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ACKNOWLEDGEMENTS

The production of the 2006 Financial Report is the fruit of the labours of a large number of employees in the Finance and Treasury Department.

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

Division Head

Luc Tremblay, CA

Section Head

Angèle Dubé, CA

Corporate Advisor

Nicole Racine, CA

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Analysts

Jean-Claude Joseph, CGA
Diane Proulx, CMA
Martine Lavallée

Technicians

Danielle Lavoie
Annie Lapointe

Secretary

Andrée Bernier

Sylvain Gonthier
Executive Director
Management of Shared Services

MEMBERS OF THE BOARD OF DIRECTORS

at December 31, 2006

Monsieur Claude Trudel
Chairman
Mayor of the Borough of Verdun

Monsieur Marvin Rotrand
Vice-Chairman
Montréal city councillor
Borough of Côte-des-Neiges /
Notre-Dame-de-Grâce

Monsieur Pierre Lapointe
Montréal city councillor
Borough of Ahuntsic - Cartierville

Monsieur Yvon Labrosse*
Mayor of the City of Montréal-Est

Monsieur Bernard Blanchet
Borough councillor of the City of Montréal
Borough of Lachine

Madame Yvette Bissonnet
Montréal city councillor
Borough of Saint-Léonard

Monsieur Dominic Perri
Montréal city councillor
Borough of Saint-Léonard

Madame Brenda Paris
Transit users' representative

Madame Marie Turcotte
Paratransit users' representative

* *Yvon Labrosse had to resign his mandate on December 1, 2006.*

MEMBERS OF THE AUDIT COMMITTEE

at December 31, 2006

Monsieur Pierre Lapointe
Chairman
Montréal city councillor
Borough of Ahuntsic - Cartierville

Monsieur Marvin Rotrand
Vice-Chairman
Montréal city councillor
Borough of Côte-des-Neiges /
Notre-Dame-de-Grâce

Monsieur Michel Bélanger, FCA
External member
Financial Management Advisor

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

HIGHLIGHTS

Sound management in a difficult financial context

Fiscal year 2006 was marked by the adoption of new accounting standards. Prior to 2006, the Société de transport de Montréal applied the recommendations of the *Manuel de la présentation de l'information financière municipale au Québec* published by the ministère des Affaires municipales et des régions (MAMR). As of 2006, under the accounting policies outlined in the handbook of the Canadian Institute of Chartered Accountants, the Société now meets the definition of a government business enterprise and is thus subject to the accounting standards for companies in the private sector.

In 2006 the Société's operating revenues reached a new high of $778.2 million in comparison with $768.1 million in 2005, representing an increase of $10.1 million. Growth in passenger revenue is the primary reason for this rise. Operating expenses reached $734.7 million, an increase of $22.1 million, attributable primarily to salary indexation ($14.4 million) and an increase of $5.3 million in expenses for Paratransit services due to a constantly changing demand leading to an increase of 14.2% in the number of trips carried out in comparison with 2005. The balance is attributable principally to the rise in energy cost and taxes.

The operating income was $43.5 million for the year 2006 compared with $55.5 million for the prior period. When the non-operational expenses of $63.8 million in 2006 and $59.6 million in 2005 are taken into account, the Société ends fiscal year 2006 with a net loss of $20.3 million compared with a loss of $4.1 million for the previous year.

Had it not been for the change in accounting standards explained previously and the impact estimated at $6.7 million, the Société would have ended the year with a net loss of $13.6 million with its budget predicting a shortfall of $32.0 million. These results show evidence of the efforts undertaken by the Société to reduce its expenses.

Investment expenses rose to $213.8 million compared to $203.0 million in 2005 and were dedicated principally to bus purchases ($33.7 million), development of the Réno-Systèmes program for the métro ($116.1 million) and realization of the fare sales and collection project ($25.7 million). These major sums are an indication of the scope of the investments required for the modernization of the Société's equipment and infrastructure. The Société's requirements in this area are estimated at $3.5 billion over the next decade.

Within this very difficult financial context, the Société reminded the governments of the importance of establishing a stable, permanent and predictable financial framework for public transit companies so as to enable them to provide the transit services expected by the population.

Furthermore, it should be noted that last spring the federal government announced that as of July 1, 2006, public transit users would be able to benefit from a non-reimbursable tax credit of 15.25% for 2006 on the cost of regular or reduced-fare monthly transit passes. We are confident that on top of the measures that we are going to implement to improve services to our clientele, this fiscal measure will encourage more people to choose public transit.

Yves Devin
Director General

Sylvain Gonthier
Executive Director
Management of Shared Services

ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

During the year the Société, as a government business enterprise, adopted the recommendations in the *Handbook – Accounting* of the Canadian Institute of Chartered Accountants. Prior to 2006, the financial statements were prepared according to the generally accepted accounting principles for municipal accounting in Quebec as contained in the *Manuel de la présentation de l'information financière municipale au Québec* published by the ministère des Affaires municipales et des régions.

As a result, the Société has restated its financial statements for the year ended December 31, 2005. The following analyses were carried out on the basis of the restated amounts.

The principal reconciling items between the 2006 budget shortfall ($32.0 million) and the net loss on the 2006 financial statements ($20.3 million) are as follows:

(in millions of dollars)		**2006**
Shortfall – budget 2006		**(32.0)**
Other revenue		1.8
Energy		
Savings related to swap	1.0	
Reimbursement of fuel tax	3.7	
Natural gas	1.6	6.3
Operating expenditures not made		3.8
Difference in deferred deficit (5.3 vs 6.3)		1.0
Unforeseen expenses		5.5
Loss before new accounting standards		**(13.6)**
Impact of new accounting standards		(6.7)
Net loss 2006		**(20.3)**

SUMMARY OF CONSOLIDATED INCOME

(in millions of dollars)	**2006**	**2005**
Operating revenues	778.2	768.1
Operating expenses	(734.7)	(712.6)
Income before non-operating components	43.5	55.5
Non-operating components	(63.8)	(59.6)
Net loss	**(20.3)**	**(4.1)**

The Société recorded operating revenues of $778.2 million for fiscal year 2006, while operating expenses amounted to $734.7 million, resulting in income before non-operating components of $43.5 million. Once the non-operating components totalling $63.8 million are deducted, the Société ends fiscal year 2006 with a net loss of $20.3 million.

ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF OPERATING REVENUES

(in millions of dollars)	2006	2005
Passengers	394.7	379.4
Contribution from the City of Montréal	278.0	276.2
Subsidies from the Government of Quebec	28.0	33.6
Regional contributions	52.4	54.1
Contribution from the Réseau de transport de Longueuil	1.8	1.8
Other revenue	23.3	23.0
	778.2	**768.1**

Revenues rose by $10.1 million in comparison to 2005, resulting from a combination of the increase in passenger revenue of $15.3 million (including $2.2 million in regional revenues) and a decrease of $5.6 million in subsidies from the Government of Quebec.

The rise in passenger revenue is attributable to the fare increase with an impact of some $10.0 million combined with a growth in ridership in the order of 1%.

The decrease in subsidies from the Government of Quebec results from the fact that in 2005 the ministère des Transports du Québec had made a one-time financial assistance payment of $10.8 million, which was not renewed in 2006. On the other hand, this same ministry followed up on its commitments regarding transport for those with reduced mobility by increasing the subsidy for the Paratransit service by $5.2 million in comparison with last year, of which $3.4 million is allocated to the development of services (ridership growth).

SUMMARY OF OPERATING EXPENSES

(in millions of dollars)	2006	2005
Bus and métro service	695.0	678.2
Paratransit service	39.7	34.4
	734.7	**712.6**

Operating expenses show an increase of $22.1 million, $16.8 million for the bus and métro service and $5.3 million for the Paratransit service.

The increase in expenses for the bus and métro service results primarily from an increase in payroll in the order of $14.4 million and an increase in the cost of certain public services such as municipal taxes and electricity.

Paratransit expenses show an increase of $5.3 million due to a constantly changing demand reflected by an increase of 14.2% in the number of trips carried out in comparison with 2005. This cost increase arises primarily from the taxi service, which posted an increase of $4.1 million and, in smaller measure, from salary increases in the order of $0.5 million.

ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

NON-OPERATING COMPONENTS

(in millions of dollars)	**2006**	**2005**
Government contributions and subsidies	60.4	61.5
Interest and financing costs	(38.8)	(36.8)
Amortization of tangible capital assets	(77.3)	(76.9)
Amortization of intangible assets	(6.4)	(7.0)
Excess of the expense for employee future benefits over the contributions paid	(7.0)	(6.3)
Revenue from the sinking fund investments	5.3	5.9
	(63.8)	**(59.6)**

Non-operating components show a decrease of $4.2 million. The last four items result directly from the application of the recommendations in the *Handbook – Accounting* of the Canadian Institute of Chartered Accountants.

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2006

Assets

(in millions of dollars)	**2006**	**2005**
Short-term		
Cash	13.1	12.1
Sinking fund investments	44.1	60.4
Subsidies receivable	52.7	62.8
Regional contributions receivable	26.3	28.8
Contribution receivable from the Réseau de transport de Longueuil	0.9	0.9
Other receivables	36.9	25.6
Inventories of supplies and replacement parts	26.5	23.0
Derivative financial instruments	0.1	1.6
	200.6	**215.2**
Tangible capital assets	**1,341.1**	**1,205.1**
Intangible assets	**20.6**	**26.9**
Sinking fund investments	**76.6**	**80.9**
Long-term receivables	**224.7**	**237.0**
Other long-term assets	**10.5**	**10.6**
	1,874.1	**1,775.7**

ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2006 (CONT'D)

The assets show an increase of $98.4 million in comparison with 2005 resulting primarily from an increase of $136.0 million in the area of tangible capital assets combined with decreases of $20.6 million in sinking fund investments and $15.3 million in long-term receivables. The assets consist of the following principal elements:

a) **Sinking fund investments**
The sinking fund investments are the investments in the eleven sinking funds dedicated to the repayment of certain long-term debts. The short-term portion reflects the repayment of the long-term debt from the sinking fund that will take place during the following year.

b) **Subsidies receivable**
The decrease of $10.1 million results from the receipt during the year of subsidies relating to tangible capital assets from the Government of Canada and the Agence métropolitaine de transport.

c) **Other receivables**
The other receivables consist of regional revenue of $3.8 million receivable from the Agence métropolitaine de transport, work accident payments recoverable of $0.7 million, tax claims from various governments in the amount of $4.5 million, customer receivables of $15.8 million, advance payments of $7.5 million for the métro extension, contract advances of $1.0 million and other receivables totalling $3.6 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. They include parts manufactured internally for a total amount of $4.2 million at December 31, 2006 ($4.7 million in 2005).

e) **Tangible capital assets**
This item represents the net value of the Société's tangible capital assets. The variance between the 2005 value of $1,205.1 million and the 2006 value of $1,341.1 million can be explained by acquisitions of $213.8 million, reduced by amortization of $77.3 million and by the non-amortized value of tangible assets disposed of in the amount of $0.5 million.

The principal acquisitions for the year consist of bus purchases in the amount of $33.7 million (CA 118), the program for renovation of stationary equipment in the amount of $116.1 million (CA 116 and R-058), as well as the equipment upgrade project and the new integrated fare sales and collection system in the amount of $25.7 million (R-010).

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ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2006 (CONT'D)

f) Intangible assets

Intangible assets include software with a net value of $19.6 million and software licences with an unamortized value of $1.0 million.

g) Long-term receivables

The long-term receivables correspond to the subsidies receivable from the ministère des Transports du Québec and the Agence métropolitaine de transport.

The decrease in the long-term receivables results from the fact that the Société issued fewer subsidized debts in 2006 than in 2005.

h) Other long-term assets

This item includes a deposit of $6.7 million for a bus purchase, deferred losses on financial instruments and unamortized exchange rate conversion of $1.6 million as well as other items in the amount of $2.2 million.

ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2006 (CONT'D)

Liability components

(in millions of dollars)	2006	2005
Short-term		
Short-term loans	205.8	116.4
Accounts payable and accrued liabilities	135.8	125.4
Derivative financial instruments	16.3	34.1
Current portion of long-term debt	80.0	97.6
	437.9	**373.5**
Long-term debt	**588.9**	**551.5**
Accrued benefit liability	**112.6**	**105.5**
Deferred subsidies	**508.7**	**498.9**
	1,648.1	**1,529.4**

The liabilities show an increase of $118.7 million, consisting of increases of $64.4 million in short-term liabilities and $54.3 million in long-term liabilities. The rise in short-term liabilities results from an increase of $89.4 million in short-term loans while awaiting long-term financing (issuance of a new debt of $100.0 million in January 2007) and is a result of the cumulative under-financing of $176.5 million for the year. The increase in long-term liabilities results from increases of $19.8 million in the long-term debt, $7.1 million in the accrued benefit liability and $9.8 million in the deferred subsidies.

