STM

FINANCIAL REPORT 2004

TABLE OF CONTENTS

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Michel Bélanger, FCA
External member
Financial Management Advisor

Robert Desforges, CA, Adm. A
External member
Desforges, Germain, Gendron, CA

Acknowledgements

The production of the 2004 financial report is the fruit of the labours of a large number of employees in the Finance and Procurement Executive Branch.

I would like to thank all those who contributed, in particular the Financial Accounting Section of the Financial Management Division.

Division Head
Luc Tremblay, CA

Section Head
Angèle Dubé, CA

Corporate Advisor
Nicole Racine, CA

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Christian Roy, CA
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Treasurer and Executive Director
Finance and Procurement

Highlights

A powerful engine of development

We present here the financial report for the Société de transport de Montréal showing a deficit of $6.3 million, while the 2004 budget of $811.3 million predicted a shortfall of $20.4 million. This result was made possible thanks to the tight control of expenditures, to the decision of the Canadian government to reimburse the GST in full ($4 million) and to the increase of $2.4 million in the contribution from the Agence métropolitaine de transport.

While the result is not as negative as anticipated, it without question reflects the under-financing problem that public transit has suffered from since the withdrawal of Québec in 1992. This problem is now recognized by the Ministère des Transports which has proposed financial aid of $20 million for the transit companies in 2005, including $13.2 million for the STM, conditional on the granting of equivalent contributions by the municipalities served.

During this time, discussions on the adoption of a new financial framework continued. Thus, the publication last December of a document entitled *Le financement du transport en commun, une approche intégrée* led us to believe that the government truly wished to provide the transit companies with the means to ensure adequate, predictable and stable long-term financing. We saw in that an opening to discuss real challenges and solutions to deal with the problem for once and for all, and we hope that the measures will be able to be implemented in 2005.

The year 2004 was dedicated to the implementation of our 2004-2008 Business Plan aimed at improving customer satisfaction and at making the STM more efficient. The results after only twelve months are promising and show us that we are on the right path. In fact, the service in Rivière-des-Prairies translated into a gain of 850 new clients. The number of service complaints went down by 26% while the on-time performance of buses reached 82.6%. Despite the ageing of our equipment, the métro is as reliable as ever and service interruptions in the métro decreased by 2.3%. Following the installation of the new ACCES 5 software system and process reviews, the ratio of attempts versus calls answered improved by 65% at Paratransit, and trips increased by 6%.

It is evident, however, that the STM will not be able to achieve all the objectives in its Business Plan without new sources of financing. We estimate that more than 3.5 billion dollars in investments will have to be made in our network over the next ten years to ensure the reliability and quality of services. The STM needs a new financial framework to fulfil its obligations, improve customer satisfaction and consolidate its ridership, which recorded a decrease of 4.8 million trips, or 1.3%, in 2004. This reduction is due, in part, to the work to link up the métro to Laval that required us to close the Henri-Bourassa station for fourteen weeks and to the fare increases in the order of 10% that we could not avoid in January 2004.

While the governments are "going green", public transit is struggling for air. It is, however, at the heart of a true sustainable development strategy. In fact, for each kilometre travelled, a transit user causes four times less air pollution, consumes five times less energy and uses twenty times less space than a car driver. All these conservation savings represent gains of several million dollars to add to the revenues of more than $937 million that public transit generates in the Montréal area. These arguments demonstrate, without a doubt, that public transit is a powerful engine of economic development and that any investments made will benefit the entire community.

Investing in public transit… a socially responsible choice.

Pierre Vandelac, CGA
Director-General

Francine Gauthier, CA
Treasurer and Executive Director
Finance and Procurement

Management's responsibility with regard to the presentation of the financial information

In accordance with article 136 of the *Loi sur les sociétés de transport en commun* (L. R. Q. chapter S-30.01), the financial report of the Société de transport de Montréal for the fiscal year ended December 31, 2004, was prepared by the Treasurer and Executive Director, Finance and Procurement, and was submitted to the Société's Board of Directors on April 5, 2005.

The financial statements presented in this report were prepared taking into account the Société's acts of incorporation and in accordance with generally accepted municipal accounting practices in Québec as contained in the *Manuel de présentation de l'information financière municipale au Québec*, published by the Ministère des Affaires municipales, du Sport et du Loisir, as described in note 3 of these financial statements.

The financial statements and all information in this financial report are the responsibility of the Société. The Société has also assured itself that there is agreement between the financial statements and all other information disclosed in the financial report.

The financial statements contain certain amounts that are based on the use of professional judgement and projections and whose presentation derives from an assessment of their relative importance. Management has established these amounts in a reasonable manner so as to ensure that the financial statements are accurate in all material respects.

The Société maintains internal administrative and accounting quality control systems. These systems are designed to provide a reasonable degree of certainty that the financial information is pertinent, reliable and exact, that the policies of the company are followed, that operations are carried out in accordance with the appropriate authorizations and that the assets of the Société are well protected.

The Board of Directors is charged with ensuring that management assumes its responsibilities with regard to the presentation of the financial information and bears the ultimate responsibility for the examination and approval of the financial statements. The Board fulfils this responsibility primarily through its audit committee.

The financial statements have been audited by the Société's external auditor, whose services were retained by the Board of Directors on the recommendation of the audit committee, and by the auditor general of the City of Montréal.

Francine Gauthier, CA
Treasurer and Executive Director
Finance and Procurement

Luc Tremblay, CA
Division Head
Financial Management

THE STM - FACTS AND FIGURES

(in thousands of dollars)

	2004	2003	2002	2001	2000
FINANCIAL INFORMATION					
Total revenue	847,700	761,562	719,663	708,429	687,179
Surplus (deficit)	(6,311)	303	12,815	15,962	9,134
Total assets	1,640,197	1,466,262	1,378,187	1,324,476	1,325,787
Capital assets	1,103,218	997,597	951,492	895,955	912,170
Equity	410,835	430,223	472,069	492,563	474,661
Long-term debt	676,824	554,339	534,913	478,402	475,570
Total net long-term indebtedness	267,943	232,554	207,132	178,003	174,062
FINANCIAL RATIOS					
Autonomous revenue	49%	47%	47%	48%	46%
Percentage of revenue allocated to debt servicing	12%	13%	13%	14%	15%
Interest coverage	0.83	1.01	1.38	1.47	1.24
working capital fund	0.75	0.56	0.62	0.75	0.67
Liquidity	0.59	0.39	0.49	0.58	0.50
Long-term debt (including the métro)	41%	38%	39%	36%	36%
Long-term debt (excluding the métro)	49%	46%	48%	46%	47%
Percentage of total net indebtedness (including métro)	24%	23%	22%	20%	19%
Percentage of total net indebtedness (excluding métro)	31%	31%	30%	29%	29%
Annual interest on the long-term debt as a percentage	5.86%	6.55%	6.57%	7.09%	7.76%
CREDIT RATINGS					
Standard & Poor's	A+/A-	A+/A-	A+/A-	A+/A-	A+/A-
DBRS	A (high)	A (high)	A (high)	A (high)	A (high)

Analysis of the financial statements

Analysis of changes and evaluation of trends

For fiscal year 2004 the STM recorded revenues of $847.7 million, while expenditures increased to $856.2 million. Thus, the deficit from financial activities, before appropriations for the year, was $8.5 million. The appropriations, consisting of the carry forward of the accumulated surplus from the previous year and the contribution to the reserved funds, amounted to $2.2 million, thus creating a deficit of $6.3 million for fiscal year 2004.

Summary of financial activities

(in thousands of dollars)

	Budget	2004	2003
Revenue	870.5	847.7	761.6
Expenditures	(747.8)	(718.9)	(693.7)
Other financial activities	(126.4)	(137.3)	(63.5)
Surplus (deficit) before appropriations	**(3.7)**	**(8.5)**	**4.4**
Appropriations	3.7	2.2	(4.1)
Surplus (deficit) for the year	**—**	**(6.3)**	**0.3**

Analysis of the financial statements

Summary of revenue

(in thousands of dollars)

	Budget	2004	2003
Passengers	371.3	368.2	334.8
Contribution from the City of Montréal	263.0	263.0	263.0
Subsidies from the Government of Québec	79.3	69.6	70.8
Regional contributions	59.0	61.1	64.4
Contribution from the Government of Québec - Revision of financial framework	20.4	—	—
Contribution from the Réseau de transport de Longueuil	1.8	1.8	1.8
Other revenue	16.5	17.3	16.8
	811.3	**781.0**	**751.6**
Revenue from third parties relating to investment activities	54.0	60.7	3.5
Revenue from sinking fund investments	5.2	6.0	6.5
	870.5	**847.7**	**761.6**

The revenue shows a negative variance of $22.8 million in comparison with the budget. The major portion of this difference, or $20.4 million, derives from the contribution from the government for the revision of the financial framework, a new source of revenue that had been counted on during the preparation of the budget and that did not materialize in 2004.

The subsidies from the Government of Québec show a negative variance of $9.7 million following a delay in financing that was forecast in the budget but that in the end did not take place. As for passenger revenue, there is a decrease of $3.1 million resulting from a reduction in ridership in the order of 1%. Finally, there is a positive variance of $6.7 million in the area of revenue from third parties relating to investment activities that is primarily due to cash financing of the work relating to the asset maintenance program for fixed equipment in the métro.

The 2004 revenue shows an increase of $86.1 million in comparison with 2003. This is due to a rise in passenger revenue of $33.4 million following fare increases on July 1, 2003 and January 1, 2004, as well as to an increase of $57.2 million in revenue from a third party relating to investment activities for the asset maintenance program for fixed equipment in the métro.

Analysis of the financial statements

Summary of expenditures

(in thousands of dollars)

	Budget	2004	2003
Bus and métro service	651.2	641.1	618.2
Paratransit service	30.7	32.1	29.8
Interest and financing costs	47.0	36.1	35.7
Unforeseen expenditures	5.2	—	—
Asset maintenance	13.7	9.6	10.0
	747.8	**718.9**	**693.7**

Tight financial control combined with the delay of certain expenditures resulted in a positive variation of $28.9 million in comparison with the budget. The tax measure that allows for the claiming of GST at 100% instead of 57.14% as of February 1, 2004 alone will ease the operating expenses by a recurring amount in the order of $4.0 million. The valuation of internally manufactured parts at the standard cost in the item « Inventories of supplies and replacement parts » allows for a reduction in operating expenses of a further $4.0 million at December 31, 2004 ($2.8 million at January 1, 2004). The delay in anticipated financing combined with lower than expected interest rates contributed to a positive variance of $10.9 million. In addition, the non-utilization of the budget reserved for unforeseen expenditures saved $5.2 million. Finally, a delay in the timing of certain asset maintenance projects generated a positive variance of $4.1 million.

The expenditures for 2004 show an increase of $25.2 million in comparison with 2003. This variance is primarily due to the indexing of salaries representing $14.6 million.

Summary of other financial activities

(in thousands of dollars)

	Budget	2004	2003
Repayment of long-term debt	70.4	66.7	55.6
Transfer to statement of investment activities	56.0	70.6	7.9
	126.4	**137.3**	**63.5**

The other financial activities show a negative variance of $10.9 million in comparison with the budget. This variance can be explained primarily by the contributions from the federal government and the Agence Métropolitaine de transport for the asset maintenance program for fixed equipment in the métro.

In comparison with 2003 the other financial activities show an increase of $73.8 million, of which $59.4 million can be explained by the cash contribution to the asset maintenance program for fixed equipment in the métro. No amount was recorded in 2003, as the financing agreement had not been signed.

Analysis of the financial statements

Summary of appropriations

(in thousands of dollars)

	Budget	2004	2003
Accumulated surplus from the previous year carried forward to the current year	—	**3.1**	**12.8**
Reserved funds			
Contribution to sinking fund and working capital fund	(47.4)	(52.1)	(59.2)
Use of sinking fund	51.1	51.2	42.3
	3.7	**2.2**	**(4.1)**

For 2004 the appropriations approximate the budget, showing a variance of only $1.5 million.

Compared with 2003, the appropriations have increased by $6.3 million. First, the accumulated surplus from the previous year decreased by $9.7 million. It should be noted that the accumulated surplus of $3.1 million from the previous year carried forward to the current year includes an amount of $2.8 million reflecting the change in accounting policy regarding the recording of internally manufactured parts in the item «Inventories of supplies and replacement parts».

Second, the variance in the reserved funds indicates an increase of $16.0 million due essentially to a decrease of $7.1 million in the contribution to the sinking fund combined with an increase of $8.9 million in the use of the sinking fund.

Summary of investment activities

(in thousands of dollars)

	Budget	2004	2003
Sources of financing	306.0	262.4	82.9
Investment expenditures	(351.3)	(187.2)	(120.6)
Over-financing (under-financing) for the year	**(45.3)**	**75.2**	**(37.7)**

The financing activities show a positive variance of $120.5 million in comparison with the budget. This variance can be explained by a delay in the scheduling of certain large-scale projects. However, at December 31, 2004, the Société was committed to various suppliers for contracts totalling $393.4 million.

