMBLING CERTIFICATION WAS RENEWED.

Responsible gambling awareness

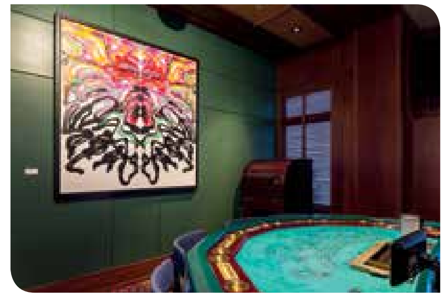
In 2016-2017, we broadcasted our responsible gambling awareness campaign **It's always just up to chance**. It was disseminated exclusively online and in posters in bars and restaurants that have video lottery terminals (VLTs). We were mainly seeking to reach men aged 25 to 54 who are inclined to play. Thanks to targeted media placements on the web, the four phases of the campaign enjoyed greater visibility than in previous years. On average, over two million people clicked on advertising banners and viewed our information videos.

The campaign won two prizes at the 2016 Batchy Awards, handed out by the North American Association of State and Provincial Lotteries, in the Print and Video categories.

The campaign activities included information modules in the **Centre du hasard** kiosks in our four casinos, two gaming halls and headquarters. The information modules present good luck charms that allow the users to explore the related myths, rituals and popular beliefs. This initiative reminded people that despite the superstitions that may make the experience more fun, chance only determines a game's outcome.

To offer even more support to players facing difficulties, we updated the flyer that explains the **self-exclusion program** for our casinos and gaming halls. The flyer helps players who want to exclude themselves to make an informed decision. A checklist reminds self-excluded players of their obligations and responsibilities.

For over ten years, we have been offering all self-excluded players the services of an advisor to help them stay on track in their process. The players who have used these services report an improvement in their condition.



In 2016-2017, we undertook a process to target additional support services for the advisory service. Now, telecounselling, which has been offered since 2012 by Gambling: Help and Referral, is offered to Casino du Lac-Leamy clients who want to self-exclude. If this pilot project produces conclusive results, the service may be offered across all our casinos and gaming halls.

In this last year, we also developed responsible gambling awareness tools for online players: a flyer and an information video. Both are available on our website, which was completely overhauled in winter 2017.

The *Ici, on carte!* mystery shopper program, which is to make sure retailers uphold the law prohibiting the sale of lottery tickets to minors, was the subject of discussions to optimize its reach. The number of mystery shopper visits will increase this year.

In December 2016, we unveiled our VLT network action plan, to tighten oversight of VLTs in Québec and reduce their numbers. The plan encourages integrated entertainment offerings in which VLTs will be just one of many activities.

Partnering communities

In March 2017, through the Société des casinos du Québec (SCQ), we concluded an agreement with the Institut de tourisme et d'hôtellerie du Québec and Université Laval. The agreement covers a variety of partnership projects, including the creation of a joint culinary science research unit. Courses and professional internships in tourism and gastronomy are also in the works, and scholarships will be granted to encourage students.

WE SET UP TWO ARTISTIC ROUTES THAT FEATURE THE WORKS IN THE COLLECTION LOTO-QUÉBEC AND MAKE THEM MORE ACCESSIBLE TO THE PUBLIC.

We also set up two **artistic routes** that feature the works in the **Collection Loto-Québec** and make them more accessible to the public. The first route was created in September at the Casino de Mont-Tremblant by Commissioner Andrée Matte. It presents some 100 works, as well as those integrated in the Casino when it was built, in 2009. The second route was inaugurated at the Casino de Charlevoix and the Fairmont Le Manoir Richelieu in February 2017. It presents some 100 works selected by Commissioner Patricia Aubé.

Along with these artistic routes in the casinos, two **community legacy** projects were established, to make art even more accessible:

- We offered a brilliant mural by Laurentian artist René Derouin to the Ville de Mont-Tremblant: *L'univers des oiseaux, la volière de Mont-Tremblant*.
- We financed the creation of *Rosace*, urban furniture by artist André Fournelle that graces the square in front of Université de Sherbrooke's cultural centre.

We continue to support communities in Québec by offering **sponsorships** for public events that bring people together. In 2016-2017, $10.1 million was contributed to events. Our presence at summer festivals is well known and much appreciated.

But our involvement is not limited to festivals. Since 1993, we have also partnered the Défi sportif AlterGo. This international event brings together over 5,000 disabled elite and emerging athletes each year. They meet up for seven days of competition in the Montréal region. We take that opportunity to introduce the general public to adapted sports and the athletes who play them. And for over 10 years now, we have been offering our support to athletes through the Loto-Québec grants program, which is managed by the Fondation de l'athlète d'excellence du Québec.

Network bingo and Kinzo help finance hundreds of NPOs all across the province. In 2016-2017, $7.1 million was remitted to NPOs through these activities.

Responsible actions

Several of our properties renewed their BOMA BEST certification during this last fiscal year. This certification attests to the responsible management of our buildings from the perspective of optimization.

Renewal of BOMA BEST certifications

ESTABLISHMENT	CERTIFICATION
Casino du Lac-Leamy	Silver
Hilton Lac-Leamy	Silver
Casino de Montréal	Silver
Salon de jeux de Trois-Rivières	Silver
Casino de Charlevoix	Bronze

Responsible procurement criteria are systematically applied in all our calls for tenders. Evaluation sheets are used for this purpose by our procurement officers.

We also created a **social responsibility** analysis grid, which is now used for any project worth $500,000 or more. This in-depth analysis process allows us to assess the impact of our business decisions. Evaluation sheets were developed for this purpose for project managers, procurement officers and applicants.

Employee engagement

Every year, many of our employees get involved in **volunteer activities** outside their work hours. In 2016-2017, they took part in a great number of generous actions:

- Over 300 employees from the 4 casinos took part in a volunteer day in October to support the Moisson organizations that are SCQ partners. Over 11,000 kg of foodstuff was collected.
- Several backpack operations were set up in our establishments to ensure children from under-privileged families could start the school year with the proper school supplies. Over 300 backpacks were given out. Not only did our employees volunteer their time, but they also contributed funds to purchase the materials.
- Some 100 employees purchased gifts for under-privileged children through Opération Père Noël. Every gift was for a child who had sent in a wish list.




- Several smaller activities also took place, and while the activities may have been small, the impact on the community and on the target groups was enormous. For example, there were two blood drives and a Leucan Shaved Head Challenge, in which eight employees showed their solidarity for children with cancer.

EVERY YEAR, MANY OF OUR EMPLOYEES GET INVOLVED IN VOLUNTEER ACTIVITIES OUTSIDE THEIR WORK HOURS.

Finally, the employees renewed their support for the Entraide campaign for Québec government employees and retirees. A total of $167,766 was raised and split among the campaign's philanthropic partners:

- Centraide
- PartenaireSanté-Québec
- Canadian Red Cross, Québec division
- Moisson Montréal
- Moisson Outaouais
- Moisson Laurentides
- Moisson Saguenay–Lac-Saint-Jean

FINANCIAL
REVIEW

FINANCIAL REVIEW

AS AT MARCH 31, 2017

REVENUES

NET INCOME

Loto-Québec posted consolidated revenues of $3.636 billion for the 2016-2017 fiscal year. This was an increase of $75.3 million (+2.1%) compared to the previous year.

The consolidated gross profit totalled nearly $2.236 billion, compared to $2.221 billion in 2015-2016, an increase of $14.2 million (+0.6%). Total expenses, including net financial expenses, came to $1.000 billion, up $25.2 million (+2.6%). Excluding the expenses related to the reconfiguration plan of the video lottery terminal (VLT) network promulgated in December 2016, in the sum of $31.3 million, total expenses were $6.1 million lower (-0.6%) than in 2015-2016. The consolidated net income was $1.231 billion, up $3.6 million (+0.3%) from the preceding fiscal year. Without the effect of the VLT network reconfiguration plan, the consolidated net income would have increased by $34.9 million (+2.8%).

Lotteries

With sales standing at $1.828 billion, the lottery sector posted an increase of $30.3 million (+1.7%) compared to the previous year. This increase can be explained largely by the special editions (+$40.9 million), including 100 $ Ultime, launched last February, which was highly successful. October 18, 2016, marked the launch of the first new pan-Canadian draw lottery since 2010, Grande Vie, which generated income of $32.6 million. For event betting, sales were up $10.8 million, thanks to increased odds (Mise-o-jeu+) and the optimization of the odds tracking process. All these factors more than compensated for Lotto 6/49's $41.8 million decrease in sales. This slide stems mainly from the fact that there were only 2 jackpots of $30 million or more in 2016-2017, compared to 9 in 2015-2016 (including a $64 million jackpot). Lotto Max saw its sales slip just $9.0 million, despite the fact that 2015-2016 had been an exceptional year in terms of the number of major jackpots it offered (30 jackpots of $50 million or more and 540 Maxmillions). In 2016-2017, there were 22 jackpots of $50 million or more and 290 Maxmillions. Fewer prize rollovers led to a negative difference of $43.8 million in sales. Thanks to the winner promotion strategy, though, the volume of rollover sales generated $34.7 million in additional revenue overall.

Lottery gross profit was $691.3 million, down by $24.9 million (-3.5%) compared to previous year. This reduction stems in part from the new 100 $ ultime ticket, which had a higher payout rate, and to the higher number of Extra grand prizes won (19, compared to 14 in 2015-2016) and Québec Max grand prizes won (7, compared to 3 in 2015-2016).

In all, $987.6 million in prizes were awarded to winners, while $127.7 million went to retailer commissions.

REVENUES

AS AT MARCH 31

(In thousands of Canadian dollars)	2017	2016	$ Variation	% Variation
Draw lotteries				
Lotto 6/49	**327,380**	369,171	(41,791)	(11.3)
Lotto Max	**351,785**	360,805	(9,020)	(2.5)
Grande Vie	**32,616**	–	32,616	–
Québec 49	**61,849**	67,195	(5,346)	(8.0)
Québec Max	**44,898**	44,800	98	0.2
Extra	**135,988**	134,927	1,061	0.8
Banco	**160,496**	162,027	(1,531)	(0.9)
Quotidienne	**42,961**	40,714	2,247	5.5
Tout ou rien	**5,256**	4,971	285	5.7
Astro	**3,319**	3,261	58	1.8
Triplex	**3,097**	3,304	(207)	(6.3)
Lotto Poker	**29,495**	20,332	9,163	45.1
Sprinto	**3,160**	4,217	(1,057)	(25.1)
Lotto :D	**3,751**	4,600	(849)	(18.5)
Lotto Hockey	**491**	361	130	36.0
Roue de fortune éclair	**7,820**	8,472	(652)	(7.7)
Plinko®	**1,551**	6,901	(5,350)	(77.5)
Eldorado	**627**	2,097	(1,470)	(70.1)
La Mini	**7,909**	8,877	(968)	(10.9)
TV	**54,274**	53,047	1,227	2.3
Special editions	**81,483**	40,552	40,931	100.9
Total for draw lotteries	**1,360,206**	**1,340,631**	**19,575**	**1.5**
Instant lotteries	**390,966**	387,448	3,518	0.9
Expérience games[1]	–	3,633	(3,633)	(100.0)
Event betting	**76,724**	65,878	10,846	16.5
Total	**1,827,896**	**1,797,590**	**30,306**	**1.7**

[1]The Expérience games are now part of the casino sector.

Casinos

In the casino sector, revenues rose to $838.8 million, up $32.6 million (+4.0%) compared to previous year. This increase is largely explained by the promotion of the varied entertainment offering in the establishments, the increase in clients at the gaming tables and the strength of tourism. The casinos recorded over 267,000 more visits (+3.0%) than in 2015-2016. Revenues from online casino games are also up 28.6% compared to previous year.

REVENUES

AS AT MARCH 31

(In thousands of Canadian dollars)	2017	2016	$ Variation	% Variation
Casino de Montréal	**479,443**	472,152	7,291	1.5
Casino de Charlevoix	**39,376**	38,695	681	1.8
Casino du Lac-Leamy	**257,405**	244,679	12,726	5.2
Casino de Mont-Tremblant	**16,797**	15,095	1,702	11.3
Jeu en ligne[1]	**45,754**	35,589	10,165	28.6
Total	**838,775**	**806,210**	**32,565**	**4.0**

Gaming establishments

The gaming establishment sector, which includes video lotteries in bars and brasseries, gaming halls, bingo and Kinzo, posted revenues of $993.5 million in 2016-2017. Compared to the previous year, this represents an increase of $13.2 million (+1.3%). The gaming halls continue to do well, with revenues up $6.2 million (+13.1%). More and more people are going (some 101,000 visits, 12.9% more than in 2015-2016), especially due to promotional activities.

Commissions paid to gaming establishment operators totalled $202.7 million. The sum of $7.1 million was turned over to non-profit organizations (NPOs) that hold a bingo licence. These contributions to NPOs increased by $1.2 million (+20.8%) over a period of 2 years.

REVENUES

AS AT MARCH 31

(In thousands of Canadian dollars)	2017	2016	$ Variation	% Variation
Bars and brasseries	**895,801**	888,448	7,353	0.8
Gaming halls				
Salon de jeux de Québec	**39,799**	34,931	4,868	13.9
Salon de jeux de Trois-Rivières	**13,944**	12,604	1,340	10.6
Total for gaming halls	**53,743**	47,535	6,208	13.1
Bingo	**27,470**	28,948	(1,478)	(5.1)
Kinzo	**16,503**	15,402	1,101	7.1
Total	**993,517**	**980,333**	**13,184**	**1.3**

[1]Does not include online lottery games.

Operating expenses

Expenses totalled $991.6 million, an increase of $29.1 million (+3.0%) over the previous fiscal year. If it had not been for the costs related to the VLT network reconfiguration plan promulgated last December, which total $31.3 million, expenses would have declined by $2.2 million (-0.2%) since previous year, despite inflation, increased revenues and costs related to collective agreements.

In the 2014-2015 fiscal year, a massive human, material and financial resource optimization plan was rolled out across the entire organization to achieve maximum efficiency. The three-year goal of the optimization plan (2014-2015 to 2016-2017) was to achieve recurring efficiency gains of $100 million compared to the real expenses of 2013-2014. Through a variety of initiatives, this goal was reached, as efficiency gains of $100.4 million were achieved in 2016-2017.

Excluding the costs related to the VLT network reconfiguration plan, operating expenses in 2016-2017 were down $31.3 million (-3.1%) compared to 2013-2014. This reduction is the result of a variety of actions stemming from an overhaul of processes, projects and programs. The effect of these changes is reflected in the payroll (other than social benefits), which, after three years, is down 0.14% from 2013-2014, despite costs related to collective agreements. Since 2013-2014, as well, staff has been reduced by 7%, despite the increase in traffic and the broader entertainment offering in the casinos.

Net financial expenses

Net financial expenses stood at $8.5 million, a decrease of $3.9 million compared to previous year. This difference stems mainly from a lower borrowing volume and a lower average interest rate than in 2015-2016.

Contributions to governments

Loto-Québec's contribution to the Minister of Finance in the form of dividend stood at $1.206 billion, $3.6 million more than in the previous fiscal year. An additional $25.0 million was paid into the Government of Québec's various designated funds, along with the $105.2 million paid to the Ministère du Revenu in Québec Sales Tax. Loto-Québec's total contributions to the Government of Québec were $1.336 billion (2016: $1.325 billion). The Corporation also paid $16.9 million to the Government of Canada as compensation for the federal government's withdrawal from the lottery sector and $52.8 million in Goods and Services Tax, for a total of $69.7 million (2016: $65.7 million).

