

May 2004

Loto-Québec 2004-2007 Development Plan

Assuring a Balance Between Business Mission
and Social Responsibility

Proposal Submitted to the Government



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Executive Summary

Objectives, Pursuits and Proposed Initiatives

This document is intended to outline Loto-Québec's proposals to the Government and the population at large so that the Corporation may continue to effectively fulfill its economic mission while fully assuming its social responsibilities, particularly with respect to compulsive gambling.

The maintenance of a healthy balance between business mission and social responsibility figures at the heart of Loto-Québec's vocation. Over the past several years, numerous observers of Québec society have held that this balance has been upset. The proposals contained in the 2004-2007 Development Plan are aimed at responding to these legitimate concerns.

Upon the request of the Government, the following four objectives will serve to guide Loto-Québec's fundamental actions over the course of the next few years:

- > minimize the social costs associated with games of chance and adopt new measures to combat compulsive gambling
- > improve the Corporation's effectiveness and general performance so as to maintain the level of net profits remitted annually to the Government
- > contribute to the development and success of the tourism industry, working hand-in-hand with the principal players in the sector
- > refrain from increasing overall game offerings

Created in 1969 by National Assembly legislation aimed at implementing a public lottery system, Loto-Québec's mandate has grown considerably since the early 1990s. Today, in addition to lotteries, the Corporation operates a network of video lottery terminals (VLTs), network bingo products, as well as three Casinos and subsidiaries responsible for associated food and beverage and hotel services. The Corporation has also created two other subsidiaries to market products and services related to games of chance.

The start of the current decade, however, marked a significant shift in the evolution of Loto-Québec's revenues. After showing average increases of over 11% during the 1990s, revenues rose by only 1% per year since 2000-2001. In fact, the Casino sector even saw a decrease in revenue during 2003-2004, attributable primarily to the drop in revenues at the Casino de Montréal, which experiences major problems related to vehicle circulation, congestion and aging.

All sectors operated by Loto-Québec have now reached a state of maturity, which is a situation typical of other Canadian lottery corporations as well. As such, the challenge posed by maintaining the level of net profits remitted to the Government while refraining from increasing overall game offerings has become a truly formidable one.

Recent years have also been marked by a growing concern throughout society as a whole about dependency on games of chance. Even though the latest studies indicate a stabilization in the number of compulsive gamblers despite an increase in the consumption of games of chance, the phenomenon of compulsive gambling remains a major preoccupation.

That is why Loto-Québec must absolutely take into account the heightened sensitivity to the social costs of gaming prevalent in Québec society today. In so doing, the Corporation will base its actions on the objective results of research and studies conducted over the past few years focused on the social and behavioural dimensions of games of chance.

In view of all these factors, Loto-Québec's 2004-2007 Development Plan advocates three key strategic initiatives:

- > decreasing accessibility to VLTs by implementing a 31% reduction over the next three years in the number of sites (bars, brasseries and taverns) equipped with these terminals and by concentrating the number of units thus recovered in five gaming halls to be controlled by Loto-Québec;
- > creating an organization independent of Loto-Québec and the Government — the Conseil québécois pour le jeu responsable — which would have the benefit of better targeted resources and greater financial means allocated to research on compulsive gambling and to promoting public awareness, prevention and treatment of this phenomenon;
- > maintaining the operation of the Casino de Montréal in the short-term within its current installations on Île Notre-Dame, which will necessitate an investment of \$20 million to preserve the facilities until a permanent solution to the gaming house's existing problems can be implemented; Loto-Québec is inviting all parties concerned to contribute to the development of a long-term solution that will enable the Casino to operate in the best conditions possible without increasing its overall game offerings; the Corporation is proposing two hypotheses in this regard:
 1. expanding the Casino on Île Notre-Dame and carrying out major improvement projects in order to furnish the establishment with new equipment and new functional infrastructures which would better adapt the complex to meet the expectations of its clientele, particularly those of tourists

2. moving the Casino to an integrated recreational/tourist complex located at the Peel Basin, an enclosed site removed from residential zones; to be linked to the Old Port via monorail, this complex would take full advantage of and showcase the beauty of the area around the Lachine Canal and would serve as a catalyst for the Havre de Montréal revitalization project; this option would also enable the Casino de Montréal to make use of its full potential to support the city's tourism industry and could serve as an impetus for the eventual establishment of an Exhibition Centre

By the end of 2004, Loto-Québec is hoping that as great a consensus as possible will have emerged on one or the other of these options, or regarding any other options which may evolve after consultations on the subject. To that end, the Corporation is offering its full collaboration to ensure that this discussion will be as comprehensive and productive as possible.

Loto-Québec's 2004-2007 Development Plan anticipates a total reduction of 3.6% in game offerings in Québec. On the Island of Montréal, however, the reduction will be in the order of 8.5%, regardless of the scenario ultimately adopted for the future of the Casino.

1. History and Mission of Loto-Québec

Loto-Québec's fundamental mission is to effectively manage and operate games of chance in Québec. Created in 1969 to implement a public lottery system, the Corporation was subsequently entrusted by its shareholder, the Government of Québec, with various new mandates that have resulted in a significant diversification of its activities over the years.

In addition to a public lottery, the Corporation now operates three Casinos and related food and beverage and hotel services, a video lottery system, as well as network bingo activities. Loto-Québec is also active on the international scene, offering a range of products and services developed within its various fields of expertise.

In recognition of its social responsibilities, the Corporation finances a program dedicated to the prevention and treatment of compulsive gambling while carrying out its own activities to combat the dependency on gaming. Loto-Québec's social commitment is seen in a number of different ways, including the sponsorship of events with significant positive spin-offs for communities throughout the province.

Loto-Québec Activity Sectors

- > Traditional lotteries: 10,545 retailers; 8,418 terminals
- > Video lotteries: 3,663 sites; 14,300 terminals
- > Three Casinos: Montréal, Charlevoix and Lac-Leamy
- > Restaurants and hotels: Bars and restaurants in the three Casinos; Hilton Lac-Leamy Hotel; 50% share in the Fairmont Le Manoir Richelieu Hotel
- > Network bingo: 130 participating halls
- > Development and marketing of products and services: Ingenio and Casino Mundial subsidiaries

Distribution of Revenues - 2003-2004

TOTAL: \$3.761 billion¹

<u>Traditional Lotteries</u>	<u>Video Lotteries</u>	<u>Casinos</u>
\$1.813 billion	\$1.129 billion	\$728.9 million
(47.7 %)	(29.7 %)	(19.2 %)
<u>Restaurants and Hotels</u>	<u>Bingo</u>	<u>Ingenio</u>
\$92.1 million	\$36.9 million	\$0.6 million
(2.4 %)	(1.0 %)	(-)

Chronological Highlights

December 1969

Adoption of the Lotteries and Races Act creating Loto-Québec.

December 1992

Creation of the Société des casinos du Québec, the Loto-Québec subsidiary mandated to operate State Casinos.

June 1993

Creation of the Société des loteries vidéo du Québec, another Loto-Québec subsidiary which begins installing video lottery terminals in June 1994.

October 1993

Inauguration of the Casino de Montréal.

June 1994

Inauguration of the Casino de Charlevoix.

¹ Unaudited revenues after elimination of \$39.5 million in inter-corporation sales.

1994-1995

First expansion of the Casino de Montréal.

1995-1996

Renovation of the Québec Pavilion to make it an integral part of the Casino de Montréal.

March 1996

Inauguration of the Casino du Lac-Leamy.

September 1996

Opening of the Cabaret du Casino de Montréal.

December 1997

Creation of the Société des bingos du Québec, another subsidiary of Loto-Québec.

December 1998

Creation of Ingenio, the Loto-Québec subsidiary charged with the development and marketing of multimedia lottery products.

June 1999

Inauguration adjacent to the Casino de Charlevoix of the Fairmont Le Manoir Richelieu Hotel, the property of a consortium formed by Loto-Québec, Canadian Pacific Hotels (now Fairmont Hotels & Resorts) and the Fonds de solidarité FTQ.