The increase of $112.9 million in the over-financing in comparison with 2003 can be explained primarily by new long-term debt issuances totalling $189.2 million. These new injections of funds were to be used not only to pay the investment expenditures for the year, but also to offset the cumulative under-financing of $86.3 million existing at December 31, 2003.

ANALYSIS OF THE FINANCIAL STATEMENTS

BALANCE SHEET AT DECEMBER 31, 2004

Asset components

(in thousands of dollars)

	2004	2003
Current assets		
Cash	8.6	4.9
Restricted investments in the sinking fund	40.0	39.2
Contribution receivable from the City of Montréal	—	8.0
Subsidies receivable	23.5	14.0
Regional contributions receivable	28.5	29.8
Contribution receivable from the Réseau de transport de Longueuil	0.9	0.9
Other receivables	38.5	39.5
Inventories of supplies and replacement parts	21.0	15.3
Current portion of long-term debt	15.7	45.2
	176.7	**196.8**
Capital assets	**1,103.2**	**997.6**
Deferred charges	**3.6**	**4.8**
Restricted investments in the sinking fund	**100.5**	**99.4**
Long-term investments	**2.0**	**0.5**
Long-term debt	**254.2**	**167.2**
	1,640.2	**1,466.3**

Analysis of the financial statements

The assets show an increase of $173.9 million in comparison with 2003, including $105.6 million in capital assets and $57.5 million in long-term debts.

a) Restricted investments in the sinking fund

Restricted investments are the investments in the twelve sinking funds that will be used to repay the long-term debts concerned. The portion appearing under short-term reflects the repayment of the long-term debt from the sinking fund that will take place during the following fiscal year.

b) Contribution receivable from the City of Montréal

The additional contribution of $8.0 million from the City of Montréal relating to 2003 was paid to the Société in 2004. The 2004 contribution of $263.0 million was paid in full during the year.

c) Subsidies receivable

The increase of $9.5 million in subsidies receivable is made up primarily of sums receivable as part of the asset maintenance program for fixed equipment in the métro.

d) Other receivables

The other receivables consist of regional revenue receivable of $12.0 million, payments recoverable in the amount of $0.7 million for work accidents, tax claims from various governments in the amount of $3.9 million, customer receivables of $14.1 million, a deposit of $4.9 million for a bus purchase and other receivables totalling $2.9 million.

e) Inventories of supplies and replacement parts

The inventories consist primarily of parts used in the maintenance and repair of the Société's equipment. In 2004 these include parts manufactured internally in a total amount of $4.0 million. (See note 2 – Change in accounting policy)

f) Capital assets

This figure shows the unamortized value of the Société's capital assets. The variance between the 2003 value of $997.6 million and the 2004 value of $1,103.2 million can be explained by acquisitions of $186.2 million reduced by the amortization of $79.0 million. There remains an unamortized value of $1.6 million for capital assets that were disposed of in 2004. The acquisition cost of the capital assets disposed of was $51.8 million, while their amortized value was $50.2 million.

The principal acquisitions consisted of a bus purchase in the amount of $53.1 million and costs of $77.1 million generated by the renovation program for fixed equipment in the métro. It should be noted that the STM includes in its capital assets the assets related to the original network and the métro extensions at the unamortized cost of $252.3 million, while the corresponding debt can be found in the financial statements of the City of Montréal.

g) Deferred charges

This figure consists of software licences acquired in 2002 and amortized as they are allocated to users over a maximum period of five years.

h) Long-term investments

The increase in this figure can be explained by a new contribution of $0.5 million from the Société to its subsidiary, Transgesco Limited Partnership, combined with the share of the latter's net profit which increased to $1.0 million.

i) Long-term debts

The increase in long-term debts results from new long-term debt issuances during the 2004 fiscal year. These debts will be subsidized, on average, at 51%.

Analysis of the financial statements

Balance sheet at December 31, 2004

Liability components

(in thousands of dollars)

	2004	2003
Current liabilities		
Short-term loans	34.8	111.8
Accounts payable and accrued liabilities	125.4	107.3
Current portion of long-term debt	75.7	134.5
	235.9	**353.6**
Long-term debt	**601.1**	**419.8**
Deferred subsidies	**392.3**	**262.6**
	1,229.3	**1,036.0**

The liabilities show an increase of $193.3 million, consisting of a decrease of $117.7 million in current liabilities and an increase of $311.0 million in long-term liabilities. The decrease in current liabilities results from a reduction of $77.0 million in short-term loans. The increase in long-term liabilities results from three new debt issuances in 2004 totalling $217.0 million and an increase in deferred subsidies of $129.7 million resulting from capital asset acquisitions during the year.

a) Accounts payable and accrued liabilities

The accounts payable and accrued liabilities consist of supplier payables and accrued liabilities of $34.5 million, salaries and wage benefits of $33.5 million, sick leaves payable of $7.6 million, vacations payable of $24.3 million, holdbacks on contracts and security deposits of $1.2 million, accrued interest of $8.4 million and other payables of $15.9 million.

b) Long-term debt

At December 31, 2003, the long-term debt amounted to $554.3 million. During the year the Société proceeded with three issuances totalling $217.0 million, including $189.2 million in new financing. The repayment of the debt amounted to $66.7 million, with $51.2 million coming from the sinking fund and $15.5 million from financial activities. Thus, the long-term debt at December 31, 2004 amounted to $676.8 million.

Analysis of the financial statements

Balance sheet at December 31, 2004

Equity components

(in thousands of dollars)

	2004	2003
Provision for future amounts	(19.4)	(21.3)
Accumulated surplus (deficit)	(6.3)	0.3
Reserved funds	131.6	58.2
Net investment in long-term assets	305.0	393.1
	410.9	**430.3**

The equity shows a decrease of $19.4 million in comparison with 2003, primarily due to an increase of $73.4 million in the reserved funds and a decrease of $88.1 million in the net investment in long-term assets.

a) Provision for future amounts

The provision for future amounts represents the sums due to employees for vacation benefits and sick leaves following the adoption of new accounting rules as of January 1, 2000. Each year these amounts are reduced by the higher of the amortization over 20 years of the provision amounts at January 1, 2000 or the departures during the year. At December 31, 2004, the provision for future amounts decreased by $1.9 million in comparison with 2003. This decrease resulted from a reduction of $0.9 million in vacation benefits as well as a decrease of $1.0 million in sick leaves as a result of 360 departures during the 2004 fiscal year.

b) Reserved funds

The reserved funds increased by $73.4 million in comparison with 2003. This increase can be explained primarily by a decrease of $75.2 million in the under-financing of projects in progress following new debt issuances in 2004.

Analysis of the financial statements

Total net long-term indebtedness

(en millions de dollars)

	2004	2003	2002	2001	2000
Long-term debt	676.8	554.3	534.9	478.4	475.6
Amounts accumulated in the sinking fund	(140.5)	(141.8)	(127.3)	(91.4)	(82.4)
Amounts recoverable from third parties for repayment of the long-term debt	(269.9)	(212.4)	(215.0)	(221.5)	(232.6)
Investment expenses to be financed, net of subsidies	1.5	32.5	14.6	12.5	13.6
	267.9	**232.6**	**207.1**	**178.0**	**174.1**

The increase of $35.3 million in the total net long-term indebtedness in comparison with 2003 is a result of the increase of $122.5 million in the long-term debt. The latter is 40% financed, principally by the Government of Québec. At December 31, 2004, one-third of the remaining 60% for which the Société is responsible was set aside in the sinking fund.

The total net long-term indebtedness represents the total debt for which the Société is responsible in view of the participation of its partners. Its marked growth over the past five years clearly reflects the massive investment, estimated at three billion dollars over a ten-year period, required to renew the Société's infrastructure. Thus, this indicator can be expected to trend higher over the coming years.

Analysis of the financial statements

Risks and uncertainties

In the normal course of business the STM is exposed to various risks and uncertainties. In order to deal with them effectively, the Société identified these risks, their import and their potential effect on its future activities and implemented strategies to mitigate these risks.

Risk related to the concentration of revenue sources

The operations and assets of the STM are financed in great part by the various levels of government. However, this financing decreases year by year and reflects the lack of financial resources from the public authorities. Moreover, the municipal contributions are determined on an annual basis, making it more difficult to draw up a financial framework.

The STM had to implement to several fare increases over the past few years in order to keep its service offer intact. Resorting to this strategy in order to reduce the STM's dependence on public funds, however, has its limitations and has disastrous effects. In fact, each fare increase has a direct impact on ridership. The Société's fares, however, are among the lowest in North America.

To reduce this risk, the STM has prepared a five-year business plan (2004-2008) aimed at stabilizing the contribution from the City of Montréal and its other partners as well as increasing its commercial revenue over this period. With this in mind, in 2003 it set up a subsidiary, Transgesco Limited Partnership. Its mandate will be to join with partners in the private sector to develop its commercial potential and thus generate additional autonomous revenue. In fiscal year 2004 Transgesco Limited Partnership began two partnerships aimed at increasing its commercial revenue.

Risk in depreciation and replacement of assets

The bulk of the Société's equipment is at the point of exceeding its useful life. Despite periodic maintenance, there is a potential risk that the ageing of the assets could result in an inability to keep them operational or replace them within the required time frame.

More than three billion dollars will have to be invested over the next ten years to acquire new métro cars, replace the outdated fare sale and collection system, renovate the métro stations, auxiliary structures and the tunnel and continue with the replacement of the bus fleet. To achieve this, the STM prepares a triennial capital assets plan (PTI) each year that forecasts the investment expenditures over three years and their effect on the following years.

To finance these investments, the Ministère des Transports du Québec, through its public transit assistance program, reimburses a portion of the resulting debt servicing. The size of the sums involved, however, will require an injection of supplementary funds from various levels of government. For several years the Société has stressed the importance of increasing the sources of financing in order to maintain its assets in a state of good repair and improve its services.

Operating risk

The acquisition of buses and replacement parts represents a major outlay of funds for the STM ($113.9 million for the next four years). In order to reduce its costs, the Société undertakes group purchases with other public transit companies who are members of the Québec Public Transit Association.

Environmental risk

In its capacity as an operator of a major public transit service, the STM contributes to the sustainable development and quality of life on the territory of the island of Montréal. As a public entity, it demonstrates its willingness to dedicate its efforts to respecting the environment. To this end, in October 2000 it adopted a management policy on environmental protection. This policy ensures that the government laws, regulations and policies relating to environmental protection are respected. The STM implemented an environmental management system to allow for the effective application of all aspects of its policy.

From 1998 to 2004 the STM invested a sum of $3.6 million to ensure conformity with environmental standards. The Société plans to spend $11.6 million over the 2005 to 2007 period, as indicated in its triennial capital asset plan, in order to adhere to the various laws and regulations on the environment.

Informatics risk

The complex technological environment in which the STM operates involves risks that require the company to adopt administrative frameworks to optimize the security of their data processing and computer systems as well as to ensure effective management of the associated risks. In addition, various laws require that companies implement adequate measures for security and protection of information. To this end the Société has adopted policies and directives to provide effective management of informatics security and the protection of information.

The risks relating to informatics security and the protection of information are subject to continuous integrated management scrutiny in order to ensure that periodic re-evaluation of these risks is undertaken. The Société foresees an investment of $1.4 million over the coming years for the implementation of an informatics contingency plan to ensure information technology continuity in the STM's critical systems.

Financing risk

In the normal course of business the STM is exposed to interest rate fluctuations. In order to manage this risk, the STM staggers the due dates of its debts to maximum advantage. To time phase the outflow of funds for the repayment of its long-term debt, the STM annually pays sums into a sinking fund ($43.9 million in 2004). At December 31, 2004, this fund had risen to $140.5 million. These sums are placed in risk-free investments, and the realized return enables the Société to reduce its future debt servicing. The sinking fund generated $5.9 million in revenue in 2004.

Uncertainty relating to projections used to prepare the financial statements

To prepare its financial statements in accordance with the generally accepted municipal accounting practices in Québec, the management of the Société uses projections and poses hypotheses that have an effect on the amounts presented in the financial statements and their accompanying notes. These projections are based on the knowledge that management has of events in progress and on the measures that the Société could take in the future.

Auditors' report

To the members of the Board of Directors of the Société de transport de Montréal

We have audited the balance sheet of the Société de transport de Montréal as at December 31, 2004, and the statements of financial activities, investment activities, accumulated deficit, reserved funds, net investment in long-term assets and changes in financial position for the year then ended. These financial statements are the responsibility of the Société's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at December 31, 2004 and the results of its operations and changes in financial position for the year then ended in accordance with generally accepted principles in municipal accounting in Québec.