a) Accounts payable and accrued liabilities

The accounts payable and accrued liabilities consist of supplier payables and accrued liabilities of $62.6 million, salaries and wage benefits of $22.8 million, sick leaves payable of $6.0 million, vacations payable of $26.3 million, holdbacks on contracts and security deposits of $1.1 million, accrued interest of $6.7 million and other payables of $10.3 million.

b) Derivative financial instruments

This item shows the fair value of currency and interest rate swaps that the Société holds to protect itself against interest and exchange rate risks. The Société also holds a diesel fuel swap whose value of $0.3 million was not posted, as it is eligible for hedge accounting.

c) Long-term debt

At December 31, 2005, the long-term debt stood at $649.0 million. During the year the Société proceeded with an issuance of $114.0 million. Repayment of the debt amounted to $97.3 million, where a loss of $3.2 million on exchange rate variation was recognized. Thus, the long-term debt at December 31, 2006, stood at $668.9 million.

d) Accrued benefit liability

This item includes amounts recognized on the balance sheet as employee future benefits, which include pension plans as well as other employee future benefits (post-employment and post-retirement).

ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2006 (CONT'D)

Equity components

(in millions of dollars)	2006	2005
Equity	**226.0**	**246.3**

The equity shows a decrease of $20.3 million in comparison with 2005, which represents the amount of the net loss for 2006.

TOTAL NET LONG-TERM INDEBTEDNESS

(in millions of dollars)	2006	2005
Long-term debt	668.9	649.0
Amounts accumulated in the sinking fund	(120.7)	(141.4)
Amounts recoverable for repayment of the long-term debt	(259.4)	(274.7)
Investment expenses to be financed net of subsidies	68.2	44.0
	357.0	**276.9**

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

MANAGEMENT RESPONSIBILITY FOR 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, 2006, was submitted to the Board of Directors of the Société on April 11, 2007.

The consolidated financial statements and all information appearing in this Financial Report are the responsibility of the management of the Société and have been approved by the Board of Directors. Management has also ensured that there is agreement between the consolidated financial statements and all other information disclosed in the Financial Report.

The consolidated financial statements contain certain amounts that are based on the use of professional judgement and estimates, the presentation of which gives due consideration to their materiality. Management established these amounts in a reasonable manner so as to ensure that the consolidated financial statements provide, in all material respects, a true picture of the financial position of the Société.

The Société's management maintains internal accounting and administrative quality control systems to ensure the integrity and objectivity of the financial information. Management considers that these internal control systems, the purpose of which is to provide a reasonable degree of certainty that the financial information is pertinent, reliable and exact, that the policies of the company are followed, that the operations are carried out in accordance with the appropriate authorities and that the assets of the Société are properly recorded and safeguarded, provide reasonable assurance that the accounting records are reliable and an appropriate foundation for the preparation of the consolidated financial statements.

The Board of Directors exercises its responsibility with regard to the consolidated financial statements contained in the Financial Report primarily through its Audit Committee, which is composed of members of the Board of Directors and external administrators. The Audit Committee reviews the consolidated financial statements and recommends their approval by the Board of Directors.

The consolidated financial statements have been audited jointly by Samson Bélair/Deloitte & Touche s.e.n.c.r.l. , 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.

Sylvain Gonthier	**Luc Tremblay, CA**
Executive Director	Division Head
Management of Shared Services	Financial Management

AUDITORS' REPORT

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

We have audited the consolidated balance sheet of Société de transport de Montréal as at December 31, 2006 and the consolidated statements of income, equity and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Société as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair/Deloitte & Touche s.e.n.c.r.l.
Comptables agréés

Montréal
Le 30 mars 2007

Michel Doyon, CA
Le Vérificateur général de Montréal

Montréal
Le 30 mars 2007

CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

CONSOLIDATED INCOME STATEMENT

for the year ended December 31, 2006

(in thousands of dollars)	Note	2006	2005
			(restated, note 2)
OPERATING REVENUES			
Passengers	5	394,734	379,358
Contribution from the City of Montréal		278,000	276,200
Subsidies from the Government of Quebec	6	27,993	33,605
Regional contributions	7	52,356	54,139
Contribution from Réseau de transport de Longueuil	8	1,803	1,803
Other revenue	9	23,280	23,022
		778,166	**768,127**
OPERATING EXPENSES			
Bus and métro service		695,021	678,153
Paratransit service		39,674	34,455
		734,695	**712,608**
INCOME BEFORE THE FOLLOWING COMPONENTS		**43,471**	**55,519**
Government contributions and subsidies	10	60,353	61,501
Interest and financing costs	11	(38,787)	(36,768)
Amortization of tangible capital assets		(77,284)	(76,932)
Amortization of intangible assets		(6,396)	(7,040)
Excess of the expense for employee future benefits over the contributions paid		(7,035)	(6,288)
Revenue from sinking fund investments		5,317	5,870
		(63,832)	**(59,657)**
NET LOSS		**(20,361)**	**(4,138)**

CONSOLIDATED BALANCE SHEET

at December 31, 2006

(in thousands of dollars)	Note	2006	2005
			(restated, note 2)
ASSETS			
Short-term			
Cash		13,066	12,073
Sinking fund investments	12	44,137	60,451
Subsidies receivable	13	52,665	62,774
Regional contributions receivable		26,284	28,801
Contribution receivable from the Réseau de transport de Longueuil		902	902
Other receivables	14	36,920	25,558
Inventories of supplies and replacements parts		26,489	22,981
Derivative financial instruments	21	115	1,561
		200,578	**215,101**
Tangible capital assets	15	**1,341,125**	**1,205,084**
Intangible assets	16	**20,584**	**26,913**
Sinking fund investments	12	**76,602**	**80,944**
Accrued benefit asset	23	**47**	**–**
Long-term receivables	17	**224,665**	**237,018**
Other long-term assets	18	**10,544**	**10,638**
		1,874,145	**1,775,698**
LIABILITIES			
Short-term			
Short-term loans	19	205,809	116,419
Accounts payable and accrued liabilities	20	135,775	125,357
Derivative financial instruments	21	16,343	34,057
Current portion of long-term debt	22	79,979	97,583
		437,906	**373,416**
Long-term debt	22	**588,893**	**551,497**
Accrued benefit liability	23	**112,627**	**105,545**
Deferred subsidies	24	**508,753**	**498,913**
		1,648,179	**1,529,371**
EQUITY		**225,966**	**246,327**
		1,874,145	**1,775,698**

Commitments (note 26)
Contingencies (note 28)

