



[managing]]responsibly[

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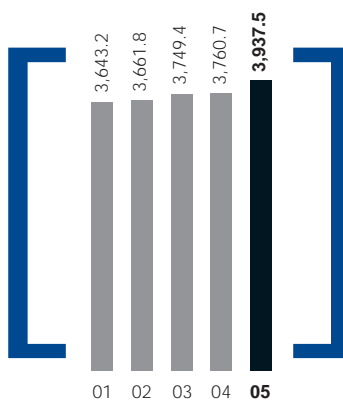
Loto-Québec's mission is to assure the systematic and effective operation of games of chance in the province. Created in 1969 to implement a public lottery, the Corporation has since been entrusted by its shareholder, the Government of Québec, with various new mandates that have seen it considerably diversify its activities over the years. – In addition to a State lottery, the Corporation now operates three casinos, related restaurant and hotel services, a video lottery network, along with network bingo activities. The Corporation is also active in international markets, offering products and services developed within its various areas of competence. – Loto-Québec returns the fruits of its activities in their entirety to the Government and to the provincial community at large. In recognition of its social responsibilities, the Corporation finances a program for the prevention and treatment of compulsive gambling, while taking its own actions to combat dependency on gaming. Moreover, the Corporation manifests its social commitment in numerous other ways, including through its financial support of community action and its sponsorship program that generates significant economic spin-offs throughout Québec.

Financial Highlights

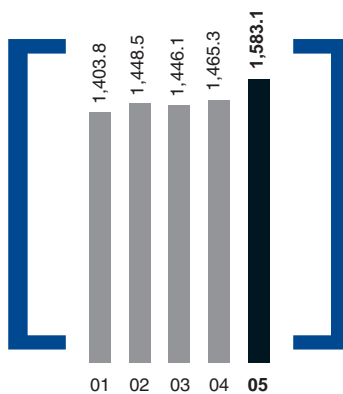
As at March 31
(in thousands of dollars)

	2005	2004	Variation	Variation
			\$	%
Total Revenues	3,937,464	3,760,743	176,721	4.7
Lotteries	1,857,225	1,812,785	44,440	2.5
Casinos	751,913	728,906	23,007	3.2
Restaurants	82,766	79,617	3,149	4.0
Lodging	13,407	12,447	960	7.7
Video Lotteries	1,236,884	1,128,847	108,037	9.6
Bingo	36,597	36,929	-332	-0.9
Multimedia	1,070	642	428	66.7
Inter-Company Transactions	-42,398	-39,430	-2,968	7.5
Prizes awarded – Lotteries	964,397	962,692	1,705	0.2
Prizes awarded – Bingo	16,574	16,734	-160	-1.0
Gross profit	2,475,875	2,297,280	178,595	7.8
Net income	1,583,133	1,465,250	117,883	8.0
Dividends	1,511,000	1,493,000	18,000	1.2
Other amounts contributed to the Québec and Canadian Governments	244,250	242,268	1,982	0.8
Total assets	942,309	1,010,401	-68,092	-6.7
Shareholder's equity	135,022	134,717	305	0.2

Total Revenues
(in millions of dollars)

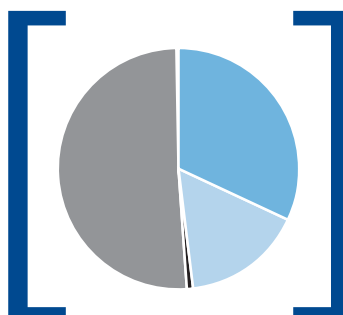


Net Income
(in millions of dollars)



Distribution of Consolidated Net Income
(in thousands of dollars)

■ Video Lotteries	\$809,173
■ Lotteries	\$520,890
■ Casinos, Restaurants and Lodging	\$256,009
■ Bingo	\$ 2,156
□ Multimedia	\$ -5,095



[managing]

- **Maintain** the level of net earnings remitted to the Québec Government
- **Improve** effectiveness and overall performance
- **Maximize** the synergies with business partners
- **Ensure** customer satisfaction through innovation and constant renewal of game offerings

]responsibly[

- **Reduce** the social costs related to games of chance
- **Refrain** from increasing overall game offerings
- **Contribute** to the success and development of the tourism industry
- **Maximize** the generation of economic spin-offs
- **Support** community action and development

The year just ended has been particularly fruitful for Loto-Québec, both in terms of the results obtained and projects accomplished, as well as with respect to the important advances made in realizing our 2004-2007 Development Plan. With the Corporation marking its 35th anniversary this year, we are proud of our performance over the course of fiscal 2004-2005, during which each of our operating and business units demonstrated a high level of competence and responsible management.



The Year's Results

Loto-Québec's operating results during the past fiscal year fully satisfied the expectations of its shareholder, the Government of Québec, to which we remitted a total of \$1.669 billion, including \$1.511 billion in dividends. This contribution represents an increase of \$18 million over the previous reporting period. The Corporation generated consolidated revenues of \$3.937 billion, up 4.7% from fiscal 2003-2004, and these revenues yielded consolidated net income of \$1.583 billion, up as well by 8% as compared to the previous year.

Our three principal activity sectors contributed significantly to our positive financial performance, with the Lottery, Casino (including Restaurants and Hotels) and Video Lottery sectors increasing their revenues by 2.5%, 3.3% and 9.6% respectively. With regards to net income, Lotteries posted a 6.9% increase, Video Lotteries recorded an 11.8% increase, while the Casinos showed a slight decline of 0.6%.

The increase in revenues and net income within the Lottery sector is a major source of gratification for us. Attributable in large part to the successful launch of the new *Lotto 6/49*, the sector's record sales recognize and underline our concerted efforts to renew our product offerings and adapt our business practices to the evolving preferences of our clientele. The sector's positive results, dating back to the earliest beginnings of the Corporation, are also the product of the judicious decisions we have made with respect to the development of our computer systems to ensure that they remain consistently effective, reliable and secure.

For its part, the Casino sector presents a somewhat different picture. While we are, of course, delighted with the growth in overall revenues, we are nevertheless quite concerned about the sector's performance on two specific fronts – the decline in profitability and the decrease in visitor traffic at the Montréal and Gatineau gaming houses. The drop in net income demands that we intensify our efforts to ensure tighter cost controls. As for the downturn in attendance, this is a reflection of the fierce competition that now prevails within the North American casino market – a phenomenon that serves to substantiate the argument for relocating the Casino de Montréal.

Reconfiguration of the Video Lottery Network

The increase in revenues generated by the Video Lottery sector confirms the popularity of these games among our clientele. However, we also clearly recognize that this popularity does come with potential consequences, as video lottery terminal (VLT) enthusiasts are among the players most susceptible to developing gaming problems. Committed to fulfilling our social responsibilities vis-à-vis this clientele, we have submitted a proposal to the Government to reduce the number of sites offering VLTs by at least 31%, thereby withdrawing 2,500 terminals from the current network of bars and licensed establishments. This proposal was outlined in detail in our 2004-2007 Development Plan.

Our shareholder has given us the green light to proceed with this important component of the Development Plan aimed at decreasing accessibility to VLTs. The proprietors of the 702 bars concerned have now been notified that the Corporation will be terminating their contract sometime after November 25, 2005 in return for financial compensation equal to the commissions they earned during the 12 months preceding the date of withdrawal of their VLTs.

Our Development Plan also calls for approximately 1,770 of the 2,500 terminals recuperated to be relocated to a network of controlled sites. As the question of what to do with racetracks has yet to be resolved, it is too soon to know the exact number, location and timetable for the construction of these controlled sites. However, it has already been determined that Loto-Québec will assume the day-to-day management of their activities by way of a new subsidiary to be created.

The reconfiguration of the Corporation's video lottery network will result in a substantial reduction in the number of terminals available in districts with the highest potential social costs. However, the number of VLTs offered will remain high enough and geographically diverse enough to avoid a reappearance of illegal equipment. In the meantime, to enhance the effectiveness of our initiatives to promote responsible gaming, we intend to implement a series of new measures involving the network of establishments equipped with VLTs.

The Future of the Casino de Montréal

The future of the Casino de Montréal was another major focus of our attention during the past fiscal year. As part of our Development Plan, we committed to carefully studying the pros and cons of two fundamental hypotheses – renovation and expansion of the existing facilities on Île Notre-Dame, and the establishment of a new gaming house within a resort complex to be built in proximity to the Old Port of Montréal. We will eventually be submitting a proposal to the Québec Government.

Reviewing Our Operating Procedures

In line with our commitment to continuously improve our administrative practices and procedures, we launched an exhaustive review of how we do things in three fundamental areas of activity – human resources, security and finance. These three major studies initiated during the past fiscal year enabled us to determine the best work methods and processes to assure that the highest quality service is being provided to our internal customers and that the greatest value is being added to the organization. The exercise also resulted in a new distribution of roles and responsibilities among the Corporation's departments and those of its subsidiaries. In addition, it led to a decision to expand our executive committee to include the leaders of each of our principal business units.

Launched in conjunction with our strategic planning endeavours, our assessments served to reaffirm the fact that Loto-Québec is one unified organization evolving within a multifaceted but single gaming industry. In order to ensure that our multidivisional organization is managed with as much coherence as possible, we need to promote an optimal balance between our centralized and our decentralized assets and strengths.

Reaching Out to the Community

During the past fiscal year, Loto-Québec adopted a new sponsorship policy, increasing the budget allocated to sponsorships at the same time. Our objective is now to devote 1% of our net income to our sponsorship program. This increased allocation reflects the Corporation's firm desire to reinforce its social commitments within the various regions of the province.

Our new policy translates primarily into an intensification of our support of public, festival-type events under the banner of what we are calling *Les Rendez-vous Loto-Québec*. More specifically, the events that we are supporting are selected for their capacity to attract tourists and generate economic spin-offs for local communities and the provincial community at large. The decision to support these types of events is a natural extension of our fundamental areas of activity and focus – entertainment and tourism.

Since its creation 35 years ago, Loto-Québec has continued to play a greater and greater part in the daily lives of Québécois. These close ties, along with its status as a public corporation, oblige Loto-Québec to be accountable and to strive to maintain an open dialogue with the population. A number of initiatives were undertaken in this regard during the past fiscal year. These include the implementation of a corporate advertising campaign, the distribution of an information pamphlet to mark our 35th anniversary, the preparation of a document outlining our social contributions that will be published in the fall of 2005, and the continuous improvement of our Web site. Through all of these initiatives and others, we are dedicated to keeping our various publics better informed while maintaining ongoing dialogue.

Supporting Our Human Resources

Responsible management demands that we use the potential of our human resources as judiciously as possible. During fiscal 2004-2005, Loto-Québec devoted close to 1.5% of its total payroll to personnel training and development. Our training initiatives have been particularly innovative within our casinos, where we have successfully implemented effective continuous improvement programs based on the Japanese *Kaizen* method.

All collective agreements at our establishments were renewed during the year just ended. These new labour contracts reflect both the confidence our employees have in the Corporation and the Corporation's confidence in them. Another good example of Loto-Québec's commitment to its personnel is the new Recognition Program established this past year. And once again, numerous awards and distinctions reconfirmed the outstanding talents and expertise of our employees in all of our activity sectors.

The success we have enjoyed during the past fiscal year is, indeed, the product of a job extremely well done by a remarkable team of individuals that is Loto-Québec. I would like to take this opportunity to thank all of our personnel for their dedication, enthusiasm and professionalism. I would also like to express my gratitude to all of my management colleagues for their exceptional work, support and counsel. The contributions of each and every one of you will continue to constitute the key to our ability to meet the many challenges that await us.

Alain Cousineau
*Chairman
President and Chief Executive Officer*

Board of Directors



Alain Cousineau
Montréal
Chairman of the Board
President and Chief Executive Officer
Loto-Québec

Lynne Roiter, LL.L.
Montréal
Corporate Secretary
Vice-President, Legal Affairs
Loto-Québec

Marc G. Bruneau
Montréal
Vice-President
GBC Asset Management Inc.



Robert Crevier, CA
Mont-Tremblant
Management Consultant

M^e Serge LeBel
Québec City
BCF S.E.N.C.R.L.

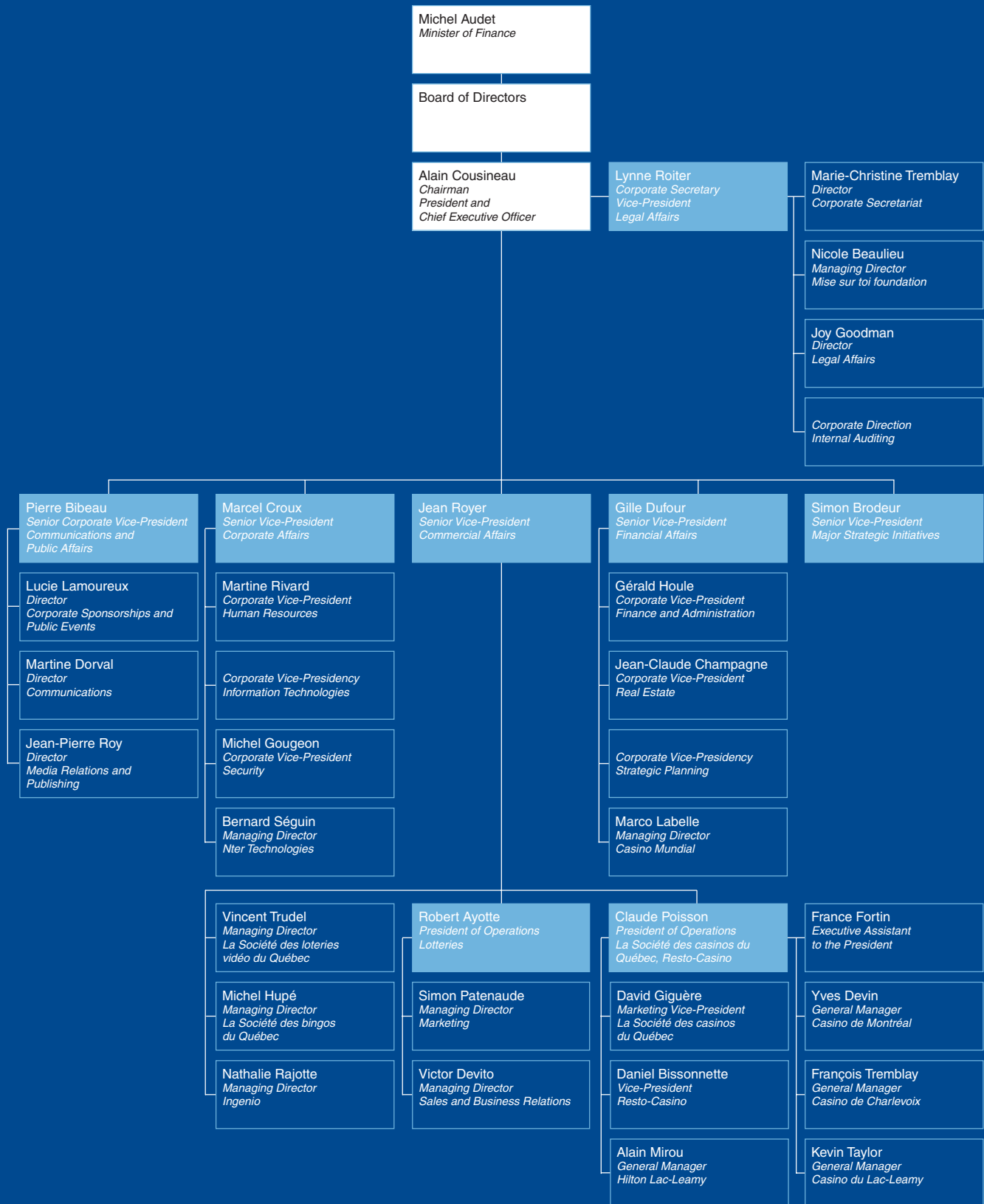
Nancy Arbour
Iles-de-la-Madeleine
Corporation de développement
portuaire de l'Anse de l'Étang-du-Nord



Solange Dugas
Saint-Laurent
GB Micro

Mel Hoppenheim
Montréal
Locations Michel Trudel Inc.
Me's Cité du Cinéma Ltd.