CONTRIBUTIONS TO GOVERNMENTS

AS AT MARCH 31

(In millions of Canadian dollars)	2017	2016
Government of Québec		
Dividend	**1,205.6**	1,202.0
Designated funds	**25.0**	25.0
Québec Sales Tax	**105.2**	97.6
Total to Government of Québec	**1,335.8**	**1,324.6**
Government of Canada		
Compensation – withdrawal from the lottery sector	**16.9**	16.8
Goods and Services Tax	**52.8**	48.9
Total to Government of Canada	**69.7**	**65.7**
Total	**1,405.5**	**1,390.3**

SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED MARCH 31

(In thousands of Canadian dollars)	2017				
Business segments	**Lotteries**	**Casinos**	**Gaming establishments**	**Elimination of intersegment transactions**	**Consolidated figures**
Revenues					
Games	1,827,896	744,773	993,517	–	3,566,186
Restaurants	–	75,474	–	(24,561)	50,913
Accommodations	–	18,528	–	–	18,528
	1,827,896	**838,775**	**993,517**	**(24,561)**	**3,635,627**
Cost of sales					
Prizes awarded	987,611	–	24,741	–	1,012,352
Commissions	128,298	8,867	202,712	–	339,877
Printing	20,721	–	1,448	–	22,169
Food and beverages	–	25,580	–	–	25,580
	1,136,630	**34,447**	**228,901**	**–**	**1,399,978**
Gross profit	**691,266**	**804,328**	**764,616**	**(24,561)**	**2,235,649**
Expenses					
Employee benefits	65,618	328,430	36,791	(7,331)	423,508
Depreciation, amortization and net impairment losses	17,259	76,522	38,837	–	132,618
Special payments	16,934	–	4,265	–	21,199
Goods and Services Tax	11,830	7,971	15,200	–	35,001
Québec Sales Tax	23,605	15,928	30,325	–	69,858
Other expenses	86,003	162,544	78,103	(17,230)	309,420
	221,249	**591,395**	**203,521**	**(24,561)**	**991,604**
Income from operating activities	**470,017**	**212,933**	**561,095**	**–**	**1,244,045**
Financial income	(707)	(949)	(114)	–	(1,770)
Financial expenses	3,564	2,692	4,029	–	10,285
Net financial expenses	**2,857**	**1,743**	**3,915**	**–**	**8,515**
Share of net loss of entities accounted for using the equity method	–	4,979	–	–	4,979
Net income	**467,160**	**206,211**	**557,180**	**–**	**1,230,551**

(In thousands of Canadian dollars)

2016					
Business segments	**Lotteries**	**Casinos**	**Gaming establishments**	**Elimination of intersegment transactions**	**Consolidated figures**
Revenues					
Games	1,797,590	720,858	980,333	–	3,498,781
Restaurants	–	68,777	–	(23,850)	44,927
Accommodations	–	16,575	–	–	16,575
	1,797,590	**806,210**	**980,333**	**(23,850)**	**3,560,283**
Cost of sales					
Prizes awarded	935,837	–	25,006	–	960,843
Commissions	124,764	6,589	200,888	–	332,241
Printing	20,825	–	1,607	–	22,432
Food and beverages	–	23,324	–	–	23,324
	1,081,426	**29,913**	**227,501**	**–**	**1,338,840**
Gross profit	**716,164**	**776,297**	**752,832**	**(23,850)**	**2,221,443**
Expenses					
Employee benefits	67,903	324,136	37,793	(7,105)	422,727
Depreciation, amortization and net impairment losses	22,799	76,763	36,937	–	136,499
Special payments	16,762	–	4,344	–	21,106
Goods and Services Tax	11,973	6,768	14,161	–	32,902
Québec Sales Tax	23,890	13,541	28,254	–	65,685
Other expenses	92,548	155,352	52,442	(16,745)	283,597
	235,875	**576,560**	**173,931**	**(23,850)**	**962,516**
Income from operating activities	**480,289**	**199,737**	**578,901**	**–**	**1,258,927**
Financial income	(862)	(1,202)	(82)	–	(2,146)
Financial expenses	4,581	4,961	4,976	–	14,518
Net financial expenses	**3,719**	**3,759**	**4,894**	**–**	**12,372**
Share of net loss of entities accounted for using the equity method	–	5,075	–	–	5,075
Writedown – other receivables	–	14,486	–	–	14,486
Net income	**476,570**	**176,417**	**574,007**	**–**	**1,226,994**

COMPARATIVE RESULTS

CONSOLIDATED RESULTS FOR THE YEAR ENDED MARCH 31

(In thousands of Canadian dollars)	2017	2016	2015	2014	2013
Revenues	**3,635,627**	**3,560,283**	**3,338,016**	**3,519,084**	**3,617,680**
Cost of sales					
Lotteries					
Prizes awarded	**987,611**	935,837	867,766	959,390	943,316
Commissions	**128,298**	124,764	115,523	122,906	122,672
Printing	**20,721**	20,825	21,812	26,483	27,375
	1,136,630	**1,081,426**	**1,005,101**	**1,108,779**	**1,093,363**
Casinos					
Commissions	**8,867**	6,589	4,255	3,783	3,108
Food and beverages	**25,580**	23,324	19,622	21,269	23,570
	34,447	**29,913**	**23,877**	**25,052**	**26,678**
Gaming establishments					
Prizes awarded (bingo and Kinzo)	**24,741**	25,006	20,557	20,019	20,359
Commissions	**202,712**	200,888	197,805	204,146	212,602
Printing	**1,448**	1,607	1,293	1,948	2,261
	228,901	**227,501**	**219,655**	**226,113**	**235,222**
Total	**1,399,978**	**1,338,840**	**1,248,633**	**1,359,944**	**1,355,263**
Gross profit	**2,235,649**	**2,221,443**	**2,089,383**	**2,159,140**	**2,262,417**
Operating expenses					
Lotteries	**168,555**	177,213	171,801	182,195	188,054
Casinos	**466,413**	455,638	448,047	473,890	475,302
Gaming establishments	**119,159**	94,579	97,787	95,774	87,101
Depreciation, amortization and net impairment losses	**132,618**	136,499	138,864	136,010	115,681
Goods and Services Tax	**35,001**	32,902	32,779	34,674	33,030
Québec Sales Tax	**69,858**	65,685	65,397	69,186	65,924
	991,604	**962,516**	**954,675**	**991,729**	**965,092**
Income from operating activities	**1,244,045**	**1,258,927**	**1,134,708**	**1,167,411**	**1,297,325**
Net financial expenses	**8,515**	**12,372**	**13,560**	**18,053**	**11,813**
Share of net loss of entities accounted for using the equity method	**4,979**	5,075	5,345	5,213	6,999
Writedown – other receivables	**–**	14,486	–	–	–
Net income	**1,230,551**	**1,226,994**	**1,115,803**	**1,144,145**	**1,278,513**

CONSOLIDATED
FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

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

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

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

The Board of Directors of Loto-Québec oversees management in the performance of its financial reporting responsibilities and approves the consolidated financial statements, assisted by its Audit Committee consisting solely of independent members. The Audit Committee meets with management, Corporate Management of Internal Audit, the Auditor General of Québec and accounting firm Raymond Chabot Grant Thornton LLP (RCGT), reviews the consolidated financial statements and recommends their approval to the Board of Directors.

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

President and Chief Executive Officer,
Loto-Québec

(signed)

LYNNE ROITER

Corporate Vice-President Finance
and Administration, Loto-Québec

(signed)

JOHANNE ROCK, CPA, CA

MONTRÉAL, QUÉBEC
JUNE 1, 2017

INDEPENDENT AUDITORS' REPORT

To the Minister of Finance

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Loto-Québec, which comprise the consolidated statement of financial position as at March 31, 2017, and the consolidated statements of comprehensive income, changes in shareholder's equity and cash flows for the year then ended, as well as a summary of significant accounting policies and other explanatory information included in the accompanying notes.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Loto-Québec as at March 31, 2017, and its financial performance and cash flows for the year then ended in accordance with IFRS.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

(signed)
RAYMOND CHABOT GRANT THORNTON LLP*
MONTRÉAL, QUÉBEC
JUNE 1, 2017

Auditor General of Québec

(signed)
GUYLAINE LECLERC, FCPA AUDITOR, FCA
MONTRÉAL, QUÉBEC
JUNE 1, 2017

* CPA auditor, CA, public accountancy permit No. A125741

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED MARCH 31, 2017

(In thousands of Canadian dollars)	2017	2016
Revenues (Note 5)	3,635,627	3,560,283
Cost of sales (Note 5)	1,399,978	1,338,840
Gross profit (Note 5)	2,235,649	2,221,443
Expenses		
Employee benefits (Note 6)	423,508	422,727
Depreciation, amortization and net impairment losses (Notes 14 and 15)	132,618	136,499
Special payments (Note 7)	21,199	21,106
Goods and Services Tax	35,001	32,902
Québec Sales Tax	69,858	65,685
Other expenses	309,420	283,597
	991,604	962,516
Income from operating activities	1,244,045	1,258,927
Financial income (Note 8)	(1,770)	(2,146)
Financial expenses (Note 8)	10,285	14,518
Net financial expenses (Note 8)	8,515	12,372
Share of net loss of entities accounted for using the equity method (Note 13)	4,979	5,075
Writedown – other receivables	–	14,486
Net income	1,230,551	1,226,994
Other comprehensive income		
Items that will not be reclassified subsequently to net income:		
Remeasurements of the net defined benefit liability (Note 20)	18,668	6,293
Comprehensive income	1,249,219	1,233,287

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

FOR THE YEAR ENDED MARCH 31, 2017

(In thousands of Canadian dollars)	Share capital	Retained earnings	Accumulated other comprehensive income	Total
Balance as at April 1, 2015	**170**	**86,300**	**18,438**	**104,908**
Dividend	–	(1,201,994)	–	(1,201,994)
Contributions to the Government of Québec (Note 9)	–	(25,000)	–	(25,000)
Transactions with the shareholder	–	(1,226,994)	–	(1,226,994)
Net income	–	1,226,994	–	1,226,994
Other comprehensive income				
Remeasurements of the net defined benefit liability (Note 20)	–	–	6,293	6,293
Comprehensive income	–	1,226,994	6,293	1,233,287
Balance as at March 31, 2016	**170**	**86,300**	**24,731**	**111,201**
Dividend	**–**	**(1,205,551)**	**–**	**(1,205,551)**
Contributions to the Government of Québec (Note 9)	**–**	**(25,000)**	**–**	**(25,000)**
Transactions with the shareholder	**–**	**(1,230,551)**	**–**	**(1,230,551)**
Net income	**–**	**1,230,551**	**–**	**1,230,551**
Other comprehensive income				
Remeasurements of the net defined benefit liability (Note 20)	**–**	**–**	**18,668**	**18,668**
Comprehensive income	**–**	**1,230,551**	**18,668**	**1,249,219**
Balance as at March 31, 2017	**170**	**86,300**	**43,399**	**129,869**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2017

(In thousands of Canadian dollars)	2017	2016
ASSETS		
Cash and cash equivalents (Note 24)	**81,834**	85,531
Trade and other receivables (Note 10)	**69,308**	67,392
Inventories (Note 11)	**9,379**	9,771
Prepaid expenses	**22,298**	22,940
Current portion of financial assets related to life annuities (Note 12)	**1,413**	1,140
Total current assets	**184,232**	**186,774**
Interests in entities accounted for using the equity method, loans and advance (Note 13)	**33,735**	47,374
Property, plant and equipment (Note 14)	**824,618**	885,702
Intangible assets (Note 15)	**63,190**	65,899
Financial assets related to life annuities (Note 12)	**110,343**	87,548
Total non-current assets	**1,031,886**	**1,086,523**
Total assets	**1,216,118**	**1,273,297**
LIABILITIES		
Bank loans (Note 16)	**391,282**	451,000
Dividend payable	**65,651**	72,194
Accounts payable and accrued liabilities (Note 17)	**204,129**	176,511
Current portion of financial liabilities related to life annuities (Note 12)	**1,413**	1,140
Provisions (Note 18)	**44,625**	40,472
Deferred revenues	**10,997**	15,957
Current portion of long-term debt (Note 19)	**40,000**	49,625
Total current liabilities	**758,097**	**806,899**
Long-term debt (Note 19)	**217,651**	257,428
Net defined benefit and other long-term benefit liability (Note 20)	**158**	10,221
Financial liabilities related to life annuities (Note 12)	**110,343**	87,548
Total non-current liabilities	**328,152**	**355,197**
Total liabilities	**1,086,249**	**1,162,096**
SHAREHOLDER'S EQUITY		
Share capital authorized, issued and paid:		
1,700 shares with a par value of $100 each	**170**	170
Retained earnings	**86,300**	86,300
Accumulated other comprehensive income	**43,399**	24,731
Total shareholder's equity	**129,869**	**111,201**
Total liabilities and shareholder's equity	**1,216,118**	**1,273,297**

ON BEHALF OF THE BOARD

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

(signed)
LYNNE ROITER
PRESIDENT AND CHIEF EXECUTIVE OFFICER

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

CONSOLIDATED STATEMENT OF CASH FLOWS

AS AT MARCH 31, 2017

(In thousands of Canadian dollars)	2017	2016
OPERATING ACTIVITIES		
Net income	**1,230,551**	1,226,994
Items not affecting cash:		
Depreciation, amortization and net impairment losses	**132,618**	136,499
Loss on disposal of property, plant and equipment and intangible assets	**9,491**	5,341
Defined benefit and other long-term benefit expense	**26,636**	30,843
Share of net loss of entities accounted for using the equity method	**4,979**	5,075
Interest income on loans to Casinos Développement Europe	**(631)**	(957)
Foreign exchange gain on loans to Casinos Développement Europe	**(122)**	(1,080)
Gain on disposal of loans to Casinos Développement Europe	**(4,466)**	–
Other net financial expenses	**9,945**	12,548
Writedown – other receivables	**–**	14,486
Net change in non-cash items (Note 24)	**29,112**	5,797
Capitalization of defined benefit obligation	**(18,031)**	(16,599)
Interest paid	**(11,420)**	(14,424)
Interest received	**1,139**	1,189
Cash flows provided by operating activities	**1,409,801**	**1,405,712**
INVESTING ACTIVITIES		
Increase in loans and advance	**(1,300)**	–
Additions to property, plant and equipment (Note 14)	**(72,710)**	(85,993)
Additions to intangible assets (Note 15)	**(16,939)**	(9,950)
Proceeds from disposal of property, plant and equipment	**9,664**	344
Proceeds from disposal of loans to Casinos Développement Europe	**19,688**	–
Investment, net of distributions, in Manoir Richelieu Limited Partnership and payments to partners	**(5,464)**	(3,506)
Cash flows used in investing activities	**(67,061)**	**(99,105)**
FINANCING ACTIVITIES		
Dividend paid	**(1,212,094)**	(1,200,356)
Net change in bank loans	**(59,718)**	(981)
Repayment of long-term debt	**(49,625)**	(75,000)
Contributions to the Government of Québec (Note 9)	**(25,000)**	(25,000)
Cash flows used in financing activities	**(1,346,437)**	**(1,301,337)**
Increase (decrease) in cash and cash equivalents	**(3,697)**	**5,270**
Cash and cash equivalents, beginning of year	**85,531**	**80,261**
Cash and cash equivalents, end of year (Note 24)	**81,834**	**85,531**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017
(In thousands of Canadian dollars, unless otherwise indicated)

1 INCORPORATION AND ACTIVITIES

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

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

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

2 BASIS OF PREPARATION

a) Statement of compliance

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

The Board of Directors approved the consolidated financial statements of Loto-Québec and authorized their release on June 1, 2017.

b) Basis of measurement

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

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

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

c) Functional currency and presentation currency

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

d) Use of estimates and judgments

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

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

The principal judgments, assumptions and estimates used are explained below.

Internally generated intangible assets

Management must use significant judgment in determining whether software is in the research or development stage. Costs directly attributable to the development stage are accounted for as assets provided that all the criteria are met, while research costs are expensed as incurred.

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

Provisions

The classification of certain provisions as short- or long-term sometimes requires management to use its judgment in determining the most probable timing of cash outflows. Their estimated measurements are discussed in Note 18.

Useful lives of property, plant and equipment and intangible assets

Management reviews the useful lives of assets subject to depreciation and amortization at the end of each fiscal year. As at March 31, 2017, management ascertained that the useful lives represented the expected useful lives of the assets of Loto-Québec. The carrying amounts are analyzed in Notes 14 and 15.

Impairment losses

An impairment loss is recorded in an amount equal to the excess of the carrying amount of a financial asset over the present value of the estimated future cash flows discounted at the original effective interest rate.

An impairment loss is recognized in an amount equal to the excess of the carrying amount of a non-financial asset or a cash-generating unit (CGU) over its recoverable amount. The recoverable amount is the greater of its fair value less costs to sell and value in use. Management determines value in use by discounting estimated future cash flows from each asset or CGU.

On measurement of estimated future cash flows, management uses assumptions pertaining to operating results. Those assumptions relate to future events and circumstances. The carrying amounts of assets subject to impairment are analyzed in Notes 13, 14 and 15, as necessary.