CONSOLIDATED EQUITY

for the year ended December 31, 2006

(in thousands of dollars)	Note	2006	2005
Equity at beginning of year			
Balance as previously reported		359,323	410,835
Restatement of the prior year's consolidated financial statements	2	(112,996)	(160,370)
Restated balance		246,327	250,465
Net loss		(20,361)	(4,138)
Equity at end of year		**225,966**	**246,327**

CONSOLIDATED CASH FLOWS

for the year ended December 31, 2006

(in thousands of dollars)	Note	2006	2005 (restated, note 2)
Operating activities			
Net loss for year		(20,361)	(4,138)
Non-cash items:			
Amortization of the deferred loss on derivative financial instruments and deferred gain on currency exchange		1,578	2,859
Amortization of subsidies relating to tangible capital assets		(42,700)	(42,766)
Amortization of intangible assets		6,396	7,040
Amortization of tangible capital assets		77,284	76,932
Loss (gain) in value of derivative financial instruments		(1,993)	11,141
Loss on disposal of tangible capital assets		489	608
Change in long-term receivables		317	520
Change in the excess of the expense for employee future benefits over the contributions paid		7,035	6,288
		28,045	58,484
Net change in the non-cash components of the working capital	25	5,215	6,720
Cash flow related to operating activities		**33,260**	**65,204**
Investment activities			
Acquisition of tangible capital assets		(213,851)	(203,010)
Disposal of tangible capital assets		37	126
Acquisition of intangible assets		(67)	(323)
Acquisition of sinking fund investments		(49,099)	(51,414)
Disposal of sinking fund investments		67,851	48,437
Amortization of premiums and discounts on sinking fund investments		1,904	2,097
Change in other long-term assets		(1,484)	(286)
Cash flow related to investment activities		**(194,709)**	**(204,373)**
Financing activities			
Receipt of long-term receivables		37,722	39,069
Change in derivative financial instruments		(14,275)	(7,743)
Change in short-term loans		89,390	81,569
Issuance of demand notes		–	147
Issuance of long-term debt		114,000	75,000
Repayment of the long-term debt		(97,381)	(75,732)
Receipt of deferred subsidies		29,813	39,704
Cash flow related to financing activities		**159,269**	**152,014**
Exchange loss on long-term debt denominated in foreign currency		3,173	(10,705)
Net increase in cash and cash equivalents		**993**	**2,140**
Cash and cash equivalents at beginning of year		**12,073**	**9,933**
Cash and cash equivalents at end of year		**13,066**	**12,073**

Supplementary information is presented in note 25.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

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.

The Société is exempt from corporate income tax under paragraph 149 (1) (c) of the *Income Tax Act* and under article 984 of the Quebec Taxation Act.

On a consolidated basis, the activities of the Société consist of two distinct operating sectors:

Transportation services sector
The transportation services sector includes public transit service by bus and métro as well as transportation for those with reduced mobility.

The details of the expenses presented in the income statement are 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 the management of shared services (finance and treasury, human resources, procurement, information technology, pension plan, commercial activities, business plan and project portfolio management), planning, marketing and communications (network planning and development, marketing, communications, public affairs and customer service), management of major projects, construction and infrastructure projects and corporate services (senior management, auditing, secretariat and legal affairs).

"Paratransit service" groups together all the activities required for the planning and provision of transportation by minibus or taxi for those with reduced mobility.

Commercial sector
The commercial sector seeks to promote, stimulate and develop the commercial potential of the Société. The commercial activities are carried out within the framework of the full interest that the Société holds in Transgesco Limited Partnership and its subsidiary 9130-8593 Québec Inc.

2. Changes in accounting methods

During the year the Société, as a government public enterprise, adopted the recommendations in the Handbook – Accounting of the Canadian Institute of Chartered Accountants. Prior to 2006 the financial statements were prepared according to the generally accepted municipal accounting standards in Quebec, as contained in the Manuel de la présentation de l'information financière municipale au Québec published by the ministère des Affaires municipales et des régions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

2. Changes in accounting methods (cont'd)

As a result, the principal changes in the accounting treatments as outlined above have been applied retroactively. The financial statements for the prior year have been restated to take these changes into account.

a) Employee future benefits

During the year the Société applied the recommendations of Section 3461, *Employee Future Benefits.* Under these recommendations, the Société recognizes a liability and an expense for employee future benefits for each of its defined benefit plans in the year in which employees render services to the Société in return for these benefits. The Société also recognizes a liability and an expense for post-employment benefits that do not vest or accumulate at the time the event obligating the entity occurs. Previously, the Société recognized as an expense for the year only the annual contribution for these plans.

As of 2006 the Société adopted the new standard for employee future benefits on a retroactive basis. The transitory obligation was recognized in its entirety on the balance sheet on this date, impacting the equity of the Société.

b) Amortization of tangible capital assets, subsidies for tangible capital assets and intangible assets

As of the year 2006 the Société adopted the recommendations of section 3061, *Property, plan and equipment*, which state that the amortization of tangible capital assets must be expensed to the income statement rather than to equity when the assets are put into service. The Société also ceased charging to the income statement the capital repayments on the long-term debt and the contributions to the sinking funds for the repayment of the long-term debt.

The subsidies for tangible capital assets and intangible assets are now amortized at the same rate as their related assets rather than on the basis of the repayment of the long-term debt.

c) Financial instruments

During the year the Société adopted the recommendations of the Canadian Institute of Chartered Accountants contained in guideline AcG-13, *Hedging Relationships*, and in the *Abstract of Issues Discussed* EIC-128, *Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments*.

In accordance with these recommendations, financial instruments that do not meet the conditions for hedge accounting covered in AcG-13 are recognized in the balance sheet and valued at the fair value. The changes in the fair value are recorded in the income for the year. Prior to the application of these recommendations, the Société's financial instruments were presented off-balance sheet.

The deferred gains and losses resulting from the application of AcG-13 are amortized on a straight-line basis over the remaining period of the debt to which they relate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

2. Changes in accounting methods (cont'd)

d) Long-term investment

As of the year 2006, the Société adopted the recommendations of Section 3050, *Long-term Investments*, and Section 1600, *Consolidated Financial Statements*, leading the company to take into consideration its participation in two subsidiary companies and consolidate their financial statements with the Société's rather than using the equity method of consolidation.

e) Revenue from sinking fund investments

As of the year 2006, the Société recognizes revenues from sinking fund investments for the repayment of certain long-term debt in the income statement rather than in equity.

f) Allocation of the deficit from the prior year

As of 2006 the Société no longer allocates the deficit from the prior year to the income statement as an expense for the year.

The retroactive application of these recommendations had the effect of restating the opening equity balances for the years ending December 31, 2005 and December 31, 2006.