Corporate Structure



Review of Commercial Activities





lotteries

[managing]

- Record sales of \$1.857 billion, up by 2.5%
- Net income of \$520.9 million
- Increased sales in three of the four major lottery categories
- Successful launch of the new *Lotto 6/49*
- Modernization of points of sale
- Closer involvement with major accounts
- 675 prizes of \$50,000 or more awarded, including 47 exceeding \$1 million

]responsibly[

- Partnership with 1,415 NPOs authorized to sell *Lotomatique* subscriptions or operate lottery sales kiosks
- Continuing efforts to ensure compliance with the law prohibiting lottery sales to minors:
 - weekly reminders to retailers
 - point of sale visitation program
 - regular articles in the retailer information newsletter

◀ *Since its introduction 12 years ago, La Poule aux œufs d'or has grown increasingly popular year after year. The sheer spontaneity and contagious fun and enjoyment of the winners have earned this program the largest audience of any televised game.*

growth, innovation and distinction

The lottery market in Québec has been in a state of maturity for the past few years now, and any increase in revenues within this sector is only possible today through sustained efforts to revitalize Loto-Québec's game offerings. Despite a significant loss of earnings with respect to sports betting products, Loto-Québec's Lottery sector realized total sales of \$1.857 billion during fiscal 2004-2005, thus setting a new sales record and posting a 2.5% increase over the previous year. This outstanding performance is a source of pride for both the Corporation's employees and its business partners alike. It is thanks to their exceptional expertise, creativity and dedication that Loto-Québec has been continuously able to improve its product line and refine its business practices.

Online Games

Without a doubt, the most noteworthy accomplishment of the past fiscal year was the successful re-launch of *Lotto 6/49*. After a long period of decline, this lottery's sales surged by 39% in 2004-2005. For its part, the *Super 7* lottery did, however, feel the effects of *Lotto 6/49*'s heightened popularity, although to a lesser extent than expected. Ultimately, combined sales for the two products were markedly superior to the previous reporting period's results.

The new *Lotto 6/49* kept its promise of offering consumers "bigger jackpots more often". During fiscal 2004-2005, the available jackpot exceeded \$10 million on 21 different occasions, as opposed to only once during the course of the previous year. In addition, the jackpot rose above the \$20 million mark seven times last year, a level it has not attained even once during the past 10 years.

The launch of the new *Lotto 6/49* was a delicate initiative because it involved modifications to the most popular product among Québec lottery enthusiasts. As such, the endeavour demanded the mobilization of the Corporation's entire sales force. Loto-Québec's 132 wholesalers, for instance, each organized comprehensive information sessions for their retailers to prepare them properly for the transition.

Instant Lotteries

The Instant Lottery product segment is by the far the one that requires the greatest degree of sustained effort to assure its successful marketing and development. During the year just ended, no fewer than 70 new and reissued instant products were offered. Loto-Québec is particularly pleased about having successfully reversed the prevailing negative trend, having ended the year with a slight increase in instant lottery sales. Among the instant products that enjoyed the most noteworthy success were *Monopoly*, *Slingo* and the Collector's Editions of *Gagnant à vie*.

Traditional Lotteries

Not to be outdone, the Traditional Lottery segment also saw its revenues grow during 2004-2005, thanks to the outstanding performance of Special Editions that posted record sales. For example, the summer edition of *La Grande Vie*, which offered a chance to win a \$100,000 annuity per year for life, generated close to double the revenues earned the previous year, while *Célébration 2005* posted its best sales ever.

Sports Betting

Although the Sports Betting segment recorded a significant decline in sales, these results are quite understandable in view of the circumstances. Under normal conditions, hockey alone generates more than half of all sports betting sales. However, despite the cancellation of the 2004-2005 professional hockey season, the results of the past fiscal year were actually better than expected.

Among the innovations introduced during the year was betting on propositions based on the performance of two athletes – an option that was very well received by sports enthusiasts. Consumers were also provided with the opportunity of receiving sports betting programs via e-mail simply by enrolling in *Club Sélect*. In addition, subscribers to this service can conveniently opt to receive lottery draw results and information about new products to be launched.



A Renewed Image at Points of Sale

The Corporation's commitment to modernizing its image within its points of sale gave rise to a number of concrete actions during the past fiscal year. For example, a new third-generation illuminated display unit has been developed, indicating such things as prize amounts. These units are designed to be installed directly in front of game terminals – an ideal location that offers Loto-Québec increased visibility, while more effectively informing consumers of current jackpots.

As part of this overall revitalization effort at retailer locations, Loto-Québec is proceeding with the harmonization of the principal elements that shape its image, including ticket, prize and selection slip displays. A variety of new concepts are also currently being studied aimed at projecting a more distinctive and homogenous image of the Corporation and its installations that will be clearly evident upon stepping foot into an establishment.

A Sales Network at Par with Our Partners

Known as its "major accounts", Loto-Québec considers the principal commercial groups that sell its products to be vital business partners. Over the course of the past fiscal year, the Corporation further reinforced the synergies in place with these key players in the retail sales sector, devoting more personnel to them, running special promotions for their benefit, and involving them in various point-of-sale advertising projects. Each major account is now the object of periodic business reviews that allow for the effective tracking of sales and setting of new targets. On the average, major accounts saw greater growth than the overall network.

Over the past fiscal year, the Corporation has also confronted the specific challenges posed by mega-malls and large-surface retailers. In that regard, efforts are currently underway to establish productive partnerships with retailers in non-traditional sectors. Brand-new concepts have been developed that will allow the Corporation to ensure its presence within emerging markets during the next fiscal year. At the same time, Loto-Québec remains committed to continuously improving its customer service.

In conjunction with this commitment, the Corporation conducted a study comparing its distribution network with those of various other Canadian,

American and European lottery corporations. The findings of this study left no doubt that Loto-Québec's distribution model is among the world's best. The study also helped identify a number of adjustments that could be made over the coming year to further enhance distribution effectiveness.

Partnership with Non-Profit Organizations

Loto-Québec extended its support of non-profit organizations (NPOs), concluding partnership agreements with 106 new organizations in 2004-2005 and bringing the total number of NPOs accredited to sell *Lotomatique* subscriptions to 1,415. The Corporation also revised all of its subscription forms during the course of the year in order to accommodate the new *Lotto 6/49*. In addition, a new telephone subscription system (1 866 MATIQUE) was implemented in December 2004. Finally, the Corporation is moving ahead with plans to further integrate its kiosks into the marketing of products by themes and distinct presentation.

Compliance with the Law

Loto-Québec is fully dedicated to ensuring compliance with the legislation in effect since February 2000 prohibiting the sale of lottery tickets to minors. Various communication vehicles were developed in order to sensitize retailers to their obligation to rigorously respect the law. Among these is a recurring column in the information newsletter distributed to retailers, as well as a special bulletin issued by the Sales and Business Relations Department about the *Ici, on carte (Here, we card)* mystery shopper program involving visits to points of sale. These visits will continue throughout the current fiscal year.

Draws and Customer Services

Regulated by an ongoing commitment to maintaining absolute transparency and integrity, the Lottery sector conducted close to 2,000 draws in fiscal 2004-2005, with televised lotteries in particular enjoying record popularity among the Corporation's clientele. The second edition of the *La Poule aux œufs d'or Spécial Gala* alone attracted almost 1.7 million viewers, setting a new record for a lottery game. Similar success was achieved by *Roue de fortune chez vous* and the 2005 edition of the traditional *Célébration*, under the banner of which 34 winners originating from Québec were royally received at the Hilton Lac-Leamy in Gatineau.

The Millionaire's Lounge at Loto-Québec's Montréal headquarters and at its Québec City regional office rolled out the red carpet this past year for 1,655 lucky winners, awarding 675 prizes of \$50,000 or more, including 47 prizes in excess of \$1 million. Each year, in fact, the Lottery sector handles thousands of winner files and issues hundreds of thousands of prize cheques.

Honours and Distinctions

The past fiscal year was marked by numerous accomplishments and distinctions that have contributed to enhancing the Corporation's presence and reputation, both in Canada and abroad. Last October, Loto-Québec played host to the annual conference of the North American Association of State and Provincial Lotteries. With several sectors of the Corporation working hand-in-hand to ensure its success, this major event held in Québec City attracted close to 1,000 participants from across Canada and the United States and generated significant economic spin-offs for the local tourism industry. The attendees were all unanimous with respect to the exceptional quality of the event's organization and forums, thus further enhancing the reputation of Loto-Québec, whose expertise is already broadly recognized worldwide.

Also during the past fiscal year, the Publicité-Club de Montréal awarded Loto-Québec the Prix Hommage Jacques-Bouchard at the 2004 edition of its annual gala. Marking only the third time it has ever been presented, this award recognizes the consistent quality of Loto-Québec's advertising production and the Corporation's outstanding contribution to the province's advertising industry.

Two of Loto-Québec's television commercials were also the recipients of two of the five prestigious awards presented during the World Lottery Association's convention held last fall in Durban, South Africa. The spot, entitled *Mariachis* and produced for *Lotto 6/49*, earned the Corporation top honours in the "Best Advertising for a Lottery Game" category, while *Joies du golf (Joys of Golf)*, produced for the *Mini-golf* CD-ROM-based instant game, won in the "Best Advertising for an Instant Lottery" category. The World Lottery Association is comprised of 139 lottery organizations operating in 73 different countries around the globe.

Commissions to Retailers

(in millions of dollars)

2000-2001	124.7
2001-2002	123.2
2002-2003	125.9
2003-2004	123.6
2004-2005	126.7

Financial Support to NPOs

	Number of NPOs	In millions of dollars
2000-2001	1,058	10.347
2001-2002	1,174	10.179
2002-2003	1,282	10.469
2003-2004	1,369	9.923
2004-2005	1,415	10.463

Distribution of Retailers by Business Category

As at March 31, 2005

	Number	%
Tobacco and Convenience Stores	5,138	51.8
Food	1,942	19.5
Financial Institutions	6	0.1
Other Service Businesses	1,522	15.3
Pharmacies	869	8.7
Miscellaneous	295	3.0
Itinerant Sellers	44	0.4
Kiosks	122	1.2
Total	9,938	100.0



Lotteries

As at March 31

(in thousands of dollars)

	Sales 2005	Sales 2004	Variation	Prizes Awarded 2005	Prizes Awarded 2004	Variation
Online Lotteries						
Lotto 6/49	511,177	369,042	38.5%	240,238	180,834	32.9%
Super 7	257,742	334,367	-22.9%	145,496	200,581	-27.5%
Québec 49	55,149	62,632	-11.9%	23,007	29,438	-21.8%
Extra	145,984	155,498	-6.1%	65,022	69,431	-6.4%
Banco	121,765	120,031	1.4%	60,133	59,060	1.8%
La Quotidienne	30,784	29,450	4.5%	13,310	13,253	0.4%
L'Ours chanceux	6,702	8,675	-22.7%	4,364	4,342	0.5%
Subtotal	1,129,303	1,079,695	4.6%	551,570	556,939	-1.0%
Instant Lotteries						
Regular	157,230	153,104	2.7%	91,555	84,770	8.0%
Entertainment	396,966	385,560	3.0%	219,975	208,706	5.4%
Televised	8,956	13,871	-35.4%	4,988	7,618	-34.5%
Multimedia	1,151	9,604	-88.0%	594	4,988	-88.1%
Subtotal	564,303	562,139	0.4%	317,112	306,082	3.6%
Traditional Lotteries						
La Mini	12,975	13,398	-3.2%	5,709	5,895	-3.2%
Teleactive	57,823	56,401	2.5%	34,975	34,755	0.6%
Special Editions	63,665	54,742	16.3%	38,792	32,627	18.9%
Subtotal	134,463	124,541	8.0%	79,476	73,277	8.5%
Sports Betting	29,156	46,410	-37.2%	16,239	26,394	-38.5%
Total	1,857,225	1,812,785	2.5%	964,397	962,692	0.2%

Distribution of Retailers and Terminals by Region

As at March 31, 2005

	Number of Retailers	%	Number of Terminals	%
Montréal and Northwestern Québec	3,335	33.6	2,939	34.3
Montréal and Southeastern Québec	3,435	34.6	3,047	35.5
Québec City and Eastern Québec	3,168	31.8	2,589	30.2
Total	9,938	100.0	8,575	100.0





casinos

restaurants and hotels

[managing]

- Total revenues of \$751.9 million posted by the Société des casinos du Québec (SCQ) and \$96.2 million by Resto-Casino, up 3.2% and 4.5% respectively
- Combined net income of \$256 million posted by the Casino, Restaurant and Lodging sector
- Customer service training program for the SCQ's and Resto-Casino's 6,000 employees
- 44 continuous improvement workshops based on the *Kaizen* method conducted at the three casinos
- 700 performances of 44 productions staged at the Casino de Montréal and Casino du Lac-Leamy

]responsibly[

- Growth in total sales and maintenance of net income with no increase in overall game offerings
- \$120 million worth of goods and services purchased from Québec suppliers
- Continued efforts to prevent compulsive gambling and support players in distress:
 - *Fondation Mise sur toi* training sessions offered to 4,120 employees
 - help and referral services enhanced at all three casinos
- Event sponsorships contributing to the development of local communities and regions
- All three casinos smoke-free since 2004

◀ *After attracting hundreds of thousands of spectators at the Montréal and Lac-Leamy gaming houses, the dazzling *DanseSing* musical revue continued to garner critical acclaim wherever it has played – from Atlantic City, to Paris, Lebanon, Cyprus and beyond. Loto-Québec is proud to have contributed to the success of this talented company made up entirely of local artists.*

thriving in an increasingly competitive environment

Loto-Québec's Société des casinos du Québec (SCQ) subsidiary oversees the operations of the province's three casinos – the Casino de Montréal, the Casino de Charlevoix, and the Casino du Lac-Leamy in Gatineau. The Corporation's Resto-Casino subsidiary is responsible for the management of all bars and restaurants located in the gaming houses and for the operation of the Hilton Lac-Leamy Hotel.

Despite a decline in visitor traffic at the Montréal and Gatineau gaming houses, during the past fiscal year, the SCQ generated total sales of \$751.9 million, representing an increase of 3.2% over the previous year. This growth in revenues allowed the subsidiary to maintain its level of net income. For its part, Resto-Casino posted total earnings of \$96.2 million during 2004-2005, an increase of 4.5% as compared to the previous reporting period.

Last year's increase in earnings can be attributed to the general rise in the number of foreign tourists visiting Québec. In fact, thanks to the success of the promotional efforts targeted at tour operators, the number of motorcoach visitors to the casinos grew by 3%.