Fair value of life annuities

Management uses valuation techniques to determine the fair value of life annuities for which quoted prices in an active market are not available. This requires management to make estimates and assumptions based on market data, using observable inputs that market participants would utilize in pricing life annuities. Where such inputs are not observable, management is required to use the best estimate. The fair value of life annuities is presented in Note 23 d).

Net defined benefit and other long-term benefit liability

Net defined benefit and other long-term benefit liability is exposed to uncertainties, particularly with respect to estimating discount rates, inflation rates, rates of compensation increase and mortality rates, which can vary significantly in future valuations of Loto-Québec's defined benefit obligation. This line item is analyzed in Note 20.

3 CHANGES IN ACCOUNTING POLICIES

New standards and interpretations not yet adopted

At the date of authorization of these consolidated financial statements, new standards and amendments and interpretations of existing standards have been published by the International Accounting Standards Board (IASB), but are not yet effective, and Loto-Québec has not early adopted them.

Management anticipates that all of the pronouncements will be adopted in Loto-Québec's accounting policies for the first annual period beginning after the effective date of each pronouncement. Information on new standards, amendments and interpretations that are likely to be relevant for Loto-Québec's financial statements is provided below. Certain other new standards and interpretations have been issued, but are not expected to have a significant impact on Loto-Québec's financial statements.

IFRS 9, *Financial Instruments*

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

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

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

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

IFRS 15, *Revenue from contracts with customers*

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

The new standard:

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

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

IFRS 16, *Leases*

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

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

4 SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

(i) Subsidiaries

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

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

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

(ii) Interests in an associate and joint ventures

Casinos Développement Europe is an associate that has financial and operating policies over which Loto-Québec exercised significant influence, but not control, until November 2, 2016, when Loto-Québec disposed of its ownership interests.

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

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

(iii) Transactions eliminated in the consolidated financial statements

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

b) Foreign currencies

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

Foreign exchange gains and losses on loans are reported on a net basis in Financial expenses, while other foreign exchange gains and losses are reported in Other expenses in the consolidated statement of comprehensive income.

c) Revenues

(i) Games

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

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

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

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

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

(ii) Restaurants and accommodations
Revenues from restaurant and accommodation are recognized when services are rendered to customers, when the selling price is fixed or determinable and when collection is reasonably assured.

d) Free offer programs for clients

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

- When clients are awarded points exchangeable for cash, a liability is recognized in the amount of the dollar value of the points, and a corresponding amount is recognized as a reduction of revenues. When clients redeem points exchangeable for cash, the value of the liability is reduced. Points are cancelled after 18 months of client account inactivity. Cancelled points are recognized as a reduction from revenues in the consolidated statement of comprehensive income.

- For programs offering points exchangeable for goods and services only, each point accrued is recognized in Deferred revenues, with a corresponding entry in Other expenses in the consolidated statement of comprehensive income. Free offers are available in the client's account for a six- to twelve-month period. Cancelled points are recognized under Other expenses in the consolidated statement of comprehensive income.

e) Cost of sales

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

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

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

f) Employee benefits

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

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

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

(iii) Defined benefit plans

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

Pension plans

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

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

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

Other long-term benefits

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

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

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

(iv) Termination benefits

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

g) Commodity taxes

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

Under games of chance regulations regarding the Québec sales tax (QST) and the *Excise Tax Act* (Goods and Services Tax (GST)), Loto-Québec pays additional taxes on the products and services acquired in and attributable to gaming activities. These taxes are presented separately in the consolidated statement of comprehensive income.

Accordingly, net taxes attributable to gaming activities represent approximately 30% of the bulk of taxable gaming expenses, while net taxes attributable to non-gaming activities are calculated in the same way as for other entities subject to commodity taxes.

h) Financial income and financial expenses

Financial income is recognized separately in the consolidated statement of comprehensive income and includes interest income on cash and cash equivalents and on loans to the associate and a joint venture held until November 2, 2016.

Financial expenses are recognized separately in the consolidated statement of comprehensive income and include interest on bank loans and long-term debt, the effect of the unwinding of the discount on provisions, the net change in the fair value of derivative financial instruments and foreign exchange gains and losses on loans. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualified asset are recognized in net income using the effective interest method.

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

i) Financial instruments

(i) Non-derivative financial instruments

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

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

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

Loans and receivables

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

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

Financial liabilities

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

(ii) Derivative financial instruments

Loto-Québec holds foreign exchange contracts to cover its foreign currency risk exposures. These contracts are recognized at fair value and classified as Financial instruments at fair value through profit or loss. Foreign exchange contracts are not designated as part of a qualified hedging relationship and changes in their fair value are recognized immediately in net income under Other expenses in the consolidated statement of comprehensive income.

(iii) Fair value

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

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

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

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

j) Operating leases

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

k) Cash and cash equivalents

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

l) Inventories

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

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

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

m) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

Depreciation is recognized in net income for each part of an item of property, plant and equipment on a straight-line basis over the estimated useful life of each such part, as this method reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Depreciation is recognized on a straight-line basis over the estimated useful life of property, plant and equipment commencing on the date when the asset is available for use, at the following rates:

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

Loto-Québec reviews the depreciation methods, useful lives and residual values of its property, plant and equipment at each fiscal year-end and adjusts them as needed.

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

Depreciation is recognized under Depreciation and amortization in the consolidated statement of comprehensive income.

n) Intangible assets

(i) Recognition and measurement

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

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

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

Development costs that do not meet capitalization criteria are recognized as an expense when incurred.

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

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

When significant parts of intangible assets have different useful lives, they are accounted for as separate items of intangible assets.

(ii) Subsequent costs

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

(iii) Amortization

Amortization is calculated using the cost of the asset less its residual value. Amortization is recognized in net income on a straight-line basis over the estimated useful life of an intangible asset commencing on the date when it is available for use, at the following rates:

Acquired licences	Term of licence
Acquired software	10% to 25%
Internally generated software	6.67% to 33.33%

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

IT projects under development are not amortized.

Amortization is recognized under Depreciation and amortization in the consolidated statement of comprehensive income.

o) Impairment

(i) Financial assets

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

An impairment loss on a financial asset measured at amortized cost is the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted using the original effective interest rate method.

Financial assets that are individually significant are tested for impairment separately. Other financial assets are assessed collectively in groups with shared credit risk characteristics.

All net impairment losses are recognized in Other expenses in the consolidated statement of comprehensive income.

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

(ii) Non-financial assets

The carrying amount of non-financial assets is reviewed at each reporting date for any evidence of impairment. If any such evidence exists, the asset's recoverable amount is estimated. The recoverable amount of intangible assets yet to be commissioned is estimated at the same time each year.

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

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

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

p) Provisions

A provision is recognized if, as a result of a past event, Loto-Québec has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The effect of the unwinding of the discount is recognized under Financial expenses in the consolidated statement of comprehensive income.

5 REVENUES, COST OF SALES AND GROSS PROFIT

	2017				
Business segments	**Lotteries**	**Casinos**	**Gaming establishments**	**Elimination of intersegment transactions**	**Total**
Revenues					
Games	**1,827,896**	**744,773**	**993,517**	**–**	**3,566,186**
Restaurants	**–**	**75,474**	**–**	**(24,561)**	**50,913**
Accommodation	**–**	**18,528**	**–**	**–**	**18,528**
	1,827,896	**838,775**	**993,517**	**(24,561)**	**3,635,627**
Cost of sales					
Prizes awarded	**987,611**	**–**	**24,741**	**–**	**1,012,352**
Commissions	**128,298**	**8,867**	**202,712**	**–**	**339,877**
Printing	**20,721**	**–**	**1,448**	**–**	**22,169**
Food and beverages	**–**	**25,580**	**–**	**–**	**25,580**
	1,136,630	**34,447**	**228,901**	**–**	**1,399,978**
Gross profit	**691,266**	**804,328**	**764,616**	**(24,561)**	**2,235,649**

	2016				
Business segments	**Lotteries**	**Casinos**	**Gaming establishments**	**Elimination of intersegment transactions**	**Total**
Revenues					
Games	1,797,590	720,858	980,333	–	3,498,781
Restaurants	–	68,777	–	(23,850)	44,927
Accommodation	–	16,575	–	–	16,575
	1,797,590	**806,210**	**980,333**	**(23,850)**	**3,560,283**
Cost of sales					
Prizes awarded	935,837	–	25,006	–	960,843
Commissions	124,764	6,589	200,888	–	332,241
Printing	20,825	–	1,607	–	22,432
Food and beverages	–	23,324	–	–	23,324
	1,081,426	**29,913**	**227,501**	**–**	**1,338,840**
Gross profit	**716,164**	**776,297**	**752,832**	**(23,850)**	**2,221,443**

6 EMPLOYEE BENEFITS

	2017	**2016**
Short-term employee benefits	**386,221**	376,938
Post-employment benefits	**36,653**	40,796
Other long-term benefits	**454**	447
Termination benefits	**180**	4,546
	423,508	**422,727**

7 SPECIAL PAYMENTS

	2017	2016
Payments to the Government of Canada	**16,934**	16,762
Payments to non-profit organizations (NPOs)	**4,265**	4,344
	21,199	**21,106**

Payments to the Government of Canada

Following an agreement reached between provincial governments and the Government of Canada regarding the federal government's withdrawal from the administration of lotteries, the provinces pay the federal government an annual amount of $24,000 in 1979 dollars, which represented $73,025 in today's dollars for the year ended March 31, 2017 ($72,021 in 2016).

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

Payments to NPOs

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

8 NET FINANCIAL EXPENSES

	2017	2016
Interest income on loans to Casinos Développement Europe	**631**	957
Interest income – other	**1,139**	1,189
Total financial income	**1,770**	**2,146**
Interest expense on bank loans[1]	**2,680**	2,663
Interest expense on long-term debt	**8,404**	11,074
(Gain) loss on foreign exchange contracts	**(677)**	1,861
Foreign exchange gain on loans to Casinos Développement Europe	**(122)**	(1,080)
Total financial expenses	**10,285**	**14,518**
Net financial expenses	**8,515**	**12,372**

[1]Interest expense on bank loans includes $1,559 ($1,821 in 2016) with the Caisse de dépôt et placement du Québec.

9 CONTRIBUTIONS TO THE GOVERNMENT OF QUÉBEC

	2017	2016
Ministère de la Santé et des Services sociaux	**22,000**	22,000
Ministère de la Sécurité publique	**3,000**	3,000
	25,000	**25,000**

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

10 TRADE AND OTHER RECEIVABLES

	2017	2016
Retailers[1]	**38,990**	30,104
Interprovincial Lottery Corporation	**20,788**	28,892
Other	**9,530**	8,396
	69,308	**67,392**

[1]Under an agreement with its retailers, Loto-Québec has an enforceable legal right to offset accrued liabilities payable to a retailer by trade receivables from the retailer and intends to settle the amounts on a net basis. As at March 31, 2017, gross trade receivables and accrued liabilities offset amounted to $48,240 ($51,130 as at March 31, 2016) and $9,250 ($21,026 as at March 31, 2016), respectively. The net settlement amount was $38,990 ($30,104 as at March 31, 2016).

11 INVENTORIES

	2017	2016
Food and beverages	**3,678**	3,184
Lottery tickets and paper stock	**5,701**	6,587
	9,379	**9,771**

For the fiscal year, the cost of inventories recognized as an expense amounted to $46,301 ($44,149 in 2016).

12 FINANCIAL ASSETS AND LIABILITIES RELATED TO LIFE ANNUITIES

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

	2017		2016	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Balance as at April 1	**88,688**	**88,688**	74,992	74,992
New annuities during the year	**24,293**	**24,293**	14,696	14,696
Amortization for the year	**(1,225)**	**(1,225)**	(1,000)	(1,000)
Balance as at March 31	**111,756**	**111,756**	88,688	88,688
Current portion	**(1,413)**	**(1,413)**	(1,140)	(1,140)
	110,343	**110,343**	**87,548**	**87,548**

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

Amortization, reported in Other expenses in the consolidated statement of comprehensive income, is calculated using the effective interest method, whereby the interest rate takes into account winners' life expectancy.

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

	2017	2016
Interests	**24,927**	25,398
Loans and advance	**8,808**	21,976
	33,735	**47,374**

INTERESTS

Interests in and shares of entities accounted for using the equity method

	2017	2016	
	MRLP	**MRLP**	**Casinos Développement Europe**
Equity interests			
With voting rights	**Class A units: 50%**	Class A units: 50%	35%
With participating rights	**Class A units: 50%**	Class A units: 50%	35%
	Class B units: 33%	Class B units: 33%	
Carrying amount of interests	**24,927**	25,398	–
Share of Loto-Québec based on its proportion of Class A and B units	**(1,151)**	(1,406)	–
Share of partners based on their proportion of Class C units	**(3,828)**	(3,669)	–
Net contribution			
Share of net loss of entities accounted for using the equity method	**(4,979)**	**(5,075)**	**–**

MRLP

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

Casinos Développement Europe

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

Cash proceeds from disposal	**19,688**
Carrying amount of assets disposed of	
Interest	**–**
Loans	**15,222**
	15,222
Gain on disposal	**4,466**

The share of unrecognized net income (loss) for the year ended March 31, 2017, was a net loss of $677 ($180 in 2016) and an unrecognized cumulative loss of $1,641 ($964 in 2016).

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

	2017		2016	
	MRLP	Casinos Développement Europe	MRLP	Casinos Développement Europe
Total current assets	**5,003**	**16,454**	6,742	10,335
Total non-current assets	**92,235**	**66,214**	93,124	54,970
Total assets	**97,238**	**82,668**	99,866	65,305
Total current liabilities	**5,074**	**8,745**	5,365	9,348
Total non-current liabilities	**11,455**	**220,640**	10,339	204,973
Total liabilities	**16,529**	**229,385**	15,704	214,321
Revenues	**29,641**	**20,630**	30,454	15,270
Net and comprehensive loss – generated by Manoir Richelieu	**(4,078)**	**–**	(4,273)	–
Share of partners, holders of Class C units	**2,324**	**–**	3,061	–
Net and comprehensive loss	**(1,754)**	**(677)**	**(1,212)**	**(180)**

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

The year-end of Casinos Développement Europe is October 31. In accounting for its interest using the equity method up to the November 2, 2016, disposal date (for the period from January 1 to December 31, 2015, in 2016), Loto-Québec included this entity's results available at the date of preparation of its consolidated financial statements. The summarized financial information contained in the above table is presented as at October 31.

LOANS AND ADVANCE

	2017	2016
Casinos Développement Europe		
Loans, in euros, fixed rate of 8%, principal and compound interest, disposed of on November 2, 2016	**–**	14,468
MRLP		
Loan, fixed rate of 5%, interest payable annually, without terms of repayment	**2,508**	2,508
Loan, fixed rate of 1.05%, interest payable annually, maturing on May 5, 2021	**1,300**	–
Non-interest bearing advance, maturing on April 13, 2019	**5,000**	5,000
	8,808	**21,976**

Management determined that no loans or advances were impaired during the years ended March 31, 2017, and March 31, 2016.