Auditor General of the City of Montréal
Michel Doyon, CA

Montréal
March 17, 2005

Raymond Chabot Grant Thornton LLP

Raymond Chabot Grant Thornton LLP
Chartered Accountants

Montréal
March 17, 2005

FINANCIAL STATEMENTS

At December 31, 2004

STATEMENT OF FINANCIAL ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2004

(in thousands of dollars)

	NOTE	BUDGET	2004	2003
Revenue				
Passengers	4	371,320	368,176	334,771
Contribution from the City of Montréal		263,000	263,000	263,000
Subsidies from the Government of Québec	5	79,379	69,570	70,766
Regional contributions	6	58,954	61,148	64,424
Contribution from the Government of Québec - Revision of financial framework		20,363	—	—
Contribution from the Réseau de transport de Longueuil	7	1,803	1,803	1,803
Other revenue	8	16,515	17,302	16,858
		811,334	**780,999**	**751,622**
Revenue from third parties relating to investment activities	11	54,033	60,752	3,472
Revenue from sinking fund investments		5,161	5,949	6,468
		870,528	**847,700**	**761,562**
Expenditures				
Bus and métro service		651,193	641,194	618,180
Paratransit service		30,708	32,058	29,836
Interest and financing costs	9	46,994	36,093	35,658
Unforeseen expenditures		5,204	—	36
Asset maintenance		13,750	9,639	9,966
		747,849	**718,984**	**693,676**
Other financial activities				
Repayment of long-term debt	10	70,402	66,710	55,574
Transfer to statement of investment activities	11	56,009	70,586	7,943
		126,411	**137,296**	**63,517**
		874,260	**856,280**	**757,193**
Surplus (deficit) from financial activities before appropriations		**(3,732)**	**(8,580)**	**4,369**
Appropriations				
Accumulated surplus from previous year carried forward to the current year		—	**3,138**	**12,815**
Reserved funds				
Contribution to sinking fund and working capital fund		(47,406)	(52,092)	(59,211)
Use of sinking fund		51,138	51,223	42,330
		3,732	**(869)**	**(16,881)**
Surplus (deficit) for year		—	**(6,311)**	**303**

Commitments (note 23)
Contingencies (note 25)

Statement of investment activities

for the year ended December 31, 2004

(in thousands of dollars)

	Note	Budget	2004	2003
Sources of financing				
Long-term debt issued		250,000	189,195	75,000
Transfer from financial activities	11	56,009	70,586	7,943
working capital fund		—	2,630	—
		306,009	**262,411**	**82,943**
Investment expenditures				
Buildings		9,599	2,687	438
Original network and métro extensions		3,547	14,123	44
Improvements to métro infrastructure		37,531	12,002	9,515
Improvement to local infrastructure		5,556	—	—
Rolling stock - buses		36,771	55,762	63,685
Rolling stock - minibuses		1,956	561	1,312
Rolling stock - other		2,473	8,362	1,470
Office equipment and computer software		12,644	11,105	7,387
Machinery, tools and equipment		6,209	10,986	808
Capital assets in progress		234,966	70,653	35,967
Investment in a limited partnership		—	999	—
		351,252	[b] **187,240**	**120,626**
Over-financing (under-financing) for year [a]		**(45,243)**	**75,171**	**(37,683)**

[a] The over-financing (under-financing) for the year is carried over to the statement of reserved funds.

[b] The Société was committed to various suppliers in the amount of $393.4 million at December 31, 2004.

Balance sheet

at December 31, 2004

(in thousands of dollars)

	Note	2004	2003
Assets			
Current assets			
Cash		8,611	4,912
Restricted investments in the sinking fund	12	39,991	39,206
Contribution receivable from the City of Montréal		—	8,000
Subsidies receivable	13	23,482	14,016
Regional contributions receivable		28,538	29,765
Contribution receivable from the Réseau de transport de Longueuil		902	901
Other receivables	14	38,477	39,523
Inventories of supplies and replacement parts		20,998	15,300
Current portion of long-term debt	18	15,704	45,233
		176,703	**196,856**
Capital assets	15	**1,103,218**	**997,597**
Deferred charges	16	**3,597**	**4,796**
Restricted investments in the sinking fund	12	**100,524**	**99,352**
Long-term investments	17	**1,951**	**486**
Long-term debts	18	**254,204**	**167,175**
		1,640,197	**1,466,262**
Liabilities and equity			
Current liabilities			
Short-term loans	19	34,850	111,837
Accounts payable and accrued liabilities	20	125,365	107,313
Current portion of long-term debt	21	75,732	134,515
		235,947	**353,665**
Long-term debt	21	**601,092**	**419,824**
Deferred subsidies	15	**392,323**	**262,550**
		1,229,362	**1,036,039**
Equity			
Provision for future amounts	22	(19,393)	(21,347)
Accumulated surplus (deficit)		(6,311)	303
Reserved funds		131,561	58,151
Net investment in long-term assets		304,978	393,116
		410,835	**430,223**
		1,640,197	**1,466,262**

The accompanying notes form an integral part of the financial statements

Statement of accumulated deficit

for the year ended December 31, 2004

(in thousands of dollars)

	Note	2004	2003
Surplus at start of year		**303**	**12,815**
Adjustment to previous fiscal year	2	2,835	—
		3,138	**12,815**
Appropriation to financial activities		(3,138)	(12,815)
Surplus (deficit) for year		(6,311)	303
Surplus (deficit) at end of year		**(6,311)**	**303**

The accompanying notes form an integral part of the financial statements

Statement of reserved funds

for the year ended December 31, 2004

(in thousands of dollars)

2004

	Balance at start of year	Transfer from financial activities	Transfer to financial activities	Transfer to/from investment activities	Balance at end of year
Sinking fund	141,850	[a] 49,888	(51,223)	—	140,515
working capital fund	2,446	2,204	—	(2,630)	2,020
Financing of projects in progress	(86,318)	—	—	75,171	(11,147)
Balances on hand from closed loan by-laws	173	—	—	[b] —	173
	58,151	**52,092**	**(51,223)**	**72,541**	**131,561**

2003

	Balance at start of year	Transfer from financial activities	Transfer to financial activities	Transfer to/from investment activities	Balance at end of year
Sinking fund	127,322	[a] 56,858	(42,330)	—	141,850
working capital fund	93	2,353	—	—	2,446
Financing of projects in progress	(48,774)	—	—	(37,544)	(86,318)
Balances on hand from closed loan by-laws	312	—	—	[b] (139)	173
	78,953	**59,211**	**(42,330)**	**(37,683)**	**58,151**

		2004	2003
(a)	Contribution to sinking fund	39,991	50,390
	Contribution to sinking fund (cancellation of refinancing in 2005)	3,948	—
	Revenue from sinking fund investments	5,949	6,468
		49,888	56,858

		2004	2003
(b)	Balances on hand following closure of loan by-laws	—	81
	Use of balances on hand for financing purposes	—	(220)
		—	**(139)**

Statement of net investment in long-term assets

for the year ended December 31, 2004

(in thousands of dollars)

	2004	2003
Balance at start of year	**393,116**	**404,310**
Plus		
Acquisition of capital assets	186,241	120,626
Issuance of long-term debt	97,794	37,367
Repayment of long-term debt	66,710	55,574
Amortization of deferred subsidies	21,943	14,459
Purchase of investment in a limited partnership	999	—
	373,687	**228,026**
Less		
Capital asset depreciation	79,034	74,521
Disposal of capital assets	1,586	—
Reduction in long-term debt	40,294	39,971
Issuance of long-term debt investment activities	189,195	75,000
Deferred subsidies	151,716	49,728
	461,825	**239,220**
Balance at end of year	**304,978**	**393,116**

Statement of changes in financial position

for the year ended December 31, 2004

(in thousands of dollars)

	2004	2003
Operating activities		
Surplus (deficit) for year	(6,311)	303
Transactions not affecting cash		
Carry forward of surplus from previous year	(3,138)	(12,815)
Share of profit (loss) from limited partnership	(967)	19
Amortization of deferred charges	1,199	1,199
Transfer to working capital fund	2,204	2,353
	(7,013)	(8,941)
Transactions not affecting operations		
Transfer to the statement of investment activities	9,834	4,471
Repayment of long-term debt	15,487	13,244
Contribution to the sinking fund	43,939	50,390
	62,247	59,164
Net change in non-cash components		
Subsidies and contributions receivable	(240)	(20,376)
Other receivables	1,046	(10,228)
Inventories of supplies and replacement parts	(2,863)	(2,051)
Accounts payable and accrued liabilities	18,052	11,946
Provision for future amounts	1,954	2,662
Cash flow from operating activities	**80,196**	**41,117**
Investment activities		
Acquisition of restricted investments	(1,172)	(4,938)
Acquisition of long-term investments	(498)	(505)
Acquisition of capital assets	(186,241)	(120,626)
Cash flow used for investment activities	**(187,911)**	**(126,069)**
Financing activities		
Issuance of long-term debt	189,195	75,000
Repayment of long-term debt	(66,710)	(55,574)
Capital asset expenditures financed by a third party	60,752	3,472
Revenue from sinking fund investments	5,949	6,468
Cash flow from financing activities	**189,186**	**29,366**
Increase (decrease) in cash flow	**81,471**	**(55,586)**
Cash position, start of year	**(67,719)**	**(12,133)**
Cash position, end of year	**13,752**	**(67,719)**

Cash consists of cash on hand, restricted investments and short-term loans.

Notes to financial statements

At December 31, 2004

1. Governing statutes and nature of activities

The Société de transport de Montréal (hereinafter the Société) is incorporated under the *Loi sur les sociétés de transport en commun* (L. R. Q. chapter S-30.01) and is responsible for organizing and providing public transit, principally on the territory of the island of Montréal.

2. Change in accounting policy

As of January 1, 2004, the Société lists internally manufactured parts as replacement parts and records them as expenditures as and when they are used.

Previously, all internally manufactured parts were recorded as expenses, regardless of whether or not they were used. This change in accounting policy was posted as a cumulative adjustment to the surplus in an amount of $2.8 million. As a result, the data for the preceding year were not restated.

3. Significant accounting policies

Accounting principles

The financial statements are prepared in accordance with generally accepted municipal accounting principles in Québec as contained in the *Manuel de présentation de l'information financière municipale au Québec* published by the Ministère des Affaires municipales, du Sport et du Loisir.

Combined financial statements

The financial statements of the Société are produced on a combined basis so as to represent all its activities and transactions irrespective of its accounting structure.

Accounting projections

In order to prepare its financial statements in accordance with the generally accepted municipal accounting principles in Québec, the management of the Société must make projections and pose hypotheses that have an effect on the amounts presented in the financial statements and their accompanying notes. These projections are based on management's knowledge of the events in progress and on measures that the Société could take in the future. The actual results could differ from these projections.

Budget data

The budget data relating to the financial activities reflect the 2004 budget adopted by the Board of Directors of the Société in November 2003 and by the municipal council of the City of Montréal in December 2003. The budget data relating to the investment activities is derived from the 2004-2005-2006 capital expenditures program, also adopted by the Board of Directors of the Société in November 2003 and by the municipal council of of the City of Montréal in December 2003.

Revenue and expenditures

The Société uses the accrual method of accounting under which revenue and expenditures are accounted for in the year in which events or transactions occur. Expenditures related to the employee pension plan, however, are recorded on a cash basis. Pension agreements over and above the employee pension plan obligations are not capitalized. A provision, calculated with the help of actuaries, is recorded to cover the value of accumulated services.

The expenditures presented in the statement of financial activities are itemized as follows:

«Bus and métro service» includes all activities relating to the operation and maintenance of the bus and métro networks as well as the support for these activities. The principal operations support functions are: finance and procurement, information technology, asset management, management of commercial activities, human resources, communications and public affairs, network planning and development, marketing and customer relations, general management, auditing, secretariat and legal affairs and management of major projects.

«Paratransit service» groups together all the activities required for the planning and provision of transportation for the disabled by minibus or taxi.

«Interest and financing costs» include short-term and long-term interest, but exclude short-term financing costs, which are allocated to the loan by-laws.

«Unforeseen expenditures» reflect expenditures that are not likely to be repeated frequently in future years, that are not typical of normal company activities and that do not result from management decisions or judgements.

«Asset maintenance» covers the costs of the periodic major maintenance program aimed at keeping the Société's infrastructure in good working order.

Inventories of supplies and replacement parts

The inventories of supplies and replacement parts are valued at the lesser of average cost or replacement cost.

Long-term investments

Long-term investments are recorded on an equity basis.

Reserved funds

Sinking fund

This fund is used to accumulate amounts to repay certain long-term debts.

working capital fund

The working capital fund, with a set limit of $7.0 million, is used for the acquisition of capital assets. The sums used must be repaid over a maximum period of five years.

Capital assets

Capital assets are recorded at cost and are depreciated over their useful life using the straight-line method over the following periods:

Land	40 years
Buildings	40 years
Original network and métro extensions	40 and 100 years
Improvements to métro infrastructure	25, 40 and 100 years
Local infrastructure	20 and 40 years
Regional Infrastructure	20 and 40 years
Rolling stock – buses	16 years
Rolling stock – minibuses	5 years
Rolling stock – other	5 and 10 years
Leasehold improvements	Length of lease
Office equipment and computer software	5 and 10 years
Machinery, tools and equipment	15 years

The depreciation expense is not recorded in the statement of financial activities. This expense is shown on the statement of net investment in long-term assets.

Deferred subsidies are amortized on the same basis as their related capital assets. The capital assets are depreciated as soon as they are put in service, irrespective of the loan by-law's closing date, as long as they are financed by long-term debt or by means of a cash subsidy.

Depreciation of long-term assets

As of January 1, 2004, the Société adopted the CICA's new recommendations regarding the depreciation of long-term assets. This standard states that a long-term asset must be submitted to a test of recoverability when events or changes in situation indicate that its carrying value might not be recoverable.

