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Mayor of the Borough of Lachine

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Highlights

Ensuring a better future for the community

We are pleased to present the 2005 Financial Report for the Société de transport de Montréal (STM). The Société realized a surplus of $1.0 million in its routine operations, a remarkable performance in light of the very difficult financial context. Its balance sheet shows an accumulated deficit of $5.3 million due to a shortfall of $6.3 million recorded in 2004 and carried forward to 2005.

The STM's operating revenue [1] rose to $827.4 million, an increase of $46.4 million compared to last year. The increase of $11.2 million in passenger revenue, the one-time aid of $10.2 million from the ministère des Transports du Québec and the additional contribution of $13.2 million from the City of Montréal are the primary factors in this increase. The expenditures (less the other financial activities) reached $752.2 million, an increase of $33.3 million, attributable primarily to the impact on wages from the collective agreements ($14.2 million) and the spike in fuel costs ($6.1 million).

Investment expenditures rose to $204.7 million and were principally related to the bus purchase ($36.4 million), development of the Réno-Systèmes program for the métro ($95.4 million) and to the realization of the fare sales and collection system ($34.0 million). At December 31, 2005, the STM was committed to its suppliers for contracts totalling $299.6 million. These major sums demonstrate the scale of the investments required for the modernization of the Société's infrastructure and equipment.

Several events marked this, the second year of the implementation of the STM's 2004-2008 business plan. At the bus network, the five new lines put into service and the six other modified ones attracted 1,135 new clients. Green driving of buses, new collection boxes and SAP PM integrated maintenance management system software were successfully introduced. As for the Paratransit service, its 25th anniversary was marked by an increase of 11.5% in the number of trips carried out.

In the métro network, the introduction into service of the first of the renovated MR-73 cars and the installation of 200 recycling containers in the stations attracted attention. The temporary closing of Frontenac station over seven consecutive weekends starting November 4 went off as planned. A new retail service concept also came into being at Lionel-Groulx station.

Elsewhere, the STM inaugurated an on-line personnel recruitment service and undertook broad distribution of its new Ethics Code to all its employees and administrators. The company also figured prominently in July as official transporter for the *11th FINA World Championships* held on Île Sainte-Hélène.

Despite these results and strict management of all its resources, the financial future of the STM is still not assured. For example, the agreement reached in November 2005 on the transfer of the federal gasoline tax will not be able to satisfy all the company's investment needs, estimated at $3.5 billion dollars over the next ten years.

In this context, the STM reminds the various governments of the importance of establishing a stable, permanent and predictable financial framework for public transit companies in order to enable them to provide the transportation services expected by the population and by all the administrations responsible for urban development and vitality.

The *United Nations Climate Change Conference* held in Montréal last fall reminded us of the importance of taking the necessary steps now to protect our environment. By employing the means necessary, the STM and the other public transit organizations will be able to contribute to sustainable economic development and ensure a better future for the community.

Pierre Vandelac, CGA
Director General

Alain Fraser, CA
Treasurer and Interim Director
Finance and Treasury

[1] The operating revenue excludes revenue from third parties relating to investment activities as well as investment revenue from the sinking fund.

The STM – facts and figures

(in thousands of dollars)

	2005	2004	2003	2002	2001
Financial information					
Total revenue	870,992	847,700	761,562	719,663	708,429
Surplus (deficit)	(5,347)	(6,311)	303	12,815	15,962
Total assets	1,757,980	1,630,577	1,466,262	1,378,187	1,324,476
Capital assets	1,224,651	1,103,218	997,597	951,492	895,955
Equity	359,323	410,835	430,223	472,069	492,563
Long-term debt	676,092	676,824	554,339	534,913	478,402
Total net long-term indebtedness	311,435	267,941	232,554	207,132	178,003
Financial ratios					
Autonomous revenue	48%	49%	47%	47%	48%
Percentage of revenue allocated to debt servicing	13%	12%	13%	13%	14%
Interest coverage	0.86	0.83	1.01	1.38	1.47
Working capital fund	0.57	0.74	0.57	0.62	0.75
Liquidity	0.44	0.58	0.39	0.49	0.58
Long-term indebtedness (including the métro)	38%	42%	38%	39%	36%
Long-term indebtedness (excluding the métro)	44%	49%	46%	48%	46%
Percentage of total net indebtedness (including the métro)	25%	24%	23%	22%	20%
Percentage of total net indebtedness (excluding the métro)	32%	31%	31%	30%	29%
Annual interest on the long-term debt as a percentage	5.74%	5.86%	6.55%	6.57%	7.09%
Credit ratings					
Standard & Poor's	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 2005, the STM recorded revenue of $870.9 million while expenditures and other financial activities increased to $867.3 million ($752.2 million in expenditures and $115.1 million in other financial activities). Thus, the surplus from financial activities before appropriations for the year was $3.6 million. The appropriations, consisting of the carry forward of the accumulated deficit of $6.3 million from the previous year and the contribution of $2.6 million to the reserved funds, amounted to $8.9 million, creating a deficit of $5.3 million for fiscal year 2005. In other words, fiscal year 2005 showed a surplus of $1.0 million before appropriation of the 2004 deficit (i.e., ($5.3 million)+$6.3 million).

Summary of financial activities

(in millions of dollars)

	Budget	2005	2004
Revenue	837.7	870.9	847.7
Expenditures	(759.5)	(752.2)	(718.9)
Other financial activities	(68.1)	(115.1)	(137.3)
Surplus (deficit) before appropriations	**10.1**	**3.6**	**(8.5)**
Appropriations	(10.1)	(8.9)	2.2
Deficit	**—**	**(5.3)**	**(6.3)**

Analysis of the financial statements

Summary of revenue

(in millions of dollars)

	Budget	2005	2004
Passengers	384.9	379.4	368.2
Contribution from the City of Montréal	268.0	276.2	263.0
Subsidies from the Government of Quebec	80.8	75.8	69.6
Regional contributions	58.8	61.6	61.1
Contribution from the Government of Quebec - revision of financial framework	19.2	10.8	—
Contribution from the Réseau de transport de Longueuil	1.8	1.8	1.8
Other revenue	17.6	21.9	17.3
	831.1	**827.5**	**781.0**
Revenue from third parties relating to investment activities	0.1	37.6	60.7
Revenue from sinking fund investments	6.5	5.8	6.0
	837.7	**870.9**	**847.7**

The revenue shows a positive variance of $33.2 million in comparison with the budget. This difference can be explained primarily by the following:

- Passenger revenue shows a negative variance of $5.5 million resulting mainly from a 1.1% decrease in ridership assessments from STM transit fares, excluding Paratransit, in comparison with the budget and a higher than expected shift of clients to fares that are more advantageous to them.
- The City of Montréal paid the STM a sum that was $8.2 million higher than the contribution expected. This additional aid was paid to the Société so that it could benefit from transition funding of $13.2 million from the Government of Quebec. In fact, in 2005 the ministère des Transports du Québec announced transition funding for all the public transit companies in Quebec equal to the increase from 2004 to 2005 in the municipalities' contribution to public transit financing. Of the $13.2 million allocated, the ministère des Transports du Québec paid $10.8 million to the Société, taking into account that the company had already received the sum of $2.4 million in 2004 when the Agence métropolitaine de transport (a government agency) paid it a portion of its 2004 surplus. The Société's 2005 budget projected a sum of $19.2 million from the Government of Quebec under the revision of the financial framework. Only the amount of $10.8 million materialized, resulting in a negative variance of $8.4 million.
- The other revenues were $4.3 million higher than the budget. This variance derives from positive variances in the area of advertising ($1.2 million) and in various recoveries (subsidiaries, special bus services, etc).
- Finally, revenue from third parties relating to investment activities shows a positive variance of $37.5 million. This variance can be explained in essence by the fact that the cash financing agreement for the Réno-Systèmes program had not yet been concluded when the 2005 budget was prepared.

Revenues rose by $23.2 million in comparison with 2004, attributable to, among other things, an increase in passenger revenue of $11.2 million following the fare increase on January 1, 2005 and an increase of $13.2 million in the contribution from the City of Montréal.

Analysis of the financial statements

Summary of expenditures

(in millions of dollars)

	Budget	2005	2004
Bus and métro service	666.7	667.3	641.1
Paratransit service	31.0	34.4	32.1
Interest and financing costs	42.9	38.9	36.1
Unforeseen expenditures	5.2	—	—
Asset maintenance	13.7	11.6	9.6
	759.5	**752.2**	**718.9**

The delay in long-term financing generated a positive variance of $4.0 million in the area of interest and financing costs. In addition, the non-utilization of «Unforeseen expenditures» combined with a delay in the timing of certain expenditures related to «Asset maintenance» resulted in a positive budget variance of $7.3 million.

The expenditures for 2005 show an increase of $33.3 million in comparison with 2004. This variance is primarily due to the indexing of salaries representing $14.2 million and to the spike in fuel prices, which had an impact of $6.1 million.

Summary of other financial activities

(in millions of dollars)

	Budget	2005	2004
Repayment of long-term debt	64.5	70.6	66.7
Transfer to statement of investment activities	3.6	44.5	70.6
	68.1	**115.1**	**137.3**

The other financial activities show a negative variance of $47.0 million in comparison with the budget. This difference can be explained primarily by the contribution from the federal government and from the Agence métropolitaine de transport of $37.4 million for the capital asset program for stationary equipment in the métro and by the higher debt repayment in the order of $6.1 million.

The other financial activities show a decrease of $22.2 million compared with 2004, resulting almost entirely from the reduction in the transfer to the statement of investment activities.

Analysis of the financial statements

Summary of appropriations

(in millions of dollars)

	Budget	2005	2004
Accumulated surplus (deficit) from the previous year carried forward to the current year	**—**	**(6.3)**	**3.1**
Reserved funds			
Contribution to the sinking and working capital funds	(51.2)	(51.1)	(52.1)
Use of sinking fund	41.1	48.5	51.2
	(10.1)	(2.6)	(0.9)
	(10.1)	**(8.9)**	**2.2**

The appropriations show a favourable variation of $1.2 million in comparison with the budget, consisting of a negative variance of $6.3 million attributable to the accumulated deficit from the previous year and a favourable variance of $7.5 million in the reserved funds due to a higher than anticipated use of the sinking fund.

The appropriations decreased by $11.1 million in comparison with 2004. Firstly, the accumulated surplus from the previous year decreased by $9.4 million. Secondly, the reserved funds show a decrease of $1.7 million as a result of $1.0 million less being contributed to the sinking fund and $2.7 million less being used from the sinking fund.

Summary of investment activities

(in millions of dollars)

	Budget	2005	2004
Sources of financing	78.6	114.4	262.4
Investment expenditures	(354.5)	(204.7)	(187.2)
Over-financing (under-financing) for the year	**(275.9)**	**(90.3)**	**75.2**

The financing activities show a positive variation of $185.6 million in comparison with the budget. This difference can be explained by a delay in the timing of certain major projects resulting in the investment expenditures being $149.8 million lower than anticipated and non-realized financing of $35.8 million. However, at December 31, 2005, the Société was committed to various suppliers for contracts totalling $299.6 million.

The increase of $165.5 million in under-financing in comparison with 2004 can be explained primarily by the fact that in 2005 there was only one long-term debt issuance for an amount of $75.0 million ($69.8 million net of refinancing), while in 2004 there were three totalling $217.0 million ($189.2 million net of refinancing). Moreover, the sources of financing include the transfer from financial activities, which decreased by $26.0 million in comparison with 2004 due to the financing in 2004 of expenditures for the Réno-Systèmes program relating to previous years.