Restatement of consolidated equity

(in thousands of dollars)	2006	2005
Equity at beginning of year, as reported	359,323	410,835
Employee future benefits	(103,959)	(97,671)
Derivative financial instruments	(936)	(2,508)
Amortization of land	6,073	6,021
Deferred subsidies and long-term receivables	(13,755)	(66,535)
Restatement of companies under joint control	(419)	323
	(112,996)	(160,370)
Equity at beginning of year, as restated	246,327	250,465

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

2. Changes in accounting methods (cont'd)

As a result, the Société has also restated its financial statements for the year ended December 31, 2005. The effect of this restatement on the consolidated income statement and the consolidated balance sheet is presented in the following charts. The restatement has no effect on the cash flow related to operating activities.

Restatement of Consolidated Income Statement for year ended December 31, 2005

(in thousands of dollars)	Initial balances as reported [a]	Adjustment	Restated balances
OPERATING REVENUES			
Passengers	379,358	–	379,358
Contribution from the City of Montréal	276,200	–	276,200
Subsidies from the Government of Quebec	86,622	(53,017)	33,605
Regional contributions	61,607	(7,468)	54,139
Contribution from the Réseau de transport de Longueuil	1,803	–	1,803
Other revenue	21,864	1,158	23,022
	827,454	**(59,327)**	**768,127**
OPERATING EXPENSES AND OTHER COMPONENTS			
Bus and métro service	684,715	(6,562)	678,153
Paratransit service	37,338	(2,883)	34,455
Government contributions and subsidies	–	(61,501)	(61,501)
Interest and financing costs	104,437	(67,669)	36,768
Amortization of tangible capital assets	–	76,932	76,932
Amortization of intangible assets	–	7,040	7,040
Excess of the expense for employee future benefits over the contributions paid	–	6,288	6,288
Revenue from sinking fund investments	–	(5,870)	(5,870)
Prior year's deficit allocated to the current year	6,311	(6,311)	–
	832,801	**(60,536)**	**772,265**
NET LOSS	**(5,347)**	**1,209**	**(4,138)**

[a] The data presented come exclusively from the statement of financial activities and, therefore, do not include the other elements of change in the equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

2. Changes in accounting methods (cont'd)

Restatement of Consolidated Balance Sheet at December 31, 2005

(in thousands of dollars)	Initial balances as reported [(a)]	Adjustments	Restated balances
ASSETS			
Short-term			
Cash	10,533	1,540	12,073
Sinking fund investments	60,451	–	60,451
Subsidies receivable	25,052	37,722	62,774
Regional contributions receivable	28,801	–	28,801
Contribution receivable from the Réseau de transport de Longueuil	902	–	902
Other receivables	31,094	(5,536)	25,558
Inventories of supplies and replacement parts	22,981	–	22,981
Derivative financial instruments	–	1,561	1,561
Current portion of long-term receivables	22,981	(22,981)	–
	202,795	**12,306**	**215,101**
Tangible capital assets	**1,224,651**	**(19,567)**	**1,205,084**
Intangible assets	**2,098**	**24,815**	**26,913**
Sinking fund investments	**80,944**	**–**	**80,944**
Long-term investments	**3,248**	**(3,248)**	**–**
Long-term receivables	**244,244**	**(7,226)**	**237,018**
Other long-term assets	**–**	**10,638**	**10,638**
	1,757,980	**17,718**	**1,775,698**
LIABILITIES			
Short-term			
Short-term loans	116,419	–	116,419
Accounts payable and accrued liabilities	127,719	(2,362)	125,357
Derivative financial instruments	–	34,057	34,057
Current portion of long-term debt	108,671	(11,088)	97,583
	352,809	**20,607**	**373,416**
Long-term debt	**567,421**	**(15,924)**	**551,497**
Accrued benefit liability	**–**	**105,545**	**105,545**
Deferred subsidies	**478,427**	**20,486**	**498,913**
	1,398,657	**130,714**	**1,529,371**
EQUITY	**359,323**	**(112,996)**	**246,327**
	1,757,980	**17,718**	**1,775,698**

(a) The 2005 financial statements were initially established using the equity method of consolidation rather than full consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

3. Summary of significant accounting policies

These consolidated financial statements were prepared in accordance with the following Canadian generally accepted accounting principles:

a) Reporting entity

The consolidated financial statements group together the accounts of the Société and its two subsidiaries, 9130-8593 Quebec Inc. (wholly owned) and Transgesco Limited Partnership (owned at 99.9%).

b) Cash and cash equivalents

The cash and cash equivalents consist of bank balances including bank overdrafts on which the balances often fluctuate between negative and positive and temporary investments whose maturity dates do not exceed three months from the date of purchase. In addition, the sinking fund investments, which the company cannot use for current operations as they are allocated to the repayment of certain long-term debts, are not included in the cash and cash equivalents.

c) Inventories of supplies and replacement parts

The inventories of supplies and replacement parts consist primarily of parts used for the maintenance of the Société's rolling stock and infrastructure. They are valued at the lesser of the average cost or replacement cost.

d) Tangible capital assets

The tangible capital assets are recorded at cost and are amortized over their useful life using the straight line method over the following periods:

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	5 and 10 years
Machinery, tools and equipment	15 years

Tangible capital assets are amortized from the date they are put into service. The capital assets in progress (projects underway) and tangible capital assets withdrawn from service are not subject to amortization.

Tangible capital assets received without consideration are recorded at the cost of the government authority responsible for developing them. The consideration appears under "Deferred subsidies".

Interest on the sums to be used to finance the acquisition of tangible capital assets is capitalized until the asset is put into service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

3. Summary of significant accounting policies (cont'd)

e) Depreciation of long-term assets

The long-term assets are subjected to a recoverability test when events or changes in situation indicate that their accounting value might not be recoverable. A loss in value is recognized when their accounting value exceeds the undiscounted cash flow resulting from their use and from their possible withdrawal. The loss in value recognized is the excess of the accounting value of the asset over its fair value.

f) Intangible assets

Intangible assets are recorded at cost, and amortization is calculated over their useful life according to the following methods:

Software	5 years, straight-line
Software licences	10 years, straight-line

g) Sinking fund investments

The sinking fund investments are composed primarily of bonds and bond coupons that are recorded at cost after amortization.

h) Long-term receivables and deferred subsidies

Long-term receivables are created when a long-term debt is issued based on the rates of the subsidies for the various tangible capital assets in progress being financed. These rates are established from the terms of the Government of Quebec's public transit assistance program and special agreements. The long-term receivables do not include any interest. The short-term portion is composed of anticipated receipts for the following year and is found under "Subsidies receivable". The long-term receivables are reduced on receipt of subsidies.