April 2001

Transfer of compulsive gambling research and prevention programs to the Ministère de la Santé et des Services sociaux.

Summer 2001

Expansion of the Casino du Lac-Leamy and opening of the Théâtre du Casino du Lac-Leamy.

October 2001

Inauguration of the Hilton Lac-Leamy Hotel Complex.

November 2001

Holding of the Forum on Compulsive Gambling organized by the Québec Government.

March 2002

Creation of the MISE SUR TOI Foundation with a mandate to prevent and combat the effects of excessive gambling.

May 2002

Start of expansion and restoration work on the Fairmont Le Manoir Richelieu Golf Club.

July 2002

Creation of Casino Mundial, the Loto-Québec subsidiary responsible for developing international business opportunities in the Casino sector.

2. Economic Spin-Offs

Loto-Québec returns the fruits of its efforts and activities in their entirety to the Government and community at large. During fiscal 2003-2004, this redistribution of revenues broke down as follows²:

- > \$979.4 million in prizes to lottery and bingo winners
- > \$413.6 million in commissions and other compensations to lottery, video lottery and bingo network partners
- > \$443.2 million in the purchase of goods and services (including merchandise prizes) to some 1,100 suppliers
- > \$332.7 million in salaries and benefits to 6,800 employees
- > \$242.3 million in taxes and other contributions to the Government
- > \$17.8 million in municipal and school taxes
- > \$1.493 billion in total dividends to the Government

Since its creation in 1969, Loto-Québec has remitted over \$17 billion to the State. According to a study conducted by UQÀM's École des sciences de la gestion, Loto-Québec's annual contribution to the provincial economy manifests itself in numerous ways, including the maintenance of 24,500 direct and indirect jobs and a contribution of \$975 million to the Gross Domestic Product.

² Preliminary and unaudited figures.

Since the establishment of the Casinos, Loto-Québec's economic contribution has increased markedly. In addition to employing 6,000 individuals and being significant consumers of goods and services, the three gaming houses serve as major stimuli for the tourism sector, with approximately 25% of their clientele originating from outside Québec.

Loto-Québec also plays an important role in the areas of mutual aid, the arts, recreation and other forms of community involvement. Each year, the Corporation contributes over \$100 million to various community-based organizations and programs.

Loto-Québec's Community Commitment

AREAS OF INVOLVEMENT	2003-2004 CONTRIBUTIONS (in millions)
Fonds d'aide à l'action communautaire autonome <ul style="list-style-type: none"> • <i>5% of Casino and Resto-Casino net earnings</i> 	\$13.6
Fonds d'aide à l'action humanitaire internationale <ul style="list-style-type: none"> • <i>1% of Casino and Resto-Casino net earnings</i> 	\$2.7
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation <ul style="list-style-type: none"> • <i>Agricultural shows</i> 	\$5.5
Ministère de la Santé et des Services Sociaux <ul style="list-style-type: none"> • <i>Support for compulsive gamblers</i> 	\$17.0
Ministère de la Sécurité publique <ul style="list-style-type: none"> • <i>Support for compulsive gamblers</i> 	\$3.0
Ministère de la Santé et des Services Sociaux <ul style="list-style-type: none"> • <i>Services for dependent seniors</i> 	\$30.0
Sponsorships	\$10.8
Financial support for NPOs* – Bingo	\$10.3
Financial support for NPOs* – Lotteries	\$9.9
Loto-Québec Art Collection	\$0.4
TOTAL	\$103.2

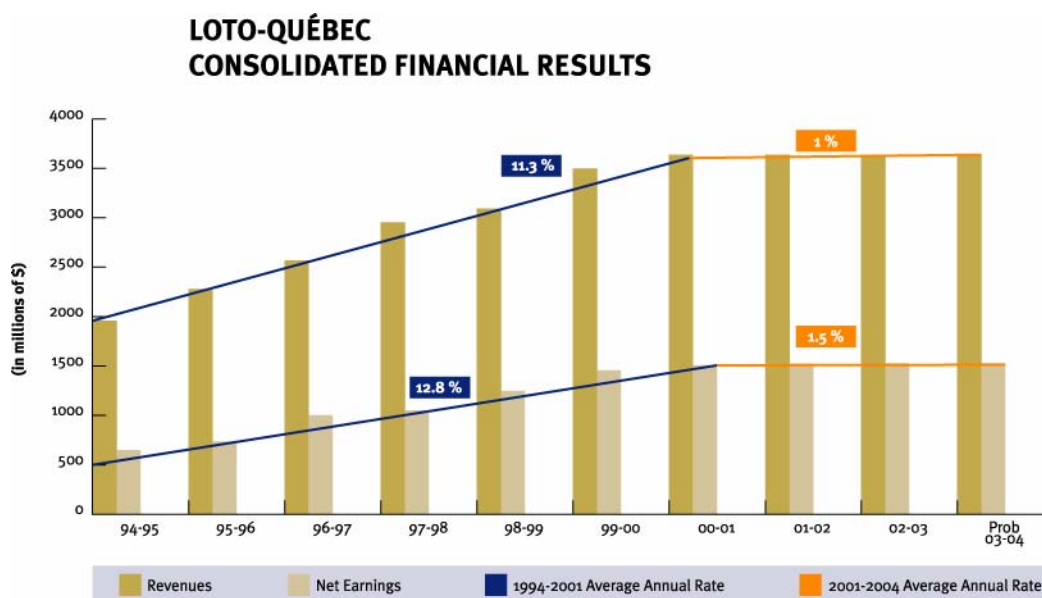
*Non-profit organizations

3. Commercial Activities – Principal Undertakings

The years spanning 1994 through 2001 were marked by substantial growth and significant consolidated revenues and net earnings for Loto-Québec. These uncommon increases reflect the Corporation's period of expansion into new activity sectors, most notably Casinos and Video Lotteries.

Beginning in fiscal 2001-2002, however, Loto-Québec experienced a major slowdown in the pace of its development, with the average rate of growth declining from 11.3% to 1% in the case of revenues, and from 12.8% to 1.5% in the case of net earnings.

Chart 1

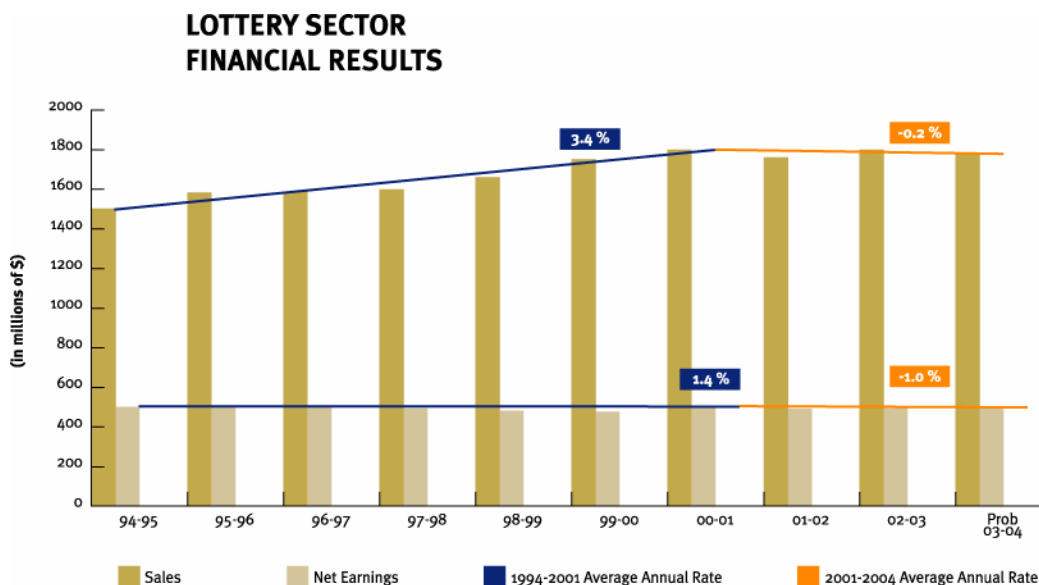


Over 95% of Loto-Québec's revenues are generated by three major activity sectors — Lotteries, Casinos and Video Lotteries. As illustrated by the following charts, each sector's financial indicators show the same general trend and point of inflexion in the revenue and profit curve.