Analysis of the financial statements

Balance sheet at December 31, 2005

Asset components

(in millions of dollars)

	2005	2004
Current assets		
Cash	10.5	8.6
Restricted investments in the sinking fund	60.5	40.0
Subsidies receivable	25.1	23.5
Regional contributions receivable	28.8	28.5
Contribution receivable from the Réseau de transport de Longueuil	0.9	0.9
Other receivables	31.0	28.9
Inventories of supplies and replacement parts	23.0	21.0
Current portion of long-term debt	23.0	15.7
	202.8	**167.1**
Capital assets	**1,224.7**	**1,103.2**
Deferred charges	**2.1**	**3.6**
Restricted investments in the sinking fund	**80.9**	**100.5**
Long-term investments	**3.2**	**2.0**
Long-term debts	**244.2**	**254.2**
	1,757.9	**1,630.6**

Analysis of the financial statements

The assets show an increase of $127.3 million in comparison with 2004 including $121.5 million in the area of capital assets. The asset accounts consist of the following principal components:

a) Restricted investments in the sinking fund

Restricted investments are the investments in the 14 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) Subsidies receivable

The increase of $1.6 million in subsidies receivable is made up primarily of sums receivable as part of the asset maintenance program for stationary equipment in the métro.

c) Other receivables

The other receivables consist of regional revenue of $4.1 million receivable from the Agence métropolitaine de transport, payments of $0.7 million recoverable for work accidents, tax claims from various governments in the amount of $1.9 million, customer receivables of $12.6 million, a deposit of $5.3 million for a bus purchase and other receivables totalling $6.4 million.

d) Inventories of supplies and replacement parts

The inventories consist primarily of parts used in the maintenance and repair of the Société's equipment. Since 2004 the inventories have included parts manufactured internally for a total amount of $4.7 million at December 31, 2005 ($4.0 million in 2004).

e) Capital assets

This figure shows the undepreciated value of the Société's capital assets. The variance between the 2004 value of $1 103.2 million and the 2005 value of $1 224.7 million can be explained by acquisitions of $204.7 million reduced by depreciation of $82.5 million. There remains an undepreciated value of $0.7 million for the capital assets disposed of in 2005. The acquisition cost of the capital assets disposed of was $45.5 million, while the depreciated value was $44.8 million.

The principal acquisitions consisted of a bus purchase in the amount of $36.4 million, costs of $95.4 million generated by the program for the renovation of stationary equipment in the métro as well as an amount of $34.0 million for the upgrading of equipment and a new integrated system for fare sale and collection. It should be noted that the STM includes in its capital assets the assets related to the original network and network extensions at the undepreciated cost of $419.7 million, while the corresponding debt can be found in the financial statements of the City of Montréal.

f) Deferred charges

This figure consists of software licences acquired in 2002 and amortized as and when they are allocated to users over a maximum period of five years. In 2005, 500 licences were allocated (400 in 2004).

g) Long-term investments

The increase in this figure results from the share of the net profit from the Transgesco Limited Partnership, which rose to $3.8 million, and to withdrawals totalling $2.6 million.

h) Long-term debt

The long-term debt corresponds to the portion of the long-term debt that will be reimbursed by the STM's partners (City of Montréal, Government of Quebec and the Agence métropolitaine de transport).

The reduction in the long-term debt results from the fact that the Société issued less debt in 2005 than in 2004. These debts will be subsidized, on average, at 48%.

Analysis of the financial statements

Balance sheet at December 31, 2005

Liability components

(in millions of dollars)

	2005	2004
Short-term liabilities		
Short-term loans	116.4	34.8
Accounts payable and accrued liabilities	127.7	115.8
Current portion of long-term debt	108.7	75.7
	352.8	**226.3**
Long-term debt	**567.4**	**601.1**
Deferred subsidies	**478.4**	**392.3**
	1,398.6	**1,219.7**

The liabilities show an increase of $178.9 million, consisting of increases of $126.5 million in short-term liabilities and $52.4 million in long-term liabilities. The rise in short-term liabilities is caused by the increase of $81.6 million in short-term loans while awaiting long-term financing (issuance of a new debt of $100.0 million in February 2006) and results from the cumulative under-financing for the year of $101.4 million. The increase in long-term liabilities arises from the «Deferred subsidies» and is a result of the acquisitions of capital assets during the year, which increased to $86.1 million, and by the decrease of $33.7 million in the long-term portion of the debt.

a) Accounts payable and accrued liabilities

The accounts payable and accrued liabilities consist of supplier payables and accrued liabilities of $54.2 million, salaries and wage benefits of $22.6 million, sick leaves payable of $7.1 million, vacations payable of $24.9 million, holdbacks on contracts and security deposits of $0.8 million, accrued interest of $7.8 million and other payables of $10.3 million.

b) Long-term debt

At December 31, 2004, the long-term debt stood at $676.8 million. During the year the Société proceeded with an issuance of $75.0 million, including $69.8 million in new financing. The repayment of the debt amounted to $70.5 million, with $48.4 million coming from the sinking fund and $22.1 million from financial activities. Thus, the long-term debt at December 31, 2005 amounted to $676.1 million.

Analysis of the financial statements

Balance sheet at December 31, 2005

Equity components

(in millions of dollars)

	2005	2004
Provision for future amounts	(17.6)	(19.4)
Accumulated surplus	(5.3)	(6.3)
Reserved funds	43.9	131.6
Net investment in long-term assets	338.3	305.0
	359.3	**410.9**

The equity shows a decrease of $51.6 million in comparison with 2004, primarily due to a reduction of $87.7 million in the reserved funds and an increase of $33.3 million in the net investment in long-term assets.

a) Provision for future amounts

The provision for future amounts represents the amounts 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 provisional amounts at January 1, 2000, or the departures for the year. At December 31, 2005, the provision for future amounts decreased by $1.8 million in comparison with 2004, consisting of $1.1 million for vacation benefits and $0.7 million for sick leaves as a result of some 385 departures during the 2005 fiscal year.

b) Reserved funds

The reserved funds decreased by $87.7 million in comparison with 2004. This reduction is a reflection of the financing of projects in progress, which saw cumulative under-financing of $101.4 million. A new debt issuance of $100.0 million in February 2006 offset this under-financing.

Analysis of the financial statements

Total net long-term indebtedness

(in millions of dollars)

	2005	2004	2003	2002	2001
Long-term debt	676.1	676.8	554.3	534.9	478.4
Amounts accumulated in the sinking fund	(141.4)	(140.5)	(141.8)	(127.3)	(91.4)
Amounts recoverable from third parties for repayment of the long-term debt	(267.2)	(269.9)	(212.4)	(215.0)	(221.5)
Investment expenses to be financed, net of subsidies	43.9	1.5	32.5	14.5	12.5
	311.4	**267.9**	**232.6**	**207.1**	**178.0**

The total net long-term indebtedness represents the total debt for which the Société is responsible, including the participation of its partners. Its marked growth over the past five years clearly reflects the massive investment required to upgrade its infrastructure, estimated at more than 3.5 billion dollars over a ten-year period. Thus, this indicator can be expected to trend higher over the coming years.

Analysis of the financial statements

Risks and uncertainties

The STM is exposed to various risks and uncertainties in the normal course of business. In order to deal with them effectively, the Société proceeded with the identification of these risks, their import, and their potential effect on its future activities as well as the implementation of strategies to mitigate these risks.

Risk related to the concentration of revenue sources

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

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

To reduce this risk, the STM prepared a five-year business plan (2004-2008) updated for 2006-2010, which is aimed at stabilizing the contribution from the City of Montréal and its other partners and increasing its commercial revenue over this period, notably by the creation of partnerships with private companies through its subsidiary, Transgesco Limited Partnership. Its business plan also calls for the installation of new fare sale and collection equipment over the next two years, which will reduce fraud and therefore increase its autonomous revenue.

Risk in depreciation and replacement of assets

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

More than three-and-a-half 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 tunnel, and continue 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 year 2005 saw the birth of a new partner, the Société de financement des infrastructures locales du Québec (SOFIL). This entity, the result of an agreement with the federal government, and the source of the funds drawn from the gasoline tax revenue, will provide financial aid to municipalities to carry out infrastructure projects relating to potable water, wastewater, local road networks and public transit. The size of the sums involved, however, will require an injection of supplementary funds from the various levels of government. For several years the Société has been stressing 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 ($70.4 million for the next three years). In order to reduce its costs, the Société undertakes group purchases with the other public transit companies who are members of the Association du transport urbain du Québec (ATUQ).

Environmental risk

In its capacity as an operator of a major public transit service, the STM contributes to sustainable development and the 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, the STM adopted a management policy on environmental protection in October 2000. This policy ensures that government laws, regulations and policies relating to environmental protection are respected. The STM implemented an environmental management system to provide for the effective application of all aspects of its policy.

From 1998 to 2005, the STM invested a sum of $4.6 million to ensure conformity with environmental standards. The Société plans to spend $4.5 million during the 2006 to 2008 period, as indicated in its triennial capital asset plan, in order to adhere to the various laws and regulations on the environment. Finally, the Société will undertake an extensive audit dealing with all areas affecting the workplace health and safety of its employees.

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 its information and data processing systems, as well as to ensure effective management of the associated risks. In addition, various laws require that companies implement adequate security and information protection measures. To this end, the Société has adopted policies and directives to provide adequate management of informatics security and information protection.

The risks relating to informatics security and information protection are subject to continuous integrated management scrutiny so as to ensure periodic re-evaluation of these risks. The Société foresees an investment of $1.3 million over the coming years for the implementation of an informatics contingency plan to ensure informatic continuity in the STM's critical systems.

Financial risk

The STM is exposed to interest rate and currency fluctuations in the normal course of business. To reduce currency exchange and interest rate risks, it uses financial derivative instruments such as currency and interest rate swap contracts for loans totalling $137.1 million. In addition, 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 ($43.4 million in 2005). At December 31, 2005, this fund amounted to $141.4 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 interest revenue of $5.9 million in 2005.

In addition, in order to protect itself against major variations in energy-related costs, the STM adopted a risk coverage strategy for the supply of diesel and natural gas (swap) at the end of 2005 for a maximum period of ten years.

Uncertainty relating to projections used to prepare the financial statements

In order to prepare its financial statements in accordance with the generally accepted municipal accounting practices in Quebec, the Société's management makes projections and assumptions 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 the events in progress and on the measures that the Société could take in the future.

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

Under 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, 2005, was prepared by the Treasurer and Interim Director, Finance and Treasury, and was submitted to the Board of Directors of the Société on April 5, 2006.

The financial statements presented in this report were prepared respecting the Société's acts of incorporation and in accordance with generally accepted municipal accounting practices in Quebec, as contained in the *Manuel de présentation de l'information financière municipale au Québec*, published by the ministère des Affaires municipales et des Régions, all as described in note 2 of these financial statements.

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

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

The Société maintains internal accounting and administrative quality control systems. These systems are designed to furnish 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.

Alain Fraser, CA
Treasurer and Interim Director
Finance and Treasury

Luc Tremblay, CA
Assistant Treasurer and Division Head
Financial Management

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, 2005, 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. The responsibility for these financial statements rests with 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 generally accepted Canadian auditing standards. These standards require that we plan and execute an audit so as to provide reasonable assurance that the financial statements are free of material misstatements. The audit includes examining on a test basis evidence supporting the amounts and other disclosures in the financial statements. It also includes assessing the accounting principles followed and the 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 at December 31, 2005, and the results of its operations and change in its financial position for the fiscal year then ended according to the generally accepted municipal accounting principles in Quebec.

