

# BOARD AND COMMITTEE REPORTS

## BOARD OF DIRECTORS REPORT

### **MEMBERSHIP**

In accordance with the Act Respecting the Governance of State-Owned Enterprises, fiscal 2007-2008 was marked by the division of the Chairman of the Board and President and Chief Executive Officer functions. In the process, Ms. Solange Dugas was named Chairwoman of the Board of Directors in June 2007.

During the year just ended, Mr. Robert Crevier left his post as a Director of the Corporation. The Board expressed its appreciation of Mr. Crevier's dedication and continuous support over the course of the 16 years he sat as an active member. The Board also welcomed three new members during the past year — Ms. Julie Bernier, Ms. Paule Bouchard and Ms. Christiane Jodoin.

Loto-Québec's Board of Directors is now composed of nine members, all of who are appointed by the Government and are independent members (with the exception of the President and CEO). More than half of the Board is made up of women.

### **PRESENCE OF DIRECTORS AT BOARD AND COMMITTEE MEETINGS**

Regular meetings of the Board of Directors are scheduled at the beginning of the fiscal year, while special meetings are organized as needed. Advance notice for advisory committee meetings varies according to the specific committee in question.

There were nine regular Board meetings and 11 special meetings held during the year just ended. No Director missed more than two consecutive Board meetings. The first table on page 85 illustrates member attendance at Board and Committee meetings.

### REMUNERATION OF INDEPENDENT DIRECTORS

In adopting Order-in-Council 610-2006 on June 28, 2006, the Government established the following remuneration to which independent Directors are entitled (with the exception of the President and Chief Executive Officer):

- Annual remuneration of the Chairperson: \$16,000
- Annual remuneration for all independent Directors in accordance with the Order-in-Council: \$8,000
- Annual remuneration for Committee Chairpersons: \$3,000
- Board Chairperson's fees for each Board or Committee meeting: \$750
- Director's fees for each Board or Committee meeting: \$500
- Director's fees for each brief special Board or Committee meeting held by conference call: \$250
- Board member remuneration was increased by 2% on April 1, 2007. Only members with independent status are eligible to be remunerated.
- Whenever applicable, Directors are also entitled to be reimbursed for their travel and related expenses. During fiscal 2007-2008, Directors received total remuneration of \$167,300, broken down as illustrated in the second table on page 85.

### MANDATE AND ACTIVITIES

The Board of Directors is charged with ensuring that Loto-Québec is managed in accordance with the stipulations of its Act of Incorporation and with the regulations pertaining to it, as well as with the provisions of other laws and regulations governing the Corporation. The Board is also responsible for ensuring that Loto-Québec takes all the measures required to achieve the objectives established in conjunction with its mission. Finally, the Board's mandate includes the adoption of rules and the approval of the Corporation's principal policy directions and annual business plan.

### STRATEGIC AND BUSINESS PLANNING

At each Board meeting, management reported on the evolution of the Corporation's business affairs based on the 2007-2008 Business Plan and ongoing developments. The Board of Directors conducted a follow-up on the plan to reconfigure the video lottery terminal network in bars, brasseries and taverns, as well as the establishment of the gaming halls in Québec City and Trois-Rivières. Thanks to the reports received from management, the Board was able to evaluate the progress made with respect to the implementation of these initiatives.

Subsequent to presentations made by management, the Board also approved the establishment of the tourist casino at Mont-Tremblant in place of the gaming hall originally planned. The Board also decided that it was not opportune to maintain a distinct subsidiary to operate two gaming halls and, consequently, decided to dissolve the Société des salons de jeux du Québec, entrusting the Société des loteries vidéo, instead, with the mandate to operate these establishments. Finally, in conjunction with the Strategic Plan it adopted last year for 2007-2010, the Board approved the 2008-2009 Action Plan for each of Loto-Québec's business and corporate units.

### **FINANCIAL RESULTS AND INTERNAL CONTROL**

After each meeting of the Auditing Committee, the Board received a verbal report on all of this group's activities. Upon the recommendation of that Committee, the Board approved the Corporation's annual financial statements.

The Board also approved the Corporation's budget and received a report on the organization's financial statements at all of its regular meetings, as well as the related financial highlights. In addition, the Board was made aware of the work carried out by the Auditing Committee concerning the implementation of internal control certifications and risk management.

In view of the modification to Loto-Québec's Act of Incorporation in conjunction with the adoption of the Act Respecting the Governance of State-Owned Enterprises, the Auditor General is no longer obliged to issue an individual opinion on the financial statements of the Corporation's subsidiaries. Subsequent to discussions held with the Auditor General, the Board decided that, with two exceptions, subsidiaries' books would no longer be subject to an opinion distinct from their financial statements. However, due to the terms of the Manoir Richelieu limited partnership agreement, the Casino de Charlevoix's books continue to be subject to a distinct audit, as do those of the Société des bingos du Québec inc., which remits all of its profits to non-profit organizations.