3.1 Lotteries

After posting average sales growth of 3.4% during 1994-2001, the traditional Lottery sector's revenues have levelled out, even showing a slight decrease of 0.2% since 2001. From a profit standpoint, the average increase of 1.4% has given way to a decline of 1.0%.

Chart 2



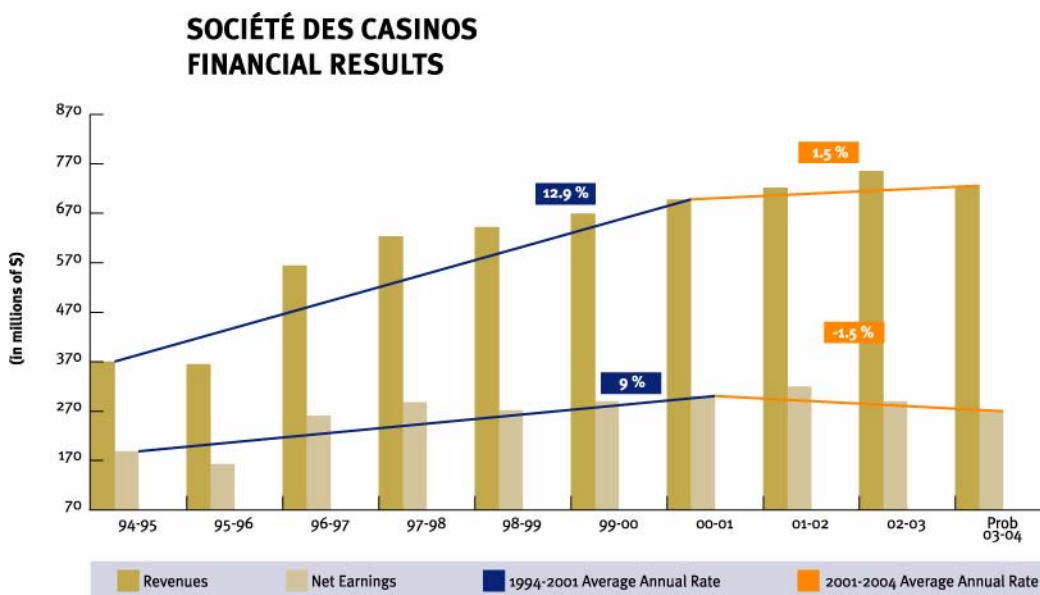
The stagnation of sales within this sector reflects a market that has reached its maturity. As is the case throughout the entire North American lottery industry, this sluggishness in sales has had an impact on profitability. This is because a mature market tends to result in increased operating costs incurred in an attempt to make the product more attractive. Currently, Loto-Québec's clientele is moving towards lottery products offering higher payout rates. In addition, it is quite possible that the diversification of game offerings is also contributing to the decline in traditional lottery sales. Nevertheless, this sector, which served as Loto-Québec's cornerstone, still generates close to half of the Corporation's total revenues.

3.2 Casinos

The Casino sector (excluding food and beverage and hotel activities) accounts for 19.4% of Loto-Québec's revenues and has also experienced a significant decline in the growth

of its annual earnings. While posting an average rate of 12.9% between 1994 and 2001, this rate dropped to 1.5% during the more recent period between 2001 and 2004. Net earnings decreased by approximately the same proportion, declining from an average annual growth rate of 9% between 1994 and 2001, to -1.5% from 2001 to 2004.

Chart 3



The growth rate for the 1994-2001 period reflects the impact of various additions to game offerings within the Casino sector, and in particular, the renovation and expansion work carried out at the Casinos in Montréal and Charlevoix, the opening of the Casino du Lac-Leamy in 1996, and the expansion and construction of the urban resort complex of which the Casino du Lac-Leamy is now an integral part.

The slowdown in the growth of Casino earnings over recent years is attributable to the fact that expenses related to salaries and other operating costs are increasing more rapidly than revenues. While increased revenues are closely tied to increased visitor traffic, the costs to generate this additional traffic are high, particularly in view of the ever-growing competition confronting Québec's Casinos.

In fact, the Casino industry has enjoyed tremendous growth within the American market over the past few years, rising from \$9.6 billionUSD in 1992 to \$26.5 billionUSD in 2002, representing an increase of 275%. Within Northeast America, (U.S., Ontario and Québec), the number of gaming houses in operation has also grown quite dramatically — from 14 in 1992 to 72 in 2002, including 26 “*Racinos*” (of which 15 are in Ontario).

The current trend is centred around resort-type locations that offer an array of different services. Some examples of establishments that have adopted this type of approach in recent years are the Mohegan Sun Casino in Connecticut (investment of \$1 billionUSD), the new Niagara Casino in Ontario (\$1 billion), and the Borgata in Atlantic City (\$1 billionUSD).

Officially opened in July 2003, the Borgata offers 2,002 rooms, 12 restaurants, a spa and a conference centre. Through its establishment alone, the State of New Jersey increased its gaming revenues by 13.7% during the first quarter of 2004. This level of growth clearly demonstrates to what extent this type of complex can attract new clientele, including from visitors from Québec.

In fact, our studies indicate that 13.5% of the Casino de Montréal’s Québec clientele visit a Casino outside the province each year (primarily in Las Vegas and Atlantic City). Furthermore, 5.1% of our clientele have participated in chartered trips whose prime attraction is to visit Casinos.

It is important to remember too that “High Roller” players are looking more and more for these types of gaming establishments on the international scene. This is so evident today that it is now easier to attract this type of clientele to the Lac-Leamy complex than to the Casino de Montréal, which does not have the appropriate infrastructures in place.

At the end of the past fiscal year, which came to a close March 31, 2004, the Casino de Montréal posted a 3.9% decline in revenues. This marks the first such decline in its 10

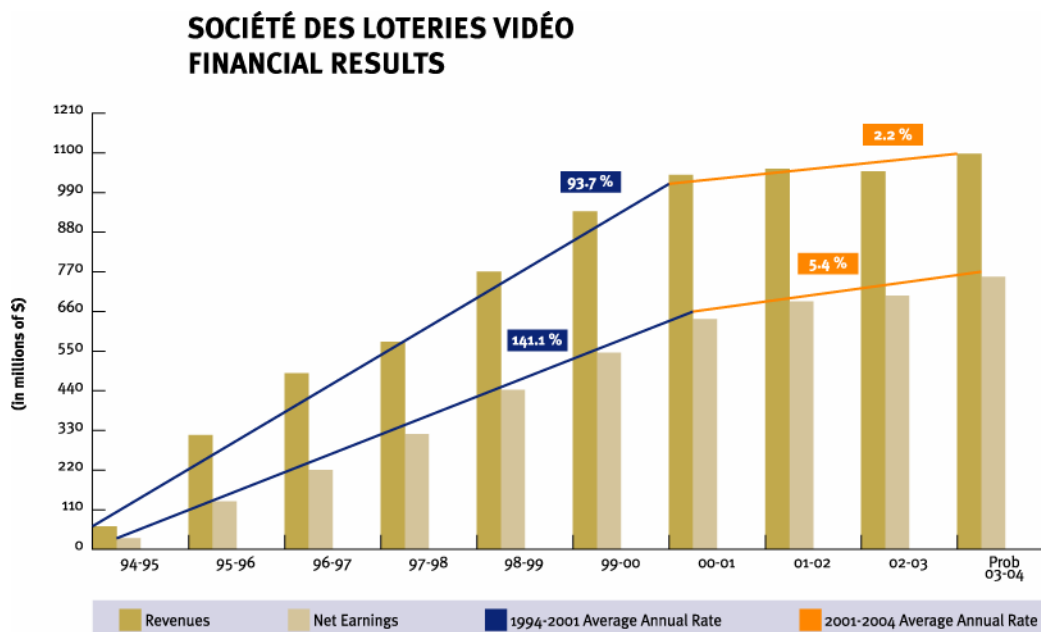
years of existence³. Similarly, the gaming house recorded a drop in average daily traffic for the third consecutive year, including visitors from both inside and outside the province.