The positive performance of the past fiscal year is not simply a matter of good fortune, but rather the product of numerous innovative initiatives, effective and responsible management, and of the outstanding work of all SCQ and Resto-Casino personnel. The positive results are all the more noteworthy in light of the fact that they were achieved within the context of an increasingly more competitive environment and without expanding the Corporation's casino game offerings.

While the ever-growing competition confronting Loto-Québec's gaming houses is due in part to the constantly rising number of casinos throughout the northeastern part of the continent, it is also a reflection of the changes that have been made to the basic concept behind many of those new establishments. Casinos are now commonly becoming integral components of *resort complexes*, thus markedly augmenting their popularity and effectiveness as tourist attractions.

Major Economic Spin-Offs

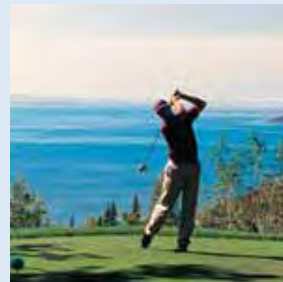
During the past fiscal year, the SCQ acquired close to \$97 million worth of goods and services, not including the construction and renovation contracts awarded. Similarly, Resto-Casino remained an important customer for a large number of Québec-based companies operating in the agro-food sector, purchasing close to \$45.5 million worth of supplies during the reporting period.

The SCQ was also an active participant in the socio-economic development of the province's various communities and regions through the sponsorship of local, regional and international events. These included the Gatineau Hot Air Balloon Festival, the Canadian Tulip Festival, the Grands feux du Casino du Lac-Leamy, the Domaine Forget International Festival, the International de l'art vocal de Charlevoix, Rêves d'automne in Baie-Saint-Paul, the Festival du vieux port de Chicoutimi, the Festival Rythmes du monde in the Saguenay, the Rogers Cup, the Grand Prix of Canada, and the Montréal Molson Indy.

Employee Sensitization Program

Committed to fulfilling its social responsibilities, the SCQ pursued its efforts to prevent excessive gaming and provide assistance and support to compulsive gamblers. As part of this commitment, the subsidiary continued to offer its awareness program aimed at enabling its personnel who are in direct contact with casino patrons to identify players in states of distress. In all, some 4,120 employees have received this specialized training developed by the Fondation Mise sur toi under the theme of *People Who Make a Difference*.

The training sessions have helped to significantly improve the effectiveness of the support and referral services in place at Québec's three gaming houses. These services are immediately available to players experiencing gambling problems and are offered in collaboration with specialized centres like Maison Jean-Lapointe (for Casino de Montréal patrons), Centre 24/7 (for Casino du Lac-Leamy patrons), and Centre Ressource Génésis (for Casino de Charlevoix patrons).



Participative Management

Three years ago, the SCQ adopted a more participative approach to management involving a fundamental change in operating methods, the establishment of concrete business plans, and the effective mobilization of all personnel. In conjunction with this initiative, a major training program was designed for the SCQ's and Resto-Casino's 6,000 employees during the past fiscal year. This program focuses on all facets of customer service and is perfectly aligned with the Corporation's overall commitment to making customer satisfaction the cornerstone of all its endeavours.

This past year, Loto-Québec's casinos also held a total of 44 continuous improvement workshops based on the *Kaizen* method. These workshops, which ran over the course of several days, brought together employees from different operating sectors to try to find tangible solutions to specific problem situations. In all, SCQ and Resto-Casino management and staff received more than 7,500 days of training during 2004-2005.

Honours

The remarkable dynamism and professionalism of Resto-Casino personnel were once again recognized in numerous ways during the past year. For example, the Casino du Lac-Leamy's *Le Baccara* Restaurant and the Casino de Montréal's *Nuances* were the recipients for the fifth consecutive year of the prestigious *Five Diamond* rating presented by the CAA and AAA automobile associations. Synonymous with high gastronomy, this distinction is among the most coveted in the industry, with only seven restaurants in Canada (including three in Québec) having earned it. *Nuances* and *Le Baccara* were also the recipients of the *Best of Award of Excellence 2004*, presented by *Wine Spectator* Magazine in recognition of their exceptional wine lists.

At the Lac-Leamy Complex, the Hilton Lac-Leamy earned four special distinctions from the Hilton Corporation during 2004. For the second time since its opening in 2001, the Hotel received the *Best Overall Performance (Connie) Award*, recognizing the establishment as the standard for quality and performance throughout all of North America. In addition, the Hotel

earned *Best Overall Service and Best Overall Experience* mentions from the Hilton chain.

Furthermore, the Hilton Lac-Leamy was again awarded the *Four Diamond* rating by the CAA and AAA for the superior quality of its customer service. For its part, Tourisme Québec rated the establishment as a *Five Star* facility in recognition of its exceptional accommodations and service.

Finally, 10 or so talented Resto-Casino employees continued to make their mark at various culinary competitions held during the course of the year.



Casino de Montréal

The Casino de Montréal posted a 4.6% increase in its earnings during the past fiscal year, growing from \$472.4 million in 2003-2004, to \$494.3 million in 2004-2005. Having played host to over 61 million visitors since opening its doors on Île Notre-Dame, it continues to be a major contributor to the city's tourism industry.

The Casino also saw its motorcoach group visits increase by 4% last year, testifying once again to the success of its promotional efforts targeting tourism markets outside the province. In addition, the Casino pursued its practice of organizing fringe activities in conjunction with special events like the Chinese New Year, the Super Bowl, boxing galas, and the Miss Universe Canada Pageant.

For its part, the Cabaret du Casino presented 14 dazzling productions over the course of the year. Of the 463 performances staged for audiences totalling more than 183,500, 259 were evening shows and 204 were matinees. These numbers again attest to the outstanding quality of the year's entertainment and entertainers alike.

Casino de Charlevoix

The Casino de Charlevoix enjoyed a good year as well, with revenues increasing by 2.8%, from \$47.9 million in fiscal 2003-2004, to \$49.2 million during the year just ended. These results can be attributed in part to the gaming house's sustained promotional efforts to attract an ever-growing tourist clientele. The positive performance also reflects the establishment's excellent synergies with the Fairmont Le Manoir Richelieu Hotel, whose outstanding reputation makes the Casino an even more choice attraction.

Fiscal 2004-2005 marked the Casino de Charlevoix's 10th anniversary, and in addition to the celebrations commemorating this major milestone, four collective agreements were renewed during the year.

Moreover, the Casino and the Fairmont Le Manoir Richelieu were the recipients of several distinctions during the last reporting period:

- *Le Charlevoix* Restaurant and the Fairmont Le Manoir Richelieu were awarded the prestigious *Four Diamond* rating by the CAA automobile association.
- *Le Charlevoix* was recognized by *Wine Spectator* Magazine for the excellence of its wine list.
- The Fairmont Le Manoir Richelieu earned a *Five Star* rating from Hébergement Québec.
- The outstanding quality of Le Manoir's service was recognized by the *Mobil Travel Guide* with a *Three Star* rating.
- *Le Charlevoix* Restaurant and the Fairmont Le Manoir Richelieu were also *Grands Prix du tourisme québécois 2004* award winners in the "Gastronomy" and "Lodging" categories respectively.

These awards and special designations serve to underline the exceptional professionalism of the establishments' personnel and their unparalleled commitment to customer service.



Casino du Lac-Leamy

The Casino du Lac-Leamy's revenues showed only a slight change, moving from \$208.6 million in 2003-2004, to \$208.4 million during 2004-2005. The gaming house also established two new attendance records, playing host to 22,083 visitors on May 15, 2004 and 91,069 patrons during the week of May 17-23, 2004.

The Casino pursued its advertising offensive within the Ontario market through the promotion of its new "Complexe Lac-Leamy" signature. Under the theme of *The Lac-Leamy Experience*, the gaming house implemented a number of other promotional initiatives to highlight the special synergy and combined attractions of the Casino and the Hilton Lac-Leamy Hotel.

Over the course of the year, the Théâtre du Casino presented 30 productions. Of the 237 individual performances staged for total audiences of 144,700, 132 were evening shows and 105 were matinees.

Finally, the Casino du Lac-Leamy renewed five collective agreements during the year just ended. All of these new agreements are for a period of four years.

Total Revenues

<i>As at March 31 (in millions of dollars)</i>	2005	2004	% Variation
Casino de Montréal	494.3	472.4	4.6
Casino de Charlevoix	49.2	47.9	2.8
Casino du Lac-Leamy	208.4	208.6	-0.1
Total	751.9	728.9	3.2

Visitors

<i>As at March 31</i>	2005	2004	% Variation
Casino de Montréal	6,287,623	6,385,082	(1.5)
Casino de Charlevoix	1,221,986	1,192,685	2.5
Casino du Lac-Leamy	3,338,622	3,441,741	(3.0)
Total	10,848,231	11,019,508	(1.6)

Avant de tout miser...



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DU JEU ET DES REMBOURSEMENTS
PROFESSEUR D'ÉTUDES
DE LA LOI ET DES PAYS



video lotteries

[managing]

- Total sales of \$1.237 billion, up by 9.6%
- Net income of \$809.2 million, up by 11.8%
- \$272.1 million paid in commissions to retailers
- VLT network reduced by 1,307 terminals (8.5%) and 908 sites (21.7%) over the past six fiscal years

]responsibly[

- Government approval of Loto-Québec's proposal to:
 - reduce the number of establishments operating VLTs by 31%
 - withdraw 2,500 VLTs from the existing network, including 730 permanently
 - relocate some 1,770 VLTs in gaming centres
- Reconfiguration of the VLT network to reduce game offerings in zones with the highest potential social costs

◀ *The new generation of video lottery terminals (VLTs) is equipped with special mechanisms designed to promote responsible gaming behaviour. A portion of Loto-Québec's VLTs are manufactured by Spielo at its plant in Sainte-Anne-Des-Monts in the Gaspé area, which employs some 90 workers.*

working to reshape the video lottery network

The Société des loteries vidéo du Québec (SLVQ) is the subsidiary responsible for operating Loto-Québec's network of video lottery terminals (VLTs) located in establishments accredited by the Régie des alcools, des courses et des jeux (RACJ).

Marking the 10th anniversary of its VLT network, the SLVQ earned total revenues of \$1.237 billion during 2004-2005, representing an increase of 9.6% over the previous fiscal year. The subsidiary posted net income of \$809.2 million, up 11.8% from the last reporting period. The SLVQ also paid out \$272.1 million in commissions to its retailers. The increase in net income is partly attributable to the new rate of commission being offered to retailers – reduced from 26% to 22% in November 2003 – the effects of which were only fully felt during the year just ended.

The overall game offerings within this activity sector have been steadily decreasing over recent years. While Loto-Québec's VLT network was comprised of 15,314 terminals installed at 4,175 sites as at March 31, 1999, by the end of the past fiscal year, the network had been reduced to 14,007 units at 3,267 sites. Although the vast majority of these VLTs are to be found in bars and brasseries, there are also 430, or 3% of the total network, installed at the province's four racetracks. The RACJ has issued no new video lottery permits since 2001.

Profiling VLT Players

In 2004, the SLVQ commissioned a comprehensive study to enable it to establish a profile of the typical VLT player in Québec. According to the findings of this research, 20.8% of adults have played video lotteries, 9.6% of them during the past year. The average age of those who have played during the past 12 months is 37. Of the VLT players identified, 64% are males, 59% live alone, and 41% have a college or university education. Two thirds of VLT players reported that they are usually accompanied by someone when they play, and 54% indicated that they normally play at an establishment located five kilometres or less from their home.

Cutting Back the Number of VLT Sites

Last November, the Government of Québec approved Loto-Québec's plan to reduce the number of establishments equipped with VLTs by 31%. As such, the Government authorized the Corporation to withdraw some 2,500 units from the current network, including 730 permanently. In so doing, the Government also gave Loto-Québec the green light to proceed with one of the key proposals outlined in its 2004-2007 Development Plan tabled in May 2004. This proposal calls for the reconfiguration of the Corporation's VLT network so as to reduce accessibility to these units – an initiative that has been very well received by commentators.

The proprietors of the 702 licensed establishments affected by the reorganization of the Corporation's video lottery network all received a letter in November 2004 advising them of the SLVQ's intention to terminate their contract and remove the VLTs from their premises some time after November 25, 2005. Upon their removal, each proprietor concerned will receive financial compensation equivalent to the commission received during the previous 12-month period.

Loto-Québec's strategy for the reconfiguration of the VLT network is based on the recognition that game offerings must be reduced in those districts where the risks and potential social costs are most elevated. To assure the most judicious approach to determining the sites to be affected, the Corporation has established a rigorous set of selection criteria. Based on these strict specifications, all units will be withdrawn from sites currently equipped with four or fewer VLTs, and this will be carried out in the following areas:

- zones where the average annual household income is less than \$50,000 and where the ratio of VLTs is higher than 2 per 1,000 residents
- in the cities of Montréal, Québec City, Longueuil and Laval – the most heavily populated municipalities in the province

A Network of Controlled Sites

In November 2004, the Québec Government also confirmed that a certain percentage of the 2,500 VLTs withdrawn from the existing network would be relocated in gaming centres whose daily operation will fall under the auspices of a new subsidiary to be created by Loto-Québec. These controlled sites will be situated either on the periphery of high-density urban zones or in high-traffic tourist areas. As such, the number of VLTs available will remain high enough and geographically diverse enough to avoid the return of illegal machines.

The regrouping of video lottery terminals in such gaming centres will also allow for more rigorous control to ensure compliance with regulations as well as better filtering of clientele, both in terms of age and the application of self-exclusion measures. In addition, this initiative will reduce visibility and restrict accessibility for non-players. There will be no loyalty program allowed, operating hours will be cut back as compared to bars, and the consumption of alcohol will be strictly prohibited in gaming areas.

Recognized by the Harvard Medical School

The recipient of an International Association of Business Communicators Award in 2003, the SLVQ gained recognition on the international scene once again this past fiscal year for the quality of its *Au hasard du jeu* awareness program. Developed in collaboration with Université Laval's Centre québécois d'excellence pour la prévention et le traitement du jeu, this program focuses on chance and excessive gambling and is aimed at proprietors and employees of establishments equipped with VLTs. Commended for its innovativeness, the program was cited in *The Wager (The Worldwide Addiction Gambling Education Report)*, a publication issued by a research centre affiliated with the Harvard Medical School. The first gaming corporation active in the VLT sector to have implemented and evaluated such a program, the SLVQ is actively proceeding with its distribution.

Video Lotteries

As at March 31, 2005

Number of Terminals	14,007
Number of Sites	3,267
Number of Terminals per Site (average)	4.3
Number of Terminals per 1,000 Residents	1.9

Revenues and Commissions

As at March 31, 2005

(in millions of dollars)

Net Income	1,236.9
Net Profit	809.2
Commissions to Retailers	272.1

Distribution of Sites and Terminals by Region

As at March 31, 2005

Region	Number of Sites	Number of Terminals
Laval/Laurentides/Lanaudière	493	2,258
Montréal	844	4,162
Québec City/Chaudière/Appalaches	406	1,641
Mauricie/Bois-Francs	244	956
Estrie	208	835
Saguenay/Lac-Saint-Jean/North Shore	197	723
Lower Saint Lawrence/Gaspésie/ Îles-de-la-Madeleine	152	470
Abitibi/Témiscamingue, Northern Québec	113	451
Montérégie	428	1,728
Outaouais	182	783
Total	3,267	14,007





bingo

[managing]

- Total sales of \$36.6 million, down by 0.9%
- Redesign of network bingo products to maintain their popularity among consumers
- Refinements to the computer platform to enhance game functionality

]responsibly[

- 100% of fiscal earnings (\$10.2 million) turned over to the 1,042 NPOs holding bingo licenses
- Close to \$71 million paid out to NPOs since the creation of the Société des bingos du Québec (SBQ)
- High level of partner and customer satisfaction enjoyed by the SBQ

◀ *Suzanne Chevalier is well versed in bingo, operating four halls in the Montréal region where the Société des bingos du Québec's network games are offered each evening. All of the Corporation's profits generated through bingo activities are redistributed to non-profit organizations that hold bingo permits.*

the SBQ, a major player in the bingo industry

Loto-Québec's Société des bingos du Québec (SBQ) subsidiary is mandated to market network bingo games so as to provide financial support to non-profit organizations (NPOs) licensed to operate these games. The SBQ makes these products available to NPOs that hold their bingo activities in a network of 125 interconnected halls. Three different products are offered in participating halls – *Le Grand Tour* in the evening, *Le Petit Tour* in the afternoon, and *Éclair*, an optional *Keno*-type game played both afternoons and evenings.