14 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Landscaping Parking lots	Landscaping Interior and exterior	Leasehold improvements	Equipment and other	Works of art	In progress[1]	Total
Cost									
Balance as at April 1, 2015	46,101	427,155	123,042	433,692	79,135	646,791	8,267	38,600	1,802,783
Additions	–	(154)	–	25,234	214	42,999	–	16,522	84,815
Reclassifications									
In progress commissioned	–	4,668	–	29,197	–	–	–	(33,865)	–
Disposals	–	(1,871)	–	–	(187)	(47,005)	(392)	–	(49,455)
Balance as at March 31, 2016	**46,101**	**429,798**	**123,042**	**488,123**	**79,162**	**642,785**	**7,875**	**21,257**	**1,838,143**
Additions	**–**	**744**	**(3)**	**14,610**	**6,910**	**36,378**	**–**	**15,069**	**73,708**
Reclassifications									
In progress commissioned	**–**	**7,570**	**6**	**13,256**	**52**	**–**	**–**	**(21,052)**	**(168)**
Disposals	**(1,968)**	**(5,774)**	**(1,656)**	**(6,935)**	**(380)**	**(51,341)**	**–**	**–**	**(68,054)**
Balance as at March 31, 2017	**44,133**	**432,338**	**121,389**	**509,054**	**85,744**	**627,822**	**7,875**	**15,274**	**1,843,629**
Accumulated depreciation									
Balance as at April 1, 2015	–	176,578	83,050	209,938	53,214	358,767	–	–	881,547
Depreciation for the year	–	13,325	4,651	27,545	3,861	67,475	–	–	116,857
Disposals	–	(1,870)	–	–	(187)	(43,906)	–	–	(45,963)
Balance as at March 31, 2016	**–**	**188,033**	**87,701**	**237,483**	**56,888**	**382,336**	**–**	**–**	**952,441**
Depreciation for the year	**–**	**13,516**	**4,650**	**28,623**	**3,908**	**64,884**	**–**	**–**	**115,581**
Disposals	**–**	**(4,263)**	**(886)**	**(5,944)**	**(379)**	**(37,539)**	**–**	**–**	**(49,011)**
Balance as at March 31, 2017	**–**	**197,286**	**91,465**	**260,162**	**60,417**	**409,681**	**–**	**–**	**1,019,011**
Net carrying amounts									
As at March 31, 2016	**46,101**	**241,765**	**35,341**	**250,640**	**22,274**	**260,449**	**7,875**	**21,257**	**885,702**
As at March 31, 2017	**44,133**	**235,052**	**29,924**	**248,892**	**25,327**	**218,141**	**7,875**	**15,274**	**824,618**

[1]The allocation of property, plant and equipment in progress by class is as follows:

	2017	2016
Buildings	**44**	7,570
Landscaping – Parking lots	**346**	6
Landscaping – Interior and exterior	**7,697**	13,392
Leasehold improvements	**656**	115
Equipment and other	**6,531**	174
	15,274	**21,257**

15 INTANGIBLE ASSETS

	Acquired	Internally generated		
	Software and licences	Software	IT projects under development	Total
Cost				
Balance as at April 1, 2015	52,793	205,619	3,206	261,618
Additions	2,008	6,425	4,814	13,247
Reclassification of commissioned IT projects	23	2,946	(2,969)	–
Disposals	(921)	(4,234)	–	(5,155)
Balance as at March 31, 2016	**53,903**	**210,756**	**5,051**	**269,710**
Additions	**1,650**	**7,166**	**5,624**	**14,440**
Reclassification of commissioned IT projects	**–**	**4,739**	**(4,739)**	**–**
Disposals	**(29)**	**(1,826)**	**–**	**(1,855)**
Balance as at March 31, 2017	**55,524**	**220,835**	**5,936**	**282,295**
Accumulated amortization				
Balance as at April 1, 2015	46,865	140,266	–	187,131
Amortization for the year	3,014	16,628	–	19,642
Disposals	(613)	(2,349)	–	(2,962)
Balance as at March 31, 2016	**49,266**	**154,545**	**–**	**203,811**
Amortization for the year	**1,885**	**15,152**	**–**	**17,037**
Disposals	**(29)**	**(1,714)**	**–**	**(1,743)**
Balance as at March 31, 2017	**51,122**	**167,983**	**–**	**219,105**
Net carrying amounts				
As at March 31, 2016	**4,637**	**56,211**	**5,051**	**65,899**
As at March 31, 2017	**4,402**	**52,852**	**5,936**	**63,190**

16 BANK LOANS

Current bank loans totalled $391,282 ($451,000 in 2016), including $295,300 ($451,000 in 2016) from the Caisse de dépôt et placement du Québec, a government body executing fiduciary operations excluded from the Government of Québec's reporting entity. These loans carry interest at fixed rates ranging from 0.69% to 0.90% (0.78% to 0.80% in 2016).

17 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017	2016
Accounts payable and accrued liabilities[1]	**85,843**	76,635
Lottery prizes payable	**16,563**	7,503
Salaries payable	**74,291**	72,596
Employee benefits payable	**8,177**	5,260
MRLP	**2,682**	3,637
GST	**5,440**	3,558
QST	**11,133**	7,322
	204,129	**176,511**

[1]Accounts payable and accrued liabilities include accrued interest totalling $2,092 ($2,631 in 2016) payable to the Financing Fund of the Government of Québec and $8 ($34 in 2016) payable to the Caisse de dépôt et placement du Québec.

18 PROVISIONS

	2017	2016
Balance as at April 1	**40,472**	66,897
Provisions made during the year	**532,705**	472,152
Provisions used during the year	**(528,552)**	(498,577)
Balance as at March 31	**44,625**	**40,472**

Provisions consist of the following:

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

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

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

19 LONG-TERM DEBT

	2017	2016
Loans from the Financing Fund of the Government of Québec, interest payable semi-annually, repayable according to the following maturities and rates:		
December 1, 2016, fixed rate of 3.262%	–	49,625
December 1, 2017, fixed rate of 1.952%	**40,000**	40,000
December 1, 2018, fixed rate of 1.608%	**50,000**	50,000
December 19, 2018, fixed rate of 2.171%	**50,000**	50,000
December 1, 2020, fixed rate of 4.102%	**43,375**	43,375
September 1, 2023, fixed rate of 3.133%	**25,000**	25,000
December 1, 2033, fixed rate of 3.720%	**25,000**	25,000
December 1, 2043, fixed rate of 3.753%	**25,000**	25,000
	258,375	**308,000**
Transaction costs	**(724)**	(947)
	257,651	**307,053**
Less current portion	**(40,000)**	(49,625)
	217,651	**257,428**

20 NET DEFINED BENEFIT AND OTHER LONG-TERM BENEFIT LIABILITY

a) Compulsory public plans

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

On January 1, 2017, the employee and employer contribution rate rose to 11.05% (11.12% in 2016) of assessable payroll for the RREGOP, while the rate for the PPMP climbed to 15.03% (14.38% in 2016). Contributions to these compulsory public plans amounting to $10,471 ($10,400 in 2016) were recognized as an expense in consolidated income for the year. Loto-Québec's obligations toward these government plans are limited to its employer contributions. The employer's contributions are equivalent to employee contributions, except for a compensation amount provided for in the PPMP act of 4.94% as at January 1, 2017 (5.73% as at January 1, 2016) of assessable payroll that must be paid for participating members of the PPMP, and an equivalent amount for employers. Accordingly, Loto-Québec will pay an additional amount for the 2017 calendar year equal to 9.88% of assessable payroll (11.46% in 2016).

b) Defined benefit plans

(i) Characteristics of pension plans

The Société des casinos du Québec inc. has two defined benefit pension plans, namely the Employee Pension Plan of the Société des casinos du Québec inc. (the "Employee Plan") and the Executive and Professional Plan of the Société des casinos du Québec inc. (the "Executive and Professional Plan"). Membership in these plans is compulsory for all Société des casinos du Québec inc. employees who meet the eligibility criteria. These plans provide pension benefits based on indexed yearly pensionable earnings (maximum annual indexing of 2%) for the Employee Plan and number of years of service and average salary of the best three consecutive years for the Executive and Professional Plan. Benefits paid to pensioners are increased each year by 50% of the rise in the consumer price index (maximum annual indexing of 2%). The annual contribution of the Société des casinos du Québec inc. equals that of employees unless the actuary deems that it should be higher to fund the defined benefits and amortize any plan deficit. Surplus assets are used to repay the Société des casinos du Québec inc. in the form of an annual contribution holiday up to the balance of the amortization payments. An amount of 20% of the balance of surplus assets is used to reduce the contributions of employees and the Société des casinos du Québec inc. equally.

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

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

Actuarial valuations for funding purposes are prepared to ensure compliance with pension legislation. The most recent actuarial valuations for the Employee Plan and the Executive and Professional Plan were prepared as at December 31, 2015. The next valuations will be prepared as at December 31, 2018, at the latest. The most recent actuarial valuation for the Supplementary Plan was prepared as at March 31, 2016, and the next valuation will be prepared as at March 31, 2017.

(ii) Risks related to pension plans

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

<u>Risk related to interest rate</u>

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

<u>Risk related to investment</u>

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

Plan assets as at March 31, 2017, consist primarily of Canadian and global equities, bonds and real estate funds. The fair value of plan assets is exposed to their respective markets and returns generated by their respective managers.

<u>Risk related to longevity</u>

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

<u>Risk related to average age at retirement</u>

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

<u>Risk related to inflation</u>

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

<u>Risk related to the rate of compensation increase</u>

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

(iii) Explanation of amounts recognized in the financial statements

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

	2017	**2016**
Present value of unfunded defined benefit obligation	**11,505**	11,051
Present value of funded defined benefit obligation	**582,176**	512,268
Total present value of defined benefit obligation	**593,681**	**523,319**
Fair value of plan assets	**593,523**	513,098
Net defined benefit and other long-term benefit liability	**158**	**10,221**

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

	2017			2016
	Pension plans	Other long-term benefits	Total	Total
Defined benefit obligation				
Balance, beginning of year	**512,268**	**11,051**	**523,319**	506,584
Current service cost	**24,100**	–	**24,100**	27,969
Interest expense	**21,887**	–	**21,887**	20,271
Past service costs	**12**	–	**12**	254
Employee contributions	**16,688**	–	**16,688**	16,312
Benefits paid	**(11,424)**	–	**(11,424)**	(13,979)
Actuarial (gains) losses	**18,645**	**454**	**19,099**	(34,092)
Balance, end of year	**582,176**	**11,505**	**593,681**	**523,319**
Fair value of plan assets				
Balance, beginning of year	**513,098**	–	**513,098**	504,314
Interest income	**20,967**	–	**20,967**	19,498
Return on plan assets excluding interest income	**37,313**	–	**37,313**	(28,517)
Employer contributions	**18,031**	–	**18,031**	16,599
Employee contributions	**16,688**	–	**16,688**	16,312
Benefits paid	**(11,424)**	–	**(11,424)**	(13,979)
Plan administration expenses	**(1,150)**	–	**(1,150)**	(1,129)
Balance, end of year	**593,523**	–	**593,523**	**513,098**
Net defined benefit and other long-term benefit liability	**(11,347)**	**11,505**	**158**	**10,221**

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

	2017		2016	
	Allocation %	Fair value $	Allocation %	Fair value $
Cash	**1.3**	**7,483**	1.3	6,787
Bonds	**58.8**	**348,836**	60.3	309,115
Canadian equities	**8.5**	**50,574**	9.7	49,874
International equities	**23.4**	**138,952**	20.1	103,217
Real estate funds	**8.0**	**47,678**	8.6	44,105
	100.0	**593,523**	**100.0**	**513,098**

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

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

			2017	2016
	Pension plans	Other long-term benefits	Total	Total
Service costs	24,112	–	24,112	28,223
Net interest expense	920	–	920	773
Plan administration expenses	1,150	–	1,150	1,400
Actuarial losses related to other long-term benefits	–	454	454	447
Post-employment and other long-term benefits	**26,182**	**454**	**26,636**	**30,843**

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

	2017	2016
Actuarial gains arising from changes in demographic assumptions	6,382	–
Actuarial gains (losses) arising from changes in financial assumptions	(17,668)	42,087
Actuarial losses arising from plan experience	(7,359)	(7,548)
Return on plan assets excluding interest income	37,313	(28,246)
Remeasurements of the net defined benefit liability	**18,668**	**6,293**

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

	2017		2016	
	Pension plans	Other long-term benefits	Pension plans	Other long-term benefits
Defined benefit obligation as at March 31				
Discount rate	3.85%	3.40%	4.00%	3.60%
Inflation rate	1.60%	1.60%	1.50%	1.50%
Rate of compensation increase	2.60%	2.60%	2.50%	2.50%

For the defined benefit obligation as at March 31, 2017, and March 31, 2016, the mortality assumptions are based on 120% for male Employee Plan members, 100% for female Employee Plan members, 100% for male Executive and Professional Plan and Supplementary Plan members, and 95% for female Executive and Professional Plan and Supplementary Plan members of the mortality rates derived from the Canadian pensioners' mortality (CPM) 2014 Public Sector Mortality Table (CPM2014Publ) and the CPM Improvement Scale B (CPM-B).

Average life expectancy at age 65 as at March 31, 2017 is:

	2017		2016	
	Female	Male	Female	Male
Employee Plan	24.7 yrs	21.5 yrs	24.6 yrs	21.4 yrs
Executive and Professional Plan and Supplementary Plan	25.1 yrs	22.8 yrs	25.0 yrs	22.7 yrs

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

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

The table below summarizes the impact of changes in these actuarial assumptions on the defined benefit obligation of pension plans as at March 31, 2017:

	2017		2016	
Discount rate	**Increase to 4.85%**	**Decrease to 2.40%**	Increase to 5.00%	Decrease to 3.00%
(Decrease) increase in defined benefit obligation	**(89,919)**	**106,218**	(89,842)	108,789
Inflation rate	**Increase to 2.60%**	**Decrease to 0.60%**	Increase to 2.50%	Decrease to 0.50%
Increase (decrease) in defined benefit obligation	**26,968**	**(50,924)**	39,354	(63,771)
Rate of compensation increase	**Increase to 3.60%**	**Decrease to 1.60%**	Increase to 3.50%	Decrease to 1.50%
Increase (decrease) in defined benefit obligation	**5,156**	**(4,942)**	6,553	(6,253)
Mortality rate	**Increase to 110% of rates**	**Decrease to 90% of rates**	Increase to 110% of rates	Decrease to 90% of rates
(Decrease) increase in defined benefit obligation	**(6,909)**	**7,537**	(6,476)	7,059

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

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

Based on the result of the most recent actuarial valuation of each of those pension plans, Loto-Québec expects to make contributions totalling $17,695 during the next fiscal year.

The weighted average duration of the defined benefit obligation of pension plans as at March 31, 2017, was 16.28 years (19.8 years in 2016).

21 CAPITAL MANAGEMENT

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

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

	2017	2016
Bank loans	**391,282**	451,000
Long-term debt	**257,651**	307,053
Share capital	**170**	170
Retained earnings	**86,300**	86,300
	735,403	**844,523**

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

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

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

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

The capital management objectives, policies and procedures have not changed since March 31, 2016.

22 CONTINGENT LIABILITIES AND COMMITMENTS

a) Contingent liabilities

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

b) Commitments

(i) Leases

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

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

	2017	2016
Less than 1 year	31,252	32,438
1 to 5 years	91,444	99,167
More than 5 years	33,175	14,135
	155,871	145,740

(ii) Contributions to the Government of Québec

Ministère de la Santé et des Services sociaux (MSSS)

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

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

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

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

23 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Risk management policy

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

a) Credit risk

Credit risk is the risk of financial loss to Loto-Québec if counterparties fail to meet their contractual obligations. The carrying amount of financial assets represents Loto-Québec's maximum exposure to credit risk. Cash on hand – Casinos includes the cash inventory of the casinos. Accounts receivable are primarily from transactions concluded with a large number of retailers. Other financial assets consist of the loans and the advance in entities accounted for using the equity method and life annuities paid to large insurance companies.

Loto-Québec's management considers the credit quality of all of the above financial assets, which are not impaired or past due as at each annual reporting date, that is, March 31, to be sound.

Management considers that Loto-Québec has no other significant exposure to credit risk. Past due accounts represented 1% of accounts receivable in 2017 and 2016.

b) Liquidity risk

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

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

	2017					
			Maturity			
	Carrying amount	Total contractual cash flows	Less than 12 months	1 to 2 years	2 to 5 years	More than 5 years
Financial liabilities						
Bank loans	391,282	391,342	391,342	–	–	–
Dividend payable	65,651	65,651	65,651	–	–	–
Accounts payable and accrued liabilities	85,843	85,843	85,843	–	–	–
MRLP	2,682	2,682	2,682	–	–	–
Lottery prizes payable	16,563	16,563	16,563	–	–	–
Salaries payable	74,291	74,291	74,291	–	–	–
Long-term debt	257,651	316,286	47,101	106,320	54,888	107,977
	893,963	952,658	683,473	106,320	54,888	107,977

	2016					
			Maturity			
	Carrying amount	Total contractual cash flows	Less than 12 months	1 to 2 years	2 to 5 years	More than 5 years
Financial liabilities						
Bank loans	451,000	451,080	451,080	–	–	–
Dividend payable	72,194	72,194	72,194	–	–	–
Accounts payable and accrued liabilities	76,635	76,635	76,635	–	–	–
MRLP	3,637	3,637	3,637	–	–	–
Lottery prizes payable	7,503	7,503	7,503	–	–	–
Salaries payable	72,596	72,596	72,596	–	–	–
Long-term debt	307,053	374,631	58,345	47,101	158,557	110,628
	990,618	**1,058,276**	**741,990**	**47,101**	**158,557**	**110,628**

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

c) Market risk

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

(i) Foreign exchange risk

As at March 31, 2016, Loto-Québec had loans denominated in euros in Casinos Développement Europe, with a carrying amount of $14,468 (€9,791), which were disposed of during the year ended March 31, 2017 (see Note 13).