3.3 Video Lotteries

The Video Lottery sector generates 30% of the Corporation's total income and approximately 50% of its profits. During the 1994-2001 period, the sector's revenues and net earnings grew rapidly, with the average annual rate reaching 93.7% and 141.1% respectively (including the start-up period in 1994). For the more recent term between 2001 and 2004, however, revenues and net earnings showed a clear stabilization, increasing on the average by only 2.2% and 5.4% respectively.

³ With the exception of the two years marked by a labour conflict.

Chart 4



The 5.4% increase in net earnings between 2001 and 2004 is attributable in part to the decrease in the rate of commission awarded to video lottery terminal (VLT) operating license holders. Reduced from 30% to 26% in May 2001, this rate was again cut from 26% to 22% in November 2003. At its current level, the commission rate offered by Loto-Québec remains the highest of all Canadian provinces operating VLT networks, with the exception of Newfoundland and Labrador. In 2003-2004, VLT license holders received combined commissions in the order of \$276.8 million.

The number of units within the video lottery network has also been cut back in recent years. From a peak of 15,314 terminals installed at 4,175 sites in 1998-1999, the VLT network is now comprised of 14,300 units (-6.6%) being operated at 3,663 establishments (-12.3%). In all, there are currently 13,870 terminals in operation in bars, brasseries and taverns, and 430 at four racetracks. The entire network was refurbished over the course of the past two years, with the new units now equipped with special mechanisms designed to prevent excessive gaming behaviour.

4. Social Responsibility – Principal Pursuits

Although Quebecers enjoy access to the most comprehensive and diverse selection of games of chance in Canada, they are actually among those in the country who spend the least on gambling. And contrary to a commonly held belief, the latest studies indicate that compulsive gambling is not on the rise in Québec, thanks in part to the numerous efforts made over the past few years to prevent and combat excessive gaming. Due to their accessibility, however, VLTs remain a major focus of attention.

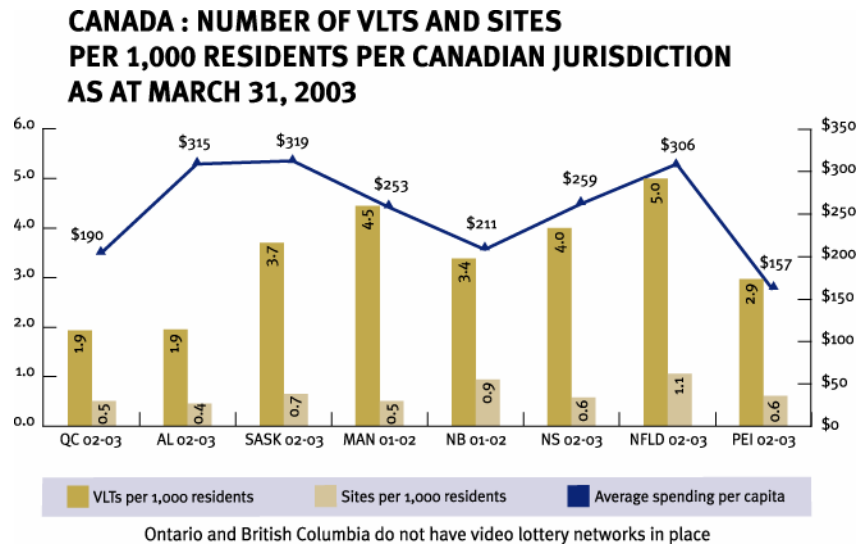
4.1 Game Offerings in Québec and Elsewhere in Canada

Because each region has different practices and traditions with regards to games of chance, it is fairly difficult to quantify and compare game offerings across the country. For example, there are no VLTs in Ontario although the province operates some 20,000 slot machines, which is comparable to the total number of VLTs and slot machines in place in Québec. Ontario's slot machines are concentrated in Casinos and in establishments known as "*Racinos*", where people can also bet on the horses.

The implementation of a VLT network in the province by Loto-Québec resulted in the disappearance of tens of thousands of illegal machines. The situation is quite different in Ontario, where it is estimated that there are more than 20,000 illegal electronic gaming machines in operation according to provincial law enforcement authorities⁴. If these illegal units are taken into account, the total game offerings are higher in Ontario than in Québec, with the ratio of units being 3.45 per 1,000 residents there, as compared to 2.77 in this province. Whatever the actual case in Ontario, there is no doubt that among the eight Canadian provinces operating VLTs, Québec (along with Alberta) operates the lowest number of units per capita. After Prince Edward Island, Québec is also the province with the lowest average per capita spending on VLTs.

⁴ *Ottawa Citizen*, May 20, 2000

Chart 5

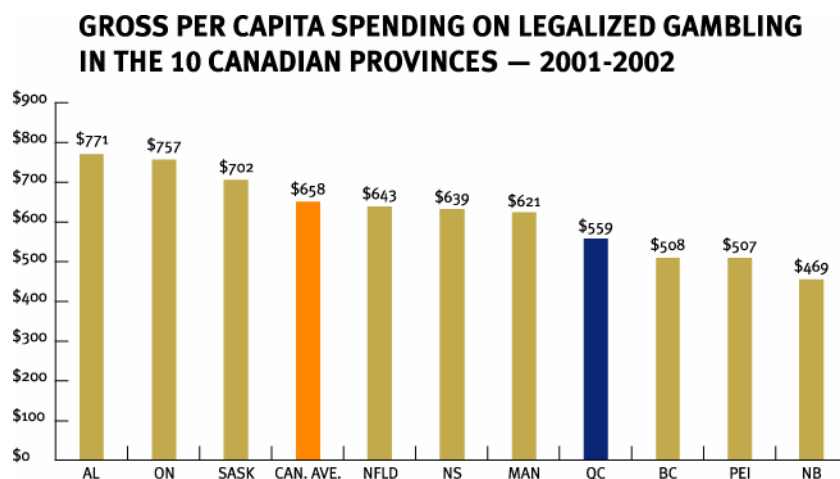


4.2 Lowest Spending on Gambling in Québec

Among the entire Québec population, 81% of adults play games of chance at least once a year. This figure represents a decline from the 90% recorded in 1996⁵. Quebecers are not the greatest consumers of games of chance in Canada. Indeed, at \$559, their level of spending on gambling is approximately \$100 below the national average of \$658. In actual fact, the province ranks seventh among the other Canadian jurisdictions in terms of per capita spending on legalized betting. Québec occupies the same relative position with regards to the percentage of available personal income allocated to gambling — 2.77% as compared to the national average of 2.97%.

⁵ *Prévalence des habitudes de jeu et du jeu pathologique au Québec en 2002* and *Comportement de jeu et jeu pathologique selon le type de jeu au Québec en 2002*, Institut national de santé publique du Québec and Centre québécois d'excellence pour la prévention et le traitement du jeu, April 2004.

Chart 6



4.3 The Prevalence of Compulsive Gambling is Stable

According to a study on public health in Canadian communities published by Statistics Canada in 2002, Québec has the lowest percentage of compulsive gamblers in the country, at 0.3% of its adult population, as well as one of the lowest percentages of players at risk, estimated at 1.3%⁶.

Another study conducted jointly by Université Laval's Centre québécois d'excellence pour la prévention et le traitement du jeu and by the Institut national de santé publique du Québec (INSPQ)⁷ revealed the phenomenon of compulsive gambling is relatively stable in this province.