All profits generated through the marketing of the subsidiary's products are contributed to organizations that hold bingo permits. In fact, since its creation in December 1997, the SBQ has distributed close to \$71 million to NPOs with bingo permits, translating, as initially forecast, into approximately \$10 million per year.

At the end of its seventh year of operations, the SBQ posted total revenues of \$36.6 million, down 0.9% from the previous fiscal year. The contribution to NPOs during the reporting period totalled more than \$10.2 million, with close to \$9.5 million distributed among the 680 NPOs associated with the SBQ network and \$772,000 shared by 362 other organizations that hold their bingo operations in non-participating halls.

Bingo Hall Traffic on the Decline

Over the past few years, the bingo industry in Canada has seen a major drop in revenues derived from its traditional products. This loss of earnings is directly attributable to the substantial decline in bingo hall attendance, and Québec has been no exception when it comes to this tendency. The trend continued to prevail during 2004-2005, resulting in a decrease in the number of bingo events, the closing of some halls, and thus, a reduction in NPO sources of revenue.

Despite these negative conditions, the SBQ has been able to maintain consumer interest in network bingo products. Indeed, thanks to the improvements made to its afternoon game and the various promotions held over the course of the year, the average spending per person on network bingo actually increased, thereby partially compensating for the revenues lost from diminishing attendance in the halls.

Major Product Improvements

In September 2004, the SBQ launched a brand-new version of *Le Petit Tour*, the network bingo game offered in the afternoon. Remodelled to generate greater player satisfaction, the game now offers larger prizes, including a jackpot worth a minimum of \$20,000 (twice the former amount). This improved version of *Le Petit Tour* has already proven to be a financial success, with the average spending per player having increased by 27.6% after only six months.

In view of the success of the revamped *Le Petit Tour*, and as part of its commitment to maintaining consumer interest in its network products, the SBQ also undertook a review of the prize structure of *Le Grand Tour*. Consequently, the jackpot offered in the evening was boosted from \$30,000 to \$50,000, and a supplementary prize was added to make for more winners.

These changes to *Le Petit Tour* and *Le Grand Tour* were the product of extensive consultations with players to gauge their preferences and find ways to make their game experience more enjoyable. A new version of the optional *Éclair* game will also be eventually introduced.

A Reliable, Continuously Evolving Computer System

Loto-Québec's information technology teams are pursuing their efforts to develop and enhance the SBQ's computer platform. These efforts are aimed at introducing new functionalities that will better meet player expectations while sustaining the high level of transactional stability and integrity.

Heightened Entertainment Value

Over the past fiscal year, the SBQ escalated its endeavours to enhance the overall entertainment value of bingo and attract a new clientele to its halls. The larger jackpots and more attractive prizes during certain promotional periods are some examples of the initiatives implemented to boost interest in the game. The various forms of animation and shows offered in conjunction with the *Bingo Show* and *Place à l'artiste* tours in 25 halls also contributed to promoting bingo as an entertaining activity. The subsidiary intends to proceed with these innovative strategies to increase the game's popularity, foster a more favourable image, and thus, put bingo on a more solid commercial footing.

Sales by Region

April 1, 2004 – March 31, 2005

Region	Participating Halls	Events	Participating NPOs*	Commissions Paid		Amounts Distributed to Participating NPOs		
				Net Sales	to Operators	Sums Paid According to Agreement	Additional Payments up to 100% of SBQ Net Profits	
				\$	\$	\$	\$	
Lower Saint Lawrence	5	577	19	261,180	11,239	52,037	15,342	
Québec City	12	3,808	77	3,962,506	230,837	792,227	233,574	
Chaudière-Appalaches	7	1,054	26	949,575	49,018	189,370	55,832	
North Shore	2	152	3	121,269	4,064	24,108	7,108	
Saguenay-Lac-St-Jean	5	964	29	714,819	37,902	142,706	42,074	
Mauricie, Bois-Francs	7	1,702	37	1,984,787	115,668	396,736	116,970	
Estrie	3	924	20	1,050,046	62,185	209,727	61,834	
Montréal	19	5,471	116	7,066,521	405,926	1,413,279	416,680	
Montréal	27	7,328	151	8,958,806	521,710	1,790,358	527,855	
Abitibi-Témiscamingue	7	1,020	20	800,208	43,188	159,581	47,050	
Outaouais	6	1,278	25	1,114,901	61,678	222,729	65,668	
Laval	5	2,209	43	2,725,962	160,739	544,936	160,664	
Laurentides	10	2,902	59	3,755,371	215,625	750,611	221,304	
Lanaudière	12	2,109	41	2,670,090	144,303	533,541	157,305	
Gaspésie	6	625	14	460,978	18,258	91,856	27,082	
Total (excluding the fund)	133	32,123	680	36,597,019	2,082,340	7,313,802	2,156,342	9,470,144
Fund: Amount distributed to non-participating NPOs								772,186
Grand total for NPOs								10,242,330

* Based on the most recent RACJ data

Pursuing Productive Partnerships and Superior Service

Over the years, the SBQ has forged solid partnerships with non-profit organizations, bingo hall operators and consumers alike. Surveys conducted each year among these partners consistently indicate a high level of satisfaction with the subsidiary, particularly with respect to customer service, the attractiveness of its products, the effectiveness of its promotions and management tools, and the quality of its communication vehicles.

Perspectives for 2005-2006

The SBQ plans to closely monitor the evolution of the bingo sector in Ontario, where the introduction of electronic bingo has recently been authorized. In Québec, the various parties involved in the industry have

been advocating such an initiative for several years now, provided that certain measures are first taken such as the implementation of stricter controls and a reduction in the number of halls.

The SBQ team also intends to remain attentive to industry concerns and consumer expectations. At the same time, the subsidiary will continue its efforts to develop new clientele while stimulating greater interest in the game among existing bingo enthusiasts, thereby helping to revitalize the industry for the ultimate benefit of its non-profit organization partners.





Ingenio

[managing]

- Tremendous success enjoyed by *Cyber Slingo*® among New Jersey Lottery customers
- Launch of *Tetris*®, Ingenio's second cyber-game, by New Jersey Lottery
- Introduction of multimedia games by two new American partners – Oregon State Lottery and Idaho Lottery
- Distribution of Ingenio products in seven Canadian provinces
- Continuous rise of revenues from outside Québec

]responsibly[

- \$5,000 prize awarded for the best interactive multimedia entertainment project at the Québec Entrepreneurship Competition
- \$2,000 prize awarded to the creator of the best kinematics presentation submitted by graduates of the 3D Video Game Design and Animation program at the Montréal Animation and Design Centre
- Sponsorship of events organized by Alliance NumériQC
- Financial support to Cybercap, an organization dedicated to the social and professional integration of young dropouts through multimedia

◀ *A veritable laboratory of new technologies related to the gaming sector, Loto-Québec's Ingenio subsidiary develops multimedia lottery games that are subsequently marketed in the United States and around the world. Kathleen Farrell is a project leader, while Hoang Khahn Le is a programmer who worked on Cyber Slingo®, a product that is quickly growing in popularity in the U.S.*

setting the standard within the global gaming industry

Ingenio is a world leader in lottery research and development. Created in 1998, Loto-Québec's young subsidiary is a major contributor to maintaining the Corporation's reputation and position at the forefront of the global gaming industry.

Specialized in the design and production of innovative games, Ingenio has forged productive partnerships with numerous lottery corporations actively exploring new avenues and directions in the field of gaming. This strategy promotes the establishment of mutually beneficial commercial agreements, while allowing the subsidiary to amortize a good proportion of its operating costs.

Ingenio's activities are concentrated primarily in researching and developing new products and new ways of marketing them. In so doing, the subsidiary actively monitors the latest advances in technology and marketing, sharing its findings with its partners.

Success for Cyber Slingo® in New Jersey

Among its many innovations, Ingenio has developed a Web-based solution that allows consumers to download multimedia lottery games. The games are activated with an access code that the player obtains when purchasing an instant lottery ticket from a traditional lottery retailer. This secure solution does not require any online financial transaction and offers full control over the age of ticket buyers.

The stability, viability and profitability of this new mode of distribution were clearly demonstrated in 2004-2005 in light of the success of *Cyber Slingo®* in New Jersey. Developed in collaboration with Oberthur Gaming Technologies, the company that holds the *Slingo®* trademark, this multimedia game sparked tremendous consumer interest in that state. Its breakthrough into this market was all the more noteworthy in view of the concern that this new type of downloadable lottery would be misconstrued as being an online game.

In its financial report released last September, the New Jersey Lottery Corporation attributed the 5% increase in its instant lottery ticket sales directly to *Cyber Slingo®*. Moreover, in November 2004, the American lottery corporation launched *Tetris®*, a second cybergame offered by Ingenio and inspired by another trademark held by Oberthur. According to New Jersey Lottery data, sales of e-Games in that state were in the order of \$13 million in 2004.

A Domino Effect

The success of *Cyber Slingo®* in New Jersey has had a domino effect, being instrumental in expanding Ingenio's pool of partners to which two other American state lotteries have recently been added. The Oregon State Lottery, for example, has launched three of Ingenio's games via CD-ROM and download (*Mini-golf*, *Solitaire Riches* and *Cyber Slingo®*), while the Idaho State Lottery also introduced *Cyber Slingo®* in October 2004.

In Canada this past October, the Western Canada Lottery Corporation launched *Camelot Riches*, its second CD-ROM-based multimedia lottery game. In neighbouring B.C., the British Columbia Lottery Corporation has been offering *Tetris®* for download since last January, while on the east coast, the Atlantic Lottery Corporation launched Web versions of *Gong* and *Mini-golf* integrated with an Internet transactional module in April 2005. This project has allowed for the fine-tuning of Ingenio's Internet solution, making it readily compatible with an online transactional system. In all, Ingenio's products are now being offered in seven Canadian provinces, including Québec.

The majority of Ingenio's client lottery corporations have already placed orders for other games for 2005, confident that the subsidiary can assure a reliable supply of original products with varied content. Currently, Ingenio offers some 15 different games featuring unique graphics and outstanding entertainment value.



Royalties on the Rise

During the past fiscal year, Ingenio received close to \$1.1 million in fees and royalties derived from the marketing of its games. In fact, the portion of its revenues originating from the sale of its products outside Québec has been steadily on the rise – up from 40% in 2001-2002, to 68% in 2003-2004, and continuing to climb to 90% at the end of the past fiscal year. By all indications, this trend is expected to continue in 2005-2006.

On the Québec Scene

The year just ended saw the introduction of *Eldorado*, Ingenio's 10th multimedia game to be launched in Québec. This launch served as an opportunity to try out a dual mode of distribution. Offered in the traditional CD-ROM format, *Eldorado* could also be downloaded from the Internet directly via computer. The game earned Ingenio a special distinction from the Office québécois de la langue française in the information technologies category under the banner of its *Mérites du français* competition.

In May 2005, a new juncture in the marketing of Ingenio's products in Québec was crossed with the reintroduction of *Casteldor*, offered this time exclusively as a downloadable game. As with the other downloadable products, consumers must purchase a ticket from a Loto-Québec retailer which contains the access code required to activate the game.

Awards and Sponsorships

As part of its commitment to supporting the new wave of talent in Québec's multimedia sector, each year, Ingenio presents a \$5,000 award in recognition of the best interactive multimedia entertainment project under the banner of the Québec Entrepreneurship Competition. In addition, a \$2,000 Ingenio Award is offered to the creator of the best kinematics presentation from among those submitted by graduates of the 3D Video Game Design and Animation program at the Montréal Animation and Design Centre's annual gala.

Ingenio is also a regular sponsor of various events organized by Alliance NumériQC, a network of multimedia and Internet professionals. As well, the subsidiary lends its support to Cybercap, an organization dedicated to the social and professional integration of young dropouts through the use of multimedia.

On the Horizon

As usual, the Ingenio team was hard at work during the past fiscal year on the development of exciting new games. The latest among these, *Star Wars*, is now being offered in western Canada, the launch of the game coinciding with the North American premiere of the third episode in the celebrated science fiction film series.

Moreover, discussions are underway with lottery corporations and key players in the Canadian casino and bingo industry in order to define innovative new development projects.

Finally, Ingenio intends to actively pursue its efforts to increase sales of its products in export markets, to expand its knowledge and expertise in game development, to safeguard its intellectual property, and to forge new strategic partnerships worldwide.

Review of Management Activities

General Secretariat, Legal Affairs and Internal Auditing

The Office of the General Secretariat and Vice-Presidency of Legal Affairs offers a wealth of expertise in its various areas of responsibility. More specifically, the group's personnel provide services and professional counsel in support of the Corporation's objectives and so as to help maintain the balance between its business mandate and its social responsibilities. In addition to general administrative and legal matters, the Office looks after internal auditing, documentation management, the *Fondation Mise sur toi*, and the General Secretariat of the World Lottery Association.

Master of Ceremonies of a Major Convention

One of the highlights of 2004-2005 for the General Secretariat was the organization of the North American Association of State and Provincial Lotteries' annual convention, which was hosted by Loto-Québec in the fall of 2004. Held in Québec City under the theme, *A different face, avec plaisir*, this event set a new attendance record, with more than 900 participants from some 50 different lottery corporations present, not including exhibitors and speakers. The comprehensive program of workshops and seminars covered the many facets of the lottery industry, and conference attendees were also treated to an opportunity to discover the many tourist attractions in Québec City along with the warm hospitality of Québécois.

General Secretariat

Over the course of the past fiscal year, in addition to coordinating the Board meetings of Loto-Québec and its subsidiaries, the General Secretariat provided the required legal framework for the implementation of a variety of measures proposed as part of the Corporation's 2004-2007 Development Plan.

Considering the rapid evolution of technology, the Secretariat extended its watch over the gaming industry and set up an information exchange network to enable the Corporation's business units to be better apprised of the latest developments within their respective spheres of activity. The Secretariat is perfectly positioned to offer such expertise as it has exclusive responsibility for the management of Loto-Québec's Documentation Centre, a rich storehouse of the latest publications about the gaming industry.

Also responsible for obtaining patents and trademarks for the Corporation and its subsidiaries as well as the awarding of licenses, the Secretariat took a number of concrete actions during the past fiscal year to protect the organization's intellectual property and promote recognition of its patents within the industry. In conjunction with these efforts, legal proceedings were launched against two American game suppliers suspected of infringing upon a patent held by Ingenio.