In accordance with this standard, the Société will proceed with a recoverability test of its long-term assets using the expected undiscounted future cash flows method. If it is deemed that the carrying value of the long-term asset is not recoverable, a write-down corresponding to the excess of the carrying value over the fair value will be recorded with a corresponding expenditure in the statement of financial activities.

Charging of the provision for future amounts to financial activities

The provision for a future amount for sick leaves and vacation days accrued prior to January 1, 2000, is charged to the statement of financial activities according to the higher of the straight-line depreciation of the balance over a period of 20 years or the annual disbursements.

4. Passenger revenue

(in thousands of dollars)

	Budget	2004	2003
Bus and métro service	344,436	340,268	308,403
Paratransit service	1,528	1,380	1,352
Regional revenue [a]	25,356	26,528	25,016
	371,320	**368,176**	**334,771**

[a] The regional revenue attributable to the Société results from the sharing of revenue from the sale of city transportation fares.

5. Subsidies from the government of Québec

(in thousands of dollars)

	Budget	2004	2003
Capital assets [a]	54,758	45,689	48,337
Paratransit service [b]	24,621	23,803	22,429
Other	—	78	—
	79,379	**69,570**	**70,766**

[a] Public transit assistance program:

In accordance with the Government of Québec's public transit assistance program and special agreements, the Société is eligible for subsidies at rates ranging from 50% to 75% for admissible expenses incurred during fiscal year 2004. Admissible expenses include bus purchases, construction of buildings, métro station renovations, métro car renovations and other specific expenses.

These subsidies are paid in the form of a contribution to debt servicing or as a cash payment in accordance with the terms of the assistance program and special agreements.

[b] Adapted transit assistance program:

In accordance with powers conferred on the Transport Minister by order-in-council 1106 2002, the Société is eligible for a subsidy of up to a maximum of 75% of the costs deemed admissible by the Ministère des Transports.

6. Regional contributions

(in thousands of dollars)

	Budget	2004	2003
For trips on the métro system [a]	43,950	43,480	46,842
For trips on city bus lines [a]	6,394	6,226	6,976
For equipment and infrastructure [b]	1,322	1,414	1,446
Share of surplus from the Agence métropolitaine de transport [c]	—	2,405	—
	51,666	53,525	55,264
Debt financing - commuter trains [d]	7,288	7,623	9,160
	58,954	**61,148**	**64,424**

[a] Buses and métro:

The Société receives aid from the Agence métropolitaine for trips taken by métro or bus on the city transportation system.

[b] Regional equipment and infrastructure:

The Agence must acquire from the Société the equipment and infrastructure necessary for the city bus transportation system. At December 31, 2004, the contract stipulating the date and terms for the transfer of these assets had not been signed. Despite the eventual transfer of this property, the Société remains responsible for the debt servicing related to its financing. However, the Agence reimburses the Société for the operating costs and debt servicing costs, net of any government subsidy.

[c] Share of surplus from the Agence métropolitaine de transport:

The surplus from the Agence was distributed on a prorata basis for each of the transport organizing authorities (AOTs) from the amounts for city bus and métro aid as well as from the aid granted for reduced fares in 2004.

[d] Commuter trains:

As of January 1, 1996, the Agence assumed the rights and obligations of the Société with regard to the commuter train system.

The track-based rolling stock and all other assets related to the operation of the commuter train system are the property of the Agence. However, the Société retains the long-term debt associated with this property. The Agence reimburses the Société for the principal and interest and, in the event of default, is guaranteed repayment of the debt servicing related to the commuter trains.

7. Contribution from the Réseau de transport de Longueuil

On March 24, 2004, the Government of Québec adopted order-in-council 285-2004 dealing with the establishment of conditions of operation for the métro line linking the territories of the Société de transport de Montréal and the Réseau de transport de Longueuil. The contribution from the Réseau de transport de Longueuil was set at $1.8 million for fiscal year 2004.

8. Other revenue

(in thousands of dollars)

	Budget	2004	2003
Advertising	9,885	9,916	8,971
Rentals	3,283	1,795	3,493
Incidental activities [a]	—	469	112
Share of profit (loss) from the limited partnership	—	967	(19)
Other	3,347	4,155	4,301
	16,515	**17,302**	**16,858**

(in thousands of dollars)

	Budget	2004	2003
[a] Incidental activities			
Métro extension			
Revenue	—	11,289	5,911
Expenditures	—	(11,109)	(5,911)
	—	**180**	—
Other projects			
Revenue	—	1,356	1,066
Expenditures	—	(1,067)	(954)
	—	289	112
Surplus	—	**469**	**112**

9. Interest and financing costs

(in thousands of dollars)

	Budget	2004	2003
Interest on long-term debt	45,694	35,690	34,680
Financing costs			
short-term	2,339	2,006	2,364
allocated to loan by-laws	(1,039)	(1,603)	(1,386)
	1,300	403	978
	46,994	**36,093**	**35,658**

10. Repayment of the long-term debt

(in thousands of dollars)

	Budget	2004	2003
Repayment of principal			
from financial activities	19,264	15,487	13,244
from sinking fund	51,138	51,223	42,330
	70,402	**66,710**	**55,574**

11. Transfer to the statement of investment activities

(in thousands of dollars)

	Budget	2004	2001
Capital asset expenditures financed by a third party			
Asset maintenance program for fixed equipment in the métro [a]	53,943	59,352	—
Replacement of an operating system	90	1,017	3,378
Disposal of a bus	—	342	50
Transfer of métro assets in accordance with legal requirements	—	41	44
	54,033	**60,752**	**3,472**
Capital asset expenditures financed from revenue			
Bus and métro service	250	8,886	3,078
Paratransit service	1,476	99	1,312
Asset maintenance	250	849	81
	1,976	**9,834**	**4,471**
	56,009	**70,586**	**7,943**

(a) In accordance with order-in-council 737-2002 and agreement no. 527001 of July 16, 2004, covering the financial aid for the first phase of the asset maintenance program for fixed equipment in the métro, the federal government made a cash contribution of 33.3% of the admissible expenses under the 2000 Canada-Québec Infrastructure Program while the Agence métropolitaine de transport made a cash contribution of 12.5%. The contribution from the Government of Québec was set at 41.67% and was paid in the form of a subsidy for debt servicing.

12. Restricted investments in sinking fund

(in thousands of dollars)

	2004	2003
Cash	929	29,792
Bonds and bond coupons, at unamortized cost (market value $140,438, $109,967 in 2003)	138,004	107,404
Interest receivable	1,582	1,362
	140,515	138,558
Short-term portion	(39,991)	(39,206)
	100,524	**99,352**

13. Subsidies receivable

(in thousands of dollars)

	2004	2003
Government of Québec		
Capital assets	3,000	4,482
Paratransit	6,642	6,070
Other	1,153	2,432
	10,795	12,984
Government of Canada		
Capital assets	9,500	1,032
Agence métropolitaine de transport		
Capital assets	3,187	—
	23,482	**14,016**

14. Other receivables

(in thousands of dollars)

	2004	2003
Regional revenue receivable	12,003	11,013
Work accident payments recoverable	729	613
Tax claims submitted to governments	3,911	1,135
General accounts receivable	14,052	12,847
Deposit on bus purchase	4,892	10,043
Other	2,890	3,872
	38,477	**39,523**

15. Capital assets

(in thousands of dollars)

	2004			2003
	Cost	**Depreciation**	**Net book value**	**Net book value**
Land	7,352	6,021	1,331	1,402
Buildings	146,783	66,239	80,544	81,006
Original network and métro extensions	1,450,752	1,198,427	252,325	255,122
Improvements to métro infrastructure	212,857	49,388	163,469	157,770
Local infrastructure	11,702	2,668	9,034	9,365
Regional infrastructure	11,499	6,715	4,784	5,380
Rolling stock - buses	582,574	253,721	328,853	309,063
Rolling stock - minibuses	8,304	6,720	1,584	2,593
Rolling stock - other	38,159	23,394	14,765	9,313
Leasehold improvements	7,170	5,480	1,690	2,173
Office equipment and software	77,052	43,260	33,792	29,975
Machinery, tools and equipment	69,793	34,417	35,376	29,417
Capital assets in progress	175,671	—	175,671	105,018
	2 ,799,668	**1,696,450**	**1,103,218**	**997,597**

	2004			2003
	Opening balance	**Change**	**Closing balance**	**Closing balance**
Deferred subsidies	**262,550**	**129,773**	**392,323**	**262,550**

16. Deferred charges

(in thousands of dollars)

	2004	2003
Computer software licences	**3,597**	**4,796**

Computer software licences are charged to financial activities as and when they are allocated to users, over a maximum period of five years from 2003 to 2007.

17. Long-term investments

(in thousands of dollars)

	2004	2003
Holding in limited partnership, at equity value	1,946	481
Other	5	5
	1,951	**486**

18. Long-term debt

(in thousands of dollars)

	2004	2003
Amount recoverable for the repayment of the long-term debt (note 21)		
Government of Québec	256,590	193,548
Agence métropolitaine de transport	13,318	18,860
	269,908	212,408
Current portion of long-term debt	(15,704)	(45,233)
	254,204	**167,175**

19. Short-term loans

The Société has a loan authorization to a limit of $200 million for its current operating expenses and for expenditures incurred in accordance with a loan by-law. This sum can be borrowed, in whole or in part, through notes, bankers acceptances or other instruments that can be negotiated with the chartered banks or on the open short-term loan market, at a rate not to exceed the prime rate of the chartered banks. The repayment term for each of the notes, bankers acceptances or other instruments must not exceed one year from the date of their issuance. At December 31, 2004, the average rate on the short-term loans was 2.56%.

The Société also has an available line of credit of $40 million in the form of demand notes, which is included in the short-term loan authorization of $200 million. The interest rate on this line of credit is the banking institution's base rate calculated on a daily basis and payable on the last day of each month. The average rate for fiscal year 2004 was 4.50%.

20. Accounts payable and accrued liabilities

(in thousands of dollars)

	2004	2003
Suppliers and accrued liabilities	34,501	23,105
Wages and wage benefits	33,530	30,133
Sick leaves payable	7,626	8,349
Vacations payable	24,270	23,306
Holdbacks on contracts and security deposits	1,205	1,137
Accrued interest	8,359	7,716
Other	15,874	13,567
	125,365	**107,313**

21. Long-term debt

(in thousands of dollars)

	2004	2003
Bonds and bank loans, at interest rates varying from 2.40% to 9.10% (3.55% to 9.60% in 2003) due from February 2005 to October 2014	676,824	554,339
Current portion of long-term debt	(75,732)	(134,515)
	601,092	**419,824**

The long-term debt consists of bonds and bank loans that are a direct and general obligation of the City of Montréal. The City of Montréal stands as an unrestricted guarantor of the long-term debt contracted by the Société.

The estimated payments on the long-term debt for future years are as follows:

2005	75,732
2006	108,671
2007	78,000
2008	42,068
2009	80,255
2010 and subsequent years	292,098
Total minimum payments due	**676,824**

The apportionment of the long-term debt is as follows:

(in thousands of dollars)

	2004	2003
Amounts accumulated in the sinking fund	140,515	141,850
Amounts recoverable for the repayment of the long-term debt		
From the City of Montréal	266,401	200,081
From the Government of Québec	256,590	193,548
From the Agence métropolitaine de transport	13,318	18,860
	536,309	**412,489**
	676,824	**554,339**

22. Provision for future amounts

(in thousands of dollars)

	2004	2003
Vacation benefits	(12,892)	(13,867)
Sick leaves	(6,501)	(7,480)
	(19,393)	**(21,347)**

The difference of $2.0 million between December 31, 2003 and December 31, 2004 has been charged to the statement of financial activities.

23. Commitments

a) Long-term leases

The Société has entered into long-term leases for office space expiring from September 30, 2005 to July 31, 2023, calling for lease payments totalling $88.2 million. The minimum payments for the next five years amount to $1.7 million in 2005, $4.5 million in 2006, $4.8 million in 2007, $4.9 million in 2008 and $5.1 million in 2009.

b) Outsourcing of computer centre

The Société is committed to paying a total of $3.8 million for the years 2005 to 2008 for the outsourcing of its computer centre. Future payments amount to $1.2 million for the years 2005 to 2007 and $0.2 million in 2008.

This contract includes a renewal option for an additional two-year period under the same terms and conditions.

c) Service contract for a communications solution integrator

The Société is committed to paying a maximum of $10.8 million for the years 2005 to 2012. The two principal components of this contract are a company telephone system at a cost of $9.2 million and Internet access services at a cost of $1.4 million. The balance of $0.2 million is to be used for various operations projects.

Future payments are scheduled as follows: $1.4 million in 2005 and $1.3 million for the years 2006 to 2012.

d) Contract for the supply of bus parts

The Société, as mandatary for the principal transit companies in Québec, awarded contracts for the supply of city bus parts within the framework of a group purchase.

These contracts are spread over periods from three to five years from 2002 to 2007. At December 31, 2004, the total value of these contracts for all the companies involved was $17.7 million. The portion attributable to the Société de transport de Montréal was $9.2 million, consisting of $5.8 million for 2005 and $1.7 million for the years 2006 and 2007.