Based on the results of this study carried out among 8,842 respondents in 2002, the actual percentage of probable compulsive gamblers within the adult population declined from 1.0% in 1996 to 0.8% in 2002. For the same period, the percentage of players at risk dropped from 1.4% to 0.9%. As such, according to the study, there were between 35,000

⁶ *Study on Public Health in Canadian Communities – Mental Health and Well-Being*, Statistics Canada, 2002.

⁷ *Prévalence des habitudes de jeu et du jeu pathologique au Québec en 2002* and *Comportement de jeu et jeu pathologique selon le type de jeu au Québec en 2002*, Institut national de santé publique du Québec and Centre québécois d'excellence pour la prévention et le traitement du jeu, April 2004.

and 56,000 probable compulsive gamblers in Québec in 2002, a far cry from the 140,000 figure often cited.

It should be noted as well that the stabilization in the number of compulsive gamblers observed between 1996 and 2002 occurred during a time when the consumption of games of chance was on the rise. Therefore, relatively speaking, it can be concluded that the phenomenon is in a state of regression.

4.4 Loto-Québec's Efforts to Combat Compulsive Gambling

Over the past two decades, and particularly since the opening of the Casino de Montréal in 1993, Loto-Québec has focused considerable attention on the social consequences of gambling. Today, the Corporation is leading the way with its initiatives in this area and with the financial resources it is allocating towards combating excessive gaming.

During the six-year period between April 1999 and the end of fiscal 2004-2005, the Corporation will have allotted over \$86 million to various research, prevention and support programs designed for compulsive gamblers. In fact, Québec is one of the Canadian jurisdictions that devotes the greatest effort to curbing problem gaming.

Among its numerous initiatives, Loto-Québec has financed the creation of the Centre québécois d'excellence pour la prévention et le traitement du jeu (affiliated with Université Laval) and the International Centre for Youth Gambling Problems and High-Risk Behaviours (associated with McGill University). These two Centres are recognized as world leaders in the field of compulsive gambling research and treatment, and both have benefited from Loto-Québec's support over the past five years.

In June 2001, further to a recommendation by the Auditor General advocating a better sharing of responsibilities, Loto-Québec transferred its research activities and various treatment programs related to compulsive gambling to the Ministère de la Santé et des Services sociaux. In exchange, the Corporation makes an annual contribution of \$20 million to the Ministry and to the Régie des alcools, des courses et des jeux (RACJ) to

finance their compulsive gambling research, education and treatment programs. As such, compulsive gamblers now have free access to some 100 support centres throughout Québec.

In conjunction with its commercial activities, Loto-Québec is continuing to implement its own actions with respect to excessive gambling, including the following initiatives undertaken over the past few years:

- > a player self-exclusion program in Casinos
- > active participation in the Interdepartmental Coordination Table created to promote greater collaboration between Government Ministries and organizations concerned with gaming in Québec
- > a public awareness campaign focused on the ban on lottery sales to minors
- > creation of the MISE SUR TOI Foundation with an initial contribution of \$2 million in order to promote responsible gaming behaviour
- > establishment of the 1-866-SOS-JEUX help hotline
- > implementation of a front-line service in Casinos designed to help players in a state of distress or crisis
- > training and sensitization programs about compulsive gambling for Casino personnel
- > information and awareness sessions focused on compulsive gambling offered in collaboration with the Centre québécois d'excellence pour la prévention et le traitement du jeu and designed for business partners of Loto-Québec and its subsidiaries, particularly owners of bars and brasseries equipped with VLTs

- > display of warning messages concerning compulsive gambling on slot machines in Casinos and on VLTs in licensed establishments

- > incorporation of various mechanisms to encourage responsible gaming behaviour into new VLTs recently installed at licensed establishments

4.5 VLTs and Compulsive Gambling

Despite the progress achieved over the past few years with regards to its prevention and treatment, the reality of compulsive gambling continues to exist. It is a phenomenon that touches VLT users in particular, as they are among the players most susceptible to developing a gambling problem.

The rate of compulsive gambling among VLT players is indeed higher than among individuals playing any other games. In that regard, the 2002 study conducted jointly by the Centre québécois d'excellence pour la prévention et le traitement du jeu and INSPQ concluded that 7.8% of Québec's adult population uses VLTs and that, among this clientele, 8% are probable compulsive gamblers. Consequently, this latter group represents 6/10 of 1% of the province's adult population⁸.

VLTs also constitute the game on which players bet the highest amounts annually, thus underlining the importance of implementing a series of corrective measures.

⁸ *Prévalence des habitudes de jeu et du jeu pathologique au Québec en 2002 and Comportement de jeu et jeu pathologique selon le type de jeu au Québec en 2002*, Institut national de santé publique du Québec and Centre québécois d'excellence pour la prévention et le traitement du jeu, April 2004.

5. Three Key Initiatives

The particular problems associated with the Video Lottery sector, the concern for greater effectiveness in the battle against compulsive gambling, and the crucial need for long-term solutions at the Casino de Montréal have led Loto-Québec to develop and promote three key strategic initiatives. The adoption and implementation of these new initiatives will allow the Corporation to better fulfill its social responsibilities while providing its shareholder with a greater assurance of maintaining the expected level of dividends in the medium- and long-term.

5.1 Reconfiguration of the VLT Network

The conclusions of existing scientific documentation and the discussion groups led by the Centre québécois d'excellence pour la prévention et le traitement du jeu all favour the concentration of VLTs in a limited number of gaming hall-type sites so as to reduce the visibility and accessibility of these units. However, the number of VLTs available must not be reduced to the point of promoting the reappearance of illegal machines. As such, it is essential to assure a proper balance between "sites in proximity" and "destination sites" in the form of gaming halls.

Loto-Québec's proposed strategy is based on the recommendation of various teams of researchers, particularly those formulated recently by the Centre québécois d'excellence pour la prévention et le traitement du jeu. More specifically, the Corporation is advocating the following:

- > reconfiguring the VLT network by reducing the number of sites equipped with VLTs by a minimum of 31% over three years and concentrating the majority of terminals thus recovered in a network of five gaming halls controlled by Loto-Québec

- > favour a balanced distribution of VLTs among the regions across the province and in urban zones taking socio-economic conditions into account
- > grouping game-related activities into zones where the social dynamic will not be undermined and restricting the number of units in areas where the risk of social problems and the costs associated with them are high

The selection of sites that are no longer to offer VLTs will be made according to a set of rigorous criteria. Units will be withdrawn from those sites equipped with one to four VLTs in two types of targeted zones:

- > areas where average household income is below \$50,000 and where the VLT ratio is higher than 2 per 1,000 residents
- > the four most densely populated municipalities — Montréal, Québec City, Longueuil and Laval

In addition, all VLTs located at sites to close by natural attrition over the course of the next three years will not be replaced.

In all, 1,142 sites will be shut down in bar and brasserie-type establishments, representing a total of 2,500 VLTs. Approximately 70% of the VLTs recuperated will be relocated into a network of five gaming halls to be established either on the outskirts of high-density urban areas, or in high-density tourist zones. The zones identified consist of the region north of Montréal, Québec City, Trois-Rivières, Sherbrooke and Mont-Tremblant. Loto-Québec believes that the availability of VLTs will remain diversified enough (both in urban areas and the regions) to prevent the return of illegal machines which would entail serious social costs.

The proposed network of five establishments under the control of Loto-Québec will allow for more rigorous monitoring to ensure respect for all regulations, improved client “filtering” (with respect to age or the self-exclusion program), less pronounced visibility and reduced accessibility to non-players. There will be no loyalty program permitted, and as compared to bars, business hours will be shortened while the consumption of alcohol in playing areas will be prohibited.