Legal Affairs

Throughout the past fiscal year, the Legal Affairs group put its expertise to work on behalf of the Corporation's different units in order to avoid legal disputes. In addition to working hand-in-hand with certain units on files related to the 2004-2007 Development Plan, the group participated actively in cases involving the Société des loteries vidéo du Québec and its retailers.

Internal Auditing

Loto-Québec's Internal Auditing team has the weighty responsibility of assuring the total integrity of the Corporation's operations, helping to achieve its objectives by evaluating its risk management, control and governance processes. During the year just ended, Internal Auditing undertook a major revamping of its own operating procedures, reviewing the tasks of auditors in order to facilitate exchanges about risk and internal controls. Over the course of the year, the group also concentrated particular attention on evaluating the risks related to critical corporate operations.

Major Strategic Initiatives

Created during the past fiscal year after the 2004-2007 Development Plan was tabled, the Senior Vice-Presidency of Major Strategic Initiatives devoted most of its energies to planning the activities of a proposed network of gaming centres. In line with the directives outlined in the Development Plan, the Corporation intends to proceed with the regrouping of some 2,200 video lottery terminals within a limited number of controlled sites to be established to operate electronic games.

The proposal to set up a network of controlled sites received the approval of the provincial Cabinet last November, thus paving the way for the creation of a new Loto-Québec subsidiary to be responsible for managing the gaming centres, of which some would be linked to existing racetracks. These controlled sites will offer the public a new entertainment concept integrating various different types of recreational activities.

Finance, Administration and Strategic Planning

Finance and Administration

Part of Loto-Québec's Senior Vice-Presidency of Financial Affairs, the Corporate Vice-Presidency of Finance and Administration is responsible for maintaining the Corporation's and its subsidiaries' ledgers, preparing financial information, managing accounts and financial transactions, protecting assets, developing and monitoring budgetary and financial controls, as well as procuring goods and services. The Vice-Presidency also provides senior management and the various business units with expert counsel in all financial matters.

The group is committed to obtaining the best possible quality/price ratio when acquiring goods and services for the Corporation, while fully respecting the principles of transparency and fairness in the selection of suppliers. During the past fiscal year, Loto-Québec and its subsidiaries acquired goods and services valued at \$388.2 million. These purchases were made from 1,024 suppliers, 83.7% of which are based in Québec. All purchasing activities were carried out, of course, in accordance with the Corporation's policy governing the awarding of contracts.

In view of the numerous financial improprieties recently uncovered in the United States, legislative and regulatory bodies now tend to oblige upper management of corporations to certify the effectiveness of their controls and the reliability of their financial information. As such, and in line with its commitment to maintaining the highest standards of efficiency and transparency with respect to financial governance, Loto-Québec has undertaken a thorough examination of its Finance function with the help of a firm of experts. This comprehensive appraisal has shown no significant deficiencies in terms of existing controls and the reliability of financial information. However, the rigorous process has led to a review of the sharing of responsibilities within the Corporation, and a new, more efficient distribution of roles will be implemented during the course of 2005.

Strategic Planning

The Corporate Vice-Presidency of Strategic Planning provided effective follow-up support for the Corporation's 2004-2007 strategic planning initiatives by producing operating reports for each of the past fiscal year's quarters. The financial and operational indicators in these quarterly reports illustrate the progress being made by the organization's various units with respect to their projects and objectives for the year.

During the year just ended, the Vice-Presidency also updated its three-year strategic plan, preparing valuable information that served as a framework for the Corporation's management symposium held in February. The team played an active role on the committee responsible for organizing this important event.

Subsequent to the tabling of Loto-Québec's 2004-2007 Development Plan in May 2004, the Vice-Presidency was involved, as well, in various analyses and projects related to the plans and hypotheses concerning the proposed gaming centres and the future of the Casino de Montréal.

Finally, based on its analyses of current trends within the gaming industry and its consultation with multiple information sources, the group succeeded in augmenting its own data banks, while providing the Corporation's business units with critical guidance in support of their strategic monitoring and planning.

Real Estate Activities

Part of the Senior Vice-Presidency of Financial Affairs, the Corporate Vice-Presidency of Real Estate plays a dual role of management and development. On the one hand, it operates Loto-Québec's buildings and provides all subsidiaries with systematic support in the management of their properties. In addition, the group conducts feasibility studies and plans and executes new real estate projects.

The Corporation's real estate holdings are comprised of more than 30 assets with a combined acquisition value in the order of \$740 million. Occupying a total area of more than 400,000 square metres, these holdings include commercial properties (casinos, hotels, parking facilities), administrative buildings (offices, warehouses) and land.

In Support of the Development Plan

The Vice-Presidency was called upon during the past fiscal year to focus its development and real estate expertise on two major initiatives proposed in the Corporation's 2004-2007 Development Plan. As such, the group conducted numerous studies to help identify a long-term solution for the Casino de Montréal and the implementation of the proposed gaming centres.

With regards to the Casino de Montréal, the project development team oversaw four conceptual studies in support of two hypotheses outlined in the Development Plan – one being the expansion of the existing facility on Île Notre-Dame, the other proposing its relocation to the Peel Basin as part of a recreational and tourist complex.

The preparation of the feasibility studies for the two scenarios demanded the expertise of specialists from a wide diversity of disciplines, including urban planners, architects, civil engineers, mechanics, electricians, surveyors, geotechnicians, transportation and environmental experts, estimators, project managers and more. Extensive consultations were also held with key players representing the City of Montréal and the Société du Havre de Montréal.

The studies conducted pointed to the extraordinary potential of the Peel Basin hypothesis. This particular scenario encompasses a number of different elements such as a new casino, hotel, performance hall, shopping mall, parking facilities, exposition centre, a public transportation system, along with civil engineering work.

Principal Casino Projects

Various projects were completed by the summer of last year at the Casino de Charlevoix, much to the delight of golf enthusiasts. These included the refurbishment of the third section of the nine-hole course, the construction of a new clubhouse adjacent to the Fairmont Le Manoir Richelieu Hotel, the development of new pathways, and the erection of a shelter for golf carts.

In line with the Corporation's efforts to develop tourism in the region, the Corporate Vice-Presidency of Real Estate collaborated with representatives of the regional municipality of East Charlevoix on the design and construction of a new air terminal in Saint-Irénée, in service since June 2004. In addition, working with the Société des établissements de plein air du Québec, the group played an active role in the planning and construction of a new reception centre at the Parc national des Hautes-Gorges-de-la-rivière-Malbaie, which was inaugurated in October 2004.

At the Casino de Montréal, major repair and renovation work was carried out throughout the past year in order to rectify the most urgent problems and preserve the asset's value. In Gatineau, at the Casino du Lac-Leamy, the automated parking space management system installed in 2003-2004 has proven to be highly profitable. Moreover, improvements made to the system this past fiscal year have resulted in an even greater reduction in operating costs.

Space Management

One of the key responsibilities of the Vice-Presidency is to assure the reliability of building systems, and in so doing, the well-being of their occupants and protection of the Corporation's business activities. The group is also responsible for the optimal management of the space in all buildings and is often called upon to execute design and layout projects on behalf of the organization's various administrative units. During the past fiscal year, the group reorganized several floors at head office to better meet the needs of certain units. As well, the *Les Minis* daycare centre was expanded, increasing its capacity from 62 to 72 places.

As part of its mandate to establish and act in accordance with specific norms and standards related to real estate holdings, the Vice-Presidency undertook the following initiatives during fiscal 2004-2005:

- development of a set of guidelines governing preventive maintenance and records management
- upgrading of the electronic infrastructure of real estate holdings
- implementation of a verification protocol for all buildings
- improvement of operating procedures at the copy centre

The Vice-Presidency is also firmly committed to the training and development of its management and specialized personnel. Organized in collaboration with the Centre for Competency Development, the group conducted a series of training sessions during the past year on such varied subjects as the building code, municipal taxation, energy management and preventive maintenance.

Lotim

A subsidiary of Loto-Québec, Lotim owns 50% of the building housing the Corporation's Montréal headquarters on Sherbrooke Street West in partnership with SITQ National, a subsidiary in turn of the Caisse de dépôt et placement du Québec. The past year saw no change in the rental status of the building, with the occupancy rate remaining close to 100%.

The net profit generated by the head office building totalled \$5.4 million during the year just ended, up 9.3% from the previous year. These results are attributable to the increase in renting incomes, as well as to a reduction in amortization costs. Lotim's interest in the building produced total revenues of \$2.7 million.

Information Technologies

The mission of the Corporate Vice-Presidency of Information Technologies is to develop (or acquire) and operate gaming and management systems designed to help achieve the business objectives of Loto-Québec and its subsidiaries. The group is also responsible for providing the organization with specialized guidance regarding the selection of new information technologies. Actively involved in helping the Corporation attain its financial targets as well, the group is particularly concerned with systematically integrating an effective balance between cost and benefits into all its decisions.

With a total workforce of approximately 300, the Vice-Presidency encompasses four distinct departments – System Operation, Gaming Systems Development, Administrative and Management System Development, and System Development Support – along with the Nter Technologies subsidiary. The group's four departments are responsible for meeting the needs of head office and the Lottery sector, while Nter Technologies serves the Corporation's subsidiaries.

Maintaining System Reliability

Maintaining the reliability of Loto-Québec's varied systems remained a top priority during fiscal 2004-2005, both in terms of network integrity and security, as well as availability (99.94%) and performance (14,000 transmissions per minute on lottery systems). This high level of availability was achieved despite the fact that some 2,400 interventions were carried out on the various networks – 60% more than during the previous year. This large number of interventions is not an indication of network deficiency, but rather of a year of many projects and installations.

Principal Accomplishments

Among the major accomplishments realized by the group's different teams over the course of the year are the following:

- the migration of high-volume games onto the new flexible event-driven transactional game platform (JEF), which now supports all online games
- the implementation of modifications required for the launch of the new *Lotto 6/49*
- the introduction of *Club Sélect*, a new electronic communication channel for lottery customers
- the launch of an application for the effective management of the instant lottery distribution network
- the implementation of online recruiting for the Corporation and its subsidiaries
- the successful continuation of the project to replace the notebook computers used by lottery wholesalers
- the initiation of a project to replace game management applications in the casinos
- the implementation of new applications to allow the Corporation to keep track of the number of visitors at the casinos and to monitor players' activities at the tables via computer
- the introduction of a new version of video lottery terminal management software
- the completion of an information technology needs analysis in view of the pending establishment of new gaming centres
- the development of a new computer support system for the Société des bingos du Québec

Security

The Corporate Vice-Presidency of Security is mandated to develop, implement and manage a comprehensive set of administrative procedures and prevention, detection and corrective measures in order to protect Loto-Québec's clientele, employees, assets and image. The group also plays an active role in assuring effective risk management.

Review of Policies, Directives and Procedures

In response to the recommendations proposed as part of the Corporation's 2003-2004 strategic planning initiatives, the Security function was the focus of a rigorous review aimed at examining its structure and operation. This review confirmed the importance of the group's functional role among Loto-Québec's subsidiaries and served to identify certain measures that need to be taken in support of this role. One of the most important results of the review was the creation of a new Investigation Department as part of the Vice-Presidency.

Computer Security

In light of the growing risks related to information technologies, the Computer Security Department underwent a reorganization and was transformed into a corporate entity this past fiscal year, providing the group with greater authority over the Corporation's and its subsidiaries' information technologies. The group will unveil its action plan during the course of the current fiscal year.

The new department's personnel were actively involved in a number of key development projects within the Lottery sector during the year just ended, including the implementation of *Club Sélect*, the deployment of a new distribution network management application, and the migration of high-volume games onto the new JEF platform. The prime focus in each case was the implementation of appropriate protective measures.

Moreover, the risk management program yielded its initial sectorial reports regarding the actions to be taken to mitigate risks. These reports should be approved by each sector's management at the beginning of next year.

Total Workforce – Loto-Québec and Subsidiaries

2005-2006

Loto-Québec	840
Société des casinos du Québec and Resto-Casino	97
Casino de Montréal*	3,602
Casino de Charlevoix*	395
Casino du Lac-Leamy*	1,614
Hilton Lac-Leamy Hotel	302
Société des loteries vidéo du Québec	37
Société des bingos du Québec	26
Ingenio	43
Nter Technologies	158
Total	7,114

* Including restaurant personnel

Human Resources

In support of its commitment to continuously improve its services and human resources management throughout the Corporation, the Corporate Vice-Presidency of Human Resources conducted a comprehensive review of its organizational structure during the past fiscal year and subsequently made certain changes to the way it operates. The new processes introduced are aimed at involving management more in decisions regarding major priorities, policies, and the direction of human resources management programs.

The Vice-Presidency made great strides in all of its areas during the past fiscal year, for the ultimate benefit of the Corporation's 7,000 employees.

Training and Competency Development

During fiscal 2004-2005, Loto-Québec dedicated close to 1.5% of its total payroll to personnel training and development. In particular, the Vice-Presidency's various training teams endeavoured to achieve three fundamental objectives – reinforce management skills, fine-tune technical and professional expertise, and mobilize employees.

In January 2005, an inter-establishment committee was also formed in order to establish priorities for new management training and development programs so as to optimize the utilization of human resources.

Recognition Program

A New Recognition Program was initiated in 2004 to acknowledge employees' years of service and retirement. Designed for the entire workforce, this program underlines the importance of loyalty and dedication, while recognizing employees' contributions to the success of the organization and fostering a greater sense of belonging.

Remuneration and Salary Equity

The first phases of salary equity programs designed for employees of Loto-Québec and its subsidiaries were successfully completed during the past year, focused primarily on job classification and job prevalence, as well as on performance evaluation. Committees are now in the process of conducting such evaluations, and a computerized management system has been put into place to collect data, support the various committees, register the evaluation results, and manage the job categories.

The group's participation in numerous salary surveys over the course of the year provided valuable information for the development of the Corporation's own remuneration policies and programs. Last year, close to 200 jobs were the subject of an evaluation. In addition, the Vice-Presidency published a working conditions manual for Société des casinos du Québec and Resto-Casino management personnel.

Recruitment and Staffing

Recruitment and staffing is a vital function within Loto-Québec that demands considerable time and resources. Since the implementation of a computerized system for candidate processing, 17,000 curriculum vitae have been input into the Corporation's data bank, and more than 30,000 individuals consulted job offers posted on the corporate Web site.

Labour Relations

The past fiscal year saw the renewal of collective agreements with employees at the Casino de Charlevoix, who are represented by the TUAC and CSN unions. Croupiers, security personnel, Resto-Casino employees and general unit staff all ratified new contracts that will be in effect until August 2007.

Collective agreements were also renewed with Casino du Lac-Leamy employees represented by the Canadian Union of Public Employees. To remain in effect until March 31, 2008, these new agreements affect croupiers, security personnel, surveillance staff, general unit employees and Resto-Casino storekeepers.

Communications and Public Affairs

Loto-Québec is dedicated to keeping its various publics well informed – its customers, employees, suppliers, business partners, elected officials and journalists alike. In addition, the Corporation strives to promote public awareness about the various ways in which it lends its support to the community at large. These activities fall under the authority of Loto-Québec's Senior Corporate Vice-Presidency of Communications and Public Affairs, a group that also provides communications counsel to upper management and the various business units, while developing communication activities and programs to help achieve the organization's business objectives.