Conversely, the Société mandated two Québec transit companies to proceed with a group purchase of city bus parts. These contracts totalling $12.0 million are spread over periods from three to four years from 2004 to 2008. The portion attributable to the Société de transport de Montréal is $3.5 million in 2005, $4.2 million in 2006, $3.6 million in 2007 and $0.7 million in 2008.

e) Contract for the purchase of city buses

The Société has awarded a contract for the purchase of low-floor buses within the framework of a group purchase on behalf of the members of the Québec Urban Transit Association.

The contract runs from 2003 to 2007 and covers the purchase of low-floor buses for all the companies involved. Under this contract, the companies have the option of reducing the quantities ordered by 10% or increasing them by 20%. This contract also includes an indexation clause based on the consumer price index and the industry price index as well as on the variation in the American exchange rate (US) and the European exchange rate (EURO) for the portion of the cost of a bus with American or European content. As an indicator, the American content represents 29% of the base cost while the European content represents 9%. During the 2003 fiscal year, the bus purchases were revised downward for all the companies and now involve 773 buses at an estimated total cost of $353.3 million.

The revised portion attributable to the Société covers 344 buses for a total estimated cost of $156.5 million (including the 2003 and 2004 deliveries that amounted to $18.0 million and $45.8 million respectively). According to the bus delivery schedule, the 2005 deliveries will cost $21.5 million, those in 2006, $35.1 million, and those in 2007, $36.1 million.

f) Asset maintenance program for fixed equipment in the métro

The Société signed a contract with an engineering firm for an approximate amount of $62.7 million for the years 2001 to 2005 to set up and operate a project office responsible for carrying out the asset maintenance program for fixed equipment in the métro. At December 31, 2004, there remained approximately $7.3 million in expenditures to be incurred between then and 2005.

g) Foreign currencies

The Société negotiated an agreement with a banking institution to buy $3.3 million US on September 1, 2005 at the rate of 1.3693, equivalent to $4.5 million CAN, and $8.3 million US on December 15, 2005 at the rate of 1.3723, or $11.4 million CAN, to cover the currency requirements of the contracts awarded for the fare sales and collection project.

h) Contracts for the acquisition of a fare sales and collection system

The Société awarded two major contracts within the framework of the project to upgrade the fare sales and collection system.

As mandatory for six transit operating authorities (AOTs), the Société awarded the first contract for a total amount of $78.5 million, including $61.0 million for the Société. This contract covers replacement of the centralized system and related equipment, the purchase of smart cards (the equivalent of tickets and passes in the new system) as well as the maintenance of software and equipment. The portion relating to the costs for software and equipment maintenance, which is entirely borne by the Société, is $10.7 million. The annual payments in the amount of $2.1 million will be spread out from 2006 to 2010.

As mandatory for another AOT, the Société awarded a second contract for a total of $47.5 million, including $42.2 million for the Société. This contract includes the replacement of the collection boxes in the buses as well as maintenance of the related software and equipment. The portion relating to the costs for software and equipment maintenance is $0.9 million. The annual payments in the amount of $0.2 million will be spread out from 2006 to 2010.

24. Pension plans and pension obligations

The Société's pension plans are contributory defined benefit plans. Actuarial valuations were carried out at December 31, 2002 in order to determine the present value of the benefits prorated to years of service. These valuations indicated a surplus in the order of $151.5 million. Pension plan assets are based on the fair value with fluctuations spread over a three-year period.

At December 31, 2004, the value of the pension plan assets and the present value of the accrued pension benefits were not available. According to the financial statements for the pension plans for the fiscal year ended December 31, 2003, these values were $2,499.5 million and $2,319.1 million respectively at December 31, 2003. The expenditure for the year 2004 was $30.8 million ($28.7 million in 2003).

At December 31, 2004, the Société was committed in virtue of various pension agreements over and above the obligations under the above-mentioned pension plans. According to an actuarial valuation dated December 14, 2004, these commitments represent a sum of $4.8 million and result primarily from a pension agreement put in place for the employees of the Société whose annual remuneration exceeds the ceiling for pension plan contributions set by the tax authorities. The Société made a provision of $3.2 million at December 31, 2004, with regard to these commitments.

25. Contingencies

Amounts claimed by plaintiffs total $126.2 million ($126.3 million in 2003). These claims consist of an application for a class action suit in the amount of $123.0 million involving the STM's pension plan as well as individual suits, bodily injuries, material damages and various other litigation. At December 31, 2004, the Société made a provision for an amount deemed sufficient for these claims.

26. Opinion of the auditors

The opinion of the auditors does not cover the supplementary information.

Supplementary information

Restated statement of financial activities

(in thousands of dollars)

	2004	2003	2002	2001	2000
Revenue					
Passengers	368,176	334,771	321,871	318,265	296,956
Contribution from the City of Montréal (from the municipalities on the MUC territory prior to 2002)	263,000	263,000	244,100	236,600	231,600
Subsidies from the Government of Québec	69,570	70,766	65,388	63,938	64,583
Regional contributions	61,148	64,424	64,170	61,716	66,233
Contribution from the Réseau de transport de Longueuil	1,803	1,803	1,761	1,844	1,803
Other revenue	17,302	16,858	14,839	16,843	16,841
	780,999	**751,622**	**712,129**	**699,206**	**678,016**
Expenditures					
Bus and métro service	652,284	623,611	580,981	559,041	535,652
Paratransit service	32,157	31,148	28,907	26,374	26,511
Debt servicing and financing costs [a]	95,519	99,292	93,412	94,983	101,600
Unforeseen expenditures	—	36	404	137	335
Asset maintenance [b]	10,488	10,047	11,572	11,843	11,271
	790,448	**764,134**	**715,276**	**692,378**	**675,369**
Surplus (deficit) for year before accumulated surplus	**(9,449)**	**(12,512)**	**(3,147)**	**6,828**	**2,647**
Accumulated surplus from previous year	[c] 3,138	12,815	15,962	9,134	6,487
Surplus (deficit) for year	**(6,311)**	**303**	**12,815**	**15,962**	**9,134**

		2004	2003	2002	2001	2000
(a)	Interest and financing costs	36,093	35,658	33,295	33,814	38,077
	Repayment of long-term debt	66,710	55,574	29,959	57,828	61,697
	Contribution to sinking fund	43,939	50,390	41,408	40,907	37,557
	Use of sinking fund	(51,223)	(42,330)	(11,250)	(37,566)	(35,731)
		95,519	**99,292**	**93,412**	**94,983**	**101,600**

		2004	2003	2002	2001	2000
(b)	Asset maintenance (according to the statement of financial activities)	9,639	9,966	11,174	11,681	11,271
	Transfer to the statement of investment activities	849	81	398	162	—
		10,488	**10,047**	**11,572**	**11,843**	**11,271**

(c) The surplus of $303 at the end of fiscal year 2003 was restated by an amount of $2,835 as a result of the change in accounting policy regarding inventories in supplies and replacement parts (note 2).

Passenger revenue by type

(in thousands of dollars)

	2004	2003	2002	2001	2000
Bus and métro service					
Regular fares					
Cash	48,069	44,762	48,547	51,091	48,518
Strip of tickets	66,906	61,235	58,171	52,930	50,714
CAM	124,698	107,223	98,921	114,927	106,381
Weekly CAM	29,645	32,395	34,303	36,927	34,439
	269,318	**245,615**	**239,942**	**255,875**	**240,052**
Reduced fares					
Cash	3,063	2,945	3,348	3,782	3,062
Strip of tickets	12,152	10,550	9,744	8,649	8,309
CAM	51,315	45,352	41,028	23,660	21,814
Weekly CAM	2,540	2,258	1,893	1,387	1,092
	69,070	**61,105**	**56,013**	**37,478**	**34,277**
Tourist cards	1,295	1,039	823	757	961
Allocation of train revenue from the AMT	585	644	1,880	1,209	2,657
	340,268	**308,403**	**298,658**	**295,319**	**277,947**

Expenditures by type

(in thousands of dollars)

	2004	2003	2002	2001	2000
Expenditures related to operations					
Remuneration	**529,543**	**511,948**	**470,975**	**449,788**	**433,403**
Goods and services					
Major expenditures	2,674	3,962	4,927	4,686	3,191
Energy costs, taxes and licences	60,290	55,317	50,688	53,091	50,607
Professional services	3,373	2,750	3,138	2,697	2,341
Technical and other services	23,734	22,151	20,707	18,062	17,795
Equipment and supplies	31,103	35,236	35,292	35,790	33,276
Rentals	8,265	7,021	6,737	6,558	7,366
Financing of operations	403	978	534	1,447	1,696
Sundry expenditures	11,848	8,168	11,496	9,351	7,294
	141,690	**135,583**	**133,519**	**131,682**	**123,566**
	671,233	**647,531**	**604,494**	**581,470**	**556,969**
Expenditures related to investments					
Asset maintenance	10,488	10,047	11,572	11,681	11,271
Special projects	11,408	5,853	3,718	3,992	5,790
Debt servicing - buses and métro	87,493	89,154	78,554	78,473	84,105
Transfer to working capital fund	2,203	2,353	2,210	1,400	1,100
	111,592	**107,407**	**96,054**	**95,546**	**102,266**
Debt servicing - commuter trains	**7,623**	**9,160**	**14,324**	**15,063**	**15,799**
Unforeseen expenditures	**—**	**36**	**404**	**137**	**335**
	790,448	**764,134**	**715,276**	**692,216**	**675,369**

Expenditures by operation

(in thousands of dollars)

	Budget	2004	2003	2002	2001
Network operations					
Bus network					
Remuneration	274,216	270,985	264,137	244,756	232,350
Goods and services	47,126	49,782	21,018	20,992	21,171
	321,342	**320,767**	**285,155**	**265,748**	**253,521**
Métro network					
Remuneration	153,856	152,846	142,068	128,610	114,045
Goods and services	37,143	35,938	14,986	15,711	13,829
	190,999	**188,784**	**157,054**	**144,321**	**127,874**
Paratransit [a]					
Remuneration	16,440	16,689	16,518	15,543	15,011
Goods and services	14,671	14,367	12,902	11,844	9,834
	31,111	**31,056**	**29,420**	**27,387**	**24,845**
Energy [c]					
Goods and services	**8,058**	**7,668**	**48,041**	**46,708**	**49,203**
	551,510	**548,275**	**519,670**	**484,164**	**455,443**
Support services					
Office of the Assistant Director-General					
Remuneration	33,380	32,510	31,090	27,464	28,318
Goods and services	12,380	12,266	10,897	10,818	11,324
	45,760	**44,776**	**41,987**	**38,282**	**39,642**
Finance and Procurement					
Remuneration	24,339	23,482	22,738	21,031	19,435
Goods and services	5,855	5,958	6,821	7,549	7,387
	30,194	**29,440**	**29,559**	**28,580**	**26,822**
Human Resources					
Remuneration	12,732	12,480	12,316	11,242	10,611
Goods and services	1,905	2,146	2,112	2,239	2,038
	14,637	**14,626**	**14,428**	**13,481**	**12,649**
Operations support					
Remuneration	9,505	8,887	9,143	8,519	18,484
Goods and services	4,167	3,135	2,706	2,804	2,894
	13,672	**12,022**	**11,849**	**11,323**	**21,378**
	104,263	**100,864**	**97,823**	**91,666**	**100,491**
Other corporate services					
Remuneration	4,137	3,991	4,230	4,242	4,183
Goods and services	1,087	871	838	1,745	1,606
	5,224	**4,862**	**5,068**	**5,987**	**5,789**
Asset maintenance [c]					
Remuneration	—	—	5,017	6,508	7,404
Goods and services	—	—	5,030	5,064	4,440
	—	**—**	**10,047**	**11,572**	**11,844**

Expenditures by operation

(in thousands of dollars)

	Budget	2004	2003	2002	2001
Special projects					
Remuneration	—	2,552	616	655	1,063
Goods and services	6,563	9,091	5,237	3,063	2,919
	6,563	**11,643**	**5,853**	**3,718**	**3,982**
Other expenditures					
Remuneration	12,589	12,657	9,762	9,591	7,633
Goods and services	17,478	14,424	14,231	12,552	10,747
	30,067	**27,081**	**23,993**	**22,143**	**18,382**
Financing costs					
Goods and services	**106,126**	**95,519**	**99,291**	**93,412**	**94,983**
Unforeseen expenditures					
Remuneration	—	—	—	178	69
Goods and services	5,204	—	36	226	68
	5,204	—	**36**	**404**	**137**
Appropriations					
Repayment of working capital fund	2,377	2,204	2,353	2,210	1,400
	(b) **811,334**	**790,448**	**764,134**	**715,276**	**692,451**

(in thousands of dollars)

	Budget	2004	2003	2002	2001
(a) Paratransit					
Total per the statement of financial activities	30,708	32,058	29,836	27,689	26,243
Transfer to statement of investment activities	1,476	99	1,312	1,218	131
	32,184	32,157	31,148	28,907	26,374
Other centres of responsibility	(1,073)	(1,101)	(1,728)	(1,520)	(1,529)
	31,111	31,056	29,420	27,387	24,845

(b) The expenditures by operation reflect the expenditures presented in the restated statement of financial activities.