In the case of deferred subsidies, they are created either when long-term debt (counterpart of long-term receivables) is issued or on the awarding of a cash subsidy for tangible capital assets, always in accordance with the public transit assistance program or special agreements. They are transferred to income on the same basis as the amortization expense to "Amortization of subsidies relating to tangible capital assets".

i) Currency conversion

The Société uses the temporal method for the conversion of its accounts expressed in foreign currency.

The revenues and expenses from operations carried out in a foreign currency are converted to Canadian dollars at the prevailing rates on the date of the transactions. The gains and losses on exchange are included in the income for the year.

The monetary asset and liability components are converted at the rate of exchange in effect on the date of the balance sheet.

j) Derivative financial instruments

The Société periodically enters into exchange contracts and currency and interest rate swaps with major financial institutions to protect itself in part against exchange fluctuations relating to its long-term debt denominated in foreign currency and bearing interest at variable rates, as well as to cover certain planned purchases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

3. Summary of significant accounting policies (cont'd)

The Société does not use financial instruments for speculative purposes. The Société uses hedge accounting only when it meets the documentation criteria under Canadian accounting standards. The gains and losses on the financial instruments designated as hedges are recognized on the income statement in the same period as the underlying operations, and if the instrument is not designated and documented as a hedge item, the derivative instrument is recorded on the balance sheet at the fair value, the changes in fair value being recognized in income statement for the period.

k) Employee future benefits

The actuarial valuation of the accrued benefit obligations relating to the pension benefits and other supplementary retirement benefits is based on the projected benefit method prorated on service and incorporates management's best estimate of future changes in salary levels, the rise in other costs, the retirement ages of the employees and other actuarial factors.

These assets are evaluated at their fair value for the purpose of calculating the anticipated rate of return on the plan assets.

The cost of past services resulting from amendments to the plans is deferred and amortized using the straight-line method over the average remaining service life of the active employees on the date of the amendments.

The actuarial gains (actuarial losses) result from the gap between the actual long-term performance of the plan assets over a certain period and the anticipated performance during this period or the changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net cumulated actuarial gain (net cumulated actuarial loss) over 10% of the accrued pension obligation or over 10% of the fair value of the plan assets, if the latter amount is higher, is amortized over the average remaining service life of the active employees. The average remaining service life of the employees covered by the pension plans ranges from 11 to 15 years depending on the plan. The average remaining service life of the employees covered by the supplementary retirement benefits plans is 12.6 years for the supplementary employee retirement benefits and 5.2 years for the post-employment benefits.

l) Recognition of revenue

Revenue from passenger transportation is recognized at the time that the cash payments are made or when passengers use the tickets (single tickets or a strip). As for the weekly and monthly passes, the revenues are recognized in the period for which these passes are valid.

Contributions and subsidies are recorded when the conditions giving right to this governmental or municipal aid are fulfilled. The subsidies granted for the purchase of tangible capital assets are first recorded as deferred subsidies and are transferred gradually to income at the same rate as the amortization of these tangible capital assets.

The other revenue includes advertising royalties, rental revenue, as well as revenue from sinking fund investments that will be used for the repayment of the long-term debt. It is recorded when it is earned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

3. Summary of significant accounting policies (cont'd)

m) Use of estimates

As part of the financial statement preparation, and in accordance with Canadian generally accepted accounting principles, management must establish estimates and hypotheses that have an effect on the asset and liability amounts presented and on the presentation of the contingent assets and liabilities on the date of the financial statements as well as on the amounts for operating revenues and expenses recognized during the period covered by the financial statements. The principal areas that require the use of estimates by management are: useful life for the purpose of amortization, the establishment of the amount for long-term receivables, the establishment of fair values for the derivative financial instruments, the pension benefits and other supplementary employee benefits (post-retirement and post-employment) as well as the liabilities and other claims. As the income is determined on the basis of actual events, it could differ significantly from the above estimates.

4. Future accounting changes

The CICA has published three new accounting standards that the Société is preparing to adopt on a retroactive basis, without restatement, as of January 1, 2007:

Financial instruments

a) Section 3855, *Financial Instruments – Recognition and Measurement*. This section applies to fiscal years beginning on or after October 1, 2006. It establishes the standards for recognition and measurement of financial instruments appearing on the balance sheet and the standards for presentation of gains and losses in the financial statements. The financial assets available for sale, the assets and liabilities held for trading and the derivative financial instruments, whether or not they are part of a hedging relationship, must be valued at the fair value. The effect of the reevaluation of our financial assets and liabilities to their fair value will be recognized in the opening balance of the deficit and in the cumulative amounts of the other consolidated income items.

b) Section 1530, *Comprehensive Income*. This section applies to fiscal years beginning on or after October 1, 2006. It outlines the recommendations with regard to the information to be provided and the presentation of comprehensive income and its components. Comprehensive income corresponds to the change in net assets resulting from operations, events and circumstances from non-owner sources. These operations and events include non-realized gains and losses from fluctuations in the fair value of certain financial instruments.

c) Section 3865, *Hedges*. This section applies to fiscal years beginning on or after October 1, 2006. The recommendations provide additional information to that contained in accounting guideline number 13 (AcG-13), Hedging Relationships. This section describes when hedge accounting can be applied and in what manner and also indicates the information to be provided. Hedge accounting allows for the recording of the gains, losses, revenues and expenses resulting from derivative financial instruments during the same year as those resulting from the underlying hedge component.

The Société is in the process of evaluating the impact of the adoption of these new standards on its consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

5. Passengers

(in thousands of dollars)	2006	2005
Bus and métro service	362,879	350,004
Paratransit service	2,024	1,716
Regional revenues [(a)]	29,831	27,638
	394,734	**379,358**

(a) The regional revenues attributable to the Société are derived from the sharing of revenue from the sale of city transportation fares

6. Subsidies from the government of quebec

(in thousands of dollars)	2006	2005
Paratransit service [(a)]	27,941	22,764
Revision of the financial framework [(b)]	–	10,818
Other	52	23
	27,993	**33,605**

(a) 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.