Actively involved in the implementation of a number of the Corporation's social commitment initiatives, the Senior Vice-Presidency's responsibilities include the corporate sponsorship program and the Loto-Québec Collection (see pages 46-47). With the approval of Loto-Québec's Board of Directors, the Senior Vice-Presidency also undertook a process this past year aimed at examining the Corporation's and its subsidiaries' practices vis-à-vis their compliance with principles of sustainable development.

Improving Information Distribution

The implementation of a corporate advertising campaign in the print media, the distribution of an information brochure to mark the Corporation's 35th anniversary, and the preparation of its first social assessment were but a few of the other initiatives launched last year designed to promote awareness and an appreciation of the organization's various socio-economic contributions.

Ongoing improvements to the corporate Web site were also instrumental in assuring better distribution of information pertaining to Loto-Québec's activities and accomplishments, highlighting its relations with the community at large, and conveying information about new and existing products. One of the latest features of the site is the capability for lottery enthusiasts to enrol in *Club Sélect*, a new personalized service that provides its members aged 18 and over with information bulletins about Loto-Québec's lotteries directly via e-mail. With 700,000 visits per month on the home page and double that amount on the draw results page, the Corporation's Web site ranks among the 10 most popular francophone sites in Canada.

Media Relations and Publications

For its part, Loto-Québec's Media Relations Department issued some 95 press releases and responded to more than 1,000 media requests for information during the past year. This intense activity reflects the Corporation's commitment to transparency – a commitment often questioned by the media given the sensitive nature of operating games of chance. Loto-Québec also strives to provide the media with the most up-to-date information about events it is sponsoring and large prizes awarded to winners. Moreover, the Corporation's food and beverage services and the outstanding entertainment offered at its casinos are frequently the subject of communications to the media, both inside and outside the province.

The needs of the Corporation and its subsidiaries for written materials and the production of print documents have grown incessantly over the years. The large majority of these needs related to internal, external and business communications are met by a team of writers, graphic artists and photographers within the Senior Vice-Presidency of Communications and Public Affairs itself. This team of specialists works according to an organizational model typically used by communications agencies, serving the Corporation's various units as their customers.



for a

[responsible]
]contribution[

economic spin-offs

Since its creation in 1969, **Loto-Québec has paid more than \$18.6 billion into public coffers**, each year returning the fruits of its activities in their entirety to the Government and the provincial community at large. During the past fiscal year, the Corporation's financial contributions can be summarized as follows:

- **\$1.511 billion** in dividends to the Québec Government
- **\$981.0 million** in prizes to lottery and bingo winners
- **\$412.3 million** in commissions and other compensation to lottery, video lottery and bingo network partners
- **\$388.2 million** in the purchase of goods and services from some 1,024 suppliers
- **\$346.0 million** in salaries and benefits paid to its employees
- **\$244.3 million** in taxes and special contributions to governments

The level of the Corporation's economic support rose considerably with the opening of its three casinos. In addition to providing jobs for 6,000 people, the Société des casinos du Québec and Resto-Casino are major consumers of goods and services procured from local suppliers. The three gaming houses and their related restaurant and hotel services also stimulate the tourism sector significantly, with close to 25% of their clientele originating from outside the province.

social commitment

In addition to its financial contributions in support of community action, the Corporation's social commitment encompasses event sponsorships, the development of the Loto-Québec Collection, the *Fondation Mise sur toi*, as well as the financing of various government programs such as the Ministère de la Santé et des Services sociaux's initiatives to prevent and combat compulsive gambling.

(in millions of dollars)

Intervention Sectors	Contributions 2004-2005
Commissions to NPOs* – Lotteries	10.5
Payments to NPOs* – Bingo	10.2
Fonds d'aide à l'action communautaire autonome	13.2
Fonds d'aide à l'action humanitaire internationale	2.6
Sponsorships	14.6
Loto-Québec Collection	0.4
Fondation Mise sur toi	6.1
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation – Agricultural and farm shows	5.5
Ministère de la Santé et des Services sociaux – Services for dependent seniors	30.0
Ministère de la Sécurité publique – Assistance to compulsive gamblers	3.0
Ministère de la Santé et des Services sociaux – Assistance to compulsive gamblers	17.0
TOTAL	113.1

* Non-profit organizations



Supporting Community Action

Loto-Québec is firmly committed to lending its financial support to hundreds of non-profit organizations (NPOs) involved in community development initiatives throughout Québec and abroad.

- A total of 1,415 organizations authorized to sell *Lotomatique* subscriptions or operate lottery kiosks in shopping malls were the beneficiaries of \$10.5 million in commissions during fiscal 2004-2005.
- The Société des bingos du Québec also contributes to the financing of community organizations, remitting 100% of its profits to NPOs that hold bingo permits. During the past fiscal year, a total of \$10.2 million was contributed to more than 1,000 non-profit organizations.
- Sums equivalent to 5% of net profits of the Société des casinos du Québec and Resto-Casino are awarded to the Fonds d'aide à l'action communautaire autonome, a fund administered by the Secrétariat à l'action communautaire autonome du Québec under the auspices of the Ministère de l'Emploi et de la Solidarité sociale. During fiscal 2004-2005, Loto-Québec contributed \$13.2 million to this fund.
- The Corporation also contributes 1% of the Société des casinos du Québec's and Resto-Casino's net profits to the Fonds d'aide à l'action humanitaire internationale. This program is administered by the Secrétariat à l'aide internationale du Québec, which is overseen by the Ministère des Relations internationales. During fiscal 2004-2005, Loto-Québec contributed \$2.6 million to this fund.

A New Sponsorship Policy

The adoption of a new sponsorship policy in May 2004 illustrates the Corporation's concern for reinforcing its social commitment and getting closer to the public at large. This new policy has seen a greater emphasis placed on supporting festival-type events under the banner of *Les Rendez-vous Québec* – typically open-air public events that are readily accessible or feature a wide range of activities free of charge.

The new policy has also seen an increase in Loto-Québec's overall sponsorship budget, the objective being to allocate 1% of net profits in support of these events. Over the course of the past year, some 100 different events were sponsored as part of the *Les Rendez-vous Loto-Québec* program. In addition to direct financial contributions, the Corporation offered these events valuable promotional and advertising support that enabled them to significantly extend their reach. Of 33 events sponsored for the very first time last year, 25 were held in the province's more outlying regions.

Loto-Québec selects specific events for sponsorship based on their ability to attract tourists and their potential for generating economic spin-offs for local communities. Moreover, a certain proportion of sponsored events bear the name of one or another of the Corporation's casinos, thus reflecting the regional realities of the establishment concerned.



The Loto-Québec Collection

The Corporation pursued its policy of supporting the province's visual arts milieu by enriching its art collection with some 200 new works during 2004-2005, representing a total investment of \$374,000. Celebrating its 25th anniversary, the Loto-Québec Collection is currently comprised of nearly 3,400 distinctive works by some 875 local artists.

The past fiscal year was marked as well by the development and adoption of an acquisition and management policy for the Collection encompassing objectives and general principles, along with conditions and procedures for the selection, loan and conservation of the works.

Also during the year just ended, the art gallery located on the ground floor of the Corporation's Montréal head office building underwent renovation work that served to extend its vocation and provide additional support to local artists. Now known as *Espace Création Loto-Québec*, the gallery's mission is to develop and implement innovative and formative projects with creative individuals from the visual arts, literature, music and performing arts milieus. The gallery has also been equipped with modern, well-adapted multimedia installations and was inaugurated in May with an exhibition dedicated to the paintings of renowned filmmaker Gilles Carle.

The Fondation Mise sur toi

Three years after its creation by Loto-Québec, the *Fondation Mise sur toi* continues to promote healthy gaming behaviour while working to protect those most vulnerable and prevent individuals from suffering the effects of compulsive gambling. In so doing, the Foundation is helping the Corporation to achieve the balance between its economic mission and social responsibilities.

As part of its mission, the Foundation works to implement and continuously improve prevention tools on-site at locations operated by Loto-Québec and its subsidiaries. In 2004, for example, the Foundation completed an information tour of the three gaming houses to familiarize casino personnel with the procedures to follow to assist players in a state of distress. Loto-Québec head office employees also participated in a series of information sessions focused on various aspects of excessive gaming. In all, more than 4,900 casino and head office employees took part in these awareness sessions.

In addition, the Foundation devotes particular attention to appeals for assistance from non-profit organizations involved in the prevention of compulsive gambling. Since its creation, the *Fondation Mise sur toi* has lent its financial support to 51 different organizations, contributing close to \$1 million to their cause.

In October 2004, the Foundation played host to an important symposium on excessive gaming, attracting 150 participants and featuring 19 guest speakers from Québec, the Maritimes, France, Switzerland and Belgium. Held in Montréal, the event was a major success. Among its other initiatives during the past fiscal year, the Foundation updated its Web site, prepared an integrated responsible gaming policy for the Corporation, and implemented a pilot project that allows for self-exclusion from the casinos directly from compulsive gambling treatment centres.

Si le jeu n'est plus un divertissement...

1 866 SOS-JEUX
MC
JEU AIDE ET RÉFÉRENCE

Combating Compulsive Gambling

Loto-Québec has focused its attention on the social consequences of gambling for over 20 years, particularly since the opening of the Casino de Montréal in 1993. Today, the Corporation continues to lead the way with its various initiatives and the financial resources it dedicates to combating compulsive gambling.

In parallel with its commercial activities, Loto-Québec has an ongoing commitment to implementing its own actions aimed at preventing excessive gaming. Some of the measures taken over the past few years include:

- a player self-exclusion program at the casinos
- active participation in the Interdepartmental Coordination Table created to promote greater collaboration between government agencies and organizations concerned with gaming in Québec
- promotional campaigns focused on the prohibition of lottery sales to minors
- a major contribution to the organization of a forum on compulsive gambling held in Montréal in November 2001
- creation of the *Fondation Mise sur toi* dedicated to promoting responsible gaming behaviour
- establishment of the 1 866 SOS-JEUX telephone help hotline
- display of warning messages about compulsive gambling on casino slot machines and video lottery terminals (VLTs) at licensed establishments
- information and awareness sessions about compulsive gambling offered in collaboration with the Centre québécois d'excellence pour la prévention et le traitement du jeu to the Corporation's and its subsidiaries' business partners, particularly to owners of bars and brasseries equipped with VLTs
- addition of mechanisms promoting responsible gaming on the new VLTs installed at licensed establishments
- institution of a front-line service in casinos to help players in distress
- training and awareness programs for casino and lottery employees focused on compulsive gambling
- organization of an international symposium on excessive gaming held in Montréal in 2004

[managing]]responsibly[

Financial Review

For the year ended March 31, 2005, Loto-Québec's consolidated revenues totalled \$3.937 billion, representing an increase of \$176.7 million, or 4.7%, over the previous year. The Corporation's operating expenses equalled \$755.9 million, up \$58.3 million, or 8.4%, from the last reporting period. The organization's consolidated net income rose to \$1.583 billion, an increase of 8% as compared to fiscal 2003-2004.

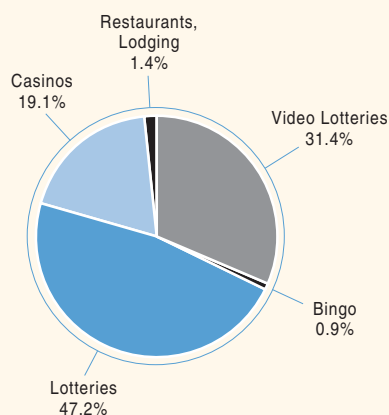
Revenues and Gross Profit by Sector

The Lottery sector posted record sales of more than \$1.857 billion this past fiscal year. This represents an increase of \$44.4 million, or 2.5%, over the previous year, despite the cancellation of the professional hockey season which translated into a \$20.3 million loss in earnings. The new \$2 *Lotto 6/49* launched on May 30, 2004 was a marked success, accounting for 27.5% of the sector's total sales, as compared to the 20.3% posted by the product during the previous year. The *Célébration 2005* Special Edition lottery, sold exclusively in Québec for the first time, also generated record sales of \$33.6 million, compared to \$27.7 million in fiscal 2003-2004 when it was available in other provinces. The Lottery sector's gross profit during 2004-2005 rose to \$733.5 million, up \$43.1 million, or 6.2%, vis-à-vis the previous year. Moreover,

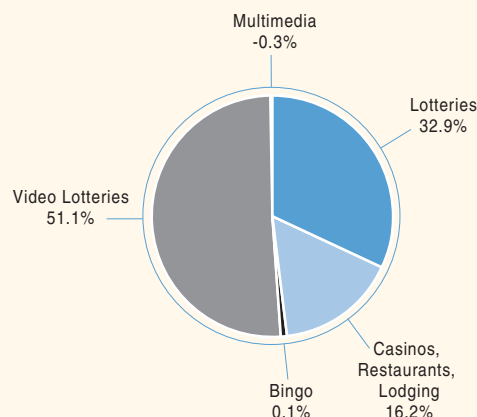
the sector paid out a total of \$964.4 million in prizes to winners and another \$126.7 million in commissions to retailers.

With revenues of \$751.9 million during 2004-2005, the Casino sector posted an increase of \$23 million, or 3.2%, as compared to the previous fiscal year. This increase can be attributed to higher average wagers being placed at the gaming houses, the slightly lower rates of return offered by the games (a random phenomenon), as well as the sustained efforts employed to develop tourist markets. Despite an overall decline in visitor traffic, it was the Casino de Montréal that recorded the most significant increase in revenues, up \$21.8 million, or 4.6%, from the previous reporting period. At the Casino du Lac-Leamy, revenues remained at the same level as those of the previous year. The Corporation's third gaming house, the Casino de Charlevoix, saw its earnings rise by \$1.3 million, or 2.8%. Combined promotional allowances remitted by the three casinos last year totalled \$19.1 million.

Consolidated Revenues



Consolidated Net Income



The Restaurant and Lodging sector recorded earnings of \$96.2 million during the year just ended, up by \$4.1 million, or 4.5%, over the previous fiscal period. This increase is attributable primarily to the transactions with the Casino sector, the value of which rose by \$3 million. For its part, the Hilton Lac-Leamy Hotel's rate of occupancy also saw an improvement during the past year, rising from 57.4% in 2003-2004 to 62.2% in 2004-2005, and translating into additional revenues of close to \$1 million.

Totalling \$1.237 billion in fiscal 2004-2005, the Video Lottery sector's earnings rose by \$108 million, or 9.6%, as compared to the previous year. As of March 31, 2005, there were 14,007 video lottery terminals in service at some 3,267 sites throughout the network. Since November 16, 2003, the rate of commission paid to site operators dropped from 26% to 22%, and during the year just ended, a total of \$272.1 million was paid out in such commissions compared to \$276.8 million in 2003-2004.

At \$36.6 million, Loto-Québec's Bingo sector's revenues showed a decline of \$332,000, or 0.9%, compared to the previous year. This decline is primarily the result of a reduction in the number of bingo events due, in turn, to the closing of certain halls and the suspension of bingo activities by some non-profit organizations. During the past fiscal year, the Société des bingos du Québec awarded \$16.6 million in prizes to winners and \$2.1 million in commissions to hall operators.

Finally, revenues originating from royalties earned by the Multimedia sector totalled \$1.1 million, up by \$428,000 from fiscal 2003-2004. Of this amount, earnings generated from exports equalled \$966,000, the difference from the total derived from the *Eldorado* game marketed by Loto-Québec.