The steps and conditions for the establishment of these gaming halls are as follows:

- > compulsory closing of targeted sites with six-month prior notice and financial compensation equivalent to one year of commissions
- > progressive implementation over a two-year period
- > application of a process to evaluate the social impacts of the VLT reconfiguration strategy

In parallel with the above, the following measures pertaining to VLTs in bars, brasseries and taverns should be put into effect:

- > renewal of the moratorium on the issue of new permits by the RACJ for the next three years
- > revocation of all orphan permits
- > implementation of a voluntary exclusion program
- > prohibition of the word “casino” in the name of establishments
- > ban on all forms of advertising and promotion other than the “video lottery” identification supplied by the Société des loteries vidéo du Québec
- > training of personnel with respect to the regulations

- > installation of VLTs so that they are not visible from an exterior public area
- > installation of VLTs so that they are not visible, audible or accessible by minors
- > progressive elimination of physical structures inside sites that are designed to isolate video lottery players to enhance their visibility and accentuate “social interaction” with the player

Insofar as the Québec Government intends to support the province’s horseracing industry, some gambling halls could be integrated with one or more racetracks. In all, there are a maximum of 1,900 VLTs (430 existing units and an added 1,470) which could serve to help the horserace industry to the rate of 22% of generated revenues. This percentage would represent an annual injection of approximately \$32 million before amortization over five years of the compensation paid out for the closing of the selected sites previously operating VLTs.

Loto-Québec is extending a warning, however, in the event that Government authorities were to decide to yield to the demands of the horserace industry with regards to increasing the number of VLTs at racetracks. While the problem of compulsive gambling has led the Corporation to favour the idea of concentrating VLTs in a certain number of regional gaming halls so as to reduce accessibility to these machines, it is far from evident that the local racetrack is the ideal place to establish the region’s gaming hall given the concern about social fragility. This is particularly the case for the racetrack on Decarie Boulevard in the Montréal region where a substantial increase in the number of VLTs would be anything but desirable. That is why Loto-Québec favours the region north of Montréal as the site for its regional gaming hall and the relocation of the racetrack to the same site.

In any event, Loto-Québec will act to oversee the implementation and operation of all these proposed gaming halls, and based on the model already developed by the Société des loteries vidéo du Québec, all the related functions will be imparted.

5.2 Creation of an Independent Organization Dedicated to the Prevention of Excessive Gaming

For over 20 years, the prevention of compulsive gambling has been a constant preoccupation for Loto-Québec. Not only has the Corporation implemented a series of measures within various activity sectors to promote responsible gaming, but up until 2001, it has also actively financed research initiatives, the creation of two centres of excellence, as well as a variety of awareness programs.

In 2001, the Ministère de la Santé et des Services sociaux (MSSS) assumed principal responsibility for compulsive gambling research, prevention and treatment programs. The MSSS also presides over an Interdepartmental Coordination Round Table focused on compulsive gambling in which representatives of the Ministère des Finances, the Ministère de la Sécurité publique, Loto-Québec and the RACJ are all active participants. Through its concerted efforts, this group has developed a comprehensive Government Action Plan on Compulsive Gambling for 2002 through 2005.

While numerous measures have been undertaken to date to combat excessive gambling, a portion of the population remains sceptical, believing that both the Government and Loto-Québec are in a conflict of interest when it comes to the administration of games of chance. There is also the suspicion on the part of some that the Government and the Corporation are more interested in generating gambling revenues than in social repercussions. Even when new measures are announced to fight excessive gaming and come to the aid of compulsive gamblers, public credibility is not always what it should be.

Current Government structures are such that effective coordination between the various legislative authorities represents a major challenge. For all parties concerned, the development and maintenance of programs to curb excessive gambling is but one mandate among others, consequently often delaying the introduction of innovative programs and jeopardizing the continuity of certain measures already undertaken.

Loto-Québec is of the opinion that in order to assure optimal effectiveness in the fight against compulsive gambling, it would be appropriate to create a non-profit organization fully independent of the Corporation and the Government — the Conseil québécois pour le jeu responsable.

This organization would be responsible for all mandates related to the problem of excessive gambling. More specifically, the Conseil québécois pour le jeu responsable would actively undertake the following:

- > assure that Quebecers have all the information required to reduce the risk of developing a gambling problem, focusing particular attention on those most vulnerable
- > see to it that all those who are experiencing gambling-related problems can receive appropriate treatment and know where and how to access such care and support
- > develop and promote awareness programs targeted at the population at large, in particular, at those individuals experiencing problems
- > finance compulsive gambling research, particularly the work of the two existing internationally recognized centres of excellence
- > promote its own recognition as a credible source of information on responsible gaming
- > conduct a systematic evaluation of the strategies and programs being implemented to combat excessive gambling

The organization would be financed through an annual contribution of \$25 million, representing \$5 million more than the current amount being allocated to such activities. The organization's Board would be comprised of representatives of public and para-public agencies concerned, university researchers, managers from the gaming industry and business community, other parties with specific experience in the field, and representatives of various social groups.

The organizational model proposed is based on a variety of different formulas currently being applied in other Canadian provinces such as Ontario, as well as in other countries including the United States, New Zealand and South Africa.

The unique vocation of this organization will assure the Government and the Québec population at large that the problem of compulsive gambling is receiving focused attention and that the Conseil's senior management and staff are motivated exclusively by the importance of fulfilling their task.

5.3 Casino de Montréal

With over 60 million visitors having passed through its doors since its opening in 1993, the Casino de Montréal can undeniably be qualified as a major success on many different fronts. Having undergone two expansion projects over the past 10 years, the Casino now plays host to an average of 18,000 visitors per day, some days even exceeding 30,000. In certain ways, however, the gaming house has become a victim of its own success and is currently plagued by a series of problems that are seriously threatening its future.

First of all, due to severe space limitations, the gaming areas get badly congested and there are long waits at the restaurants. Moreover, the very location of the Casino has given rise to other problems. For example, the convoluted route to access the establishment combined with insufficient parking facilities make a trip to the Casino a very challenging endeavour indeed, particularly at peak periods. The lack of space also limits the type of shows that can be offered to those productions that can be adapted to a small 500-seat theatre. All of these factors together result in a considerable devaluation of the entertainment experience being sought after by the Casino's clientele. In fact, studies conducted among Quebecers have shown that these irritants actually act to dissuade many people from visiting the Casino more often and stand in the way of attracting new visitors. There is even reason to believe that the Casino's tourist clientele is equally, if not more, affected by the situation, as the tourist season corresponds to the establishment's peak time.

The Casino de Montréal's potential as a tourist destination is also being extremely limited by the fact that "High Roller"-type players around the world are looking for more relaxed gaming environments with accommodations available on-site. This is not the case on Île Notre-Dame, and therefore, it is presently extremely difficult to integrate the Casino de Montréal within the circuit of gaming houses most frequented by this particular type of clientele.

Moreover, two of the buildings housing the Casino date all the way back to Expo 67. Originally built with a life expectancy of one year, these buildings will soon be 40 years old. Despite the work that has been done over the years, the former French Pavilion is clearly showing the ill effects of time. Its exterior fittings and furnishings, as well as its major systems and equipment are all due for replacement. Virtually unchanged in 10 years, its interior furnishings and décor also need to be redone. As the building was not originally designed to serve as a Casino, existing storage spaces are inadequate too, and the space available for the circulation of materials and personnel is insufficient and far short of industry standards.

In view of these circumstances, this situation is having a major impact on the Casino's results. Over the past two years, for example, there has been a 5.5% decline in the number of visitors frequenting the facility, while average spending per visit has levelled off at \$74. As such, during 2003-2004, for the first time in its history⁹, the Casino's gaming revenues plunged by close to \$20 million, or 3.9%. If there is no major reinvestment in the establishment, revenues are expected to stagnate at best over the next four years.