Samson Bélair/Deloitte & Touche S.E.N.C.R.L.
Chartered Accountants

Montréal
March 22, 2006

Michel Doyon, CA
Auditor General of Montréal

Montréal
March 22, 2006

FINANCIAL STATEMENTS

At December 31, 2005

Statement of financial activities

For the year ended December 31, 2005

(in thousands of dollars)

	Notes	Budget	2005	2004
Revenue				
Passengers	3	384,921	379,358	368,176
Contribution from the City of Montréal		268,000	276,200	263,000
Subsidies from Government of Quebec	4	80,822	75,804	69,570
Regional contributions	5	58,766	61,607	61,148
Contribution from the Government of Quebec - revision of financial framework	4	19,200	10,818	—
Contribution from the Réseau de transport de Longueuil	6	1,803	1,803	1,803
Other revenue	7	17,588	21,864	17,302
		831,100	**827,454**	**780,999**
Revenue from third parties relating to investment activities	10	150	37,668	60,752
Revenue from sinking fund investments		6,449	5,870	5,949
		837,699	**870,992**	**847,700**
Expenditures				
Bus and métro service		666,700	667,293	641,194
Paratransit service		31,037	34,456	32,058
Interest and financing costs	8	42,869	38,859	36,093
Unforeseen expenditures		5,204	—	—
Asset maintenance		13,697	11,662	9,639
		759,507	**752,270**	**718,984**
Other financial activities				
Repayment of long-term debt	9	64,511	70,568	66,710
Transfer to statement of investment activities	10	3,630	44,561	70,586
		68,141	**115,129**	**137,296**
		827,648	**867,399**	**856,280**
Surplus (deficit) from financial activities before appropriations		**10,051**	**3,593**	**(8,580)**
Appropriations				
Accumulated surplus (deficit) from prior year carried forward to the current year		**—**	**(6,311)**	**3,138**
Reserved funds				
Contribution to sinking and working capital funds		(51,166)	(51,066)	(52,092)
Use of sinking fund		41,115	48,437	51,223
		(10,051)	**(2,629)**	**(869)**
Deficit for year		**—**	**(5,347)**	**(6,311)**

Commitments (note 23)
Contingencies (note 25)

The accompanying notes form an integral part of the financial statements

STATEMENT OF INVESTMENT ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2005

(in thousands of dollars)

	NOTE	BUDGET	2005	2004
Sources of financing				
Long-term loan issued		75,000	69,836	189,195
Transfer from financial activities	10	3,630	44,561	70,586
Working capital fund		—	—	2,630
		78,630	**114,397**	**262,411**
Investment expenditures				
Buildings		8,855	32,205	2,687
Original network and métro extensions		4,875	3,201	14,123
Improvements to métro infrastructure		22,860	24,684	12,002
Improvements to local infrastructure		11,317	—	—
Rolling stock - buses		38,579	29,725	55,762
Rolling stock - minibuses		3,363	3,250	561
Rolling stock - other		—	3,297	8,362
Office equipment and computer software		16,598	2,528	11,105
Machinery, tools and equipment		7,453	867	10,986
Capital assets in progress		240,599	104,931	70,653
Investment in a limited partnership		—	—	999
		354,499	**204,688** [b]	**187,240**
Over-financing (under-financing) for year [a]		**(275,869)**	**(90,291)**	**75,171**

[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 $299.6 million at December 31, 2005.

Balance sheet

at December 31, 2005

(in thousands of dollars)

	Notes	2005	2004
Assets			
Current assets			
Cash		10,533	8,611
Restricted investments in the sinking fund	11	60,451	39,991
Subsidies receivable	12	25,052	23,482
Regional contributions receivable		28,801	28,538
Contribution receivable from the Réseau de transport de Longueuil		902	902
Other receivables	13	31,094	28,857
Inventories of supplies and replacement parts		22,981	20,998
Current portion of long-term debt	17	22,981	15,704
		202,795	**167,083**
Capital assets	14	**1,224,651**	**1,103,218**
Deferred charges	15	**2,098**	**3,597**
Restricted investments in the sinking fund	11	**80,944**	**100,524**
Long-term investments	16	**3,248**	**1,951**
Long-term debt	17	**244,244**	**254,204**
		1,757,980	**1,630,577**
Liabilities and equity			
Current liabilities			
Short-term loans	18	116,419	34,850
Accounts payable and accrued liabilities	19	127,719	115,745
Current portion of long-term debt	20	108,671	75,732
		352,809	**226,327**
Long-term debt	20	**567,421**	**601,092**
Deferred subsidies	14	**478,427**	**392,323**
		1,398,657	**1,219,742**
Equity			
Provision for future amounts	21	(17,585)	(19,393)
Accumulated deficit		(5,347)	(6,311)
Reserved funds		43,899	131,561
Net investment in long-term assets	22	338,356	304,978
		359,323	**410,835**
		1,757,980	**1,630,577**

The accompanying notes form an integral part of the financial statements

Statement of accumulated deficit

for the year ended December 31, 2005

(in thousands of dollars)

	2005	2004
Balance at start of year	**(6,311)**	**3,138**
Appropriation to financial activities	6,311	(3,138)
Deficit for year	(5,347)	(6,311)
Balance at end of year	**(5,347)**	**(6,311)**

Statement of reserved funds

for the year ended December 31, 2005

(in thousands of dollars)

2005

	Balance at start of year	Provided by financial activities	Used for financial activities	Provided by (used for) investment activities	Balance at end of year
Sinking fund	140,515	(a) 49,317	(48,437)	—	141,395
Working capital fund	2,020	1,749	—	—	3,769
Financing of projects in progress	(11,147)	—	—	(90,291)	(101,438)
Balances on hand from closed loan by-laws	173	—	—	—	173
	131,561	**51,066**	**(48,437)**	**(90,291)**	**43,899**

2004

	Balance at start of year	Provided by financial activities	Used for financial activities	Provided by (used for) 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	—	—	—	173
	58,151	**52,092**	**(51,223)**	**72,541**	**131,561**

	2005	**2004**
(a) Contribution to sinking fund	43,447	39,991
Contribution to sinking fund (cancellation of refinancing in 2005)	—	3,948
Revenue from sinking fund investments	5,870	5,949
	49,317	**49,888**

The accompanying notes form an integral part of the financial statements

Statement of net investment in long-term assets

for the year ended December 31, 2005

(in thousands of dollars)

	2005	2004
Balance at start of year	**304,978**	**393,116**
Plus		
Acquisition of capital assets	204,688	186,241
Issuance of long-term debt	43,117	97,794
Repayment of long-term debt	70,568	66,710
Amortization of deferred subsidies	25,162	21,943
Purchase of investment in a limited partnership	—	999
	343,535	**373,687**
Less		
Capital asset depreciation	82,521	79,034
Disposition of capital assets	734	1,586
Reduction in long-term debt	45,800	40,294
Issuance of long-term debt — investment activities	69,836	189,195
Deferred subsidies	111,266	151,716
	310,157	**461,825**
Balance at end of year	**338,356**	**304,978**

The accompanying notes form an integral part of the financial statements

Statement of changes in financial position

for the year ended December 31, 2005

(in thousands of dollars)

	2005	2004
Operating activities		
Deficit for year	(5,347)	(6,311)
Transactions not affecting cash		
Carry forward of deficit (surplus) from prior year	6,311	(3,138)
Share of profit from the limited partnership	(3,897)	(967)
Withdrawals from the limited partnership	2,600	—
Amortization of deferred charges	1,499	1,199
Transfer to working capital fund	1,749	2,204
	2,915	(7,013)
Transactions not affecting operations		
Transfer to the statement of investment activities	6,893	9,834
Repayment of long-term debt	22 131	15,487
Contribution to the sinking fund	43,447	43,939
	75,386	62,247
Net change in non-cash components		
Subsidies and contributions receivable	(1,833)	(240)
Other receivables	(2,237)	10,666
Inventories of supplies and replacement parts	(1,983)	(2,863)
Accounts payable and accrued liabilities	11,974	8,432
Provision for future amounts	1,808	1,954
Cash flow from operating activities	**83,115**	**80,196**
Investment activities		
Acquisition of restricted investments	19,580	(1,172)
Acquisition of long-term investment	—	(498)
Acquisition of capital assets	(204,688)	(186,241)
Cash flow used for investment activities	**(185,108)**	**(187,911)**
Financing activities		
Issuance of long-term debt	75,000	217,000
Repayment of long-term debt, net of refinancing	(70,568)	(66,710)
Buy back of bonds through refinancing	(5,164)	(27,805)
Capital asset expenditures financed by a third party	37,668	60,752
Revenue from sinking fund investments	5,870	5,949
Cash flow from financing activities	**42,806**	**189,186**
Increase (decrease) in cash flow	**(59,187)**	**81,471**
Cash position, start of year	**13,752**	**(67,719)**
Cash position, end of year	**(45,435)**	**13,752**

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

The accompanying notes form an integral part of the financial statements

Notes to financial statements

at December 31, 2005

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, primarily on the territory of the island of Montréal.

2. Statement of significant accounting policies

Accounting principles

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

Accounting projections

In order to prepare its financial statements in accordance with the generally accepted municipal accounting principles in Quebec, the management of the Société must make projections and assumptions 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 the 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 2005 budget adopted by the Board of Directors of the Société in November 2004 and by the municipal council of the City of Montréal in December 2004. The budget data relating to the investment activities is derived from the 2005-2006-2007 triennial capital expenditures program, also adopted by the Board of Directors of the Société in November 2004 and by the municipal council of the City of Montréal in December 2004.

Revenue and expenditures

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

The expenditures presented in the statement of financial activities are detailed 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: joint services (finance and treasury, retirement plans, human resources, information technology and procurement), construction and maintenance of infrastructure, communications and marketing, planning and partner relations and corporate services (senior management, management of the project portfolio, secretariat and legal affairs, and business plan and management information).

«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 repeat 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.

Restricted investments in the sinking fund

Restricted investments in the sinking fund are recorded at the amortized cost and are devalued in the event that permanent decreases in their value are identified. The premiums or discounts on the purchase of these investments are amortized on a straight-line basis over the period of the investments to which they relate.

Long-term investments

Long-term investments are recorded on an equity basis.

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 on the statement of financial activities. This expense is shown on the statement of net investment in long-term assets.

The deferred subsidies are amortized at the same rate as their related capital assets. The capital assets are depreciated as soon as they are put in service irrespective of the closing date of the loan by-law, provided that they are financed by long-term debt or by means of a cash subsidy.

Charging of the provision for future amounts to financial activities

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

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.

Currency conversion

The revenues and expenditures relating to foreign currency transactions are converted into Canadian dollars at the prevailing rates on the date of the transactions.

The monetary assets and liabilities denominated in foreign currency are converted at the prevailing rate of exchange on the balance sheet date.

Financial derivatives

The Société uses financial derivatives to reduce its exchange and interest rate risk exposure on its long-term debt. It does not use financial instruments for transaction or speculation purposes.

The Société uses currency swap contracts to manage the risk associated with loans covered by a currency exchange agreement. These currency swaps are converted at the prevailing exchange rates on the balance sheet date.

In addition, the Société uses interest rate swap contracts to manage the interest rate risk related to its debt. These contracts give rise to interest exchanges that are charged to the interest expense on the long-term debt. The amounts payable or receivable are taken into account through adjustment of the accrued interest on the corresponding debt.

3. Passengers

(in thousands of dollars)

	Budget	2005	2004
Bus and métro service	355,356	350,004	340,268
Paratransit service	1,593	1,716	1,380
Regional revenue [a]	27,972	27,638	26,528
	384,921	**379,358**	**368,176**

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

4. Subsidies from the government of Quebec

(in thousands of dollars)

	Budget	2005	2004
Capital assets [a]	56,114	50,855	45,689
Paratransit service [b]	24,708	24,926	23,803
Other	—	23	78
	80,822	**75,804**	**69,570**
Transition funding [c]	19,200	10,818	—
	100,022	**86,622**	**69,570**

[a] Public transit assistance program:

In accordance with the Government of Quebec's public transit assistance program and special agreements, the Société is eligible for subsidies at rates ranging from 48% to 75% for admissible expenses incurred during fiscal year 2005. Admissible expenses include bus purchases, building construction, renovation of métro stations, renovation of métro cars and other specified 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 the special agreements.