On March 31, 2016, Loto-Québec entered into a foreign exchange forward contract denominated in euros amounting to $15,433 (€10,484) maturing on March 31, 2017. This forward contract was purchased to protect Loto-Québec against any future changes in the foreign exchange rate with respect to those loans. No similar hedge had been renewed as at March 31, 2017.

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

The impact of foreign exchange hedging transactions on net income is recognized under Financial expenses in the consolidated statement of comprehensive income.

(ii) Interest rate risk

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

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

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

d) **Fair value**

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

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

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

	2017		2016	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets related to life annuities	**111,756**	**129,900**	88,688	113,168
Loans to Casinos Développement Europe	–	–	14,468	14,468
Loans to MRLP	**3,808**	**3,808**	2,508	2,508
Advance to MRLP	**5,000**	**5,000**	5,000	5,000
Loans and receivables	**120,564**	**138,708**	**110,664**	**135,144**
Financial liabilities related to life annuities	**111,756**	**129,900**	88,688	113,168
Long-term debt	**257,651**	**274,103**	307,053	328,990
Non-derivative financial liabilities	**369,407**	**404,003**	**395,741**	**442,158**

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

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

(iii) Derivatives
The fair value of the foreign exchange forward contract is based on market prices, where available. Where market prices do not exist, fair value is estimated using the difference between the contractual forward price and the current forward price for the contract's remaining term to maturity, using a risk-free interest rate (based on the government bond market). Credit risk is factored into the calculation of fair value.

The fair value of the foreign exchange contract was measured using Level 2 inputs. The fair value of this contract as at March 31, 2016, was nil as it took effect on that date. The foreign exchange contract was entered into with the Financing Fund of the Government of Québec.

24 CONSOLIDATED CASH FLOWS

	2017	2016
Cash and cash equivalents as at March 31		
Cash on hand – Casinos	**65,645**	64,319
Cash	**16,189**	21,212
	81,834	**85,531**
Net change in non-cash items		
Trade and other receivables	**(1,916)**	23,694
Inventories	**392**	(6,705)
Prepaid expenses	**642**	8,044
Financial assets related to life annuities	**(23,068)**	(13,696)
Accounts payable and accrued liabilities	**30,801**	7,750
Financial liabilities related to life annuities	**23,068**	13,696
Provisions	**4,153**	(26,425)
Deferred revenues	**(4,960)**	(561)
	29,112	**5,797**
Additional information		
Additions to property, plant and equipment funded by accounts payable and accrued liabilities	**16,547**	15,717
Additions to intangible assets funded by accounts payable and accrued liabilities	**1,325**	3,824
Share of partners, holders of Class C units, in MRLP included in accounts payable and accrued liabilities	**2,682**	3,637

25 RELATED PARTIES

a) Related party transactions and balances

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

b) Key management personnel compensation

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

Key management personnel received the following compensation:

	2017	2016
Short-term employee benefits	**3,189**	3,393
Post-employment and other long-term benefits	**668**	513
	3,857	**3,906**

26 COMPARATIVE FIGURES

Certain comparative figures have been reclassified as necessary to conform to the current year presentation.

MEASURING EFFICIENCY AND PERFORMANCE

BENCHMARKING

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

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

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

LAST YEAR'S RESULTS AND FINDINGS

The 2016-2017 fiscal year marked the end of the 2014-2017 strategy planning cycle. In this period, in keeping with the three orientations in our last strategic plan, we improved our offering by focusing on entertainment, demonstrated efficient management and maintained the balance between the social and economic aspects of our mission. The strategy that arose from these goals generated good results.

STRATEGIC ORIENTATION 1
To offer Quebecers first-rate entertainment: appealing, innovative and competitive

Maintaining the appeal of our commercial products and developing synergy and an array of entertainment products has allowed us to exceed the target growth for our net income, set at $1.164 billion, with net income of $1.231 billion as at March 31, 2017 (+$67 million).

The income generated by Espacejeux.com stood at $85.9 million as at March 31, 2017, exceeding the target of $75.4 million, thanks to a number of efforts including ongoing improvements to our online gaming offer.

The lottery sector managed to keep its current clients and attract new ones, as demonstrated by purchase incidence among adult Quebecers. The target of 75% for adults aged 35 and over was achieved, with a score of 75% in 2017. The target for adults under 35, 55%, was exceeded, with a score of 60% in 2017.

Overall, the purchase incidence at casinos among adult Quebecers has been stable since 2013-2014, shifting from 18.5% to 18%. This is within the margin of error for the target, set at 20%.

As for video lotteries and client diversification, although the sample size did not allow us to draw any firm conclusions, a trend toward a more representative distribution of the socio-demographic profile of the Québec adult population was noted.

While the purchase incidence of the Kinzo product among adult Quebecers under 45 stood at 34% in 2017, below the target of 37%, this is still a considerable improvement (31%) from the incidence in 2013-2014, which was 26%.

The client satisfaction rate for lottery products is stable. In 2017, it held steady at 89%, close to the excellence zone. This is within the margin of error for the target, set at 90%.

The satisfaction of casino clients with the quality of the services offered has been stable for the last three years, at nearly 56, within the margin of error for the target, set at 57.9.

In 2017, the satisfaction rate with the network bingo product reached 77.3%, below the target of 82.5%. This can be explained largely by the closure, since 2013, of nearly a dozen bingo halls that offer the product. Efforts are ongoing to update the offering with electronic bingo.

The client satisfaction rate for the Kinzo product reached 89% in 2017, close to the target of 90%.

STRATEGIC ORIENTATION 2

To guarantee the effective and efficient management of resources

The maintenance target for the ratio of net income over revenues, 32.5%, was achieved, with a ratio of 33.8% as at March 31, 2017. Moreover, when the costs related to the reconfiguration of the video lottery terminal (VLT) network are excluded, the ratio of net income over revenues rises to 34.7%.

The target for the mobilization index was set at 20, the threshold for significant mobilization. Employee mobilization was assessed by polling 73% of the staff. The score obtained, 28, is clearly moving toward excellence.

The lack of data for the target period makes it impossible to compare the level of lottery product sales per adult to the average for Canadian lottery corporations for similar products. The information at our disposal nevertheless demonstrates that Loto-Québec had the best sales growth performance in 2016-2017 for pan-Canadian lottery products Lotto Max and Lotto 6/49, exceeding the sales in other jurisdictions by over 9% and 3%, respectively.

The percentage of casino employees who have taken the Résolument client course, which enhances customer service quality, rose to 94% in 2017, exceeding the target of 85%.

The video lottery offering goals of maintaining 2,000 establishments and 12,000 gaming positions were reviewed as part of the VLT network action plan tabled by the Québec government in December 2016.

Contributions to non-profit organizations from network bingo and Kinzo profits reached $5.4 million by March 31, 2017, exceeding the target of $5 million.

STRATEGIC ORIENTATION 3

To preserve the balance between a responsible approach and the dynamic and competitive commercialization of its products

The World Lottery Association Level 4 certification was renewed, as stated in the target, maintaining Loto-Québec's leadership position in responsible gambling.

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

FOR THE 2016-2017 FISCAL YEAR

As required under the *Sustainable Development Act*, Loto-Québec is reporting, in this section, on the activities carried out in 2016-2017 for each of the 13 actions in its 2015-2020 responsible commercialization plan (RCP). This first RCP allowed the organization to operationalize the responsible commercialization code.

The RCP involves five horizontal objectives.

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

Reading these five objectives one after the other makes it clear that employees are at the heart of the RCP. They must be mobilized and equipped for the target results to be achieved. Next come the objectives related to responsible gambling and the integrity of the games, which are unique to Loto-Québec's area of activity. The fourth objective is more global and pursues continuous performance improvement in the financial, social and environmental senses. This objective also includes the management system and performance evaluation. Finally, the fifth objective concerns the engagement of the stakeholders, which is the very basis of the creation of shared value.

ACTION 1

Organizational objective: **Provide our employees with a stimulating workplace**
Action: **Mobilize our employees to achieve our business objectives**

MEASURES	INDICATORS	TARGETS	STATUS
1. Communicate our business objectives and strategic priorities, drawing a connection with responsible commercialization	Percentage of employees who connect responsible commercialization and business objectives	85% of employees	Ongoing
2. Highlight the employees' contribution to the achievement of our results	Number of communications related to the recognition of employees directly involved in responsible commercialization projects	Four annual communications	Ongoing

RESULTS FOR THE YEAR

1. A survey on responsible commercialization will be conducted with the employees in fall 2017.
2. A total of 19 communications were released.

FURTHER INFORMATION

1. The RCP operations continued with the launch of a corporate social responsibility (CSR) analysis grid. Many teams are involved. Multiple, targeted meetings allowed us to integrate responsible commercialization more firmly in our business practices.
2. Recognition of the employees' involvement was communicated many times on our various platforms: 2 publications on the intranet, 7 posts on our Toutunblogue.com blog and 10 general memos. Their involvement was highlighted in subjects such as the Collection Loto-Québec, responsible gambling and the Moisson organizations.

ACTION 2

Organizational objective: Provide our employees with a stimulating workplace
Action: Anchor responsible commercialization in our organizational culture

MEASURES	INDICATORS	TARGETS	STATUS
1. Integrate relevant actions from the responsible commercialization plan into the strategic plans and annual action plans of the business units	Percentage of annual action plans that include actions from the responsible commercialization plan	100% of plans	Ongoing
2. Provide our employees with responsible commercialization tools	Percentage of employees who feel they are equipped to contribute to at least one of the responsible commercialization objectives	80% of employees	Ongoing
3. Continue our responsible gambling awareness and training efforts with our employees	Percentage of employees trained in responsible gambling	95% of active employees	Ongoing

RESULTS FOR THE YEAR

1. A total of 100% of the units in question have included RCP actions in their plans.
2. The benchmark percentage will be established when the responsible commercialization survey of the employees is conducted in fall 2017.
3. A proportion of 98% of employees have taken the Level-1 workshop on responsible gambling awareness.

FURTHER INFORMATION

1. All units concerned, that is the Présidence des opérations – Loteries (POL), the Société des casinos du Québec (SCQ) and the Société des établissements de jeux du Québec (SEJQ), have integrated RCP actions in their 2016-2017 action plans.
2. The survey on responsible commercialization has been delayed until fall 2017. The survey will be repeated each year in fall.
3. Active employees with 18 months of service or more are targeted for the training.

ACTION 3

Organizational objective: Optimize responsible gambling measures at every step of our commercialization activities
Action: Provide a dynamic and competitive offer including the principles of responsible gambling

MEASURE	INDICATOR	TARGET	STATUS
Take the principles of responsible gambling into account in the design, approval and evaluation of our games	Percentage of new games evaluated	100% of new games	Ongoing

RESULT FOR THE YEAR

A total of 100% of the games have been evaluated.

FURTHER INFORMATION

After we completed the work on our certification renewal in the World Lottery Association (WLA) Responsible Gaming Framework, we continued forward with an exercise to improve the evaluation process for online games.

ACTION 4

Organizational objective: **Optimize responsible gambling measures at every step of our commercialization activities**

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

MEASURES	INDICATORS	TARGETS	STATUS
1. Foster the improvement of our retailers' responsible commercialization practices	To be determined	To be determined	To be implemented
2. Increase the reach of our awareness tools within our establishments	Number of contacts made with clients at the Centre du hasard information kiosks	15% increase by 2020	Ongoing
3. Continue our efforts to support players with problems	Percentage of new self-excluded clients interested in at least one of our assistance services	20% of self-excluded clients by 2020	Ongoing

RESULTS FOR THE YEAR

1. To come in 2017-2018
2. In total, 38,026 clients visited the Centre du hasard kiosks in 2016-2017, an increase of 17% (5,656) over the benchmark year 2014-2015.
3. A total of 15% of contracts include the services of a counsellor.

FURTHER INFORMATION

1. Due to the effort required to deploy the new lottery ticket distribution model and the video lottery terminal (VLT) network action plan, the modification of the retailers' recognition program was delayed. Proposals for the *Lotoresponsable* (POL) and *Bien joué!* (SEJQ) programs will be tabled in fall 2017.
2. A total of 38,026 client contacts were made in the Centre du hasard kiosks this year, an increase of 5,656 clients. To harmonize with the 2017-2020 strategic plan, the target and benchmark year may be changed for the 2017-2018 annual report.
3. Among newly self-excluded clients, 270 asked for one of the assistance services offered to them:
   a. Self-exclusion counselling service, offered by a firm that is independent from Loto-Québec. This is a free, confidential and bilingual service that offers two meetings per self-exclusion period and monthly telephone support.
   b. A telecounselling service, offered to Casino du Lac-Leamy clients through a pilot project. This project is jointly run with Gambling: Help and Referral, which already offers this service to the Québec public.

ACTION 5

Organizational objective: **Optimize responsible gambling measures at every step of our commercialization activities**

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

MEASURE	INDICATOR	TARGET	STATUS
Improve the awareness rate of information about responsible gambling among players	Percentage of players who know the basic messages about responsible gambling	To be determined	Ongoing

RESULT FOR THE YEAR

To come in fall 2017

FURTHER INFORMATION

The penetration rate and target will be evaluated after a tracking survey that will be conducted by Léger in August 2017.

ACTION 6

Organizational objective: Guarantee the integrity of our games and their distribution channels
Action: Communicate the rules of all gaming activities and products

MEASURE	INDICATOR	TARGET	STATUS
Disclose the rules of all our games or products on lottery tickets, on our websites, in our gaming establishments and at our points of sale	Percentage of games for which the rules are available to players (online, at our retailers or in our establishments)	100% of games	Ongoing

RESULT FOR THE YEAR

A total of 100% of the games and gaming terminals launched in 2016-2017 in the casinos, on Espacejeux.com and at the SEJQ were certified (VLTs in bars and brasseries, and in the gaming halls). Verifying the clarity and compliance of the gaming rules is part of the certification process. All lottery tickets display the rules of the game.

FURTHER INFORMATION

The rules for the games and gaming terminals launched in 2016-2017 in the casinos, on Espacejeux.com and at the SEJQ are available online, in the gaming establishments and casinos, and at the retailers.

Action 7 outlines the measures to take to enforce the game and product rules.

ACTION 7

Organizational objective: Guarantee the integrity of our games and their distribution channels
Action: Implement oversight measures that enforce these rules

MEASURES	INDICATORS	TARGETS	STATUS
1. Maintain information security management systems (ISMS) and apply best security and integrity practices	World Lottery Association (WLA) security control standard certification (ISO/IEC 27001: 2005 certification)	Certification maintenance (annual follow-up and renewal every three years)	Ongoing
2. Maintain security measures to protect the Corporation's assets and games (surveillance, analysis, monitoring, compliance with official documents)	Monitoring of measures	100% of our facilities	Ongoing

RESULTS FOR THE YEAR

1. The ISO/IEC 27001: 2013 certification is still compliant for all facilities and the WLA certification received in 2014 is maintained.
2. Security monitoring measures were taken in 100% of our facilities.

FURTHER INFORMATION

1. The WLA security control standard certification was renewed in spring 2017.
2. All our facilities offer security monitoring measures that protect our assets and the integrity of our games.

ACTION 8

Organizational objective: **Guarantee the integrity of our games and their distribution channels**
Action: **Ensure all players are treated equally**

MEASURES	INDICATORS	TARGETS	STATUS
1. Have our processes, games and random number generators certified in accordance with the rules and regulations in effect, as well as standards we have adopted, by external independent specialists	Percentage of compliance for new games	100%	Ongoing
2. Maintain the minimum control standards for key lottery processes, in keeping with Interprovincial Lottery Corporation (ILC) standards	ILC attestation	Maintenance of the attestation	Ongoing

RESULTS FOR THE YEAR

1. A total of 100% of the games and gaming terminals launched in 2016-2017 in the casinos, on Espacejeux.com and at the SEJQ (VLTs in bars and brasseries, and in the gaming halls) are compliant.
2. The certification process for compliance with the ILC standards was successfully completed in March 2017.

FURTHER INFORMATION

1. The games, gaming terminals and random number generators (RNG) of the following subsidiaries and business units were certified by external independent specialists in accordance with the laws and regulations in effect, as well as the standards we have adopted: SCQ (games, gaming terminals and RNG), Espacejeux.com (games and RNG), SEJQ (games, gaming terminals and RNG) and POL (RNG for electronic draws).