CASINO DE MONTRÉAL KEY DATA							
	2001- 2002	2002-2003	%	2003-2004	%	2007-2008	% Variation
	Real	Real	Variation	Estimate	Variation	Projection	vs. 2001-2002
Traffic	6,755,200	6,551,800	-3.0%	6,385,000	-2.5%	6,385,000	-5.5%
Average Spending per Visitor	\$72	\$75	4.2%	\$74	-1.4%	\$74	2.8%
Revenues (in millions)	\$486.8	\$491.8	1.0%	\$472.4	-3.9%	\$472.4	-2.9%
Net Earnings (in millions)	\$228.4	\$218.1	-4.5%	\$203.8	-6.6%	\$160.4	-29.8%

This situation is also of particular concern because operating costs are constantly on the rise. Like all gaming houses, the Casino de Montréal needs a considerable workforce, demanding, in turn, an ever-growing payroll. Moreover, other operating costs are at a high level, reflective of the fact that the Casino's gaming activities are dispersed over nine different floors (to our knowledge, a situation unique in the world), and because of the space constraints throughout the facility which entail higher maintenance costs. Consequently, it comes as no surprise that the Casino de Montréal's net earnings showed a substantial decline of 10.8% over the last two years. Without major reinvestment, it is

⁹ With the exception of the two years marked by a labour conflict.

estimated that earnings will have dropped by close to \$70 million in 2007-2008 as compared to 2001-2002, a drop of about 30%.

This disconcerting diagnosis, previously identified in the Development Plan proposed by Loto-Québec in 2002, demands a long-term solution which could not realistically be implemented before three years time. In the interim, in order to preserve the asset, resolve the most pressing problems, and minimize further erosion of revenues, Loto-Québec will have to invest approximately \$20 million as of this year. However, this is only a temporary solution which does not rectify the Casino's fundamental and underlying shortcomings.

TWO HYPOTHESES FOR THE FUTURE OF THE CASINO

In view of the aforementioned circumstances, Loto-Québec is inviting all parties concerned to contribute to the development of a long-term solution which will enable the Corporation to continue to operate the Casino under the best possible conditions. Loto-Québec would like to see a consensus emerge by the end of the current year and is submitting two hypotheses for the future of the Casino for the purposes of public debate:

Hypothesis 1: Major Expansion and Refurbishing Projects on l'Île Notre-Dame

The Plan presented by Loto-Québec in 2002 proposed a major redevelopment of the Casino de Montréal, including the following:

- > closing half of the interior parking facility
- > creating a theatre able to accommodate at least 1,250 people and a new gaming area using the parking space recovered
- > redeveloping the Québec Pavilion in order to create an international section along with on-site accommodations

- > construction of a 4,000-space parking facility on the site of the former Autostade along the Bonaventure Autoroute and the construction of a monorail connecting the facility to the Casino

In view of today's existing realities, Loto-Québec is now proposing a new scenario — that of diminishing gaming offerings in Montréal (the 2002 Plan would have entailed an increase, calling for the addition of 2,000 slot machines at the Casino and 800 VLTs at the Montréal racetrack). Furthermore, we are aware that Government departments do not have the financial resources now to build the monorail line proposed in the 2002 Development Plan which would have linked the former Autostade site to the Old Port, Montréal's most important tourist attraction. Without this crucial link to Old Montréal, the envisaged monorail loses all of its reason for being.

The scenario that Loto-Québec now favours calls for the construction of 2,000 additional underground parking spaces on Île Notre-Dame, and the development of adequate circulation routes. A 1,200-seat theatre and 100-room hotel would also be built, but game offerings would be maintained at their current level.

This option would bring the Casino de Montréal into line with industry standards with respect to gaming and dining space, and it would serve to resolve a fair portion of the Casino's current problems, both from an operations and vehicle circulation standpoint. The option does not, however, deal with the inconvenience of there being no direct link to the Old Port, and it excludes the possibility of establishing an Exhibition Centre in synergy with the Casino.

This scenario also necessitates the approval of municipal authorities and citizens concerned about additional construction and traffic on Île Notre-Dame.

Should this option be adopted, however, Loto-Québec is committed to proceeding without interfering with existing activities at Parc Jean-Drapeau and in full respect of the

current agreements in place between the promoters of the Montréal Grand Prix and the City of Montréal.

Hypothesis 2: Development of an Integrated Recreational-Tourist Complex in the Peel Basin Area

Loto-Québec foresees another option which would offer greater potential for attracting a tourist clientele without increasing game offerings. This option calls for the development of an integrated recreational-tourist complex encompassing a hotel, spa, performance hall, shopping mall and a Casino, all linked by monorail in the summer to the Old Port, a prime Montréal tourist attraction. The location being proposed is the Peel Basin, an enclosed site removed from residential zones but situated in proximity to the Old Port and downtown hotels, thereby making it all the more attractive to tourists.

Given the expressed desire of public authorities to revitalize the sizeable Havre sector, the construction of this integrated complex could quickly become a major locomotive, generating important spin-offs for the development of Montréal and its tourism industry. In addition to helping develop and spotlighting the area along the edge of the Lachine Canal, the complex would serve as a catalyst for the Havre sector revitalization initiative while being an impetus for the establishment of an Exhibition Centre near the Casino.

The new complex would feature the following distinctive components:

- > gaming areas occupying more space than currently available without adding any additional games

- > dining areas surpassing current capacity by 300 places

- > a new 1,250-seat theatre

- > a parking facility able to accommodate 4,000 vehicles which could also eventually serve an Exhibition Centre

- > a 200-300-room hotel, spa and shopping mall, with its construction potentially financed and operations handled by private sector partners

- > a monorail link between the Old Port and the recreational-tourist complex (including the Exhibition Centre) financed by the project

In proposing this option, Loto-Québec is envisaging a project similar to the Casino du Lac-Leamy in terms of the quality of the development and services available. Indeed, the Casino du Lac-Leamy complex represents a highly successful model of integration which has proven to be able to generate major economic benefits.

The construction of the new complex would pave the way for Loto-Québec to move its head office currently located at 500 Sherbrooke Street West to the existing Casino site. Circulation along Pierre-Dupuy Avenue would thus be considerably eased, with visitor traffic on the site dropping from 18,000 to 700 people per day. Furthermore, approximately 1,000 interior parking spaces would be freed up to accommodate visitors on Île Notre-Dame.

By resolving all of the Casino's existing problems and furnishing it with all of the equipment and resources enjoyed by competing establishments throughout North America, this option would assure the Casino's long-term viability while serving as a springboard for the much-awaited revitalization of the Havre sector and as a potential impetus for the construction of an Exhibition Centre in close proximity.

The development of an Exhibition Centre in Montréal is among the top three priorities identified by Tourisme Montréal in its 2003-2010 Development Plan. According to this agency, "Montréal would require at least 550,000 square feet to rank among the major exhibition cities of North America.... The future Exhibition Centre should meet the highest standards of quality and be optimally located."¹⁰

¹⁰ *Plan de développement touristique de Montréal 2003-2010*, Tourisme Montréal.

The Peel Basin is at the heart of a zone that has been singled out in Montréal's Havre development Plan for the establishment of such an Exhibition Centre. As such, Loto-Québec's Plan corresponds perfectly with the directions already proposed.

The Next Steps

Loto-Québec is offering its full collaboration to ensure that the debate on these two options is comprehensive and productive in the hope of reaching as broad a consensus as possible. Over the course of the next few months, the Corporation will consult with the principal parties concerned about the future of the Casino de Montréal and will finalize client surveys and complete cost analyses for each of the two options. Loto-Québec also remains open to the possibility that these consultations will generate additional options, which, in turn, will need to undergo the same rigorous analysis.

The Corporation anticipates submitting a final proposal to the Government by the end of this year. Regardless of the option adopted, the cost of the investments required should be entirely covered by the additional revenues to be generated.

6. Reduction of Overall Game Offerings

Whatever option is ultimately adopted for the future of the Casino de Montréal, Loto-Québec's 2004-2007 Development Plan will translate into an overall reduction in the game offerings in the province. As such, the number of sites equipped with VLTs will diminish within three years by 1,142 units, or 31.2 %, and the total number of VLTs across Québec will go down from 14,300 to 13,570, a reduction of 730 terminals. Taking slot machines into account, overall game offerings in the province will thus decline by 3.6%. This compares to an overall increase of 5% called for in the Corporation's 2002 Development Plan.