[b] Adapted transit government assistance program:

In accordance with the powers conferred on the Transport Minister by order-in-council 279-2005, the Société is eligible for a subsidy of up to 75% of the costs deemed admissible by the ministère des Transports.

[c] In accordance with order-in-council 280-2005 of March 30, 2005, the Government of Quebec awarded a non-recurring one-time subsidy of $20.0 million to the public transit companies for 2005 pending the new Quebec-municipalities fiscal pact planned for 2006. The portion attributable to the Société is $13.2 million, with $10.8 million coming from the ministère des Transports du Québec and $2.4 million from the sharing of the Agence métropolitaine de transport's 2004 surplus.

The order-in-council stipulates that payment of the subsidy by the ministère des Transports du Québec is conditional on an additional equivalent investment by the municipalities. Thus, the City of Montréal increased its 2004 contribution of $263.0 million to $276.2 million in 2005.

5. Regional contributions

(in thousands of dollars)

	Budget	2005	2004
For trips on the métro system [a]	43,700	43,601	43,480
For trips on city bus lines [a]	5,766	6,019	6,226
For equipment and infrastructure [b]	1,437	1,471	1,414
Share of surplus from the Agence métropolitaine de transport [c]	—	2,582	2,405
Fare integration [d]	395	466	—
	51,298	54,139	53,525
Debt financing - commuter trains [e]	7,468	7,468	7,623
	58,766	**61,607**	**61,148**

(a) Buses and métro:

The Société receives assistance from the Agence métropolitaine de transport 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, 2005, the contract stipulating the date and terms of the transfer of these assets was not signed. Despite the eventual transfer of ownership, the Société remains responsible for the debt servicing relating to the financing of this property. However, the Agence reimburses the Société for the operating costs and debt servicing, net of any government subsidy.

(c) Share of surplus from the Agence métropolitaine de transport:

The Agence's surplus was distributed on a pro rata basis for each of the transit operating authorities based on the amounts of city bus and métro aid as well as the aid allocated in 2005 for reduced fares.

(d) Fare integration:

Introduction in 2005 of new metropolitan aid for transport entities, the objective of which is to ensure that, for each fare zone, no entity assumes a portion of the discount exceeding that accorded to purchasers of the TRAM monthly passes for that zone.

(e) 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.

6. Contribution from the Réseau de transport de Longueuil

On March 23, 2005, the Government of Quebec adopted order-in-council 227-2005 covering 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 2005.

7. Other revenue

(in thousands of dollars)

	Budget	2005	2004
Advertising	10,166	11,316	9,916
Rentals	240	158	1,795
Incidental activities [a]	—	90	469
Share of profit from the limited partnership	3,432	3,897	967
Other	3,750	6,403	4,155
	17,588	**21,864**	**17,302**

(in thousands of dollars)

	Budget	2005	2004
[a] Incidental activities			
Métro extension			
Revenue	—	5,649	11,289
Expenditures	—	(5,649)	(11,109)
	—	**—**	**180**
Other projects			
Revenue	—	917	1,356
Expenditures	—	(827)	(1,067)
	—	90	289
Surplus	—	**90**	**469**

8. Interest and financing costs

(in thousands of dollars)

	Budget	2005	2004
Interest on long-term debt	41,569	37,778	35,690
Financing costs			
short-term	1,300	2 117	2,006
for loan by-laws	—	(1,036)	(1,603)
	1,300	1,081	403
	42,869	**38,859**	**36,093**

9. Repayment of the long-term debt

(in thousands of dollars)

	Budget	2005	2004
Repayment of principal			
from financial activities	23,396	22 131	15,487
from sinking fund	41,115	48,437	51,223
	64,511	**70,568**	**66,710**

10. Transfer to the statement of investment activities

(in thousands of dollars)

	Budget	2005	2004
Capital asset expenditures financed by a third party			
Asset maintenance program for stationary equipment in the métro [a]	—	37,390	59,352
Replacement of an operating system	—	(7)	1,017
Disposal of buses	150	126	342
Project office - bus purchase	—	123	—
	150	**37,632**	**60,711**
Transfer of métro assets in accordance with legal requirements	—	36	41
	150	**37,668**	**60,752**
Capital asset and investment expenditures financed from revenue			
Bus and métro service	250	3,491	8,886
Paratransit service	2,927	2,883	99
Asset maintenance	303	519	849
	3,480	**6,893**	**9,834**
	3,630	**44,561**	**70,586**

[a] In accordance with order-in-council 737-2002 and agreement no 527001 of July 16, 2004, covering financial aid for the first phase of the asset maintenance program for stationary equipment in the métro, the federal government made a cash contribution of 33.33% of the admissible expenses under the 2000 Canada-Quebec Infrastructure Program, while the Agence métropolitaine de transport made a cash contribution of 12.5%. The contribution from the Government of Quebec was set at 41.67% and was paid in the form of a subsidy for debt servicing.

11. Restricted investments in sinking fund

(in thousands of dollars)

	2005	2004
Cash	28,741	929
Bonds and bond coupons, at unamortized cost (market value $112 285, $140 438 in 2004)	111,118	138,004
Interest receivable	1,536	1,582
	141,395	140,515
Short-term portion	(60,451)	(39,991)
	80,944	**100,524**

The maturities of the investments held by the Société are as follows:

	Investments guaranteed by the Government of Quebec	Other investments	Total	Weighted nominal interest rate
2006	16,683	21,473	38,156	3.96%
2007	47,271	—	47,271	6.55%
2008	—	—	—	—
2009	2,717	—	2,717	5.50%
2010	2,942	—	2,942	6.25%
More than 5 years	20,032	—	20,032	5.84%
	89,645	**21,473**	**111,118**	

12. Subsidies receivable

(in thousands of dollars)

	2005	2004
Government of Quebec		
Capital assets	180	3,000
Paratransit service	7,437	6,642
Transition funding	1,078	—
Other	749	1,153
	9,444	**10,795**
Government of Canada		
Capital assets	**7,726**	**9,500**
Agence métropolitaine de transport		
Capital assets	**7,882**	**3,187**
	25,052	**23,482**

13. Other receivables

(in thousands of dollars)

	2005	2004
Regional revenue receivable	4,102	2,383
Work accident payments recoverable	727	729
Tax claims submitted to governments	1,988	3,911
General accounts receivable	12,563	14,052
Deposit on bus purchase	5,285	4,892
Other	6,429	2,890
	31,094	**28,857**

14. Capital assets

(in thousands of dollars)

	2005			2004
	Cost	Accumulated depreciation	Net book value	Net book value
Land	7,352	6,073	1,279	1,331
Buildings	178,988	69,436	109,552	80,544
Original network and métro extensions	1,453,953	1,215,722	238,231	252,325
Improvements to métro infrastructure	237,540	56,049	181,491	163,469
Local infrastructure	11,702	2,999	8,703	9,034
Regional infrastructure	11,499	7,312	4,187	4,784
Rolling stock - buses	593,738	271,532	322,206	328,853
Rolling stock - minibuses	9,717	5,943	3,774	1,584
Rolling stock - other	27,527	12,486	15,041	14,765
Leasehold improvements	7,170	5,963	1,207	1,690
Office equipment and software	68,371	40,602	27,769	33,792
Machinery, tools and equipment	70,660	40,050	30,610	35,376
Capital assets in progress	280,601	—	280,601	175,671
	2,958,818	**1,734,167**	**1,224,651**	**1,103,218**

	2005			2004
	Opening balance	Change	Closing balance	Closing balance
Deferred subsidies	**392,323**	**86,104**	**478,427**	**392,323**

15. Deferred charges

(in thousands of dollars)

	2005	2004
Computer software licences	**2,098**	**3,597**

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.

16. Long-term investments

(in thousands of dollars)

	2005	2004
Holding in limited partnership, at equity value	3,243	1,946
Other	5	5
	3,248	**1,951**

17. Long-term debt

(in thousands of dollars)

	2005	2004
Amount recoverable for the repayment of long-term debt (note 20)		
Government of Quebec	259,198	256,590
Agence métropolitaine de transport	8,027	13,318
	267,225	269,908
Current portion of long-term debt	(22,981)	(15,704)
	244,244	**254,204**

18. Short-term loans

The Société has a loan authorization to a limit of $350 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, by means of notes, bankers acceptances or other instruments negotiable 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 of each of the notes, bankers acceptances or other instruments must not exceed one year from the date of their issuance. At December 31, 2005, the average rate on the short-term loans was 2.74%.

The Société also has a line of credit of $40 million in the form of demand notes, which is included in the short-term loan authorization of $350 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 2005 was 4.40%.

The *Loi sur les sociétés de transport en commun* stipulates that the City of Montréal is the guarantor of the Société's commitments and obligations, including the short-term debt contracted by the Société.

19. Accounts payable and accrued liabilities

(in thousands of dollars)

	2005	2004
Suppliers and accrued liabilities	54,166	34,501
Wages and wage benefits	22,581	33,530
Sick leaves payable	7,125	7,626
Vacations payable	24,867	24,270
Holdbacks on contracts and security deposits	877	1,205
Accrued interest	7,814	8,359
Other	10,289	6,254
	127,719	**115,745**

20. Long-term debt

(in thousands of dollars)

	2005	2004
Bonds and bank loans, at interest rates varying from 2.80% to 8.75% (2.40% to 9.10% in 2004) due from February 2006 to April 2015	676,092	676,824
Current portion of long-term debt	(108,671)	(75,732)
	567,421	**601,092**

The long-term debt consists of bonds and bank loans that are direct and general obligations of the Société. The *Loi sur les sociétés de transport en commun* stipulates that the City of Montréal is guarantor of the commitments and obligations of the Société, including the long-term debt contracted by the Société.

The Société uses currency and interest rate swap contracts for loans totalling $137.1 million. These swaps completely eliminate the exchange and interest rate risks.

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

(in thousands of dollars)

Year of maturity	Canadian Dollars [(a)]	Maturity	To be refinanced	Net maturity	Weighted interest rate
2006	108,671	108,671	18,310	90,361	
2007	78,000	78,000	3,609	74,391	
2008	61,168	61,168	10,573	50,595	
2009	87,155	87,155	11,422	75,733	
2010	22,742	22,742	—	22,742	
1 to 5 years	357,736	357,736	43,914	313,822	5.65%
6 to 10 years	318,356	318,356	69,981	248,375	5.01%
	676,092	**676,092**	**113,895**	[(b)] **562 197**	

(a) Includes loans that are part of a currency exchange agreement.

(b) Of the total amount of $562.1 million, $141.4 million had already been accumulated in the sinking fund at December 31, 2005 (market value of $142.6 million).

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

(in thousands of dollars)

	2005	2004
Amounts accumulated in the sinking fund	141,395	140,515
Amounts recoverable for the repayment of long-term debt		
From the City of Montréal	267,472	266,401
From the Government of Quebec	259,198	256,590
From the Agence métropolitaine de transport	8,027	13,318
	534,697	**536,309**
	676,092	**676,824**

21. Provision for future amounts

(in thousands of dollars)

	2005	2004
Vacation benefits	(11,811)	(12,892)
Sick leaves	(5,774)	(6,501)
	(17,585)	**(19,393)**

The difference of $1.8 million between December 31, 2004 and December 31, 2005 has been charged to the statement of financial activities.

22. Net investment in long-term assets

(in thousands of dollars)

	2005	2004
Long-term investments (at cost)	999	999
Capital assets	1,224,651	1,103,218
Long-term debt	(676,092)	(676,824)
Long-term debt	267,225	269,908
Deferred subsidies	(478,427)	(392,323)
	338,356	**304,978**

23. Commitments

a) Long-term leases

The Société is committed to paying an amount of $84.0 million for rental premises under long-term leases expiring from March 31, 2006 to July 31, 2023. The minimum payments for the next five years amount to $4.7 million for each of 2006, 2007 and 2008, $4.9 million in 2009 and $4.8 million in 2010.

b) Outsourcing of computer centre

The Société is committed to paying a total of $2.6 million for the years 2006 to 2008 for the outsourcing of its computer centre. Future payments amount to $1.2 million for the years 2006 and 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 $9.4 million for the years 2006 to 2012. The two principal components of this contract are a company telephone system at a cost of $8.0 million and Internet access services at a cost of $1.4 million.