ACTION 9

Organizational objective: **Continue the drive to improve our overall performance**
Action: **Contribute to the vitality of communities and improve the performance of our social programs**

MEASURES	INDICATORS	TARGETS	STATUS
1. Optimize the benefits of our sponsorships for our organization and the community	Percentage of events that attain the sustainability threshold	85% of sponsored events	Ongoing
2. Optimize the presentation of artworks from the Collection Loto-Québec (in connection with Agenda 21 de la culture du Québec)	Attendance rate at Collection presentation events	20% increase by 2020	Ongoing

RESULTS FOR THE YEAR

1. In total, 89% of sponsored events attained the sustainability threshold.
2. Visitors at the Casino de Charlevoix, the Fairmont Le Manoir Richelieu and the Casino de Mont-Tremblant can enjoy the works in our artistic routes.

FURTHER INFORMATION

1. Of 55 events, 49 achieved the sustainability threshold for 2016-2017. This threshold is established based on a score attributed to the various measures applied. The performance of this indicator reflects the efforts made by the sponsored events to continuously improve their responsible management practices. Significant progress has been made since 2010-2011: the basic measures, such as waste management or promotion of public transit, are now well integrated. For the sixth year in a row, we were the presenting partner of the Vivats, the Loto-Québec awards for responsible events. This contest helps acknowledge the efforts of event organizers.
2. The year 2016-2017 saw the creation of two artistic routes featuring the Collection Loto-Québec.
   a. Created in September 2016 at the Casino de Mont-Tremblant by Commissioner Andrée Matte, this route presents a hundred of our artworks.
   b. Inaugurated at the Casino de Charlevoix and the Fairmont Le Manoir Richelieu in February 2017, the second route presents a hundred works selected by Commissioner Patricia Aubé.
   Two cultural legacy projects have also been unveiled:
   c. *L'univers des oiseaux, la volière de Mont-Tremblant*, a mural created by artist René Derouin for the Ville de Mont-Tremblant.
   d. *Rosace*, urban furniture by artist André Fournelle, installed at the Université de Sherbrooke's cultural centre.

ACTION 10

Organizational objective: **Continue the drive to improve our overall performance**
Action: **Efficiently and effectively manage our resources**

MEASURE	INDICATOR	TARGET	STATUS
Introduce a responsible commercialization continuous improvement system and report on its effects on the environment and society	Dollars saved through the responsible commercialization process	$20 million in savings thanks to the responsible commercialization approach by 2020	Ongoing

RESULT FOR THE YEAR

Savings of $11.3 million were achieved.

FURTHER INFORMATION

These savings are the outcome of efforts on the part of the project managers, who incorporated CSR criteria in their business practices. For example, the domes on the ceiling of the Cabaret du Casino de Montréal are from a Kinzo hall. Reusing them allowed us to save $1.2 million.

The new lottery ticket distribution model gives us nearly $10 million in savings each year. These efficiency gains also stem from transportation optimization and a more judicious use of external resources.

ACTION 11

Organizational objective: **Continue the drive to improve our overall performance**
Action: **Optimize our acquisition, operation and infrastructure management initiatives**

MEASURES	INDICATORS	TARGETS	STATUS
1. Develop responsible commercialization criteria for projects and calls for tenders; develop synergies to reduce costs and impacts	Number of projects improved	100% of structuring projects	Ongoing
	Percentage of calls for tenders for products and services evaluated (excluding calls for tenders for food products and consultation services) to ascertain the possibility of including responsible procurement criteria	100% of calls for tenders	Ongoing
2. Implement an improvement process for our information and communication technologies	Number of improvements implemented based on a known green ICT repository	10 improvements by 2020	Ongoing
3. Strengthen the global performance management system of our infrastructures	BOMA BEST certifications	Maintenance of certifications	Ongoing

RESULTS FOR THE YEAR

1. a. A total of 100% of projects have been improved since the beginning of the process, in the fourth quarter of 2015-2016.
   b. A total of 100% of calls for tenders were evaluated.
2. Six improvements were implemented.
3. The certifications are maintained.

FURTHER INFORMATION

1. a. An eight-criterion CSR grid has been used to analyse major projects since January 2017. Nine projects were improved thanks to the analysis grid.
   b. There were 110 calls for tenders published on the market. The possibility of adding responsible procurement criteria was checked.
2. The six ICT improvements are: identification of a CSR champion for the ICTs; the issue of electronic payslips; secure eco-printing on all printers, leading to an annual paper savings of 10% and other savings on energy and consumables; 15% reduction in physical server park; 10.2% increase in the number of virtual machines; 5.4% reduction in printer park, from 300 printers to 284.
3. All the certifications that expired in the previous fiscal year were renewed.

ACTION 12

Organizational objective: Continue the drive to improve our overall performance
Action: Optimize the publication of our responsible commercialization performance

MEASURES	INDICATORS	TARGETS	STATUS
1. Develop responsible commercialization indicators and integrate them into our performance evaluation process	Biannually submission of dashboards to the governance structure committees	Annual report on our responsible commercialization performance	Ongoing
2. Optimize the publication of our responsible commercialization performance	Satisfaction percentage of visitors to the Corporate Responsibility section of the lotoquebec.com website	To be determined	Ongoing

RESULTS FOR THE YEAR

1. The annual report includes the responsible commercialization dashboards.
2. To come

FURTHER INFORMATION

1. Dashboards for the Responsible Gambling and Environment and Society committees were developed this year. The biannually follow-up and dashboard of the Community Relations committee will begin in 2017-2018. The indicator will be modified to include the quarterly submission of dashboards to the committees.
2. The number of respondents is insufficient to draw consistent, constructive conclusions for program improvement. Client satisfaction will be assessed using a new tool, which will reach a wider audience on the web.

ACTION 13

Organizational objective: Encourage dialogue with stakeholders based on a vision of complementary roles
Action: Enhance our relationships with our stakeholders

MEASURES	INDICATORS	TARGETS	STATUS
1. Step up all communications activities, with special emphasis on digital platforms as the principal means of interaction with our audiences	Engagement rate on the business units' social media platforms (for our products)	Indicator removed	–
	Engagement rate on the corporate units' social media platforms	To be determined	To be implemented
2. Develop projects to improve social programs in connection with our stakeholders	Number of new projects carried out in partnership with external stakeholders	10 projects by 2020	Ongoing

RESULTS FOR THE YEAR

1. The responsible commercialization messages were published on the corporate units' social media accounts. For 2017-2018, the two engagement rates will be part of an integrated strategy. Several hundred messages were posted on social media.
2. Eight projects have been completed since 2015-2016.

FURTHER INFORMATION

1. Our social media platforms are now well integrated in our daily actions. We regularly post on Facebook, LinkedIn, Twitter, Instagram, Snapchat, YouTube and Toutunblogue.com.
2. Loto-Québec completed two special projects in partnership with external stakeholders in 2016-2017. The first is related to responsible gambling: our collaboration on the telecounselling service with Gambling: Help and Referral. A pilot project is underway at the Casino du Lac-Leamy.

   The second was the participation of artist René Derouin, in conjunction with the Collection Loto-Québec team. The mural *L'univers des oiseaux, la volière de Mont-Tremblan*t adorns the rotunda of the Samuel-Ouimet library in Mont-Tremblant. It was unveiled during the Journées de la culture 2016.

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

PREAMBLE

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

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

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

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

1 DEFINITIONS

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

a) "Act": the *Act respecting the Société des loteries du Québec* (L.R.Q., c. S-13.1), as amended and modified from time to time

b) "Association": a group of persons having a common goal other than that of generating profits for the benefit of its members

c) "Board": the Board of Directors of the Corporation or of one of its Subsidiaries

d) "Code": this Code of Ethics and Rules of Professional Conduct for Directors and Managers of Loto-Québec and its Subsidiaries

e) "Committee": the Board's Governance and Ethics Committee, as prescribed by the *Act respecting the governance of state-owned enterprises*

f) "Confidential information": all information concerning the Corporation, trends in an industry or sector, or any and all information of a strategic nature that is not known to the public and that, if known by a person who is not a Director or a Manager, would be liable to give the person an advantage or compromise an operation in which the Corporation participates

g) "Conflict of interest": any real, perceived, potential or eventual situation in which Directors or Managers may be prompted to favour a person (including themselves and any Related persons) to the detriment of another. Any situation that could be prejudicial to the loyalty, integrity or judgement of a Director or Manager is also subject to the present definition

h) "Contract": a draft agreement

i) "Control": direct or indirect ownership by a person of securities, including partnership shares, that confer more than 50% of voting or shareholder rights and that does not depend on a special event having occurred and allows for the election of a majority of Directors

j) "Corporation": Loto-Québec and its Subsidiaries

k) "Director": a member of the Board of Directors who does or does not occupy a full-time position at Loto-Québec or one of its subsidiairies

l) "Enterprise": any form of organization for the production of goods or services, or any other business of a commercial, industrial or financial nature, and any group intended to promote specific securities, specific interests or specific opinions or influence public authorities. However, this does not include the Corporation or Associations or non-profit groups with no financial relationship to the Corporation or no incompatibility with its objectives

m) "Manager": with respect to the Corporation, any contract executive whose conditions of employment are subject to approval by the Board

n) "Related enterprise": any body corporate or company in which the Corporation directly or indirectly holds securities, including shares, conferring more than 10% voting or shareholder rights

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

i. blood

ii. marriage

iii. civil union

iv. common-law marriage

v. adoption

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

vi. the child of a person defined in Sections ii to iv

vii. any member of the immediate family living under the same roof

viii. any person with whom a Director or Manager is associated, or the partnership with which either may be associated

ix. a body corporate in which the Director or Manager directly or indirectly holds 10% or more of any category of voting shares

x. a body corporate controlled by a Director or Manager or a person defined in Sections i through iv and vi, or by a group of such persons acting jointly

xi. any person that a Director or Manager may be prompted to give preference to because of his relationship to that person or to a third party, or because of his status, title or any other reason

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

q) "Subsidiary": any company wholly owned by the Corporation

2 GENERAL PROVISIONS

2.1 The present Code is intended to maintain and strengthen public trust with respect to the integrity and impartiality of the Corporation's administration, encourage transparency within the Corporation, and to instil a sense of responsibility in its Directors and its Managers.

2.2 The present Code is also intended to establish ethical principles and rules of professional conduct for the Corporation. The ethical principles take into account the Corporation's mission, the values on which its actions are based, and its general principles of management. The rules of professional conduct relate to the duties and obligations of Directors and of Managers, clarifying and illustrating them in an indicative manner.

2.3 The present Code is applicable to Directors and to Managers of the Corporation and its Subsidiaries, all of whom are required to respect its provisions.

2.4 The present Code has been established in accordance with the Act, the Corporation's internal governance regulation and the Regulation. It reflects and, as applicable, completes the provisions of the aforementioned.

2.5 The Board approves the present Code upon the recommendation of the Committee, which is responsible for its review.

2.6 In the context of the present Code, the prohibition of an act includes the attempt to commit the act and participation in or inducement to commit the act.

2.7 The Corporation shall take all necessary measures to ensure the confidentiality of information provided by Directors and Managers in conjunction with the application of the present Code.

3 ETHICAL PRINCIPLES AND GENERAL RULES OF PROFESSIONAL CONDUCT

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

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

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

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

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

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

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

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

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

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

3.7 In exercising their functions, Directors and Managers must respect the Corporation's mission, vision and strategic directions set out in its strategic plan.

3.8 Directors and Managers may not, either directly or indirectly, offer, solicit or accept an undue favour or benefit for themselves or any persons related to a Director or Manager or a third party, nor can they accept any gift, any hospitality or any benefit other than what is customary and of modest value.

Any gift, any hospitality or any benefit that does not correspond to these criteria must be returned to the donor or to the State.

3.9 Door prizes in excess of $100 won by any Directors or Managers must be returned to the event organizers if the Corporation has paid event participation costs. Persons accompanying Directors or Managers in such cases are subject to the same rule.

3.10 In carrying out their functions, Directors and Managers must seek to defend only the Corporation's interests, to the exclusion of their own or those of a third party.

3.11 Directors and Managers shall not undertake any obligations to third parties nor afford them any guarantees with respect to any vote that they may be called upon to participate in or any decision whatsoever that the Board may be called upon to render.

3.12 A vote by a Director that is in violation of the provisions of the present Code or that is lodged while the Director is in default with respect to the production of the declaration mentioned in Section 4.11 may not be considered a deciding vote.

3.13 Directors or Managers who assume responsibilities in other entities may occasionally find themselves in situations of Conflict of interest. Whenever the present Code does not provide for the specific situation, they must determine whether their actions meet the behavioural standard the Corporation may reasonably expect in such circumstances. They must also determine if a reasonably informed person would conclude that their interests in the other entity are liable to influence their decisions and affect their objectivity and impartiality when discharging their duties to the Corporation.

3.14 Within a reasonable delay of assuming their position, Directors and Managers are required to organize their personal affairs so as not to prejudice the exercise of their functions and avoid incompatibility or Conflict of interest between their personal interests and the duties of their position. As applicable, they are required to take all necessary measures in order to comply with the provisions of the present Code.

3.15 Directors and Managers may not mix the Corporation's assets with their own. They may not utilize the Corporation's assets or Confidential information received in the course of carrying out their functions for personal or third party profit. These obligations remain in effect even after they have ceased to occupy their functions.

3.16 Directors and Managers are bound by discretion with respect to all Confidential information to which they are party in the exercise of their functions and are required to respect the confidential nature of information received at all times. Furthermore, Board deliberations, positions held by, and votes taken by its members are confidential.

3.17 Directors and Managers are required to respect any and all restrictions and apply protective measures with regard to Confidential information as follows:

- They must only convey Confidential information to authorized persons.
- If they use a system of electronic mail, they must comply with all practices and directives issued or approved by the Corporation regarding the storage, use and transmission of information by this system. They must not forward Confidential information received from the Corporation via this system to anyone.
- They are responsible for taking measures to protect the confidentiality of information to which they have access. These measures include:
  - not allowing documents containing Confidential information to be casually seen by third parties or unauthorized employees;
  - taking appropriate measures to ensure the physical protection of documents;
  - avoiding discussions in public that could reveal Confidential information;
  - identifying documents that may circulate as containing Confidential information that must be treated as such;
  - discarding any and all confidential documents using appropriate means (shredding, archiving, etc.) whenever they are no longer necessary for the execution of their mandate as Directors or Managers.

3.18 While exercising their functions, Directors and Managers may not have dealings with any persons that have ceased being a Director or Manager of the Corporation for less than one year if such persons are acting on behalf of another party with respect to a procedure, negotiation or any other operation to which the Corporation is party and about which such persons possess information that is not publicly available.

3.19 Once no longer exercising their functions, no Director or Manager may disclose any Confidential information received, or provide anyone with advice based on Confidential information unavailable to the public concerning the Corporation or any other organization or Enterprise with which they had direct and substantial relations during the year preceding the date on which their functions were terminated. During the course of the 12 months following this date, they are prohibited from acting on or on behalf of others relative to any procedure, negotiation or other operation to which the Corporation is party and about which they possess Confidential information not available to the public.

3.20 Directors or Managers who intend to become electoral candidates are required to inform the Chairman of the Board of their intention.

If the Chairman of the Board or the President and Chief Executive Officer has such intentions, they must so inform the Secretary General of the Executive Committee.

3.21 In exercising their functions, Directors and Managers must make decisions independently of all partisan considerations.

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

Prevention of conflicts of interest

4.1 Directors and Managers must avoid placing themselves in situations of conflict between their personal interests and their official duties, or in situations that may cast reasonable doubt as to their ability to discharge their duties with uncompromised loyalty.

Directors and Managers must avoid situations in which they or Related persons could profit directly or indirectly from a contract signed by the Corporation or by influencing decisions taken by them in accordance with their official functions within the Corporation.

Full-time Directors or Managers of the Corporation or of any of its Subsidiaries are also required to avoid taking positions or being bound by engagements that may prevent them from fully giving their duties the time and attention that would normally be required.

Other Directors are required to ensure that they are able to devote the appropriate time and attention to the exercise of their functions reasonably required in the circumstances.

4.2 Directors and Managers with full-time duties within the Corporation may not possess direct or indirect interests in an organization, Enterprise or Association that create a conflict between their personal interests and the interests of the Corporation. If they do, they may be subject to dismissal. However, such dismissal shall not take place if the interest accrues through an inheritance or gift that is diligently renounced or disposed of. In the interval, Sections 4.5, 4.6, 4.8 and 4.11 shall apply.