(c) In 2004 the energy expenses as well as the expenditures relating to asset maintenance were decentralized. The figures for previous years have not been restated.

ANALYSIS OF PROJECTS IN PROGRESS

(in thousands of dollars)

By-law no	Authorization date	Description	Project amount	Authorized amount (L/B)	Balance at 01/01/2004 Loan	Cash	Total
CA-31	08/06/90	Renovation of métro cars	68,800	68,800	65,131	—	65,131
CA-52	11/12/02	Replacement and renovation of fixed equipment in the métro	8,970	8,970	4,352	—	4,352
CA-58	16/08/93	Purchase and installation of 79 escalators in the métro	38,900	38,900	34,362	—	34,362
CA-75	18/08/95	Various capital expenditures 1996	7,200	7,200	5,770	—	5,770
CA-89	01/05/97	Purchase of 96 low-floor buses (1998)	53,750	53,750	45,547	3,894	49,441
CA-95	16/06/97	Métro renovations	7,971	6,058	6,058	1,913	7,971
CA-97	04/05/98	Various capital expenditures 1998	4,100	4,100	3,159	—	3,159
CA-100	06/07/99	Various capital expenditures 1999	6,870	6,870	5,465	—	5,465
CA-101	12/07/99	Various capital expenditures	1,700	1,700	1,249	—	1,249
CA-102	28/05/99	Rail-based vacuum cleaner	1,945	1,945	—	—	—
CA-103	05/07/99	Purchase of 300 low-floor buses (2000-2002)	135,970	135,970	122,905	255	123,160
CA-104	05/01/00	Purchase of scrubbing-cleaning machines and service vehicles	1,410	1,410	1,270	—	1,270
CA-106	10/05/00	ACCÈS software replacement and paving repairs at St-Michel bus depot	9,939	9,265	1,092	4,956	6,048
CA-107	02/06/00	Various capital expenditures 2000	2,034	2,034	922	—	922
CA-108	02/06/00	Service vehicles	2,175	2,175	1,549	—	1,549
CA-109	09/09/02	Renovation program for fixed equipment in the métro	30,656	30,656	2,028	—	2,028
CA-110	29/03/01	SCAD and updating telecommunications services and equipment	3,991	3,991	1,313	—	1,313
CA-111	08/06/01	Capital asset improvements	5,000	5,000	3,168	—	3,168
CA-112	12/07/01	Capital asset expenditures	1,980	1,980	558	—	558
CA-113	01/03/02	Implementation of preferential measures and optimization of terminals	13,725	13,725	—	—	—
CA-114	06/07/01	Service vehicles	2,142	2,142	1,477	—	1,477
CA-116	26/04/02	Réno-Systèmes program	342,263	342,263	16,471	—	16,471
CA-117	28/02/02	Operations support and customer information system (S.A.E.I.C.)	18,028	18,028	—	—	—
CA-118	11/01/02	Purchase of 382 low-floor buses (2003-2007)	222,600	222,600	11,074	—	11,074
R-002	24/04/02	Lift replacement program	7,299	7,299	755	—	755
R-004	29/04/02	Purchase of rail-based vehicles and expansion of track equipment shop	13,171	13,171	—	—	—
R-005	29/04/02	Capital asset expenditures	23,333	23,333	4,286	—	4,286
R-006	03/06/02	Various work in the tunnel and at the Angrignon garage	1,919	1,919	—	—	—
R-007	03/06/02	Renovation of the Mont-Royal bus depot	12,150	12,150	—	—	—
R-010	18/06/02	Fare sales and collection	101,650	101,650	576	—	576
R-014	10/09/02	Service vehicles	2,055	2,055	—	—	—
R-016	09/09/02	Replacement of city minibuses	468	468	—	—	—
R-018	09/10/02	Acquisition and renovation of 2000 Berri	12,560	12,560	5,464	—	5,464
R-019	08/10/02	Renovation of Place d'Armes station	3,210	3,210	—	—	—
R-020	11/12/02	Capital asset expenditures	2,760	2,760	—	—	—
R-024	17/01/03	Réno-Métro phase II - emergency work	2,010	2,010	—	—	—
R-025	17/03/03	Acquisition and implementation of SAP/PM	7,000	7,000	—	—	—
R-027	22/04/03	Réno-Métro phase II	65,142	65,142	—	—	—
R-038	22/09/03	Service vehicles - Vehicle with pump-crane - Elevating platform	5,525	5,525	—	—	—
R-039	25/09/03	Renovation of fire equipment premises	834	834	—	—	—
R-040	24/09/03	Production equipment and tools (APS)	2,556	2,556	—	—	—
R-041	09/09/03	Bousquet ventilation unit	594	594	—	—	—
R-042	09/01/04	Cost for study, plan and estimate, engineering for purchase of MR-2005 métro rolling stock	15,888	15,888	—	—	—
R-043	09/02/04	Acquisition of 7 platforms and a swtich broom	742	742	—	—	—
R-045	24/03/04	Re-design of MR-73 métro cars	34,463	34,463	—	—	—
R-046	08/03/04	Replacement of the work accident management system	1,173	1,173	—	—	—
R-047	06/04/04	Capital works projects	2,119	2,119	—	—	—
R-048	06/04/04	Urgent work at the St-Denis complex and the Crémazie shop	1,729	1,729	—	—	—
R-049	07/04/04	Replacement of valves for water supply points - tunnel	2,004	2,004	—	—	—
R-050	07/04/04	Addition of track B+ and refitting of new work areas	731	731	—	—	—
R-051	11/05/04	Re-design of the work vehicle maintenance shop - track 33	2,051	2,051	—	—	—
R-052	13/04/04	Gas/oil spill-proof filling system, buses	1,328	1,328	—	—	—
R-053	10/05/04	Ventilation units for the métro extensions	3,712	3,712	—	—	—
R-054	19/07/04	Modernization of O & K escalators	2,045	2,045	—	—	—
R-055	26/11/04	Relocation of bodyshop installation and re-design of Legendre bus depot	73,646	73,646	—	—	—
R-056	01/02/05	Replacement of service vehicles	3,146	3,146	—	—	—
			1,401,132	1,398,545	346,001	11,018	357,019
		Capital assets from 2004 revenue	8,875	—	—	—	—
		Capital assets financed from working capital fund	2,630	—	—	—	—
		Investment in a limited partnership	999	—	—	—	—
			1,413,636	1,398,545	346,001	11,018	357,019

Permanent financing / Expenditures

Financing during year Loan	Financing during year Cash	Financing during year Total	Balances available	Closed projects	Balance at 31/12/2004 Loan	Balance at 31/12/2004 Cash	Balance at 31/12/2004 Total	Balance at 01/01/2004	Expenses for the year	Closed projects	Balance at 31/12/2004	Over-financing (under-financing)
—	—	—	—	—	65,131	—	65,131	64,288	39	—	64,328	803
2,310	—	2,310	—	—	6,662	—	6,662	5,260	404	—	5,663	999
1,280	—	1,280	—	—	35,642	—	35,642	35,343	301	—	35,644	(2)
80	—	80	—	—	5,850	—	5,850	5,852	9	—	5,861	(11)
160	—	160	—	—	45,707	3,894	49,601	49,610	2	—	49,612	(11)
—	—	—	—	(7,971)	(1,913)	1,913	—	7,971	—	(7,971)	—	—
—	—	—	—	—	3,159	—	3,159	3,178	58	—	3,236	(77)
—	—	—	—	—	5,465	—	5,465	5,542	17	—	5,559	(94)
—	—	—	—	—	1,249	—	1,249	1,346	3	—	1,349	(100)
1,820	—	1,820	—	—	1,820	—	1,820	189	1,537	—	1,726	94
1,740	152	1,892	—	—	124,645	407	125,052	124,216	785	—	125,001	51
—	—	—	—	—	1,270	—	1,270	1,279	—	—	1,279	(9)
3,581	1,017	4,598	—	—	4,673	5,973	10,646	7,905	1,444	—	9,349	1,297
300	—	300	—	—	1,222	—	1,222	1,241	56	—	1,297	(75)
295	—	295	—	—	1,844	—	1,844	1,589	245	—	1,834	10
3,600	—	3,600	—	—	5,628	—	5,628	4,646	5,707	—	10,353	(4,725)
2,486	—	2,486	—	—	3,799	—	3,799	3,668	194	—	3,862	(63)
1,300	—	1,300	—	—	4,468	—	4,468	4,479	302	—	4,780	(312)
300	—	300	—	—	858	—	858	909	(89)	—	820	38
—	—	—	—	—	—	—	—	—	—	—	—	—
431	—	431	—	—	1,908	—	1,908	1,906	13	—	1,919	(11)
77,510	59,352	136,862	—	—	93,981	59,352	153,333	66,199	77,046	—	143,245	10,088
6,250	—	6,250	—	—	6,250	—	6,250	6,261	5,525	—	11,786	(5 536)
65,130	191	65,321	—	—	76,204	191	76,395	21,364	52,283	—	73,647	2,748
1,300	—	1,300	—	—	2,055	—	2,055	2,109	1,231	—	3,340	(1,285)
—	—	—	—	—	—	—	—	166	8,012	—	8,178	(8,178)
1,900	—	1,900	—	—	6,186	—	6,186	6,230	3,445	—	9,675	(3,489)
—	—	—	—	—	—	—	—	19	158	—	177	(177)
—	—	—	—	—	—	—	—	29	309	—	338	(338)
9,300	—	9,300	—	—	9,876	—	9,876	868	6,491	—	7,359	2,517
1,838	—	1,838	—	—	1,838	—	1,838	809	1,032	—	1,841	(3)
—	—	—	—	—	—	—	—	—	—	—	—	—
400	—	400	—	—	5,864	—	5,864	5,902	1,472	—	7,374	(1,510)
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	175	345	—	520	(520)
400	—	400	—	—	400	—	400	479	1,055	—	1,534	(1,134)
3,207	—	3,207	—	—	3,207	—	3,207	2,177	1,191	—	3,368	(161)
—	—	—	—	—	—	—	—	—	507	—	507	(507)
2,277	—	2,277	—	—	2,277	—	2,277	19	791	—	810	1,467
—	—	—	—	—	—	—	—	—	552	—	552	(552)
—	—	—	—	—	—	—	—	38	480	—	518	(518)
—	—	—	—	—	—	—	—	36	250	—	286	(286)
—	—	—	—	—	—	—	—	39	215	—	255	(255)
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	47	—	47	(47)
—	—	—	—	—	—	—	—	—	177	—	177	(177)
—	—	—	—	—	—	—	—	—	616	—	616	(616)
—	—	—	—	—	—	—	—	—	133	—	133	(133)
—	—	—	—	—	—	—	—	—	201	—	201	(201)
—	—	—	—	—	—	—	—	—	13	—	13	(13)
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	133	—	133	(133)
—	—	—	—	—	—	—	—	—	—	—	—	—
189,195	60,712	249,907	—	(7,971)	527,225	71,730	598,955	443,337	174,736	(7,971)	610,102	(11,147)
—	8,875	8,875	—	(8,875)	—	—	—	—	8,875	(8,875)	—	—
—	2,630	2,630	—	(2,630)	—	—	—	—	2,630	(2,630)	—	—
—	999	999	—	(999)	—	—	—	—	999	(999)	—	—
189,195	73,216	262,411	—	(20,475)	527,225	71,730	598,955	443,337	187,240	(20,475)	610,102	(11,147)

LONG-TERM DEBT

(in thousands of dollars)

	2004	2003
Bonds, $70,000,000		
8.75%, due September 30, 2007 [a]	7,000	7,000
Bonds, $50,000,000		
6.90%, due March 3, 2004 [a]	—	26,200
Bonds, $50,000,000		
9.60%, due December 9, 2004 [a]	—	19,460
Bonds, $40,000,000		
9.10%, due May 12, 2005 [a]	20,195	20,195
Bonds, $30,000,000		
8.40%, due July 19, 2005 [a]	11,242	11,242
Bonds, $30,000,000		
8.10%, due July 18, 2006 [a]	15,060	15,060
Bonds, $30,000,000		
6.50%, due June 5, 2004	—	2,605
6.60%, due June 5, 2005	2,815	2,815
6.75%, due June 5, 2006	3,040	3,040
6.85%, due June 5, 2007	3,280	3,280
Bonds, $40,000,000		
5.70%, due June 4, 2008 [b]	11,248	11,248
Bonds, $35,000,000		
5.10%, due April 8, 2004	—	14,745
5.40%, due April 8, 2009 [c]	9,005	9,005
Bonds, $30,000,000		
5.50%, due August 6, 2004	—	12,575
5.90%, due August 6, 2009 [c]	7,470	7,470
Bonds, $25,000,000		
6.40%, due February 16, 2004	—	2,187
6.50%, due February 16, 2005	7,507	7,507
6.60%, due February 16, 2006	1,662	1,662
6.70%, due February 16, 2007	1,780	1,780
6.80%, due February 16, 2008	1,906	1,906
6.85%, due February 16, 2009	2,041	2,041
6.85%, due February 16, 2010	2,186	2,186

LONG-TERM DEBT (CONT.)