Future payments amount to $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 Quebec, awarded contracts under a group purchase for the supply of city bus parts.

At December 31, 2005, the total residual value of these contracts for all the companies was $7.9 million. The portion attributable to the Société de transport de Montréal was $3.3 million, $1.7 million for 2006 and $1.6 million for 2007.

Conversely, the Société mandated two Quebec transit companies to proceed with group purchases for city bus parts. These contracts total $8.5 million at December 31, 2005. The portion attributable to the Société de transport de Montréal amounts to $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 awarded a contract for the purchase of low-floor buses in the context of a group purchase on behalf of the members of the Association du transport urbain du Québec (ATUQ).

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 a guide, the American content represents 29% of the base cost, while the European content represents 9%.

The revised portion attributable to the Société covers 344 buses for a total estimated cost of $155.7 million. Based on the bus delivery schedule, the 2006 deliveries will amount to $25.8 million, and those in $2007, $36.1 million.

f) Asset maintenance program for stationary equipment in the métro

The Société signed a contract in the amount of $33.8 million with an engineering firm to operate a project office responsible for carrying out the asset maintenance program for stationary equipment in the métro. The scheduled payments are $18.3 million in 2006 and $15.5 million in 2007.

g) Contracts for the acquisition of fare sales and collection system and equipment

In 2003, the Société awarded two major contracts as part of the project to upgrade the fare sales and collection system and equipment. The Société agreed to increase the amounts of these two contracts in 2005.

As mandatary for six transit operating authorities (AOTs), the Société awarded the first contract for a total revised amount of $94.7 million, including $73.9 million for the Société. This contract covers the replacement of the centralized system and related equipment, the purchase of smart cards (the equivalent of transit fares in the new system), as well as maintenance of the system 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 payments for future years amount to $0.2 million for 2008 and $2.1 million for 2009 to 2013.

As mandatary for another AOT, the Société awarded a second contract in a total revised amount of $51.1 million, including $45.4 million for the Société. This contract includes replacement of the collection boxes aboard buses, as well as maintenance of the related system software and equipment. The portion relating to the cost of software maintenance amounts to $1.0 million. The payments for future years are $0.2 million in 2007, no payment in 2008 and $0.2 million from 2009 to 2012.

h) Contract for the supply of diesel fuel

The Société negotiated an agreement with a financial institution to protect itself from the risk of fluctuations in the market price of diesel fuel until December 31, 2008. This agreement enables the Société to pay for 79.4 million litres of diesel fuel at a fixed price, representing a sum of approximately $42.8 million. The agreement starts in January 2006.

24. Pension plans

a) General description of plans

The employees of the Société are active participants in one of the Société's two defined benefit pension plans. The *Régime de retraite de la Société de transport de Montréal* (Syndicat de transport de Montréal CSN) («Régime CSN») covers regular and temporary employees covered by the certification of the Syndicat de transport de Montréal (CSN), while the *Régime de retraite de la Société de transport de Montréal (1992)* («Régime 1992») covers all other regular and temporary employees. The two plans invest in units of the *Fiducie Globale des Régimes de retraite de la Société de transport de Montréal* («Fiducie Globale»), which administers the funds arising from these two pension plans.

Contributions are calculated on the base salary at a rate of 6% for employees and 12% for the employer, less its share of contributions to the Quebec Pension Plan.

The benefits paid for service are equal to 2% of the average salary for the three consecutive years with the highest earnings, multiplied by the number of years of credited service in the plan and cannot exceed 70% of this average salary.

A participant is entitled to take retirement, without any reduction in pension, on the earliest of the following three dates:

- the person's 60th birthday as long as the person has five (5) years of service
- the date on which a person completes thirty-two (32) years of participation, or the date on which a person completes thirty (30) years of participation if the person retires before January 1, 2020
- the date on which the sum of a person's age and years of participation equals eighty-five (85), or eighty (80) if the person retires before January 1, 2020

Bridging benefits are available for participants who retire prior to January 1, 2020, who have not reached the age of 65.

b) Evaluation method for pension fund assets

Each plan participates in the net assets and in the change in the net assets in the Fiducie Globale through units held. The net assets represent the difference between the assets (investments and other asset components) and the liabilities.

Investments constitute the principal asset component of the Fiducie Globale. These are presented at fair market value.

The other asset components are accrued interest and dividends receivable, unrealized gains on term contracts, amounts receivable on the sale of investments and cash.

The liabilities are made up of accounts payable and other payables.

c) Obligations regarding accrued pension benefits

The actuarial value of the accrued benefits is determined using the projected benefits method prorated on years of service and best estimate assumptions. These take into account long-term market forecasts. The key actuarial assumptions relate to the interest rate on contributions, the performance of the net assets, salary increases, inflation and the indexation of deferred pensions for service after 2001.

d) Results of the most recent actuarial valuation

The most recent actuarial valuations date from December 31, 2002, but the values have been updated by extrapolation to December 31, 2004. These valuations on a capitalization basis indicated a surplus in the order of $151.5 million at December 31, 2002, consisting of $120.4 million for the Régime 1992 and $31.1 million for the Régime CSN. The pension plan assets are based on the fair market value with fluctuations spread over three years.

e) Value of pension plan assets and obligations relating to accrued benefits

At December 31, 2005, pension plan assets and the present-day value of the accrued pension benefits were not available. According to the financial statements for the pension plans for the year ended December 31, 2004, these values were as follows:

(in thousands of dollars)

	Régime 1992	Régime CSN	Total
Value of pension plan assets	1,959,157	650,513	2,609,670
Value of obligations relating to accrued benefits	1,757,179	592 141	2,349,320

The employer's contribution for fiscal year 2005 was $31.9 million ($30.8 million in 2004) and was charged to the statement of financial activities.

f) Other pension agreements

At December 31, 2005, the Société was committed in virtue of various pension agreements over and above its obligations arising from the pension plans mentioned above. According to an actuarial valuation dated December 14, 2004, these commitments represent a sum of $5.1 million and result primarily from a pension agreement put in place for employees of the Société whose annual remuneration exceeds the ceiling for contributions to the pension plan set by the tax authorities. The Société made a provision in the amount of $3.8 million for these commitments at December 31, 2005.

25. Contingencies

Amounts claimed by plaintiffs total $165.9 million. These claims consist of, among others, two applications for class action suits totalling $163.0 million. The first application for $123.0 million relates to the Société's pension plans, and the second, in the amount of $40.0 million, originates with users inconvenienced during the strike in 2003. The balance of $2.9 million consists of individual suits, bodily injuries, material damages and various other litigation. At December 31, 2005, the Société made a provision for an amount deemed sufficient for these claims.

26. Event subsequent to the date of the balance sheet

Long-term debt

On February 24, 2006, the Société completed a bond issue in the amount of $100.0 million to finance certain loan by-laws.

27. Comparative numbers

Certain figures in the 2004 financial report have been reclassified for the presentation of the 2005 financial report.

28. Opinion of the auditors

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

The prior year's accounts were audited by a different external auditor.

Supplementary Information

Restated statement of financial activities

(in thousands of dollars)

	2005	2004	2003	2002	2001
Revenue					
Passengers	379,358	368,176	334,771	321,871	318,265
Contribution from the City of Montréal (from municipalities on the MUC territory prior to 2002)	276,200	263,000	263,000	244,100	236,600
Subsidies from the Government of Quebec	75,804	69,570	70,766	65,388	63,938
Regional contributions	61,607	61,148	64,424	64,170	61,716
Contribution from the Government of Quebec - revision of financial framework	10,818	—	—	—	—
Contribution from the Réseau de transport de Longueuil	1,803	1,803	1,803	1,761	1,844
Other revenue	21,864	17,302	16,858	14,839	16,843
	827,454	**780,999**	**751,622**	**712 129**	**699,206**
Expenditures					
Bus and métro service	672,534	652,284	623,611	580,981	559,041
Paratransit service	37,338	32 157	31,148	28,907	26,374
Debt servicing and financing costs [(a)]	104,437	95,519	99,292	93,412	94,983
Unforeseen expenditures	—	—	36	404	137
Asset maintenance [(b)]	12 181	10,488	10,047	11,572	11,843
	826,490	**790,448**	**764,134**	**715,276**	**692,378**
Surplus (deficit) for the year before accumulated surplus	**964**	**(9,449)**	**(12,512)**	**(3,147)**	**6,828**
Accumulated surplus from prior year	(6,311)	[(c)] 3138	12,815	15,962	9,134
Surplus (deficit) for the year	**(5,347)**	**(6,311)**	**303**	**12,815**	**15,962**

		2005	2004	2003	2002	2001
(a)	Interest and financing cost	38,859	36,093	35,658	33,295	33,814
	Repayment of long-term debt	70,568	66,710	55,574	29,959	57,828
	Contribution to sinking fund	43,447	43,939	50,390	41,408	40,907
	Use of sinking fund	(48,437)	(51,223)	(42,330)	(11,250)	(37,566)
		104,437	**95,519**	**99,292**	**93,412**	**94,983**

		2005	2004	2003	2002	2001
(b)	Asset maintenance (per the statement of financial activities)	11,662	9,639	9,966	11,174	11,681
	Transfer to the statement of investment activities	520	849	81	398	162
		12 182	**10,488**	**10,047**	**11,572**	**11,843**

(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 covering inventories of supplies and replacement parts.

Passenger revenue by type

(in thousands of dollars)

	2005	2004	2003	2002	2001
Bus and métro service					
Regular fare					
Cash	50,359	48,069	44,762	48,547	51,091
Strip of tickets	66,655	66,906	61,235	58,171	52,930
CAM	131,339	124,698	107,223	98,921	114,927
Weekly CAM	28,445	29,645	32,395	34,303	36,927
	276,798	**269,318**	**245,615**	**239,942**	**255,875**
Reduced fare					
Cash	3,296	3,063	2,945	3,348	3,782
Strip of tickets	12,763	12 152	10,550	9,744	8,649
CAM	52,647	51,315	45,352	41,028	23,660
Weekly CAM	2,587	2,540	2,258	1,893	1,387
	71,293	**69,070**	**61,105**	**56,013**	**37,478**
Tourist cards	1,300	1,295	1,039	823	757
Allocation of train revenue from the AMT	613	585	644	1,880	1,209
	350,004	**340,268**	**308,403**	**298,658**	**295,319**

Expenditures by type

(in thousands of dollars)

	2005	2004	2003	2002	2001
EXPENDITURES RELATED TO OPERATIONS					
Remuneration	**544,314**	**529,543**	**511,948**	**470,975**	**449,788**
Goods and services					
Major expenditures	6,683	2,674	3,962	4,927	4,686
Energy costs, taxes and licences	66,052	60,290	55,317	50,688	53,091
Professional services	3,654	3,373	2,750	3,138	2,697
Technical and other services	26,778	23,734	22 151	20,707	18,062
Equipment and supplies	36,359	31,103	35,236	35,292	35,790
Rentals	8,196	8,265	7,021	6,737	6,558
Financing of operations	1,081	403	978	534	1,447
Sundry expenditures	7,100	11,848	8,168	11,496	9,351
	155,903	**141,690**	**135,583**	**133,519**	**131,682**
	700,217	**671,233**	**647,531**	**604,494**	**581,470**
EXPENDITURES RELATED TO INVESTMENTS					
Asset maintenance	12 181	10,488	10,047	11,572	11,681
Special projects	8,987	11,407	5,853	3,718	3,992
Debt servicing - buses and métro	95,888	87,493	89,154	78,554	78,473
Transfer to working capital fund	1,749	2,204	2,353	2,210	1,400
	118,805	**111,592**	**107,407**	**96,054**	**95,546**
DEBT SERVICING - COMMUTER TRAINS	**7,468**	**7,623**	**9,160**	**14,324**	**15,063**
UNFORESEEN EXPENDITURES	**—**	**—**	**36**	**404**	**137**
	826,490	**790,448**	**764,134**	**715,276**	**692,216**