(b) Revision of the financial framework

In accordance with order-in-council 280-2005 of March 30, 2005, the Government of Quebec awarded a one-time non-recurring subsidy of $20.0 million to the public transit companies for the year 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 share of the 2004 surplus of the Agence métropolitaine de transport.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

7. Regional contributions

(in thousands of dollars)	2006	2005
For trips on the métro network [a]	43,933	43,601
For trips on city bus lines [a]	5,781	6,019
For equipment and infrastructure [b]	1,464	1,471
Share of surplus from the Agence métropolitaine de transport [c]	–	2,582
Fare integration [d]	1,178	466
	52,356	54,139

[a] Bus 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, 2006, the contract stipulating the date and terms for the transfer of these assets was not signed. Despite the eventual ownership transfer, the Société remains responsible for the debt relating to this property. However, the Agence reimburses the Société for the operating costs and debt servicing, net of any government subsidy.

[c] Sharing 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 for reduced fares allocated in 2005.

[d] Fare integration

Metropolitan aid paid to transit 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 the purchasers of monthly TRAM passes for that zone.

8. Contribution from the réseau de transport de Longueuil

On March 29, 2006, the Government of Quebec adopted order-in-council 261-2006 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 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

9. Other revenue

(in thousands of dollars)	2006	2005
Advertising	11,582	11,316
Rentals	4,195	3,844
Incidental activities [a]	306	90
Other	7,197	7,772
	23,280	**23,022**

	2006	2005
[a] **Incidental activities**		
Métro extension		
Revenues	8,072	5,649
Expenses	(7,881)	(5,649)
	191	–
Other projects		
Revenues	1,302	917
Expenses	(1,187)	(827)
	115	90
	306	**90**

10. Government contributions and subsidies

(in thousands of dollars)	2006	2005
Amortization of the subsidies relating to tangible capital assets [a]	42,700	42,766
Subsidies from the Government of Quebec relating to financing [a]	15,824	16,293
Regional contributions relating to financing [b]	1,829	2,442
	60,353	**61,501**

[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 for admissible expenses including interest on the long-term debts related to bus purchases, building construction, renovation of métro stations, renovation of métro cars and other specific expenses, at rates ranging from 48% to 75%.

[b] Commuter trains

The Agence métropolitaine de transport reimburses the long-term interest costs relating to the commuter trains as the assets have been transferred to the Agence, while the Société retained the debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

11. Interest and financing costs

(in thousands of dollars)	2006	2005
Interest on the long-term debt	34,428	32,393
Short-term financing costs	5,535	2,116
	39,963	34,509
Financing costs allocated to tangible capital assets in progress	(3,934)	(1,036)
	36,029	33,473
Derivative financial instruments		
Loss (gain) in value of the derivative financial instruments	(1,993)	11,141
Loss (gain) on currency conversion	3,173	(10,705)
Amortization of the deferred loss on the derivative financial instruments and of the deferred gain on currency conversion	1,578	2,859
	38,787	**36,768**

12. Sinking fund investments

(in thousands of dollars)	2006	2005
Cash	21,378	28,741
Bonds and bond coupons, at unamortized cost, with a market value of $98.7 million ($112.3 million in 2005)	97,830	111,118
Interest receivable	1,531	1,536
	120,739	141,395
Short-term portion	(44,137)	(60,451)
	76,602	**80,944**

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

	Investments guaranteed by the Government of Quebec	Weighted nominal interest rate
2007	53,163	6.46%
2008	–	–
2009	5,794	5.35%
2010	2,920	6.06%
2011	3,764	6.40%
More than 5 years	32,189	5.66%
	97,830	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

13. Subsidies receivable

(in thousands of dollars)	2006	2005
Government of Quebec		
Capital assets [(a)]	32,248	33,999
Paratransit	9,782	7,437
Revision of the financial framework	–	1,078
Other	1,183	749
	43,213	43,263
Government of Canada		
Capital assets	5,420	7,726
Agence Métropolitaine de transport		
Capital assets [(a)]	4,032	11,785
	52,665	**62,774**

(a) Includes the short-term portion of the long-term receivables (note 17) in the amount of $34,763 ($37,722 in 2005).

14. Other receivables

(in thousands of dollars)	2006	2005
Regional revenues	3,811	4,102
Work accident payments recoverable	643	727
Tax claims submitted to governments	4,540	1,988
Accounts receivable	15,755	13,095
Advance payments for the métro extension, interest-free	7,504	2,171
Contract advances, interest-free	968	1,338
Other	3,699	2,137
	36,920	**25,558**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

15. Tangible capital assets

(in thousands of dollars)	2006			2005
	Cost	Accumulated amortization	Net book value	Net book value
Land	7,352	–	7,352	7,352
Buildings	181,730	73,366	108,364	109,552
Original métro network and extensions	1,454,474	1,229 ,747	224,727	238,231
Improvements to métro infrastructure	364,135	64,565	299,570	181,491
Local infrastructure	12,079	3,331	8,748	8,703
Regional infrastructure	11,499	7,908	3,591	4,187
Rolling stock – buses	637,266	302,148	335,118	322,206
Rolling stock – minibuses	8,969	5,345	3,624	3,774
Rolling stock – other	29,747	15,405	14,342	15,041
Leasehold improvements	7,170	6,446	724	1,207
Office equipment	26,221	5,639	20,582	3,795
Machinery, tools and equipment	103,349	45,924	57,425	30,610
Tangible capital assets in progress	256,958	–	256,958	278,935
	3,100,949	**1,759,824**	**1,341,125**	**1,205,084**

16. Intangible assets

(in thousands of dollars)	2006			2005
	Cost	Accumulated amortization	Net book value	Net book value
Software	48,147	28,582	19,565	24,815
Software licences	5,995	4,976	1,019	2,098
	54,142	**33,558**	**20,584**	**26,913**

17. Long-term receivables

(in thousands of dollars)	2006	2005
Amount recoverable for repayment of the long-term debt (note 22)		
Government of Quebec	257,591	266,713
Agence métropolitaine de transport	1,837	8,027
	259,428	274,740
Current portion of long-term debt (included in subsidies receivable) (note 13)	(34,763)	(37,722)
	224,665	**237,018**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

18. Other long-term assets

(in thousands of dollars)	2006	2005
Deposit for bus purchase	6,721	5,285
Interim advance – payroll	772	847
Deferred loss on derivative financial instruments and currency conversion	1,562	3,140
Rents	541	357
Other	948	1,009
	10,544	**10,638**

19. Short-term loans

The Société has a loan authorization to a limit of $350.0 million for its current operating expenses and for expenses incurred in accordance with a loan by-law.

Of this amount, a sum of $310.0 million can be borrowed, in whole or in part, by means of notes, bankers' acceptances or other instruments negotiable through 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, 2006, the average rate on the short-term loans was 4.11% (2.74% in 2005).

The Société also has a line of credit of $40.0 million in the form of demand notes. 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 2006 was 5.76% (4.40% in 2005).