All other Directors holding interests in an Enterprise must comply with Sections 4.5, 4.6, 4.8 and 4.11. Failure to do so may make them subject to dismissal.

4.3 In order to be deemed independent, Directors may not:

- be or have been (during the three years preceding the date of their nomination) employed by the Corporation or be related to a person described in Section 1.n) that has been so employed;
- be employed by the government or a government agency within the meaning of Section 4 of the *Auditor General Act* (R.S.Q., c. V-5.01);
- have any relations as determined by the government under Section 5 of the *Act respecting the governance of state-owned enterprises*.

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

4.4 Directors and Managers of the Corporation who are also Directors or Managers of a Related enterprise are required to be specifically authorized by the controlling shareholder or shareholders of the Enterprise to:

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

Renunciation and abstention

4.5 Directors or Managers who:

a) are party to a contract with the Corporation or a Subsidiary; or

b) possess a direct or indirect interest in an Enterprise that is party to a contract with the Corporation or a Subsidiary, or are Directors, Managers or employees of this Enterprise;

are required to disclose the nature and scope of their interest in writing to the Chairman of the Board.

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

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

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

4.6 In the case of a Director, disclosure required under Section 4.5 must occur during the first meeting:

a) at which the contract or matter of concern is being discussed;

b) subsequent to when Directors with no previous interest in the contract or matter acquire such interest;

c) subsequent to when Directors acquire an interest in an already concluded contract;

d) subsequent to when any and all persons with an interest in the contract or matter under study become Directors.

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

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

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

4.8 Directors and Managers must make the disclosure required under Section 4.5 as soon as they have any knowledge of a contract that falls within the bounds of this section and that, in the normal course of the Corporation's business, does not require Director approval.

4.9 Sections 4.5 through 4.8 also apply to cases where such interest is held by a Person related to a Director or Manager.

4.10 Directors and Managers shall denounce all rights they may possess against the Corporation or any of its Subsidiaries in writing to the Chairman of the Board, indicating their nature and value, as soon as such rights come into existence or as soon as they become aware of them.

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

a) If the Manager or the department to which he is attached within the Corporation has been or is in a business relationship with this supplier;

b) If he could derive any benefit from his status as a Manager in the context of the negotiation of the Contract with this supplier;

c) If the making of the Contract could place him in a Conflict of interest situation; or

d) If, in the exercise of his functions, he is in contact with representatives of this supplier.

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

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

4.11 Within 30 days of their nomination, and on March 31 of each year in which they remain in service, Directors and Managers must forward a declaration in the form prescribed in Appendix 2 to the Chairman of the Board containing the following information:

a) The name of any and all Enterprises in which he or a Related person living under the same roof:

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

- assumes or holds a position as employee, director, manager or any analogous position; or
- has a direct or indirect interest, in the form of a claim, right, priority, mortgage or significant financial or commercial benefit.

b) To his knowledge, the name of any and all Enterprises in which any Related person:

- holds, directly or indirectly, securities or assets, including shares, specifying the nature and quantity in number and in proportion of the securities held and the value of the assets, but excluding publicly-traded Enterprises for which the Related person holds less than five percent of the securities;
- assumes or holds a position as employee, director, manager or any analogous position; or
- has a direct or indirect interest, in the form of a claim, right, priority, mortgage or significant financial or commercial benefit.

c) To his knowledge, the nature of any relationship between the Enterprises contemplated in the foregoing paragraphs and the Corporation; and

d) The name of any and all Associations in which they exercise functions or of which they are members, stipulating their functions, as applicable, as well as the purposes of the Association.

Directors or Managers to whom the provisions of Sections a) through d) do not apply are required to sign a declaration to that effect and remit it to the Chairman of the Board.

Directors or Managers are also required to produce a similar declaration within 30 days of any significant change occurring to its contents.

Declarations made subject to this section shall be treated as confidential.

4.12 The Chairman of the Board shall remit declarations received pursuant to the application of Sections 4.5 to 4.11 to the Secretary of the Corporation, who shall make them available to the members of the Board and of the Governance and Ethics Committee.

In addition, the Secretary of the Corporation shall notify the Chairman of the Board and the Governance and Ethics Committee of any breach of obligations under Sections 4.5 to 4.11 immediately upon becoming aware of such a breach.

4.13 Directors and Managers may notify the Corporation in advance of Board of Directors discussions pertaining to specific corporations or other entities from which they wish to be excluded.

4.14 In all cases where a matter may engender a Conflict of interest related to the function of a Director or Manager, or in the case of a corporation or entity declared by Directors or Managers under Section 4.13, the Secretary shall apply the deliberative procedures concerning conflicts of interest as prescribed in Appendix 3 of this Code.

4.15 Directors may not accept fees from the Corporation or from any of its Subsidiaries for consulting or any other similar services.

Dispensations

4.16 The present Code is not applicable to:

a) interests held through the intermediary of mutual investment funds in whose management the Directors or Managers do not participate either directly or indirectly;

b) interests held through the intermediary of a blind trust with no beneficiary right of review or right to know the composition of;

c) holding the minimum number of shares required to be eligible to become a Director of a body corporate;

d) an interest which, due to its nature and scope, is common to the population at large or to a particular sector in which Directors who do not exercise full-time functions within the Corporation or its Subsidiaries work;

e) a liability insurance contract for Directors;

f) shares issued or guaranteed by a government or municipality on terms that are identical for all.

5 APPLICATION OF THE CODE

5.1 The present Code is an integral part of the professional duties of Directors and Managers.

Directors and Managers undertake to become familiar and comply with it, as well as with any directive or particular instruction that may be supplied as to its application. In addition, they must confirm their adherence to the Code each year.

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

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

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

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

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

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

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

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

5.8 The Committee must:

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

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

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

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

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

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

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

- The identity of the perpetrator or perpetrators of the violation
- A description of the violation

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

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

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

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

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

a) Notification is received prior to the occurrence of events on which it is based.

b) The Board has been notified.

c) All pertinent facts have been fully revealed to the Committee in an exact and complete manner.

d) Directors or Managers have complied with all the requirements of the notification.

6 DISCIPLINARY PROCESS

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

a) In the case of a Manager, any appropriate penalty up to and including dismissal

b) In the case of a Director, reprimand, suspension without remuneration for a maximum of three months, or dismissal

Notwithstanding the preceding, when the competent authority is the Associate Secretary General as defined in Section 5.4, the penalty shall be imposed by the Secretary General of the Executive Committee. In addition, if the proposed penalty is the dismissal of a Public Administrator named or designated by the government, it may only be imposed by the latter. In that case, the Secretary General of the Executive Committee may immediately suspend the Public Administrator for a period not exceeding 30 days without remuneration.

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

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

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

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

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

7 EFFECTIVE DATE

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

POLICIES ON LANGUAGE AND THE AWARDING OF CONTRACTS, AND WORKFORCE ACT

LANGUAGE POLICY

Making language quality a top priority

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

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

AWARDING OF CONTRACTS

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

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

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

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

In 2014-2015, in keeping with the Act, Loto-Québec adopted a directive on service contracts and submitted it to the Conseil du trésor. Under this directive, in 2016-2017, the President and Chief Executive Officer of Loto-Québec authorized 72 service contracts for over $25,000, with a total value of $28,739,676. None of these contracts was concluded with a natural person.

LOTO-QUÉBEC WORKFORCE* AS AT MARCH 31, 2017

Category	Number of employees	Hours worked	Overtime	Total paid hours
Management staff	108	199,407	1,819	201,226
Professional staff	525	934,065	22,890	956,955
Office, technical and similar staff	335	599,258	17,125	616,383
Labourers, maintenance and service staff	28	42,893	5,215	48,108
Interns	4	6,010	14	6,024
Total	**1,000**	**1,781,633**	**47,063**	**1,828,696**

*Excluding subsidiaries

For the period from April 1, 2016, to March 31, 2017, the staffing level did not exceed the target set by the government.

ACCESS TO INFORMATION AND PROTECTION OF PERSONAL INFORMATION

ACCESS TO INFORMATION

In 2016-2017, Loto-Québec received 214 access to information requests. Of the requests processed, 114 were accepted, 33 were partially accepted and 20 were declined. The Corporation did not possess any documents related to 35 of the requests. Two further requests were withdrawn during processing. As of March 31, 2017, 10 requests were still pending.

No requests were sent to the Commission d'accès à l'information for review.

In general, the reasons for declining access to documents held by Loto-Québec were that they related to third parties who did not consent to their disclosure or that they contained personal or business information. Requests were answered within the deadline set by law.

Also this year, in compliance with the *Regulation respecting the distribution of information and the protection of personal information*, the Corporation voluntarily disclosed information on its website.

PROTECTION OF PERSONAL INFORMATION

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

BOARD OF DIRECTORS AND CORPORATE SECRETARIAT

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

Chairwoman of the Board of Directors of Loto-Québec

Partner
LF&B CPA inc.

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

Chairwoman of the Commercial Affairs Committee and the Audit Committee (since July 18, 2016) and member of the Human Resources Committee, and the Governance and Ethics Committee

Holding a graduate degree in Public Accounting with honours from McGill University, Hélène F. Fortin also earned a *magna cum laude* Bachelor of Business Administration degree with specialization in accounting and finance from Concordia University. She became a chartered accountant in 1982 and earned the title of ICD.D from the Institute of Corporate Directors in 2006 after completing the Directors Education Program. She has been practicing public accounting for more than 30 years. A member of the Ordre des comptables professionnels agréés du Québec (OCPAQ), she was a member of the Auditing and Assurance Standards Board of the Canadian Institute of Chartered Accountants from 2006 to 2009, and has assisted the association's Interprovincial Board of Evaluators from 1982 to 2016. She has sat on numerous boards since 2003 and has chaired various auditing, governance, human resources, finance and retirement fund management committees. She actively contributes to training on the governance of corporations and boards of directors as an author, guest speaker and workshop leader. Ms. Fortin earned the title of Fellow of the OCPAQ in February 2010.

LYNNE ROITER, MONTRÉAL

President and Chief Executive Officer of Loto-Québec*

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

A graduate of Université Laval's Law Faculty and member of the Québec Bar since 1972, Lynne Roiter joined Loto-Québec in 1985 as Director of Legal Affairs. Prior to that, she practiced her profession as lawyer at the Commission des droits de la personne, the Régie de l'assurance automobile du Québec and in private practice. From November 1996 to May 31, 2017, she has served as Loto-Québec's Corporate Secretary and Vice President of Legal Affairs. Named Acting President and Chief Executive Officer on August 8, 2016, she was subsequently confirmed in that position on May 31, 2017. She is also Corporate Secretary of the World Lottery Association, an organization comprised of more than 140 public lottery corporations from some 80 different countries around the world.

*Until May 31, 2017, Lynne Roiter also occupied the position of Corporate Secretary and Vice President of Legal Affairs.

ALAIN ALBERT, MAGOG

Corporate Director

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

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

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

DONALD M. BASTIEN, MONTRÉAL

Corporate Director

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

Member of the Human Resources Committee, the Commercial Affairs Committee, and the Governance and Ethics Committee (since July 18, 2016)

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

LYNDA DURAND, MONTRÉAL
ASC

Co-President and Co-Owner
Productions Ostar inc.

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

Chairwoman of the Governance and Ethics Committee, and member of the Commercial Affairs Committee

Lynda Durand holds a Bachelor of Law degree from the Université de Sherbrooke and was admitted to the Québec Bar in 1984. With over 25 years of experience in the legal field, Me Durand worked in private practice in Sherbrooke from 1986 to 1990. In addition to her practice, she taught negotiation techniques at the École du Barreau. From 1990 to 1997, she was Vice President of Legal Services, Communications and Material Resources at the Government of Québec's Commission de la santé et de la sécurité du travail. Since 1997, Me Durand has been Co-President of the Ostar inc. television production company. She is the first woman to chair the Board of Directors of the Université de Sherbrooke since the institution was founded. She also sits on the Board of Directors of the Orchestre symphonique de Montréal. Her sense of service led her to join the Board of Governors of the Canadian Red Cross. Moreover, in January 2014, she was named by the Ministère de l'Éducation, du Loisir et du Sport to a task force studying concussions. In 2013, she received the title of Administratrice de sociétés certifiée (ASC) (certified corporate director) from Université Laval's Collège des administrateurs de sociétés.

JEAN ANDRÉ ÉLIE, MONTRÉAL

Corporate Director

Appointment: November 23, 2011
End of term: November 22, 2015*

Member of the Audit Committee and the Commercial Affairs Committee

Jean André Élie holds an MBA from Western Ontario University, a Bachelor of Civil Law degree from McGill University and a Bachelor of Arts degree from the Université de Montréal. He is a member of the Québec Bar. He is also a member of the Québec chapters of the Institute of Corporate Directors and the Institute of Internal Auditors. During his career, he has held the position of General Manager of a Canadian bank wholly owned by the Société Générale (France) and member of Hydro-Québec's Executive Committee and Chairman of its Finance and Audit committees. He was also Vice President and Director of Government Services and Corporate Services at Burns Fry Limited (today known as BMO Nesbitt Burns). Mr. Élie sits on the boards of directors at Alimentation Couche-Tard inc., the Institute of Internal Auditors of Canada and the Orchestre symphonique de Montréal (OSM). After almost 50 years of volunteering for the OSM, he was awarded the Ramon John Hnatyshyn Award for Volunteerism in the Performing Arts in 2011.

*When a mandate comes to term, it is extended until its renewal or until the nomination of a new member.

NATHALIE GOODWIN, MONTRÉAL
LL. B., ASC

Attorney and Partner
Agence Goodwin

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

Member of the Human Resources Committee, the Commercial Affairs Committee and the Audit Committee (since July 18, 2016)

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

MEL HOPPENHEIM, MONTRÉAL
C.M.

Corporate Director

Mandate renewed: November 23, 2011
End of term: November 22, 2014*

Member of the Governance and Ethics Committee, the Human Resources Committee (since July 18, 2016) and the Commercial Affairs Committee

Mel Hoppenheim is a leading figure in the movie industry, both in Québec and throughout the rest of Canada. He founded Concordia University's Mel Hoppenheim School of Cinema, which enrols more than 500 students each year. Mr. Hoppenheim holds an honorary doctorate from Concordia University. He is also one of the co-founders of the Institut national de l'image et du son (INIS). Involved in the funding of numerous charitable and community organizations, he sits on the boards of the Montreal Children's Hospital and the Montreal Heart Institute Foundation. In 2015, Mr. Hoppenheim was invested into the Order of Canada (C.M.).

*When a mandate comes to term, it is extended until its renewal or until the nomination of a new member.

SERGE LEBEL, QUÉBEC CITY
ASC

Attorney
BCF LLP

Mandate renewed: November 23, 2011
End of term: November 22, 2014*

Member of the Governance and Ethics Committee, the Commercial Affairs Committee and the Audit Committee (since July 18, 2016)

A Université Laval law graduate since 1982, member of the Québec Bar since 1983 and an Administrateur de sociétés certifiés (ASC) (certified corporate director) by the Collège des administrateurs de sociétés since 2008, Serge LeBel specializes in litigation and business law. A member of several boards of directors and corporate advisory boards, Me LeBel has always been actively involved in community affairs, within organizations such as the Fondation Jeunes en Tête, the Canadian Red Cross in Québec, the YWCA de Québec, the Fondation de l'Académie Saint-Louis, the Fondation de l'entrepreneurship, the École d'entrepreneuriat de Québec as well as the Chambre de commerce et d'industrie de Québec's Institut du mentorat entrepreneurial. He has also been an active member of the Lions Club since 1985.

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

Executive Manager
BIOQuébec

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

Member of the Human Resources Committee and the Commercial Affairs Committee

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

*When a mandate comes to term, it is extended until its renewal or until the nomination of a new member.

BOARD OF DIRECTORS AND COMMITTEE REPORTS

MANDATE

The Board of Directors (the "Board") is responsible for overseeing Loto-Québec's operations in compliance with the provisions of its act of incorporation and the regulations pertaining to it, as well as those of the other laws and regulations that govern the Corporation. The Board ensures that Loto-Québec takes the necessary measures to achieve the objectives arising from its mission. To do so, it adopts gaming regulations, and approves Loto-Québec's principal policies, orientations and annual business plan, and also monitors the progress of the organization's corporate responsibility actions, and establishes the risk management oversight policies related to its operations.