Expenditures by operation

(in thousands of dollars)

	Budget	2005	2004	2003	2002
Network operations					
Bus network					
Remuneration	281,464	282,520	270,985	260,777	244,756
Goods and services	58,368	61,241	50,017	21,019	20,992
	339,832	**343,761**	**321,002**	**281,796**	**265,748**
Métro network					
Remuneration	158,865	156,921	152,846	140,388	128,610
Goods and services	38,655	38,783	35,938	14,985	15,711
	197,520	**195,704**	**188,784**	**155,373**	**144,321**
Paratransit (a)					
Remuneration	16,673	16,632	16,689	16,518	15,543
Goods and services	16,112	19,690	14,367	12,902	11,844
	32,785	**36,322**	**31,056**	**29,420**	**27,387**
Energy (c)					
Goods and services	**8,188**	**7,616**	**7,668**	**48,041**	**46,708**
	578,325	**583,403**	**548,510**	**514,630**	**484,164**
Support services					
Joint services					
Remuneration	48,935	47,161	45,911	43,714	40,356
Goods and services	7,001	7,379	10,619	12,056	13,086
	55,936	**54,540**	**56,530**	**55,770**	**53,442**
Construction and maintenance of infrastructure					
Remuneration	24,900	25,195	24,694	23,035	20,781
Goods and services	6,033	5,733	6,855	5,163	5,164
	30,933	**30,928**	**31,549**	**28,198**	**25,945**
Communications and marketing					
Remuneration	5,438	5,486	5,189	4,750	4,215
Goods and services	2 121	1,768	1,524	1,378	1,366
	7,559	**7,254**	**6,713**	**6,128**	**5,581**
	94,428	**92,722**	**94,792**	**90,096**	**84,968**
Corporate services					
Remuneration	9,018	9,065	8,372	9,428	9,284
Goods and services	2,903	3,024	2,563	2,420	3,401
	11,921	**12,089**	**10,935**	**11,848**	**12,685**
Asset maintenance (c)					
Remuneration	—	—	—	5,018	6,508
Goods and services	—	—	—	5,029	5,064
	—	**—**	**—**	**10,047**	**11,572**

Expenditures by operation

(in thousands of dollars)

	Budget	2005	2004	2003	2002
Special projects					
Remuneration	—	1,336	263	616	2,501
Goods and services	6,390	7,650	11,144	5,236	1,217
	6,390	**8,986**	**11,407**	**5,852**	**3,718**
Other expenditures					
Remuneration	9,110	9,750	12,657	15,749	9,566
Goods and services	14,740	13,354	14,424	14,232	11,356
	23,850	**23,104**	**27,081**	**29,981**	**20,922**
Financing costs					
Goods and services	109,759	104,437	95,519	99,291	93,412
	109,759	**104,437**	**95,519**	**99,291**	**93,412**
Unforeseen expenditures					
Remuneration	—	—	—	—	—
Goods and services	5,204	—	—	36	1,625
	5,204	**—**	**—**	**36**	**1,625**
Appropriations					
Repayment of working capital fund	1,223	1,749	2,204	2,353	2,210
	1,223	**1,749**	**2,204**	**2,353**	**2,210**
	(b) **831,100**	**826,490**	**790,448**	**764,134**	**715,276**

	Budget	2005	2004	2003	2002
(a) Paratransit					
Total per the statement of financial activities	31,037	34,456	32,058	29,836	27,689
Transfer to the statement of investment activities	2,927	2,883	99	1,312	1,218
	33,964	37,339	32 157	31,148	28,907
Other centres of responsibility	(1,179)	(1,017)	(1,101)	(1,728)	(1,520)
	32,785	**36,322**	**31,056**	**29,420**	**27,387**

(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 prior 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 01/01/2005 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 stationary equipment in the métro	8,970	8,970	6,662	—	6,662
CA-58	16/08/93	Purchase and installation of 79 escalators in the métro	38,900	38,900	35,642	—	35,642
CA-75	18/08/95	Various capital expenditures 1996	7,200	7,200	5,850	—	5,850
CA-89	01/05/97	Purchase of 96 low-floor buses (1998)	53,750	53,750	45,707	3,894	49,601
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 cleaners	1,945	1,945	1,820	—	1,820
CA-103	05/07/99	Purchase of 300 low-floor buses (2000-2002)	135,970	135,970	124,645	407	125,052
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	4,673	5,973	10,646
CA-107	02/06/00	Various capital expenditures 2000	2,034	2,034	1,222	—	1,222
CA-108	02/06/00	Service vehicles	2,175	2,175	1,844	—	1,844
CA-109	09/09/02	Renovation program for stationary equipment in the métro	30,656	30,656	5,628	—	5,628
CA-110	29/03/01	SCAD and updating servers and telecommunications equipment	3,991	3,991	3,799	—	3,799
CA-111	08/06/01	Capital asset improvements	5,000	5,000	4,468	—	4,468
CA-112	12/07/01	Capital asset expenditures	1,980	1,980	858	—	858
CA-113	01/03/02	Implementation of preferential measures and optimization of terminals	19,839	19,839	—	—	—
CA-114	06/07/01	Service vehicles	2,142	2,142	1,908	—	1,908
CA-116	26/04/02	Réno-Systèmes program	311,090	311,090	93,981	59,352	153,333
CA-117	28/02/02	Operations support and customer information system (S.A.E.I.C.)	18,028	18,028	6,250	—	6,250
CA-118	11/01/02	Purchase of 382 low-floor buses (2003-2007)	198,500	198,500	76,204	191	76,395
R-002	24/04/02	Lift replacement program	7,299	7,299	2,055	—	2,055
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	6,186	—	6,186
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 Mont-Royal bus depot	12,150	12,150	—	—	—
R-010	18/06/02	Fare sales and collection	137,725	137,725	9,876	—	9,876
R-014	10/09/02	Service vehicles	2,055	2,055	1,838	—	1,838
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	5,864	—	5,864
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	400	—	400
R-025	17/03/03	Acquisition and implementation of SAP/PM	7,000	7,000	3,207	—	3,207
R-027	22/04/03	Réno-Métro phase II	75,649	75,649	—	—	—
R-038	22/09/03	Service vehicles - Vehicle with pump-crane - Elevating platform	5,525	5,525	2,277	—	2,277
R-039	25/09/03	Renovation of fire equipment premises	834	834	—	—	—
R-040	24/09/03	Production equipment and tools (LFS)	2,556	2,556	—	—	—
R-041	09/09/03	Bousquet ventilation unit	594	594	—	—	—
R-042	09/01/04	Cost of study, plan and estimate, engineering for puchase of MR-2005 métro cars	15,888	15,888	—	—	—
R-043	09/02/04	Acquisition of 7 platforms and a switch 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	936	936	—	—	—
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 the O & K escalators	2,045	2,045	—	—	—
R-055	26/11/04	Relocation of bodyshop installations and re-design of Legendre bus depot	73,646	73,646	—	—	—
R-056	01/02/05	Replacement of service vehicles	3,146	3,146	—	—	—
R-057	31/03/05	Financing of various capital asset projects	4,142	4,142	—	—	—
R-058	19/05/05	Réno-Systèmes (RS-2)	643,600	643,600	—	—	—
R-059		Non-capital expenditures - fare sales and collection	20,700	20,700	—	—	—
R-060	14/09/05	Various projects (Métro - retail area)	3,561	3,561	—	—	—
R-064	16/02/06	Project office (Bus purchase 2008-2012)	2,390	2,390	—	—	—
			2,063,794	2,063,120	529,138	69,817	598,955
		Transfer of métro assets in accordance with legal requirements	36	—	—	—	—
		Capital asset expenditures financed from 2005 revenue	6,893	—	—	—	—
			2,070,723	2,063,120	529,138	69,817	598,955

Permanent financing

Expenditures

Financing during year Loan	Cash	Total	Balances available	Closed projects	Balance at 31/12/2005 Loan	Cash	Total	Balance at 01/01/2005	Expenses for the year	Closed projects	Balance at 31/12/2005	Over-financing (under-financing)
—	—	—	—	—	65,131	—	65,131	64,328	67	—	64,395	736
—	—	—	—	—	6,662	—	6,662	5,663	787	—	6,450	212
—	—	—	—	—	35,642	—	35,642	35,644	—	—	35,644	(2)
—	—	—	—	—	5,850	—	5,850	5,861	—	—	5,861	(11)
—	—	—	—	—	45,707	3,894	49,601	49,612	—	—	49,612	(11)
—	—	—	—	—	3,159	—	3,159	3,236	2	—	3,238	(79)
—	—	—	—	—	5,465	—	5,465	5,559	3	—	5,562	(97)
—	—	—	—	—	1,249	—	1,249	1,349	3	—	1,352	(103)
—	—	—	—	—	1,820	—	1,820	1,726	(2)	—	1,724	96
—	—	—	—	—	124,645	407	125,052	125,001	(87)	—	124,914	138
—	—	—	—	—	1,270	—	1,270	1,279	—	—	1,279	(9)
—	(7)	(7)	—	—	4,673	5,966	10,639	9,349	(27)	—	9,322	1,317
—	—	—	—	—	1,222	—	1,222	1,297	2	—	1,299	(77)
—	—	—	—	—	1,844	—	1,844	1,834	—	—	1,834	10
10,000	—	10,000	—	—	15,628	—	15,628	10,353	5,648	—	16,001	(373)
—	—	—	—	—	3,799	—	3,799	3,862	51	—	3,913	(114)
—	—	—	—	—	4,468	—	4,468	4,780	7	—	4,787	(319)
—	—	—	—	—	858	—	858	820	166	—	986	(128)
—	—	—	—	—	—	—	—	—	849	—	849	(849)
—	—	—	—	—	1,908	—	1,908	1,919	—	—	1,919	(11)
27,000	37,390	64,390	—	—	120,981	96,742	217,723	143,245	68,908	—	212,153	5,570
5,500	—	5,500	—	—	11,750	—	11,750	11,786	3,889	—	15,675	(3,925)
14,636	126	14,762	—	—	90,840	317	91,157	73,647	36,493	—	110,140	(18,983)
1,200	—	1,200	—	—	3,255	—	3,255	3,340	767	—	4,107	(852)
8,000	—	8,000	—	—	8,000	—	8,000	8,178	3,677	—	11,855	(3,855)
3,500	—	3,500	—	—	9,686	—	9,686	9,675	1,041	—	10,716	(1,030)
—	—	—	—	—	—	—	—	177	190	—	367	(367)
—	—	—	—	—	—	—	—	338	254	—	592	(592)
—	—	—	—	—	9,876	—	9,876	7,359	33,969	—	41,328	(31,452)
—	—	—	—	—	1,838	—	1,838	1,841	66	—	1,907	(69)
—	—	—	—	—	—	—	—	—	370	—	370	(370)
—	—	—	—	—	5,864	—	5,864	7,374	4,605	—	11,979	(6,115)
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	520	26	—	546	(546)
—	—	—	—	—	400	—	400	1,534	59	—	1,593	(1,193)
—	—	—	—	—	3,207	—	3,207	3,368	2,010	—	5,378	(2,171)
—	—	—	—	—	—	—	—	507	5,517	—	6,024	(6,024)
—	—	—	—	—	2,277	—	2,277	810	978	—	1,788	489
—	—	—	—	—	—	—	—	552	62	—	614	(614)
—	—	—	—	—	—	—	—	518	344	—	862	(862)
—	—	—	—	—	—	—	—	286	59	—	345	(345)
—	—	—	—	—	—	—	—	255	48	—	303	(303)
—	—	—	—	—	—	—	—	—	378	—	378	(378)
—	—	—	—	—	—	—	—	—	1,508	—	1,508	(1,508)
—	—	—	—	—	—	—	—	47	531	—	578	(578)
—	—	—	—	—	—	—	—	177	299	—	476	(476)
—	—	—	—	—	—	—	—	616	94	—	710	(710)
—	—	—	—	—	—	—	—	133	45	—	178	(178)
—	—	—	—	—	—	—	—	201	258	—	459	(459)
—	—	—	—	—	—	—	—	13	16	—	29	(29)
—	—	—	—	—	—	—	—	—	235	—	235	(235)
—	—	—	—	—	—	—	—	—	185	—	185	(185)
—	—	—	—	—	—	—	—	—	14	—	14	(14)
—	—	—	—	—	—	—	—	133	407	—	540	(540)
—	—	—	—	—	—	—	—	—	461	—	461	(461)
—	—	—	—	—	—	—	—	—	971	—	971	(971)
—	—	—	—	—	—	—	—	—	20,988	—	20,988	(20,988)
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	308	—	308	(308)
—	123	123	—	—	—	123	123	—	260	—	260	(137)
										—	—	—
69,836	37,632	107,468	—	—	598,974	107,449	706,423	610,102	197,759	—	807,861	(101,438)
—	36	36	—	(36)	—	—	—	—	36	(36)	—	—
—	6,893	6,893	—	(6,893)	—	—	—	—	6,893	(6,893)	—	—
69,836	44,561	114,397	—	(6,929)	598,974	107,449	706,423	610,102	204,688	(6,929)	807,861	(101,438)