(in thousands of dollars)

	2004	2003
Bonds, $17,000,000		
5.60%, due December 20, 2005 [(a)]	17,000	17,000
Bonds, $60,000,000		
3.70%, due November 15, 2004 [(a)]	—	12,243
4.15%, due November 15, 2005	4,513	4,513
4.60%, due November 15, 2006	15,849	15,849
4.95%, due November 15, 2007	4,120	4,120
5.25%, due November 15, 2008	4,334	4,334
5.50%, due November 15, 2009	4,559	4,559
5.70%, due November 15, 2010	4,796	4,796
5.75%, due November 15, 2011	9,586	9,586
Bonds, $40,000,000		
4.20%, due October 24, 2007 [(a)]	18,130	18,130
4.50%, due October 24, 2008	2,960	2,960
4.80%, due October 24, 2009	3,110	3,110
5.00%, due October 24, 2010	3,260	3,260
5.15%, due October 24, 2011	3,430	3,430
5.25%, due October 24, 2012	9,110	9,110
Bonds, $75,000,000		
3.55%, due May 6, 2004	—	4,500
3.60%, due May 6, 2005	4,700	4,700
4.00%, due May 6, 2006	5,000	5,000
4.25%, due May 6, 2007	5,300	5,300
4.50%, due May 6, 2008	12,900	12,900
4.80%, due May 6, 2009	5,000	5,000
5.00%, due May 6, 2010	5,300	5,300
5.15%, due May 6, 2011	5,700	5,700
5.30%, due May 6, 2012	6,000	6,000
5.40%, due May 6, 2013	20,600	20,600
Bonds, $42,000,000		
2.40%, due August 19, 2005	7,760	—
2.80%, due August 19, 2006	8,060	—
3.40%, due August 19, 2007	8,390	—
3.80%, due August 19, 2008	8,720	—
4.15%, due August 19, 2009	9,070	—

LONG-TERM DEBT (CONT.)

(in thousands of dollars)

	2004	2003
Bank loan, $47,130,000 (d) 5.465%, due January 9, 2012 [a]	47,130	47,130
Bank loan, $30,000,000 (d) 8.04%, due January 24, 2006 [a]	30,000	30,000
Bank loan, $30,000,000 (d) 6.75%, due December 9, 2006 [a]	30,000	30,000
Bank loan, $30,000,000 (d) 6.09%, due December 12, 2007 [a]	30,000	30,000
Bank loan, $40,000,000 (d) 6.769%, due December 9, 2009 [a]	40,000	40,000
Bank loan, $100,000,000 4.708%, due April 21, 2014 [c]	100,000	—
Bank loan, $75,000,000 5.222%, due October 22, 2014 [c]	75,000	—
Total	**676,824**	**554,339**

[a] Portion in existing sinking fund.

[b] Portion for which the Société began contributing to the sinking fund during the year

[c] Portion for which a sinking fund is anticipated.

[d] Contract that formed part of a currency and interest rate agreement. Only the amount for which the Société is ultimately responsible is shown as the current balance.

Total net long-term indebtedness

(in thousands of dollars)

	2004	2003	2002	2001	2000
Long-term debt					
Bonds and bank loans	676,824	554,339	534,913	477,742	475,570
Debt being refinanced	—	—	—	660	—
	676,824	**554,339**	**534,913**	**478,402**	**475,570**
Amounts accumulated in the sinking fund	(140,515)	(141,850)	(127,322)	(91,392)	(82,423)
Amounts recoverable from third parties for repayment of long-term debt					
From the Government of Québec	(256,591)	(193,548)	(189,107)	(184,435)	(184,266)
From the Agence métropolitaine de transport	(13,318)	(18,860)	(25,905)	(37,043)	(48,376)
	266,400	**200,081**	**192,579**	**165,532**	**160,505**
Investment expenditures to be financed	31,258	87,161	56,789	18,563	36,560
Amounts not used from contracted long-term loans	(20,111)	(843)	(8,015)	(914)	(1,811)
	11,147	86,318	48,774	17,649	34,749
Subsidies relating to investment expenditures to be financed [a]	(9,606)	(53,845)	(34,221)	(5,178)	(21,192)
	1,541	**32,473**	**14,553**	**12,471**	**13,557**
Total net long-term indebtedness	**267,941**	**232,554**	**207,132**	**178,003**	**174,062**

At December 31, 2004, the amount authorized by loan by-laws was $1,398.5 million, of which $610.1 million had been expended. The unexpended approved balance of $788.4 million is eligible for a subsidy in the order of $400.8 million.

[a] This amount is calculated based on the expenditures to be financed in relation to the rates of the subsidies related to the investment expenditures. However, this amount is not recorded in the Société's books, as the subsidy takes effect when the long-term debt is actually issued.

MATURITY OF LONG-TERM DEBT

(in thousands of dollars)

	Bonds and notes		
	Value in the book in Canadian dollars		
Years	**Maturity** [(a)]	**To be refinanced** [(b)]	**Net maturity**
2005	75,732	5,164	**70,568**
2006	108,671	18,310	**90,361**
2007	78,000	3,609	**74,391**
2008	42,068	10,573	**31,495**
2009	80,255	11,422	**68,833**
2010	15,542	—	**15,542**
2011	18,716	4,541	**14,175**
2012	62,240	15,400	**46,840**
2013	20,600	14,340	**6,260**
2014	175,000	27,900	**147,100**
	676,824	**111,259**	[(c)] **565,565**

(a) These amounts represent the loans coming due during each of the indicated years.

(b) These amounts are included in the "Maturity" column.

(c) Of the total amount of $565.6 million, $140.5 million is already accumulated in the sinking fund at December 31, 2004 (market value of $142.9 million).

Provision for future amounts

In accordance with new accounting standards that came into effect on January 1, 2000, the provision for future amounts recorded at this date can be amortized using the straight-line method over a maximum period of 20 years unless the annual expenditures are greater. However, from 2000 to 2004, the annual expenditures were greater than the amortization. At this rate, the provision for future amounts will be fully amortized in 2013 rather than in 2019.

(in thousands of dollars)

	Disbursements		Amortization	
	Annual	Cumulative	Annual	Cumulative
Provision at 01/01/2000		**30,376**		**30,376**
The greater of disbursements or amortization				
2000	(2,462)	27,914	(1,519)	28,857
2001	(1,959)	25,955	(1,519)	27,338
2002	(1,946)	24,009	(1,519)	25,819
2003	(2,662)	21,347	(1,519)	24,300
2004	(1,954)	19,393	(1,519)	22,781
2005	(2,197) [a]	17,196	(1,519)	21,262
2006	(2,197)	14,999	(1,519)	19,743
2007	(2,197)	12,802	(1,519)	18,224
2008	(2,197)	10,605	(1,519)	16,705
2009	(2,197)	8,408	(1,519)	15,186
2010	(2,197)	6,211	(1,519)	13,667
2011	(2,197)	4,014	(1,519)	12,148
2012	(2,197)	1,817	(1,519)	10,629
2013	(1,817)	—	(1,519)	9,110
2014	—	—	(1,519)	7,591
2015	—	—	(1,519)	6,072
2016	—	—	(1,519)	4,553
2017	—	—	(1,519)	3,034
2018	—	—	(1,519)	1,515
2019	—	—	(1,515)	—
	(30,376)		(30,376)	

[a] This amount was established by averaging the disbursements from 2000 to 2004.

Financial ratios

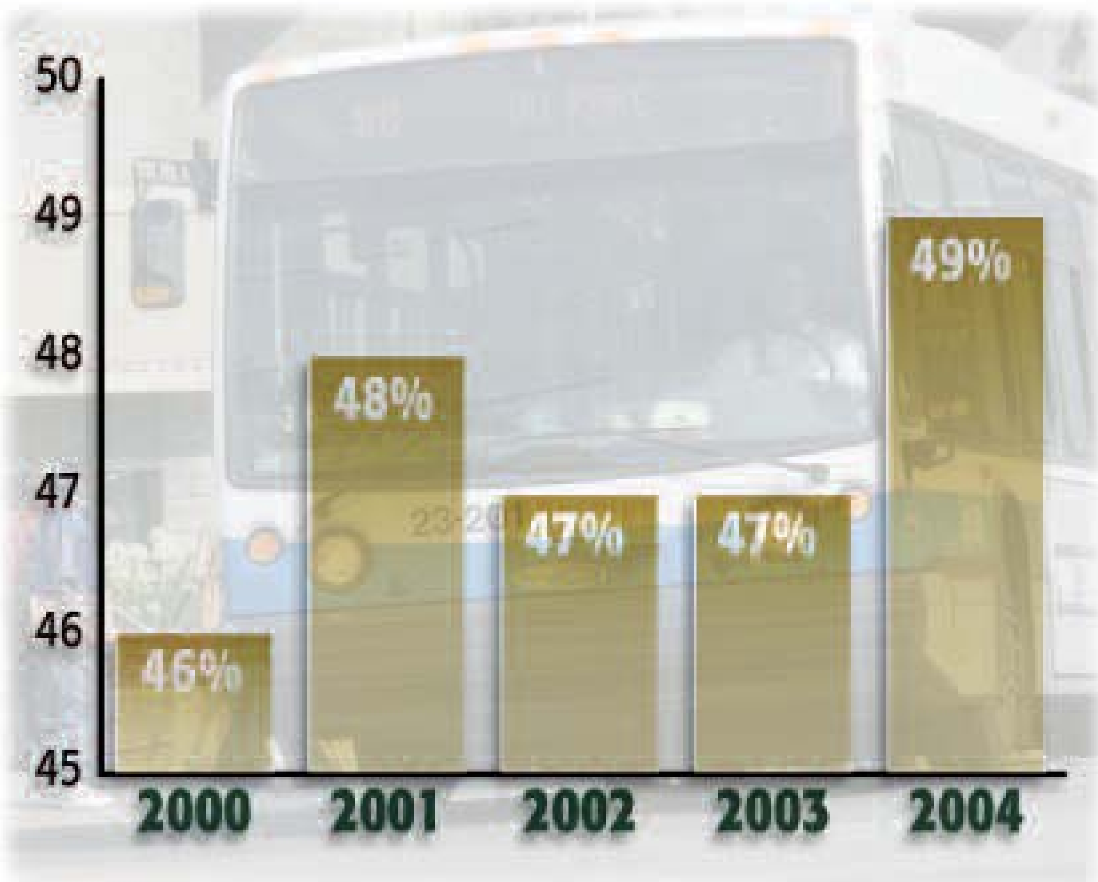
While respecting the budget is a key financial objective for the STM and a revealing indicator of its performance, it is not sufficient on its own to evaluate the financial health of the Société and the quality of its management.

Evaluation of its financial performance requires the analysis of all the financial statements through the calculation of certain financial ratios. These ratios, once established, and compared over time and with those of other enterprises in the same sector, validate the financial decisions made by the Société and allow for evaluation of their pertinence.

The following pages present these financial ratios:

- Autonomous revenue
- Percentage of revenue allocated to debt servicing
- Interest coverage
- working capital fund and liquidity
- Long-term indebtedness
- Percentage of total net indebtedness
- Annual interest for the total long-term debt as a percentage

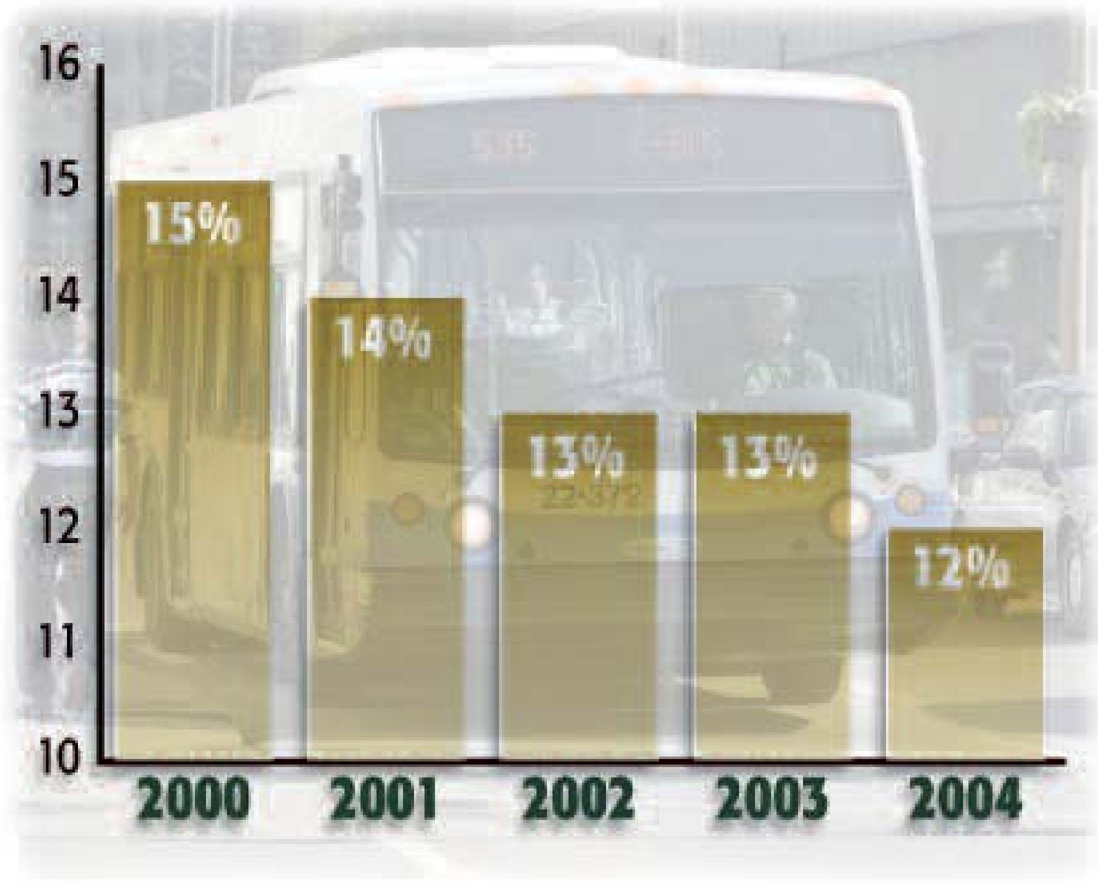
Autonomous revenue



This ratio makes it possible to determine what proportion of total revenue is generated directly from the operations of the Société. At December 31, 2004, 49% of the total revenue of the STM consisted of autonomous revenue.