Operating Expenses

Loto-Québec's operating expenses amounted to \$755.9 million during fiscal 2004-2005, an increase of \$58.3 million as compared to the previous reporting period. This represents a ratio of 19.2% of the Corporation's total earnings, as opposed to 18.5% during 2003-2004. The increase is attributable to a number of factors, including salary increases (\$13 million), additional contributions toward the prevention and treatment of compulsive gambling (\$6.1 million), increased development, maintenance and real estate costs (\$7 million), the special advertising program promoting the casinos outside Québec (\$5 million), enhancements to the sponsorship program (\$3.8 million), and greater amortization costs (\$4.9 million) due mainly to the full effect of the video lottery terminal replacement program.

Other Items

Other items totalled \$136.9 million, up \$2.4 million, or 1.8%, from the previous year. This increase is mainly the result of consumption taxes (GST and QST).

Contributions to Governments

Loto-Québec's contribution in the form of dividends to the Ministère des Finances amounted to \$1.511 billion during fiscal 2004-2005, or \$18 million more than during the previous reporting period. An additional \$71.8 million was paid into the Québec Government's various designated funds, along with another \$86.7 million to the Ministère du Revenu in tax on capital and Québec Sales Tax. As such, total contributions to the Québec Government equalled more than \$1.669 billion. Furthermore, the Corporation contributed \$14.5 million to the Government of Canada as compensation for its withdrawal from the lottery sector, as well as \$71.3 million in the form of Goods and Services Tax.

Management Report

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

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

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

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

Upon the recommendation of the Audit Committee, the Board of Directors has approved the consolidated financial statements of Loto-Québec for the fiscal year ended March 31, 2005.

Alain Cousineau
Chairman, President
and Chief Executive Officer

Gérald Houle, FCMA
Corporate Vice-President
Finance and Administration

Montréal, May 26, 2005

Auditor's Report

To the Minister of Finance

I have audited the consolidated balance sheet of Loto-Québec as at March 31, 2005 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Loto-Québec's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these consolidated financial statements present, in all material aspects, the financial position of Loto-Québec as at March 31, 2005, and the results of its operations and cash flows for the year ended in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., Chapter V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec City, May 26, 2005

Consolidated Statement of Income

For the year ended March 31, 2005

(in thousands of dollars)

	2005	2004
Revenues	3,937,464	3,760,743
Cost of sales (note 3)	1,461,589	1,463,463
Gross profit	2,475,875	2,297,280
Operating expenses		
Operating expenditures	659,044	603,185
Depreciation of fixed assets	86,077	80,150
Amortization of deferred charges	1,028	2,050
Interest - Net (note 4)	9,733	12,177
	755,882	697,562
Income before the following items	1,719,993	1,599,718
Special payments (note 5)	29,079	28,165
Goods and Services Tax	50,234	49,553
Québec Sales Tax	57,547	56,750
	136,860	134,468
Net income	1,583,133	1,465,250

Segmented information (note 20)

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

Consolidated Statement of Retained Earnings

For the year ended March 31, 2005

(in thousands of dollars)

	2005	2004
Balance at beginning of year	134,547	234,565
Net income	1,583,133	1,465,250
	1,717,680	1,699,815
Dividends	(1,511,000)	(1,493,000)
Fonds d'aide à l'action communautaire autonome (note 6)	(13,185)	(13,559)
Fonds d'aide à l'action humanitaire internationale (note 6)	(2,637)	(2,712)
Contributions to the Québec Government (note 7)	(56,006)	(55,997)
	(1,582,828)	(1,565,268)
Balance at end of year	134,852	134,547

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

Consolidated Balance Sheet

As at March 31, 2005
(in thousands of dollars)

	2005	2004
ASSETS		
Current		
Cash on hand – Casinos	47,139	52,586
Cash on hand	26,671	14,001
Accounts receivable (note 8)	44,603	71,085
Inventory (note 9)	16,800	14,312
Prepaid expenses	19,012	24,132
	154,225	176,116
Investments		
	39,761	39,711
Fixed assets (note 10)	748,323	793,546
Deferred charges, amortized	–	1,028
	942,309	1,010,401
LIABILITIES		
Current		
Bank loans (note 11)	499,365	602,787
Prizes payable	53,360	69,313
Accounts payable and accrued liabilities (note 12)	224,693	175,349
Provisions related to prizes (note 13)	10,843	9,807
Deferred income	19,026	18,428
	807,287	875,684
SHAREHOLDER'S EQUITY		
Capital-stock authorized, issued and fully paid:		
1,700 shares with a par value of \$100 each	170	170
Retained earnings	134,852	134,547
	135,022	134,717
	942,309	1,010,401

Commitments (note 14)

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

On behalf of the Board of Directors

Alain Cousineau
Chairman of the Board

Robert Crevier
Member of the Board

Consolidated Statement of Cash Flows

For the year ended March 31, 2005

(in thousands of dollars)

	2005	2004
Operating activities		
Net income	1,583,133	1,465,250
Items not affecting cash flows:		
Depreciation of fixed assets	86,077	80,150
Amortization of deferred charges	1,028	2,050
Net contribution to the Manoir Richelieu LP	5,416	4,869
Changes in assets and liabilities related to operations (note 16)	21,613	24,816
Operating activity cash flows	1,697,267	1,577,135
Financing activities		
Dividends paid	(1,465,000)	(1,457,000)
Bank loans	(103,422)	83,611
Contributions to the Québec Government	(56,006)	(55,997)
Fonds d'aide à l'action communautaire autonome	(13,185)	(13,559)
Fonds d'aide à l'action humanitaire internationale	(2,637)	(2,712)
Financing activity cash flows	(1,640,250)	(1,445,657)
Investment activities		
Acquisition of fixed assets (note 16)	(42,704)	(138,650)
Deposits for the acquisition of fixed assets	-	(212)
Acquisition of investments	(3,005)	(237)
Distribution to the Manoir Richelieu LP	(4,803)	(4,307)
Distribution of the Manoir Richelieu LP	718	762
Investment activity cash flows	(49,794)	(142,644)
Net increase in cash and cash equivalents	7,223	(11,166)
Cash and cash equivalents at beginning of year	66,587	77,753
Cash and cash equivalents at end of year (note 16)	73,810	66,587

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

Notes to Financial Statements

March 31, 2005

1 Authority and Objectives

The Société des loteries du Québec (the Corporation), also designated as Loto-Québec, is a joint-stock corporation whose shares form part of the public domain and are allotted to the Minister of Finance. Under its act of incorporation (R.S.Q., Chapter S-13.1), its functions are to conduct and administer lottery schemes and to operate businesses which are incidental to the operation of a State casino. It may also offer, for consideration, consulting and implementation services in matters within its competence. By virtue of the *Income Tax Act* (R.S.C. (1985), Ch. 1 (5th supplement)) and the *Taxation Act* (R.S.Q., Ch. I-3), the Corporation is exempt from paying income tax.

2 Accounting Policies

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

Consolidation

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

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

The investments in the Manoir Richelieu Limited Partnership and the 9064-1812 Québec Inc. General Partnership are entered at their consolidated value.

Revenues

Lotteries

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

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

Casinos and Video Lotteries

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

Notes to Financial Statements

Accounting Policies (continued)

Multimedia

Revenues represent royalties based on a lump sum or a percentage of the total of the multimedia lottery retail price. These revenues are recorded when the printer delivers the multimedia lotteries to the lottery corporations.

Cost of Sales

Lotteries and Bingo

Prizes awarded from ticket sales for bingo are based on a theoretical sales rate.

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

Casinos

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

Pension Plans

Defined contribution plan accounting is applied to inter-company governmental defined benefit plans, given that Loto-Québec does not have adequate information to apply defined benefit plan accounting practices.

Inventory

Lotteries and Video Lotteries

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

Restaurants

Inventories are valued at the lower of cost and net realizable value or replacement value. Cost is estimated as follows:

Food and beverages: average cost

Hotel and kitchen equipment: base stock

Fixed Assets

Fixed assets are presented at acquisition cost and, with the exception of works of art, are depreciated according to their estimated useful life based on the following methods and durations:

	<i>Method</i>	<i>Duration</i>
Buildings	Straight-line compound interest at 5%	2% to 10% 40 years
Parking lot landscaping	Straight-line compound interest at 5%	2.5% and 6 2/3% 40 years
Rented parking lot landscaping	Straight-line	2.86% and 6 2/3%
Interior design	Straight-line compound interest at 5%	2.5% to 14.29% 40 years
Exterior landscaping	Straight-line compound interest at 5%	10% and 14.29% 40 years
Leasehold improvements	Straight-line	10% to 20%
Office furniture	Straight-line	10% and 20%
Rolling stock	Straight-line	5% and 30%
Equipment	Straight-line	10% to 50%

Notes to Financial Statements

Accounting Policies (continued)

Work in progress will be amortized upon commencement of use.

The Corporation continuously evaluates the book value of its fixed assets. In order to determine if the value has decreased, management evaluates the estimated undiscounted cash flows which will be generated by these fixed assets, while also taking other factors into account. Any permanent drop in the book values of fixed assets is charged to the results for the period during which the drop in value occurred.

Deferred Charges

Start-up costs related to the Resort Complex and expansion of the Casino du Lac-Leamy are amortized using the straight-line method over a three-year period.

Cash and Cash Equivalents

The policy of the Corporation is to present, as cash and cash equivalents, the Casinos' cash in hand, bank balances and temporary investments readily convertible into a known cash amount whose value is not likely to change significantly.

3 Cost of Sales

<i>(in thousands of dollars)</i>	2005	2004
Lotteries		
Prizes awarded	964,397	962,692
Commissions to retailers	126,745	123,595
Printing of tickets	32,486	35,862
	1,123,628	1,122,149
Casinos, Restaurants, Lodging		
Promotional allowances	19,137	19,577
Restaurants	26,227	24,207
	45,364	43,784
Video Lotteries		
Commissions to retailers	272,115	276,842
Printing	1,050	1,132
	273,165	277,974
Bingo		
Prizes awarded	16,574	16,734
Commissions to operators	2,082	2,091
Printing of cards	776	731
	19,432	19,556
	1,461,589	1,463,463

Notes to Financial Statements

4 Interest – Net

<i>(in thousands of dollars)</i>	2005	2004
Interest on bank loans	10,267	13,112
Interest on term deposits	(534)	(935)
	9,733	12,177

5 Special Payments

<i>(in thousands of dollars)</i>	2005	2004
Compensation to the Government of Canada	14,457	14,247
Net contribution to the Manoir Richelieu LP	5,416	4,869
Special commissions to non-profit organizations	1,120	842
Compensations to participating non-profit organizations	7,314	7,386
Compensations to non-participating non-profit organizations	772	821
	29,079	28,165

Compensation to the Government of Canada

Under an agreement reached between the provincial governments and the Government of Canada concerning its withdrawal from the administration of lotteries, the provinces pay the federal government the equivalent of \$24 million in 1979 dollars every year. For the year ended March 31, 2005, this amounted to \$60.4 million (2004: \$59.4 million).

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

Net Contribution to the Manoir Richelieu Limited Partnership

Under the terms of the guarantee agreement and in accordance with the distribution methods specified in the partnership agreement, the net contribution represents the minimum share of liquidities generated by the operations of the Casino de Charlevoix that is to be paid to the partners, taking into account Loto-Québec's share in the results generated by the Manoir Richelieu.

Special Commissions to Non-Profit Organizations (NPOs)

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

Compensations to Non-Profit Organizations (NPOs)

Participating NPOs

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

Non-Participating NPOs

The Société des bingos du Québec Inc. allots an amount equal to 5.45% of total ticket sales of the *Le Grand Tour* game (less the value of prizes awarded to winners of this game) to charitable or religious organizations that hold a bingo license but do not participate in the Corporation's bingo games.

Notes to Financial Statements

6 Fonds d'aide à l'action communautaire autonome and Fonds d'aide à l'action humanitaire internationale

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

7 Contributions to the Québec Government

<i>(in thousands of dollars)</i>	2005	2004
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ)	5,500	5,500
Ministère de la Santé et des Services sociaux	47,000	47,000
Ministère de la Sécurité publique	3,506	3,497
	56,006	55,997

8 Accounts Receivable

<i>(in thousands of dollars)</i>	2005	2004
Wholesalers	18,735	28,654
Retailers	15,081	27,967
Miscellaneous	10,787	14,464
	44,603	71,085

9 Inventory

<i>(in thousands of dollars)</i>	2005	2004
Lotteries		
Modules - Game terminals	3,357	119
Video Lotteries		
Modules - Video lottery terminals	4,163	5,161
Restaurants		
Food and beverages	6,079	5,831
Kitchen and hotel equipment	3,201	3,201
	9,280	9,032
	16,800	14,312

Notes to Financial Statements

10 Fixed Assets

<i>(in thousands of dollars)</i>			2005	2004
	Cost	Depreciation Accumulated	Net	Net
Land	32,105	–	32,105	32,105
Buldings	290,035	79,825	210,210	215,072
Parking lot landscaping	128,378	54,020	74,358	79,508
Rented parking lot landscaping	5,271	2,496	2,775	3,051
Interior design	179,649	85,768	93,881	99,012
Exterior landscaping	29,975	19,032	10,943	13,005
Leasehold improvements	35,167	23,633	11,534	12,185
Office furniture	28,278	17,748	10,530	12,071
Rolling stock	1,075	838	237	1,983
Equipment	558,839	321,364	237,475	264,377
Art works	4,594	–	4,594	4,220
Work in progress	59,681	–	59,681	56,957
	1,353,047	604,724	748,323	793,546

Work in progress represents the computer projects in development in the amount of \$42.3 million (2004: \$37.0 million), unused equipment in the amount of \$10.5 million (2004: \$14.2 million), and software in the amount of \$6.9 million (2004: \$5.8 million).

Equipment includes software at a cost of \$8.8 million (2004: \$6.7 million) and work terminated at a cost of \$7.1 million (2004: \$2.5 million), entirely amortized as at March 31, 2005.

11 Bank Loans

Demand bank loans are authorized by the Québec Government for a maximum amount of \$700 million and bearing interest at market rates.

12 Accounts Payable and Accrued Liabilities

<i>(in thousands of dollars)</i>	2005	2004
Suppliers and accrued liabilities	126,209	121,245
Dividends	82,000	36,000
Manoir Richelieu LP	5,299	6,923
Québec Sales Tax	6,085	6,063
Goods and Services Tax	5,100	5,118
	224,693	175,349

Notes to Financial Statements

13 Provisions Related to Prizes

<i>(in thousands of dollars)</i>	2005	2004
Provision for unclaimed prizes	10,436	5,372
Provision for prize structure variances	407	4,435
	10,843	9,807

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

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

14 Commitments

Leases

Under an agreement expiring June 2008 with a five-year option to renew, the Corporation is committed to paying a minimum of \$32.6 million (2004: \$41.2 million) for the rental of the premises occupied by its head office in a building held in joint tenancy with SITQ National Inc., representing a consolidated commitment of \$16.3 million (2004: \$20.6 million). In addition, the Corporation is committed, under long-term leases expiring on various dates up until May 2035, to renting space for administrative offices. In certain cases, these leases have a two- to five-year renewal option.

The minimum rental payments (in thousands of dollars) are as follows:

2006	26,755
2007	24,018
2008	21,745
2009	15,983
2010	13,650
2011 and subsequent:	17,889
	120,040

Contributions to the Québec Government

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

In view of the decision to terminate the activities of fairground casinos, the Government authorized Loto-Québec to give its commitment to the MAPAQ to pay an annual sum of \$5.5 million into a designated fund each calendar year for five years, until 2008. Upon expiry, the agreement will be renewable by mutual consent of the parties.