LONG-TERM DEBT

(in thousands of dollars)

	2005	2004
Bonds, $70,000		
8.75%, due September 30, 2007 [a]	7,000	7,000
Bonds, $40,000		
9.10%, due May 12, 2005 [a]	—	20,195
Bonds, $30,000		
8.40%, due July 19, 2005 [a]	—	11,242
Bonds, $30,000		
8.10%, due July 18, 2006 [a]	15,060	15,060
Bonds, $30,000		
6.60%, due June 5, 2005	—	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		
5.70%, due June 4, 2008 [b]	11,248	11,248
Bonds, $35,000		
5.40%, due April 8, 2009 [c]	9,005	9,005
Bonds, $30,000		
5.90%, due August 6, 2009 [c]	7,470	7,470
Bonds, $25,000		
6.50%, due February 16, 2005	—	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
Bonds, $17,000		
5.60%, due December 20, 2005 [a]	—	17,000
Bonds, $60,000		
4.15%, due November 15, 2005 [a]	—	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

LONG-TERM DEBT (CONT.)

(in thousands of dollars)

	2005	2004
Bonds, $40,000		
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		
3.60%, due May 6, 2005	—	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		
2.40%, due August 19, 2005	—	7,760
2.80%, due August 19, 2006	8,060	8,060
3.40%, due August 19, 2007	8,390	8,390
3.80%, due August 19, 2008	8,720	8,720
4.15%, due August 19, 2009	9,070	9,070
Bonds, $75,000		
3.25%, due April 27, 2008	19,100	—
3.50%, due April 27, 2009	6,900	—
3.75%, due April 27, 2010	7,200	—
4.00%, due April 27, 2011	6,300	—
4.15%, due April 27, 2012	6,500	—
4.35%, due April 27, 2013	6,800	—
4.50%, due April 27, 2014	7,100	—
4.60%, due April 27, 2015	15,100	—

Long-term debt (cont.)

(in thousands of dollars)

	2005	**2004**
Bank loan $47,130 [d]		
5.465%, due January 9, 2012 [a]	47,130	47,130
Bank loan $30,000 [d]		
8.04%, due January 24, 2006 [a]	30,000	30,000
Bank loan $30,000 [d]		
6.75%, due December 9, 2006 [a]	30,000	30,000
Bank loan $30,000 [d]		
6.09%, due December 12, 2007 [a]	30,000	30,000
Bank loan $40,000 [d]		
6.769%, due December 9, 2009 [a][e]	40,000	40,000
Bank loan $100,000		
4.708%, due April 21, 2014 [c]	100,000	100,000
Bank loan $75,000		
5.222%, due October 22, 2014 [c]	75,000	75,000
Total	**676,092**	**676,824**

[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.

[e] Loan renewable at the discretion of the lender for an additional five-year term at the rate of 6.769% due December 9, 2009.

TOTAL NET LONG-TERM INDEBTEDNESS

(in thousands of dollars)

	2005	2004	2003	2002	2001
LONG-TERM DEBT					
Bonds and bank loans	676,092	676,824	554,339	534,913	477,742
Debt being financed	—	—	—	—	660
	676,092	**676,824**	**554,339**	**534,913**	**478,402**
Amounts accumulated in the sinking fund	(141,395)	(140,515)	(141,850)	(127,322)	(91,392)
Amounts recoverable from third parties for repayment of long-term debt					
From the Government of Quebec	(259,198)	(256,590)	(193,548)	(189,107)	(184,435)
From the Agence métropolitaine de transport	(8,027)	(13,318)	(18,860)	(25,905)	(37,043)
	267,472	**266,401**	**200,081**	**192,579**	**165,532**
Investment expenditures to be financed	110,006	31,258	87,161	56,789	18,563
Amounts not used from contracted long-term loans	(8,568)	(20,111)	(843)	(8,015)	(914)
	101,438	11,147	86,318	48,774	17,649
Subsidies relating to investment expenditures to be financed [a]	(57,475)	(9,606)	(53,845)	(34,221)	(5,178)
	43,963	**1,541**	**32,473**	**14,553**	**12,471**
Total net long-term indebtedness	**311,435**	**267,942**	**232,554**	**207,132**	**178,003**

At December 31, 2005, the amount authorized by loan by-laws stood at $2 063.1 million, of which $807.9 million had been expended. The approved unexpended balance of $1 255.2 million is eligible for a subsidy in the order of $730.0 million.

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

Provision for future amounts

Under new accounting standards that came into effect on January 1, 2000, the provisions for future amounts recorded at that date can be amortized on a straight-line basis over a maximum period of 20 years unless the annual expenditures are greater. However, from 2000 to 2005 the annual disbursements were greater than the amortization. At this rate, the provisions will be fully amortized in 2014 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	(1,808)	17,585	(1,519)	21,262
(1) 2006	(2,132)	15,453	(1,519)	19,743
2007	(2,132)	13,321	(1,519)	18,224
2008	(2,132)	11,189	(1,519)	16,705
2009	(2,132)	9,057	(1,519)	15,186
2010	(2,132)	6,925	(1,519)	13,667
2011	(2,132)	4,793	(1,519)	12,148
2012	(2,132)	2,661	(1,519)	10,629
2013	(2,132)	529	(1,519)	9,110
2014	(529)	—	(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 2005.

Financial ratios

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

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

The succeeding pages present the following 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 on 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, 2005, 48% of the STM's total revenue consisted of autonomous revenue.

In 2005, the STM benefited from non-recurring transition funding of $19.0 million. But for this revenue in 2005, the ratio for autonomous revenue would have seen a slight rise to 50%.

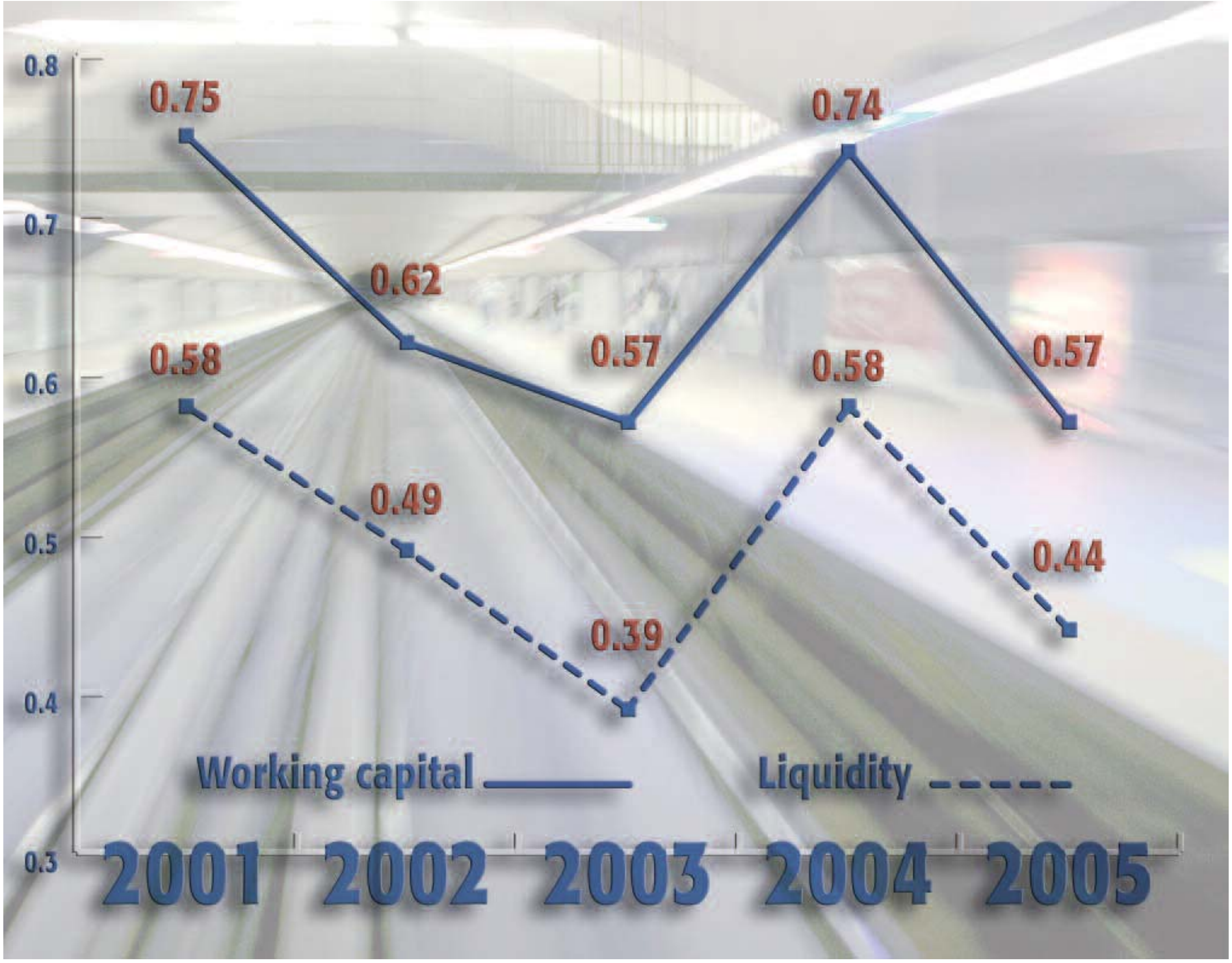
Percentage of revenue allocated to debt servicing

This ratio makes it possible to determine how much revenue must be dedicated to debt servicing before expenditures for other purposes. The increase of one percentage point results from the combined effect of the 9% increase in debt servicing and the 3% 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 expenses. The STM shows a deficit of $5.3 million at December 31, 2005 (a surplus of $33.6 million before interest). The ratio has decreased to 0.86.