Evolution of the Number of VLTs and Sites Offering VLTs and Slot Machines in Québec

	Initial Situation	2002 Plan			2004 Plan		
		Chang.	Balance	% Chang.	Chang.	Balance	% Chang.
VLTs:							
Number of Sites (Permits)	3663	-1376	2287	-37.6%	-1142	2521	-31.2%
Number of VLTs (Bars & Brasseries)	13870	-3370	10500	-24.3%	-2500	11370	-18.0%
Number of VLTs (Racetracks & Halls)	430	1570	2000	NA	1770	2200	NA
Total VLTs	14300	-1800	12500	-12.6%	-730	13570	-5.1%
Slot Machines:							
Numbers of Slot Machines (Montréal)	3172	2000	5172	63.1%	0	3172	0.0%
Number of Slot Machines (Lac-Leamy)	1903	0	1903	0.0%	0	1903	0.0%
Number of Slot Machines (Charlevoix)	825	0	825	0.0%	0	825	0.0%
Number of Slot Machines (Tremblant)	0	800	800	NA	0	0	NA
Total Slot Machines	5900	2800	8700	47.5%	0	5900	0.0%
TOTAL VLTs + Slot Machines	20200	1000	21200	5.0%	-730	19470	-3.6%

On the Island of Montréal, the most densely populated region of Québec and where the problem of compulsive gambling is potentially the greatest, game offerings will diminish by 8.5%, with the total number of VLTs and slot machines to drop from 7,287 to 6,671. For comparison purposes, the 2002 Development Plan was calling for an added 2,360 machines, representing an increase of close to 33%.

Evolution of Game Offerings in Montréal

	Initial Situation	2002 Plan			2004 Plan *		
		Chang.	Balance	% Chang.	Chang.	Balance	% Chang.
Number of Sites	895	-162	733	-18.1%	-202	693	-22.6%
Number of VLTs (Bars & Brasseries)	3915	-440	3475	-11.2%	-416	3499	-10.6%
Number of VLTs (Racetrack)	200	800	1000	NA	-200	0	-100.0%
Number of Slot Machines (Casino)	3172	2000	5172	63.1%	0	3172	0.0%
Total VLTs + Slot Machines	7287	2360	9647	32.4%	-616	6671	-8.5%

7. Other Challenges

Just as the three strategic initiatives set forth in this Development Plan are of vital importance to Loto-Québec, maintaining net earnings also hinges on the Corporation's ability to meet a number of other challenges within each of its activity sectors.

7.1 Lotteries

Loto-Québec's principal challenge within its Lottery sector consists, on the one hand, of adapting its traditional products to the latest consumer preferences, and on the other, of introducing new products in response to current market trends. The new version of *Lotto 6/49* and the launch of interactive CD-ROM-based lotteries are good examples of how these challenges are being met.

The Corporation must once again bring its inventiveness and ingenuity into play — the keen sense of innovation that has fuelled its activities within the Lottery sector in the past. With the consuming habits of today's population having considerably evolved, the sector will focus a major effort on adapting its distribution network to these new realities, the ultimate objective being to maintain net earnings at acceptable levels.

7.2 Casinos

Loto-Québec's Casinos are confronting ever-increasing competition in the North American market, with new gaming houses opening up each year. To set itself apart, the Corporation must continue to focus on the quality of its installations and customer service. The superior calibre of its product, including accommodations, food and beverage service and entertainment, remains the Casino sector's best bet to succeed in honing its competitive edge.

In order to increase their revenues and maintain (if not improve) their level of net earnings, the three Casinos will pursue the following objectives:

- > optimize game offerings to better respond to consumer expectations
- > increase overall clientele, particularly tourist clientele from outside Québec
- > improve organizational structure and business processes so as to augment productivity
- > take full advantage of computer technology and systems
- > implement employee mobilization and continuous improvement programs
- > maintain measures to combat compulsive gambling

7.3 Ingenio

Ingenio is Loto-Québec's subsidiary dedicated to research, development and the marketing of interactive lottery products. Taking full advantage of the wealth of possibilities offered by interactive multimedia, Ingenio has earned particular recognition to date for its CD-ROM-based lotteries, a patented concept that promises great market potential outside Québec.

While continuing to refine and market multimedia lottery games, Ingenio is actively pursuing a diversification of its research and development activities, setting its sights on original new products targeting the international gaming market. Known primarily as a product supplier, Ingenio will also be endeavouring to position itself more and more as business partner with foreign lottery corporations. In so doing, the subsidiary will seek out alliances that will allow projects designed in Québec to incubate abroad, with a view of eventually applying them back home.

7.4 Network Bingo

In 1997, Loto-Québec was entrusted with the mandate to revitalize the bingo industry for the benefit of hundreds of organizations holding bingo licenses. Specially created to fulfill that mission, the Société des bingos du Québec (SBQ) now remits 100% of its profits to these organizations. Within today's context of dwindling clientele, the SBQ is endeavouring to maintain its level of bingo sales. In order to do so, it is relying heavily on effective management of its human and financial resources and on maximizing its use of new technological possibilities.

8. Financial Impacts

As discussed in the preceding pages, Loto-Québec's 2004-2007 Development Plan calls for a considerable modification to game offerings in order to optimize the balance between the Corporation's social commitment and its effort to maintain the level of dividends remitted to the Government. The financial impacts of the proposed initiatives are outlined below per activity sector.

8.1 The VLT Network in Bars, Brasseries and Taverns

By the end of the proposed three-year period, there will be 2,500 video lottery terminals withdrawn from the bar, brasserie and tavern network, representing a decrease of 18%. These terminals will be withdrawn progressively as the new gaming halls are opened and in pace with the natural attrition of the equipment. By March 31, 2007, there should be a total of 11,370 units remaining in the province's bars, brasseries and taverns.

In light of these measures, Loto-Québec anticipates that revenues and net earnings generated by the VLT network (bars, brasseries, taverns and racetracks) will have declined by \$152 million and \$119 million respectively in 2006-2007.

8.2 Gaming Halls

The five gaming halls to be established in the region north of Montréal and in Québec City, Trois-Rivières, Sherbrooke and Mont-Tremblant are expected to be launched progressively, with full implementation to be completed by December 2005. The establishment of these gaming halls will require an investment in the order of \$55 million per year over the next three years (not including the investments that could be made by the racetracks themselves).

By 2006-2007, Loto-Québec anticipates that these halls will be generating net earnings of approximately \$121 million, after the support payment of \$32.6 million to the racetracks should the Government so decide. The amount of this payment is equivalent to 22% of the gross revenues generated by the 1,900 VLTs that could be marshalled in support of the horserace industry.

8.3 Casino de Montréal

The two scenarios being envisaged for the Casino de Montréal are designed to maintain its net earnings at at least the same level as the \$204 million posted in 2003-2004. It is important to note, however, that if there is no major work carried out on the Casino's current site, or if it does not move, its revenues will undoubtedly continue to slide. In fact, during 2003-2004 alone, the Casino de Montréal saw its revenues drop by \$14.5 million, or 6.6%.

8.4 Conseil québécois pour le jeu responsable

The \$25 million in financing allocated for the Conseil québécois pour le jeu responsable will be derived from a special Government fund.

9. 2004-2007 Projections

The series of measures included in the present Development Plan will allow Loto-Québec to maintain its net earnings over the course of the next few years in accordance with the mandate entrusted to the Corporation by its shareholder, the Minister of Finances.

The projections for net earnings are as follows:

· 2003-2004	:	\$1,466.0 million ¹¹
· 2004-2005	:	\$1,501.6 million ¹²
· 2005-2006	:	\$1,501.6 million
· 2006-2007	:	\$1,501.6 million

¹¹ Unaudited results.

¹² The increase in 2004-2005 is due to the full-year effect of the measures adopted subsequent to the net earnings target set out in the *Discours sur le budget 2003-2004*, in particular, the measure reducing VLT operator commissions from 26% to 22%.