Ministère de la Santé et des Services sociaux

With the authorization of the Québec Government, the Corporation has given its commitment to the Ministère de la Santé et des Services sociaux to pay a total of \$17 million annually into a designated fund to finance prevention activities, treatment services, research programs and information campaigns to help compulsive gamblers.

Notes to Financial Statements

Commitments (continued)

Moreover, the Corporation has also given its commitment to the Ministère to pay \$30 million annually into another designated fund to finance support and assistance services for seniors with restricted mobility living at home or at residential centres.

The Corporation is unable to assess the total amount of these commitments.

Ministère de la Sécurité publique

With the authorization of the Québec Government, the Corporation has given its commitment to the Ministère de la Sécurité publique to pay an annual sum of \$3 million into a designated fund to finance a series of rigorous control activities and measures to be implemented by the Régie des alcools, des courses et des jeux related, in particular, to overseeing access to video lottery terminals. The Corporation is unable to assess the total amount of this commitment at this time.

Moreover, the Corporation has also given its commitment to the Ministère to pay approximately \$0.5 million annually into a designated fund over a period of five years ending September 30, 2007 to finance additional resources to help reduce the time required to certify the Corporation's gaming equipment.

15

Financial Instruments

The fair value of short-term financial instruments is equivalent to their accounting value due to their matching expiry date.

16

Consolidated Cash Flows

<i>(in thousands of dollars)</i>	2005	2004
Cash and Cash Equivalents		
Cash on hand - Casinos	47,139	52,586
Cash on hand	26,671	14,001
	73,810	66,587
Changes to Assets and Liabilities Related to Operations		
Accounts receivable	26,482	4,589
Inventory	(2,488)	1,499
Prepaid expenses	4,806	(3,135)
Prizes payable	(15,953)	15,496
Accounts payable and accrued liabilities	7,132	16,846
Provisions related to prizes	1,036	(8,767)
Deferred income	598	(1,712)
	21,613	24,816
Acquisition of Fixed Assets	(43,018)	(148,852)
Less: prepaid expenses transferred to fixed assets	314	10,202
	(42,704)	(138,650)
Supplementary Information		
Interest paid	13,604	8,964

Notes to Financial Statements

17 Pension Plans

Employees of the parent corporation, the Société des loteries vidéo du Québec Inc., the Société des bingos du Québec Inc. and Ingenio, filiale de Loto-Québec Inc. participate in the Régime de retraite des employés du gouvernement et des organismes publics (RREGOP), the Régime de retraite des fonctionnaires (RRF), and the Régime de retraite du personnel d'encadrement (RRPE). These are benefit-based pension plans and contain guarantees upon retirement or death. Contributions charged to consolidated earnings for the fiscal year for these plans total \$2.4 million (2004: \$2.1 million). The employer's obligations toward these government plans are limited to its contributions as an employer.

The employees of the Société des casinos du Québec Inc. and Resto-Casino Inc. participate in a defined contribution plan. Employees of Nter Technologies LP participate in a group Registered Retirement Savings Plan. These defined contribution plans are voluntary and provide employees with immediate payment of the employer's contribution, which is equal to the employee's contribution within the limits prescribed by the plans. Contributions charged to consolidated earnings for the fiscal year under these plans total \$9.2 million (2004: \$8.8 million).

18 Related Party Transactions

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

19 Comparative Figures

Certain figures posted for the year 2004 have been reclassified in order to conform to the presentation adopted in 2005.

Notes to Financial Statements

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Segmented Information

<i>(in thousands of dollars)</i>							2005
Activity Sectors	Lotteries	Casinos Restaurants Lodging	Video Lotteries	Bingo	Multimedia	Inter- Company Elimination	Consolidated Figures
Revenues							
Games	1,857,225	751,913	1,236,884	36,597	1,070	(104)	3,883,585
Restaurants	–	82,766	–	–	–	(42,294)	40,472
Lodging	–	13,407	–	–	–	–	13,407
	1,857,225	848,086	1,236,884	36,597	1,070	(42,398)	3,937,464
Cost of Sales							
Games	1,123,732	19,137	273,165	19,432	–	(104)	1,435,362
Restaurants	–	26,227	–	–	–	–	26,227
	1,123,732	45,364	273,165	19,432	–	(104)	1,461,589
Gross Profit	733,493	802,722	963,719	17,165	1,070	(42,294)	2,475,875
Operating Expenses							
Operating expenditures	146,298	474,052	69,368	5,512	6,108	(42,294)	659,044
Depreciation of fixed assets	11,993	42,562	30,938	517	67	–	86,077
Amortization of deferred charges	–	1,028	–	–	–	–	1,028
Interest - Net	3,125	2,342	4,283	(7)	(10)	–	9,733
	161,416	519,984	104,589	6,022	6,165	(42,294)	755,882
Income (loss) Before the Following Items	572,077	282,738	859,130	11,143	(5,095)	–	1,719,993
Special payments	15,577	5,416	–	8,086	–	–	29,079
Goods and Services Tax	16,609	9,930	23,275	420	–	–	50,234
Québec Sales Tax	19,001	11,383	26,682	481	–	–	57,547
	51,187	26,729	49,957	8,987	–	–	136,860
Net Income (net loss)	520,890	256,009	809,173	2,156	(5,095)	–	1,583,133

Expenses are assumed by the respective corporate sectors. Certain operating expenditures and related consumption taxes attributable directly to the sectors are assigned based on their use. Others are assigned in accordance with the net revenues of the principal sectors.

Notes to Financial Statements

Segmented Information (continued)

<i>(in thousands of dollars)</i>							2004
Activity sectors	Lotteries	Casinos Restaurants Lodging	Video Lotteries	Bingo	Multimedia	Inter- Company Elimination	Consolidated Figures
Revenues							
Games	1,812,785	728,906	1,128,847	36,929	642	(208)	3,707,901
Restaurants	-	79,617	-	-	-	(39,222)	40,395
Lodging	-	12,447	-	-	-	-	12,447
	1,812,785	820,970	1,128,847	36,929	642	(39,430)	3,760,743
Cost of Sales							
Games	1,122,357	19,577	277,974	19,556	-	(208)	1,439,256
Restaurants	-	24,207	-	-	-	-	24,207
	1,122,357	43,784	277,974	19,556	-	(208)	1,463,463
Gross Profit	690,428	777,186	850,873	17,373	642	(39,222)	2,297,280
Operating Expenses							
Operating expenditures	136,028	445,289	49,605	5,580	5,905	(39,222)	603,185
Depreciation of fixed assets	11,326	44,162	24,059	497	106	-	80,150
Amortization of deferred charges	-	2,050	-	-	-	-	2,050
Interest - Net	3,977	3,000	5,219	(10)	(9)	-	12,177
	151,331	494,501	78,883	6,067	6,002	(39,222)	697,562
Income (loss) Before the Following Items	539,097	282,685	771,990	11,306	(5,360)	-	1,599,718
Special payments	15,089	4,869	-	8,207	-	-	28,165
Goods and Services Tax	17,232	9,465	22,385	471	-	-	49,553
Québec Sales Tax	19,696	10,850	25,664	540	-	-	56,750
	52,017	25,184	48,049	9,218	-	-	134,468
Net Income (net loss)	487,080	257,501	723,941	2,088	(5,360)	-	1,465,250

Expenses are assumed by the respective corporate sectors. Certain operating expenditures and related consumption taxes attributable directly to the sectors are assigned based on their use. Others are assigned in accordance with the net revenues of the principal sectors.

Comparative Results

As at March 31

<i>(in thousands of dollars)</i>	2005	2004	2003	2002	2001
Consolidated Statement of Income					
Revenues	3,937,464	3,760,743	3,749,410	3,661,786	3,643,212
Cost of Sales					
Lotteries					
Prizes awarded	964,397	962,692	953,225	926,308	952,674
Commissions to retailers	126,745	123,595	125,858	123,205	124,705
Printing of tickets	32,486	35,862	33,329	35,031	35,048
Lotteries Subtotal	1,123,628	1,122,149	1,112,412	1,084,544	1,112,427
Casinos	19,137	19,577	18,737	13,721	12,720
Restaurants	26,227	24,207	26,577	21,859	20,177
Video Lotteries					
Commissions to retailers	272,115	276,842	280,007	281,136	315,915
Printing	1,050	1,132	1,110	770	757
Video Lotteries Subtotal	273,165	277,974	281,117	281,906	316,672
Bingo					
Prizes awarded	16,574	16,734	17,036	17,962	18,600
Commissions to operators	2,082	2,091	2,112	2,208	2,272
Printing of cards	776	731	663	439	310
Bingo Subtotal	19,432	19,556	19,811	20,609	21,182
Total	1,461,589	1,463,463	1,458,654	1,422,639	1,483,178
Gross Profit	2,475,875	2,297,280	2,290,756	2,239,147	2,160,034
Operating Expenses					
Lotteries	146,298	136,028	131,949	124,228	122,689
Casinos/Restaurants/Lodging	431,758	406,067	398,956	353,632	318,788
Video Lotteries	69,368	49,605	40,350	39,790	35,644
Bingo	5,512	5,580	5,416	5,205	5,211
Multimedia	6,108	5,905	5,133	7,061	6,680
Corporate *			36,345	40,278	38,730
Depreciation of fixed assets	86,077	80,150	77,440	76,045	77,721
Amortization of patents			309	308	309
Amortization of deferred charges	1,028	2,050	2,359	1,333	308
Interest – Net	9,733	12,177	7,856	7,024	7,149
	755,882	697,562	706,113	654,904	613,229
Income Before the Following Items	1,719,993	1,599,718	1,584,643	1,584,243	1,546,805
Special payments	29,079	28,165	26,873	26,321	28,871
Goods and Services Tax	50,234	49,553	52,093	50,916	53,136
Québec Sales Tax	57,547	56,750	59,603	58,527	61,040
	136,860	134,468	138,569	135,764	143,047
Net Income	1,583,133	1,465,250	1,446,074	1,448,479	1,403,758

* As of March 31, 2004, Corporate sector expenses not directly attributable to another sector are apportioned in accordance with the net earnings of the principal sectors.

Code of Ethics and Rules of Professional Conduct

The values outlined in the Corporation's Code of Ethics and Rules of Professional Conduct, notably integrity, loyalty and transparency, are values that Loto-Québec has always emphasized and that all senior executives of the Corporation and its subsidiaries are required to respect. During the past fiscal year, the principles of this Code have been fully adhered to by all those to whom it applies.

1 Definitions

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

2 Ethical Principles and General Rules of Professional Conduct

- 2.1 This Code applies to the directors and executives of the Corporation and its subsidiaries, who are bound to comply with its provisions.
- 2.2 A director or executive is appointed to contribute to the achievement of the Corporation's mission in the best interests of Québec. Accordingly, he is expected to use his knowledge, abilities, experience and integrity in a way that will promote the fair and efficient accomplishment of the objectives assigned to the Corporation by the Act and the effective administration of the property it owns as mandatary of the State.
- 2.3 In the course of performing his duties, a director or executive shall comply with the Corporation's mission and the following objectives:
 - **Social role:** by expanding the ways of sharing the fruit of its operations with the various communities and regions and increasing its activities in the prevention of compulsive gambling
 - **Integrity and credibility:** by demonstrating steadfast vigilance to ensure the integrity, transparency and credibility of the Corporation's activities
 - **Expansion:** by developing new markets through associations and partnerships which will allow the Corporation to considerably enhance the traditional lottery games, casinos and video lotteries it offers
 - **Competence and expertise:** by promoting the development of the skills essential to the Corporation and establishing programs that ensure respect for human resources
 - **Performance:** by offering the best possible entertainment products and services in the lottery, casino, video lottery and bingo sectors, and by increasing the public funds entrusted to it
- 2.4 A director or executive who, at the request of Loto-Québec or any of its subsidiaries, serves as director, executive or member of another undertaking or company is held to the same standards and obligations.
- 2.5 In the performance of his duties, a director or executive shall seek to satisfy only the interests of the Corporation, to the exclusion of his own interests or those of others.
- 2.6 In the performance of his duties, a director is required to comply with the ethical principles and rules of professional conduct prescribed by the Regulation Respecting the Ethics and Professional Conduct of Public Office Holders to the extent that they are applicable to him.

3.1 Prevention of conflicts of interest

- 3.1.1 A director or executive shall avoid placing himself into a situation in which his personal interest is in conflict with the duties of his position.
- 3.1.2 To be applicable under the terms of this Code, the interest held by a director or executive in another enterprise must be such that it is likely to conflict with the performance of his duties within the Corporation or any of its subsidiaries. A director or executive who has an interest in an enterprise is in a situation of "conflict of interest" in the following cases, among others:
- if Loto-Québec or any of its subsidiaries has or is likely to have a significant business relationship with the enterprise, that relationship being significant both for Loto-Québec and for the enterprise
 - if the enterprise is a listed company and its business relationship with Loto-Québec or any of its subsidiaries is likely to have an effect on listed shares
 - if the interest of the director or executive in the enterprise that has a business relationship with Loto-Québec or any of its subsidiaries is such that it may influence the enterprise's affairs
 - if the enterprise has signed a contract with Loto-Québec or any of its subsidiaries and this contract is such that it has an impact on the enterprise's assets
 - if the enterprise is awarded a contract for which the director or executive has been involved in the choice of supplier
- 3.1.3 A director or executive who is party to a contract with Loto-Québec or any of its subsidiaries other than his contract of engagement is also considered to be in conflict of interest.

3.2 Disclosure and abstention

- 3.2.1 A director or executive who:
- a) has a direct or indirect interest in an enterprise that places him in a situation of conflict of interest under section 3.1.2 of this Code; or
 - b) is party to a contract with the Corporation or a subsidiary under section 3.1.3
- shall disclose the nature and extent of his interest in writing to the Chairman of the Board. A director shall also abstain from deliberating or voting on any question linked to this interest and refrain from attempting to influence the related decision. He shall withdraw from the meeting while deliberations and voting on this question continue.
- 3.2.2 A director or executive shall make the disclosure required in section 3.2.1 as soon as he has knowledge that he is in a conflict of interest under sections 3.1.2 and 3.1.3. In the case of a director, this disclosure of interest shall be recorded in the minutes of the proceedings of the Board of Directors, of which he is a member.
- 3.2.3 A director or executive shall notify the Chairman of the Board in writing of any rights that he may invoke against the Corporation or any of its subsidiaries, indicating their nature and value, as soon as these rights come into existence or when he acquires knowledge of them.
- 3.2.4 A director or executive shall also submit an attestation in the form provided to the Chairman of the Board by June 1st of each year in which he remains in office.
- 3.2.5 The Chairman of the Board submits the attestations referred to by these sections to the Secretary of the Corporation, who keeps them at the disposal of the members of the Board and the executives. These attestations are treated as strictly confidential.

Code of Ethics and Rules of Professional Conduct (continued)

3.3 Waiver

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

4

Effective Date

- 4.1 This Code takes effect September 1, 1999.

Language Policy

Making 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.

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Loto-Québec's Web site at www.loto-quebec.com.*

*Loto-Québec's Annual Report is produced
by the Senior Corporate Vice-Presidency
of Communications and Public Affairs.*

*Concept and design
CG3 Communications Graphisme inc.*

*Photography
Pierre Villeneuve
Yan Côté*

*Printing
Imprimerie L'Empreinte*

*Legal deposit
ISBN 2-550-44602-X
ISSN 0709-5740*



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