Working capital fund and liquidity



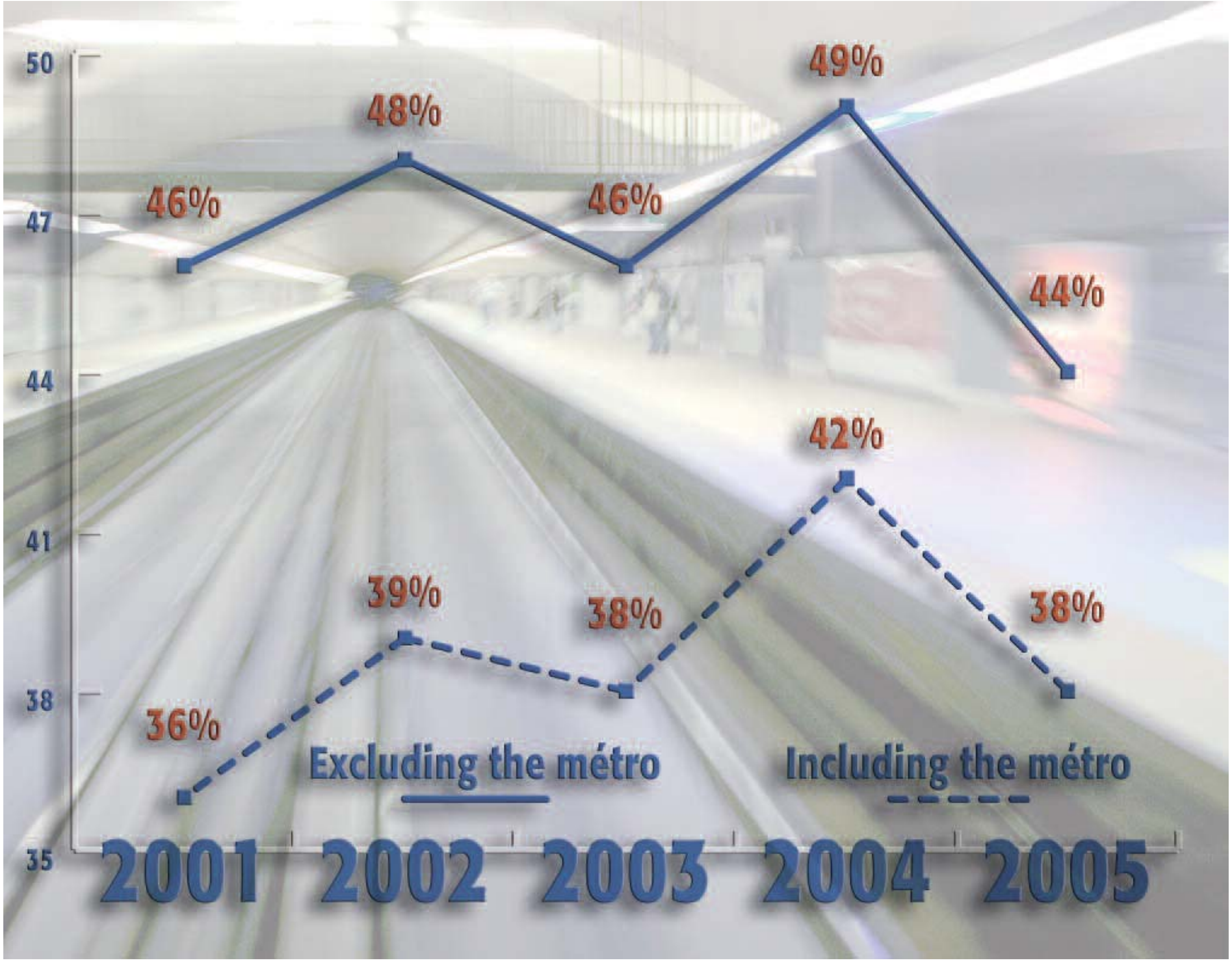
Working capital fund

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, 2005, the STM had $0.57 in current assets for each dollar of current liabilities. The decrease in this ratio in comparison with 2004 is mainly due to the under-financing of the projects in progress in 2005, thus increasing the short-term loans by $82.0 million.

Liquidity

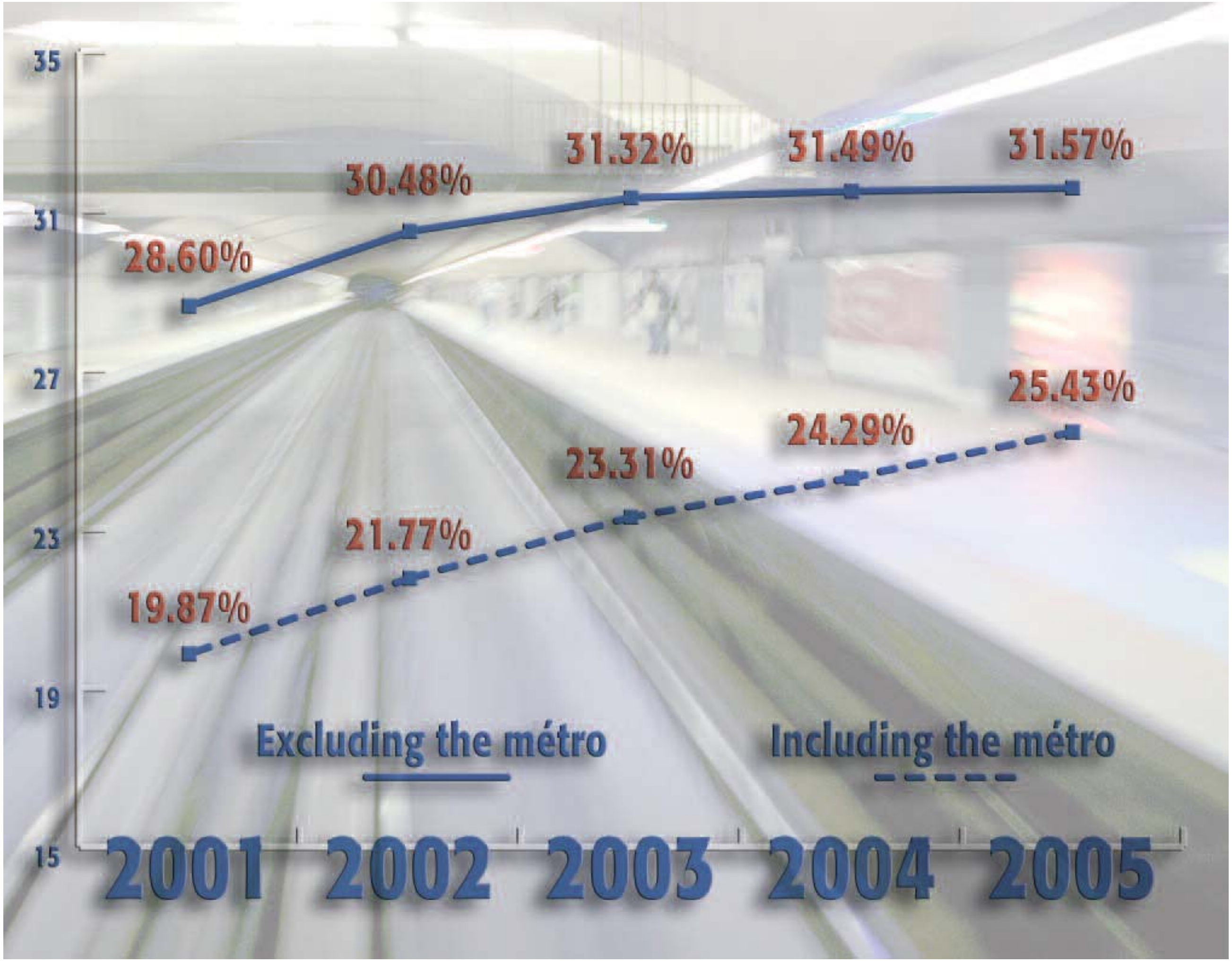
The liquidity ratio is derived from the working capital fund ratio and excludes current assets not affecting cash. At December 31, 2005, the company had $0.44 in liquid assets to repay each dollar of short-term debt.

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, 2005, 38% of the Société's assets were financed long-term (44% when métro assets are excluded).

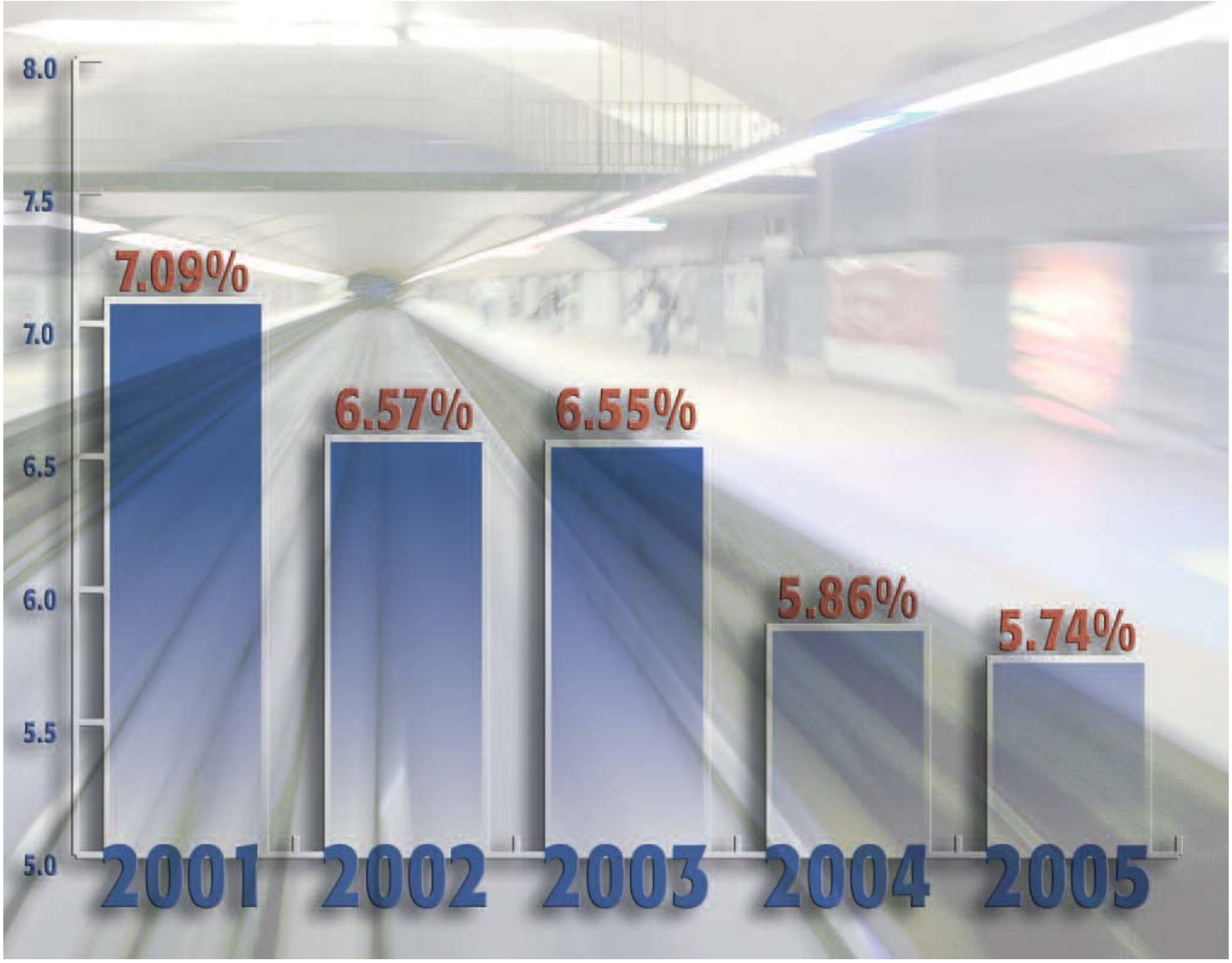
Percentage of total net indebtedness



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 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 network and the métro extension appears 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 network and 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 long-term debt as a percentage



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