### **CORPORATE GOVERNANCE**

After each meeting of the Governance and Ethics Committee, the Board received a verbal report on all of that group's activities. As submitted by the Committee, the Board adopted a new Code of Ethics applicable to Directors and senior managers, replacing the Code previously adopted in 1999. It also adopted a Code of Ethics applicable to employees of the Corporation and its subsidiaries that, for its part, replaces the Code of Behaviour adopted in 1998. Moreover, the criteria for evaluating the functioning of the Board of Directors and its committees, as well as the approach for evaluating Directors and the Board Chair were also adopted upon the recommendation of the Governance and Ethics Committee.

Board members took part in two training sessions on governance offered by the École nationale d'administration publique. The first course focused on the government environment and general functioning of the Québec state and its institutions. The second dealt with good governance and its application within the organization through the efforts of corporate Directors. Finally, the members of the Board were provided with various presentations on different aspects of Loto-Québec's activities over the course of the past year.

### **RISK MANAGEMENT**

During the past year, the Board of Directors requested that a mandate be entrusted to a firm of experts specialized in the gaming sector in order to examine Loto-Québec's prize payment processes and procedures so as to ensure that risk is being properly managed. If applicable, this firm was also to propose specific recommendations for improvement. In addition, the Board also asked that the Auditor General responsible for auditing the Corporation since its creation be advised of the results of this review.

This mandate was entrusted to the consulting firm of KPMG, which submitted its report on October 11, 2007. Identifying 35 specific means of improvement, the report was accepted in its entirety by the Board of Directors, and as prescribed, the Board called for the report to be transmitted to the Auditor General for review. A progress report on the implementation of the improvement measures is presented to the Board at each of its regular meetings.

### **HUMAN RESOURCES MANAGEMENT**

After every Human Resources Committee meeting, the Board received a report on that group's activities. For fiscal 2006-2007, the Board approved the variable remuneration of the President and CEO, senior managers and employees who are part of the profit-sharing program based on established parameters.

Upon the recommendation of the Human Resources Committee, the Board also approved the revised salary policy for Loto-Québec's executive officers in accordance with adjusted market standards. As well, it approved remuneration norms and scales for other managers, as well as for the Corporation's non-unionized employees.

Finally, the Board presented the Québec Government its recommendations concerning the appropriate practices to determine the remuneration and other employment conditions of the President and Chief Executive Officer. Similarly, it presented recommendations for the parameters of a new profit-sharing plan for employees of Loto-Québec and its subsidiaries.

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**DIRECTOR ATTENDANCE REPORT AS AT MARCH 31, 2008**

Members	Board of Directors		Auditing Committee	Governance and Ethics Committee	Human Resources Committee
	Regular	Special*	Regular	Regular	Regular
Directors	9	11	6	5	6
Solange Dugas	9	11	2	5	6
Alain Cousineau	9	9	N/A	2/2	3/3
Nancy Arbour	9	11	N/A	N/A	6
Julie Bernier	7/7	7/7	3/3	N/A	N/A
Paule Bouchard	5/6	5/7	2/3	N/A	N/A
Marc Bruneau	9	11	6	N/A	6
Robert Crevier	3/3	1/5	3/3	N/A	N/A
Mel Hoppenheim	8	10	6	N/A	N/A
Christiane Jodoin	7/7	6/7	N/A	3/3	N/A
Serge LeBel	9	10	N/A	5	3/3

\* Including the two training sessions on governance conducted by the ENAP.

**REMUNERATION OF DIRECTORS\***

Directors	Fixed Remuneration	Annual Remuneration	Remuneration as Committee Chairperson	Total Remuneration
Solange Dugas	\$ 20,580	\$ 14,240	\$ 3,045	\$ 37,865
Nancy Arbour	\$ 10,900	\$ 8,120		\$ 19,020
Julie Bernier	\$ 7,140	\$ 6,120		\$ 13,260
Paule Bouchard	\$ 5,610	\$ 4,760	\$ 1,785	\$ 12,155
Marc Bruneau	\$ 13,950	\$ 8,120		\$ 22,070
Robert Crevier	\$ 3,020	\$ 4,040	\$ 1,515	\$ 8,575
Mel Hoppenheim	\$ 9,900	\$ 8,120		\$ 18,020
Christiane Jodoin	\$ 6,630	\$ 6,120		\$ 12,750
Serge LeBel	\$ 12,420	\$ 8,120	\$ 3,045	\$ 23,585

\* Remuneration paid to Directors as per the Order-in-Council 610-2006 adopted on June 28, 2006 concerning the remuneration of the Boards of six public corporations.