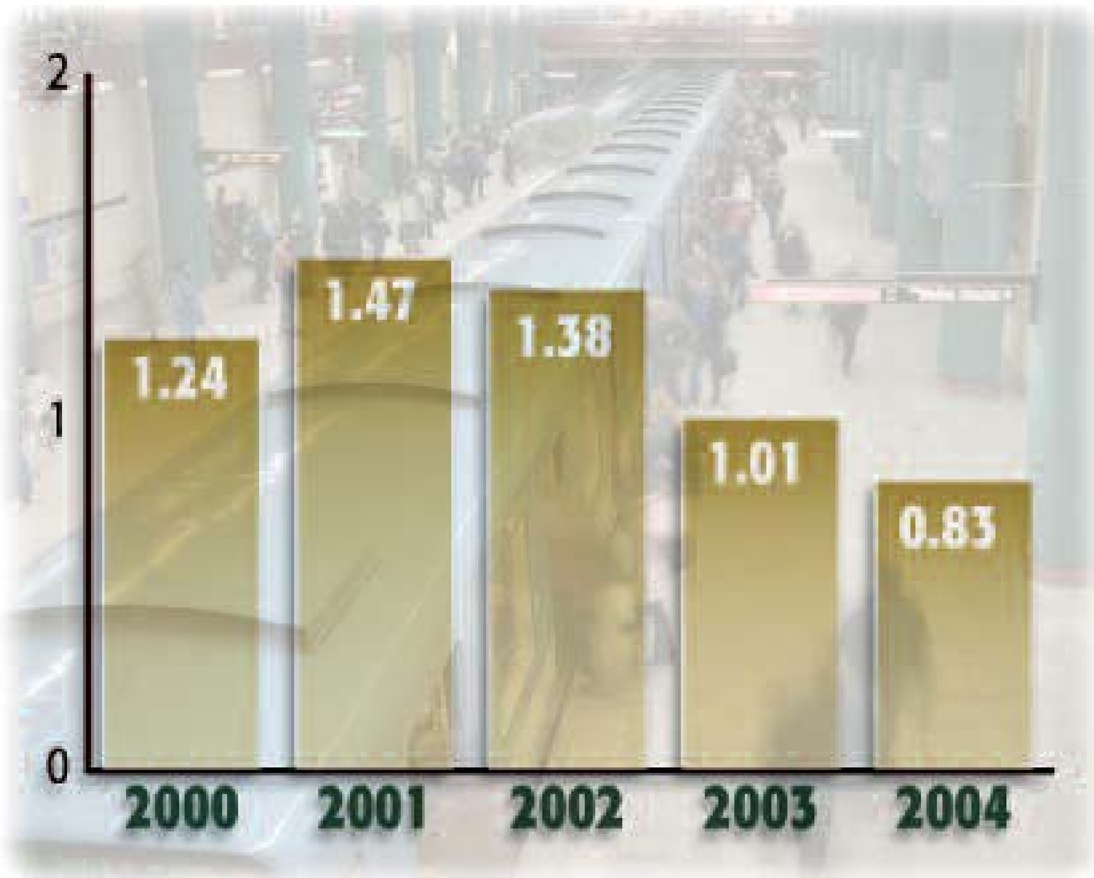
The two-percentage-point rise in comparison with 2003 results primarily from the fare increase on January 1, 2004. In fact, autonomous revenue includes passenger revenue and other commercial revenue. In the coming years, the STM would like to continue to build its autonomous revenue as planned for in its 2004-2008 Business Plan. In 2003 it set up a company, Transgesco Limited Partnership, whose mission is to develop its commercial revenue.

Percentage of revenue allocated to debt servicing



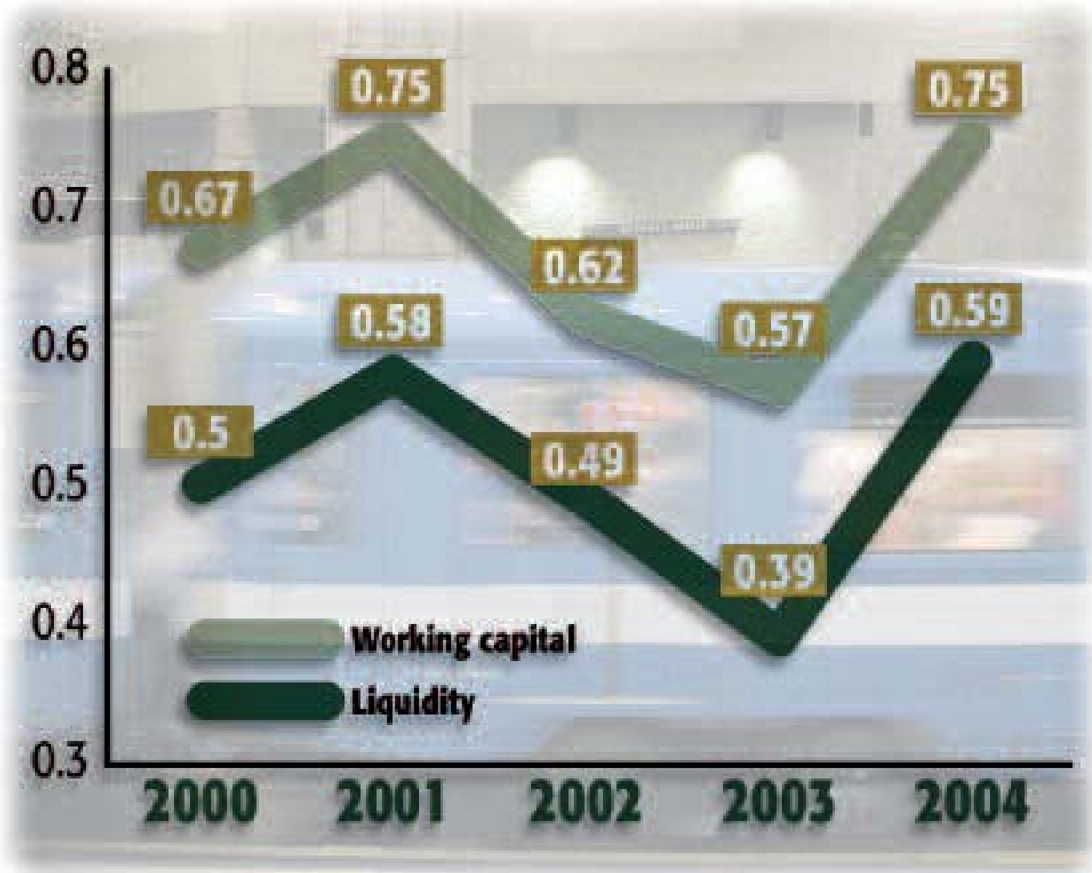
This ratio makes it possible to determine how much revenue must be dedicated to debt servicing before expenditures for other purposes. The one-percentage-point decrease results from the combined effect of a 4% decrease in the debt servicing and a 3.8% increase in total revenue.

Interest coverage



This ratio makes it possible to determine in what proportion creditors can receive the interest due to them in relation to the surplus calculated before the recording of interest charges. As the STM showed a deficit of $6.3 million at December 31, 2004 (a surplus of $29.8 million before interest), the ratio has decreased to 0.83.

WORKING CAPITAL FUND AND LIQUIDITY



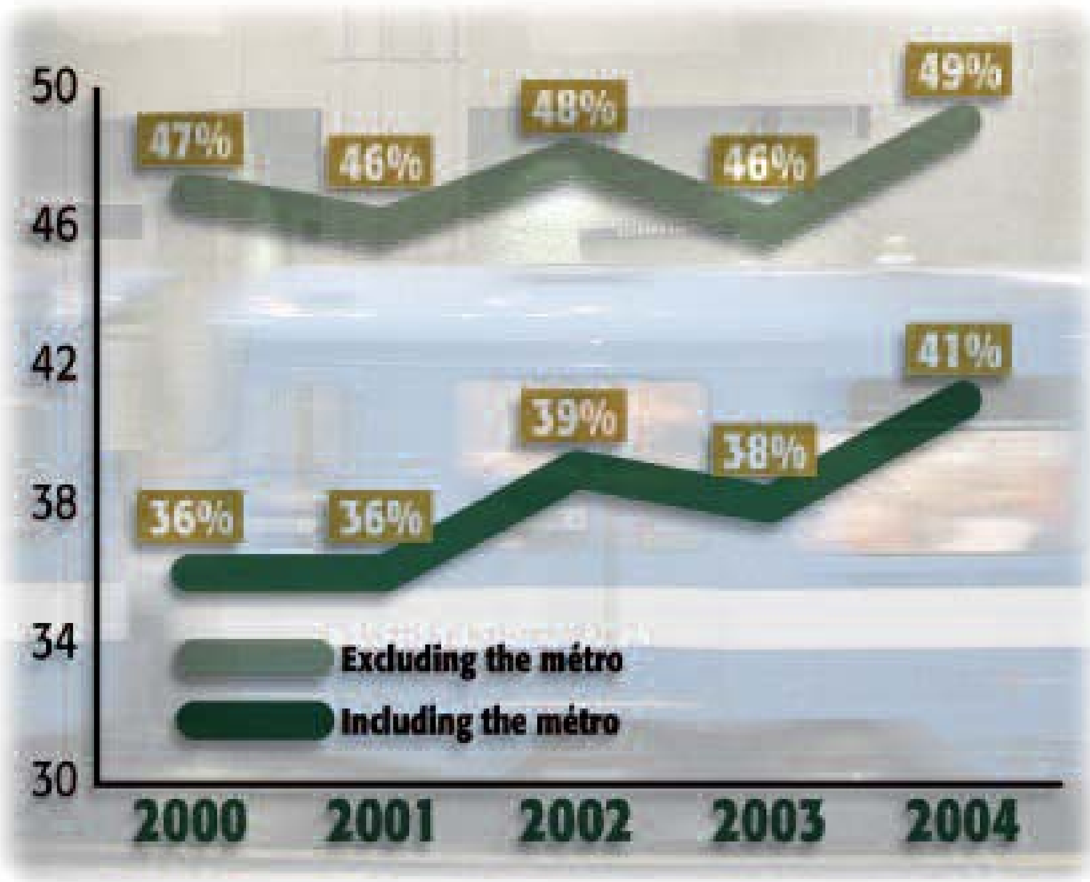
WORKING CAPITAL FUND

The working capital fund ratio indicates the ease with which the Société will be able to meet its short-term obligations. Thus, at December 31, 2004, the STM had $0.75 in current assets for each dollar in current liabilities. The improvement in this ratio in comparison with 2003 is mainly due to the over-financing of the projects in progress in 2004, thus reducing the short-term loans by $77.0 million.

LIQUIDITY

The liquidity ratio is derived from the working capital fund ratio and excludes current assets not affecting cash. At December 31, 2004, the company had $0.59 in liquidity to repay each dollar of short-term debt.

Long-term indebtedness



This ratio indicates in what proportion the assets of the Société are financed by long-term loans issued by the STM. The ratio was calculated both including and excluding the métro assets, as the métro debt is not the Société's responsibility. At December 31, 2004, 41% of the Société's assets were financed long-term (49% when métro assets are excluded).

Percentage of total net indebtedness

The percentage of total net indebtedness indicates the proportion of the STM's capital assets that are financed long-term, excluding from the calculation the portion of the long-term debt that is assumed by its partners and including the non-financed investment expenditures and the sums accumulated in the sinking fund. As the debt relating to the original métro network and the métro extensions is to be found in the financial statements of the City of Montréal, a second ratio establishes the percentage of net long-term indebtedness in comparison with the net value of the capital assets excluding the net value of the original métro network and the métro extensions.

The increase in this ratio over the years is due to the massive investment required to renew and/or extend the useful life of the capital assets.

ANNUAL INTEREST ON THE TOTAL LONG-TERM DEBT AS A PERCENTAGE

This ratio makes it possible to determine the average interest rate of the long-term debt. Due to favourable economic conditions, the rate has been decreasing for the last five years.