The Board is supported by three permanent committees: the Audit Committee, the Governance and Ethics Committee, and the Human Resources Committee, and it is empowered to form other committees in accordance with its needs. It created the Commercial Affairs Committee in 2008-2009 and the Ad Hoc Recruitment Committee in 2015-2016. Each of these committees makes recommendations to the Board in its area of expertise.

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

COMPOSITION

As of March 31, 2017, the Board had 10 members – 5 men and 5 women –, all appointed by the Government of Québec. All are independent members, except for the President and Chief Executive Officer.

ATTENDANCE

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

During the 2016-2017 fiscal year, the Board of Directors held 15 regular meetings and 7 special meetings in person or by conference call. A closed session without management present was held at the end of each Board and committee meeting.

DIRECTOR ATTENDANCE REPORT AS OF MARCH 31, 2017

	BOARD OF DIRECTORS		AUDIT COMMITTEE	GOVERNANCE AND ETHICS COMMITTEE	HUMAN RESOURCES COMMITTEE		AD HOC RECRUITMENT COMMITTEE	
MEMBERS	REGULAR 15	SPECIAL 7	REGULAR 5	REGULAR 5	REGULAR 4	SPECIAL 1	REGULAR 2	SPECIAL 6
Hélène F. Fortin	15/15	7/7	5/5	5/5	4/4	1/1	2/2	6/6
Alain Albert	15/15	7/7	–	–	4/4	1/1	2/2	6/6
Donald M. Bastien	15/15	7/7	–	2/2	4/4	1/1	–	–
Paule Bouchard	2/2	4/4	2/2	–	–	–	–	1/1
André Dicaire	–	–	1/1	–	–	–	–	–
Lynda Durand	14/15	7/7	–	4/5	–	–	2/2	6/6
Jean André Élie	15/15	7/7	5/5	–	–	–	–	–
Nathalie Goodwin	13/15	6/7	2/3	–	4/4	1/1	–	–
Mel Hoppenheim	13/15	6/7	–	4/5	3/3	1/1	–	–
Serge LeBel	14/15	7/7	2/3	5/5	–	–	2/2	6/6
Anie Perrault	14/15	7/7	–	–	3/4	1/1	–	–

Excused absences.

REMUNERATION

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

REMUNERATION OF THE INDEPENDENT DIRECTORS

Directors	Total Remuneration*
Hélène F. Fortin[1, 2, 3, 4, 5 and 6]	$68,839.25
Alain Albert[3, 4 and 5]	$24,772.55
Donald M. Bastien[2, 3 and 4]	$23,808.00
Paule Bouchard[1, 4 and 5]	$6,677.00
André Dicaire[1 and 4]	$683.29
Lynda Durand[2, 4 and 5]	$28,451.00
Jean André Élie[1 and 4]	$22,936.50
Nathalie Goodwin[1, 3 and 4]	$22,355.50
Mel Hoppenheim[2, 3 and 4]	$22,936.50
Serge LeBel[1, 2, 4 and 5]	$26,422.50
Anie Perrault[3 and 4]	$21,484.00
	$269,366.09

[1]Audit Committee
[2]Governance and Ethics Committee
[3]Human Resources Committee
[4]Commercial Affairs Committee
[5]Ad Hoc Recruitment Committee
[6]Pension plan committees for employees and for management and professional staff of the Société des casinos du Québec

*The change in the compensation of the independent Board members between 2015-2016 and 2016-2017 is due to the greater number of meetings.

ACTIVITIES

STRATEGIC PLANNING AND BUSINESS PLAN

At each meeting of the Board of Directors, Loto-Québec management reported on the progress of the Corporation's business in relation to the 2016-2017 business plan and principal current projects. This year, the Board approved the 2015-2016 annual report[1] and the 2017-2018 action plan. It also adopted the 2017-2020 strategic plan.

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

- Renewal of the Level 4 certification in responsible gambling, from the World Lottery Association
- Transformation of the lottery ticket distribution model
- Video lottery terminal network action plan
- Provisions for the filtering of illegal online gaming sites and improvement of the Loto-Québec's site
- Opening of new restaurants in the Casino de Montréal and the Casino de Charlevoix
- Pilot project for electronic bingo
- Continuation of internal work on tomorrow's clientele
- Monitoring of IT developments

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

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

FINANCIAL RESULTS AND INTERNAL CONTROLS

At each of its ordinary meetings, the Board reviewed a presentation on the financial results and their highlights. On the recommendation of the Audit Committee, the Board approved the financial statements for the year ended March 31, 2016,[2] as well as the 2017-2018 operating budgets. It also authorized the Corporation to dispose of the interests it held in Casinos Développement Europe.

On the recommendation of the Audit Committee, the Board approved changes to various internal operating policies related to its areas of competency.

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

[1] The Board of Directors approved the 2016-2017 annual report at its meeting of June 1, 2017.

[2] At its meeting of June 1, 2017, and upon recommendation by the Audit Committee, the Board of Directors approved the financial statements of the Corporation for the year ended March 31, 2017.

CORPORATE GOVERNANCE

During the 2016-2017 fiscal year, the Board of Directors enforced the Corporation's governance regulations and policies.

On the recommendation of the Governance and Ethics Committee, the Board approved changes to the Code of Ethics for Employees of Loto-Québec and its Subsidiaries, as well as the Code of Ethics and Rules of Professional Conduct for Directors and Managers of Loto-Québec and its Subsidiaries. It also reviewed the makeup of the committees and carried out the annual review of its operations.

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

HUMAN RESOURCES MANAGEMENT

Throughout the 2016-2017 fiscal year, the Board of Directors monitored various policies relating to personnel management, in cooperation with the Human Resources Committee.

On the recommendation of the Human Resources Committee, the Board approved the remuneration parameters for non-union personnel and managers at Loto-Québec and its subsidiaries for 2017-2018. The directors also ratified the results of the incentive program for 2015-2016 and the program's terms of application for 2016-2017, for all target employees.

Also on the recommendation of the Human Resources Committee, the Board approved the terms of the negotiation mandates for the collective agreements of the Syndicat des travailleurs et travailleuses de Loto-Québec (STTLQ) and the Loto-Québec unit of the Syndicat de professionnelles et professionnels du Gouvernement du Québec (SPGQ).

The Board continued to monitor the activities of the Ad Hoc Recruitment Committee. It recommended that the Government of Québec appoint Lynne Roiter, Corporate Secretary and Vice President of Legal Affairs, as President and Chief Executive Officer, first on an interim basis and then officially. Ms. Roiter was confirmed in this position by the government on May 31, 2017.

Organizational changes were also enacted by the Board, on the recommendation of the Human Resources Committee:

- Appointment of the President of Operations – Lotteries, who is also keeping her title as Vice President of Public Affairs
- Abolition of the position of Corporate Vice President of Strategy, Innovation and Public Affairs
- Transfer of internal and institutional communications responsibilities to the Vice President of Responsible Gambling and Social Commitment, who became Corporate Vice President of Responsible Gambling, Communications and Social Commitment
- Transfer of the Corporate Department of Strategy, Innovation and Business Intelligence to the responsibility of the President and Chief Executive Officer

A member of the Board continued to sit on the Société des casinos du Québec (SCQ) employee and executive and professional pension plan committees as a representative of Loto-Québec's Board of Directors. On the recommendation of the Human Resources Committee, the Board approved the amendments of these plans' investment policy and the amendment of the Supplementary Pension Plan for Executive Officers of Loto-Québec.

The Board also approved the 2016-2017 action plan for individuals with disabilities.

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

AUDIT COMMITTEE REPORT

MANDATE AND COMPOSITION

The Audit Committee supports the Board of Directors in monitoring the integrity of financial reporting and the Corporation's internal controls. It monitors the integrated risk management practices, oversees the establishment of effective and adequate internal control mechanisms and supervises the internal auditing activities. It acts as a communications link between the external co-auditors, Internal Auditing and the Board of Directors. The Audit Committee is responsible for reviewing its charter on an annual basis in order to recommend any appropriate changes to the Board.

As of March 31, 2017, the Audit Committee was composed of four independent members.

Chairwoman: Hélène F. Fortin, FCPA, FCA
Members: Jean André Élie, Nathalie Goodwin and Serge LeBel

All the members have the requisite experience and skills in accounting or finance. The Chairwoman holds the title of Fellow of the Ordre des comptables professionnels agréés du Québec.

ACTIVITIES

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

- Approved Loto-Québec's quarterly financial statements and monitored the budget
- Reviewed the Corporation's 2015-2016 financial statements with the co-auditors, namely the Auditor General of Québec and Raymond Chabot Grant Thornton LLP, and recommended their approval to the Board of Directors[1 and 2]
- Conducted a follow-up on the application of the International Financial Reporting Standards (IFRS)
- Recommended that the Board of Directors authorize the payment of bonuses for 2015-2016
- Took note of changes in the cost of the SCQ pension plans
- Approved the resource optimization audit approach and ensured that resource optimization was incorporated into the auditing mandates
- Ensured that the Internal Auditing Department was able to perform its role independently of Loto-Québec management
- Approved and monitored Internal Auditing's 2016-2017 annual work plan
- Monitored:
  - The internal control certification programs
  - The integrated business risk management program and the crisis management plan
  - The FINTRAC compliance program
  - The Corporation's insurance coverage
- Monitored the activities of the groups responsible for information technologies and security
- Reviewed the operational policies it is responsible for and recommended that the Board of Directors approve the required changes
- Carried out the annual review of its mandate
- Reported its accomplishments to the Board of Directors

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

[1]On the recommendation of the Board of Directors, the government renewed the contract with Raymond Chabot Grant Thornton LLP for the audit of the financial statements for the fiscal years ending March 31, 2016 and 2017. The firm's audit fees for the 2016-2017 financial statements came to $481,175, in compliance with its proposal.

[2]At its meeting of May 31, 2017, the Audit Committee reviewed the 2016-2017 financial statements with the external co-auditors and recommended their approval to the Board of Directors.

GOVERNANCE AND ETHICS COMMITTEE REPORT

MANDATE AND COMPOSITION

The Governance and Ethics Committee assists the Board of Directors in developing and applying the best ethics and corporate governance practices. It also proposes the rules of governance and the codes of ethics that apply to the Corporation's directors, executives and personnel. The committee ensures that Loto-Québec's policies are reviewed on an annual basis by the appropriate Board committees. It develops expertise and experience profiles for the appointment of Board members, with the exception of the President and Chief Executive Officer, and recommends them to the Board. The Governance and Ethics Committee is responsible for reviewing its charter on an annual basis in order to recommend any appropriate changes to the Board.

As of March 31, 2017, the Governance and Ethics Committee was composed of five independent members.

Chairwoman: Lynda Durand
Members: Donald M. Bastien, Hélène F. Fortin, FCPA, FCA, Mel Hoppenheim and Serge LeBel

ACTIVITIES

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

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

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

HUMAN RESOURCES COMMITTEE REPORT

MANDATE AND COMPOSITION

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

As of March 31, 2017, the Human Resources Committee was composed of six independent members.

Chairman: Alain Albert
Members: Donald M. Bastien, Hélène F. Fortin, FCPA, FCA, Nathalie Goodwin, Mel Hoppenheim and Anie Perrault

ACTIVITIES

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

- Recommended that the Board of Directors approve:
  - The remuneration parameters for non-union personnel and managers at Loto-Québec and its subsidiaries for 2017-2018
  - The results of the incentive program for 2015-2016 and its terms of application for 2016-2017, for all target employees
  - The terms of the negotiation mandate for the collective agreements of the STTLQ and the Loto-Québec unit of the SPGQ
  - The appointment of the President of Operations – Lotteries, who is also keeping her title of Vice President of Public Affairs
  - The abolition of the position of Corporate Vice President of Strategy, Innovation and Public Affairs
  - The transfer of internal and institutional communications responsibilities to the Vice President of Responsible Gambling and Social Commitment, which has become the Corporate Vice President of Responsible Gambling, Communications and Social Commitment
  - The transfer of the Corporate Department of Strategy, Innovation and Business Intelligence to the responsibility of the President and Chief Executive Officer
  - The amendments to the investment policy of the SCQ pension plans
  - The amendment to the Supplementary Pension Plan for Executive Officers of Loto-Québec
  - The 2016-2017 action plan for individuals with disabilities
- Took note of changes in the cost of the SCQ pension plans
- Monitored:
  - The employee mobilization initiative
  - The succession identification program
  - The corporate volunteer program
- Reviewed the operational policies for which it is responsible
- Carried out the annual review of its mandate
- Reported its accomplishments to the Board of Directors

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

REMUNERATION AND BENEFITS OF THE FIVE HIGHEST-PAID EXECUTIVES OF THE CORPORATION
FOR THE FISCAL YEAR ENDING ON MARCH 31, 2017

NAME AND TITLE	SALARY RECEIVED	INCENTIVE REMUNERATION	VEHICLE	ADDITIONAL BENEFITS[1]	GROUP INSURANCE PLAN
Kevin Taylor[2] President of Operations Société des casinos du Québec	$276,790	$72,956	$13,888	$2,500	$7,388
Lynne Roiter[3] President and Chief Executive Officer Corporate Secretary and Vice President Legal Affairs	$253,749	$67,249	$3,571	$2,500	$2,813
François Tremblay[4] President of Operations Société des établissements de jeux du Québec	$241,486	$63,980	$12,742	$2,500	$6,831
André Dumouchel Corporate Vice President Human Resources	$235,566	$62,238	$10,323	$2,500	$5,361
Johanne Rock Corporate Vice President Finance and Administration	$234,180	$61,893	$11,307	$2,500	$5,657

Basic pension plan

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

Supplementary pension plan

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

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

[2]Kevin Taylor held the position of Chief Operating Officer of the SCQ and General Manager of the Casino de Montréal until April 10, 2016.

[3]Lynne Roiter held the position of Acting President and Chief Executive Officer of Loto-Québec from August 8, 2016, to May 31, 2017. In this role, she received an extra 10% of her salary as Corporate Secretary and Vice President of Legal Affairs. She was confirmed in the position of President and Chief Executive Officer on May 31, 2017.

[4]François Tremblay held the position of Vice President, Sales and Marketing, in the Présidence des opérations – Loteries until April 10, 2016.

AD HOC COMMITTEE FOR THE RECRUITMENT

MANDATE AND COMPOSITION

The mandate of the Ad Hoc Recruitment Committee is to see to the efficient and diligent operation of the recruitment process and to make recommendations to the Board of Directors.

As of March 31, 2017, the Ad Hoc Recruitment Committee was composed of four independent members.

Chairwoman: Hélène F. Fortin, FCPA, FCA
Members: Alain Albert, Lynda Durand and Serge LeBel

ACTIVITIES

During the last fiscal year, the Ad Hoc Recruitment Committee met eight times in person or by conference call.

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

CORPORATE STRUCTURE

CARLOS J. LEITÃO
Minister of Finance

Board of Directors
HÉLÈNE F. FORTIN
Chairwoman

Audit Committee
HÉLÈNE F. FORTIN
Chairwoman

LYNNE ROITER
President and Chief Executive Officer

LUC LAVOIE
Acting Corporate Director
Internal Auditing and Enterprise Risk Management

MARIE-CHRISTINE TREMBLAY
Corporate Secretary
Vice President
Legal Affairs

ISABELLE JEAN
President of Operations
Lotteries
Vice President
Public Affairs

DENIS DALY
Corporate Vice President
Information Technologies

KEVIN TAYLOR
President of Operations
Société des casinos du Québec

ANDRÉ DUMOUCHEL
Corporate Vice President
Human Resources

FRANÇOIS TREMBLAY
President of Operations
Société des établissements de jeux du Québec

MICHEL GASSE
Corporate Vice President
Real Estate

NATHALIE RAJOTTE
Corporate Director
Strategy, Innovation and Business Intelligence

GUYLAINE RIOUX
Corporate Vice President
Responsible Gambling, Communications and Social Commitment

YVON THÉORÊT
Corporate Director
Gaming Equipment and Systems Compliance

JOHANNE ROCK
Corporate Vice President
Finance and Administration

LYNDA VACHON
Corporate Director
Security and Prevention

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*Une version française de ce document
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LOTO QUÉBEC

lotoquebec.com

WORLD LOTTERY ASSOCIATION
WLA

CERTIFIED – LEVEL 4
RESPONSIBLE GAMING FRAMEWORK
2016 – 2019

CERTIFIED
SECURITY CONTROL STANDARD
VALID UNTIL JUNE, 2020