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

The short-term loans total $205.8 million at December 31, 2006 ($116.4 million at December 31, 2005).

20. Accounts payable and accrued liabilities

(in thousands of dollars)	2006	2005
Suppliers and accrued liabilities	62,562	55,093
Salaries and benefits	22,789	20,995
Sick leaves payable	5,991	7,125
Vacations payable	26,363	24,867
Holdbacks on contracts and security deposits	1,050	877
Accrued interest	6,740	6,008
Other	10,280	10,392
	135,775	**125,357**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

21. Derivative financial instruments

Among the various derivative financial instruments that the Société uses are swap contracts relating to goods or swaps linked to an interest rate or to foreign currency for the corresponding long-term debt.

At the end of the year, the Société held the following financial instruments with a positive fair value:

(in thousands of dollars)

Description of swap contract	Maturity date	Nominal reference quantity (in thousands of litres)	Fair value in CAN $ 2006	Fair value in CAN $ 2005
Diesel fuel	31-12-2008	34 036	**115**	**1,561**

At the end of the year, the Société held the following financial instruments with a negative fair value:

(in thousands of dollars)

Description of swap contract	Maturity date	Nominal reference quantity (in thousands of litres)	Forward exchange rate CAN $/ US $ or Euro	Nominal reference amount in US $ or Euro	Fair value in CAN $ 2006	Fair value in CAN $ 2005
Interest and exchange rates (Euro/CAN)	12-12-2007	–	1.579	19,000	1,263	4,921
Interest and exchange rates (Euro/CAN)	Expired	–	1.865	16,086	–	8,760
Interest and exchange rates (US/CAN)	Expired	–	1.334	22,489	–	4,619
Interest and exchange rates (US/CAN)	09-01-2012	–	1.571	30,000	15,080	15,757
					16,343	**34,057**
Swap meeting hedge conditions [(a)]						
Diesel fuel	31-12-2009	44,625	–	–	**286**	**–**

[(a)]The fair value of the swap was not recorded, as the swap is eligible for hedge accounting as covered in AcG-13.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

22. Long-term debt

(in thousands of dollars)	**2006**	**2005**
Bonds and bank loans, at fixed interest rates ranging from 3.25% to 8.75% (2.80% to 8.75% in 2005) due from February 2007 to February 2021	604,291	538,962
Bonds and bank loans at variable interest rates based on LIBOR rates plus a premium of 0.15% to 0.275% and on the base rate plus 1.35%, due from December 2007 to January 2012	64,581	110,118
	668,872	649,080
Current portion of long-term debt	(79,979)	(97,583)
	588,893	**551,497**

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 Société's commitments and obligations, including the long-term debt contracted by the Société.

The long-term debt includes the debt relating to the commuter trains, which stands at $1,837 ($8,027 in 2005). While the track-based rolling stock and all other assets related to the operating of the commuter train network have been the property of the Agence métropolitaine de transport since 1996, the Société retained the long-term debt associated with this property. The Agence reimburses the Société for the capital and interest and is guarantor, in case of default, for repayment of these amounts.

The Société uses currency and interest rate swap contracts for loans totalling $77.1 million ($137.1 million in 2005). These swaps completely eliminate 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	American dollars converted into Canadian dollars	Euros converted into Canadian dollars	Total	Weighted interest rate
2007	50,762	–	29,217	79,979	–
2008	64,030	–	–	64,030	–
2009	90,036	–	–	90,036	–
2010	25,642	–	–	25,642	–
2011	28,016	–	–	28,016	–
1 to 5 years	**258,486**	–	**29,217**	**287,703**	4.97%
6 to 10 years	306,210	34,959	–	341,169	4.95%
11 years and more	40,000	–	–	40,000	4.89%
	604,696	**34,959**	**29,217**	[(a)]**668,872**	

[(a)] Of the total amount of $668.9 million, a sum of $120.7 million has already been allocated to sinking fund investments (note 12) for the repayment of certain long-term debts at December 31, 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

22. Long-term debt (cont'd)

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

(in thousands of dollars)	2006	2005
Bonds and bank loans	668,872	649,080
Amounts accumulated as sinking fund investments	(120,739)	(141,395)
Amounts recoverable for the repayment of the long-term debt		
Government of Quebec	(257,591)	(266,713)
Agence Métropolitaine de Transport	(1,837)	(8,027)
Balance for which the City of Montréal is guarantor	**288,705**	**232,945**

23. Employee future benefits

a) Overall description of employee benefit plans

The Société has a certain number of funded and non-funded defined benefit plans that guarantee the payment of pension benefits, supplementary retirement benefits and post-employment benefits to all employees.

Employees of the Société are active participants in one of the Société's two defined benefit plans. The employees covered by the Syndicat du transport de Montréal (CSN) pay contributions to the Régime de retraite de la Société de transport de Montréal (Syndicat de transport de Montréal CSN) ("Régime CSN") while the other employees pay their contributions to the Régime de retraite de la Société de transport de Montréal (1992) ("Régime 1992"). These 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 from these two pension plans.

Contributions are calculated on the base salary at a rate of 6% for the employees and 12% for the employer, less its share of contributions to the Régime des rentes du Québec (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.

The most recent actuarial evaluation of the pension plans for funding purposes was carried out on December 31, 2005, and the next evaluation must be carried out on December 31, 2008.

In the case of "Régime 1992" and "Régime CSN", the employer cannot use the surplus unilaterally to lower its contributions. In fact, the employees must be in agreement in determining the use of the surplus. A portion of the surplus is reserved for the financing of future benefits (the "reserve"). Thus, the expected future benefit is nil, giving rise to the recording of an allowance for valuation that is deducted from the accrued benefit asset. At December 31, 2006, the allowance for valuation amounts to $55.7 million ($52.0 million in 2005).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

23. Employee future benefits (cont'd)

The employees of the Société also benefit from a range of supplementary retirement and post-employment benefits including life insurance, health care coverage, banking of sick leave, salary continuance during short-term disability, plans to supplement benefits paid by the CSST and maternity and parental benefits as well as the maintenance of insurance coverage during certain prolonged absences. These benefits vary depending on the work group to which the employee belongs.

The Société evaluates its accrued benefit obligations and the fair value of its plan assets for accounting purposes on August 31 of each year.

(in thousands of dollars)	Pension plans		Other plans	
	2006	2005	2006	2005
b) Total cash payments				
Employer contributions for employee future benefits	**33,047**	**32,078**	**7,832**	**7,487**
c) Accrued benefit obligation				
Balance at beginning of year	2,907,584	2,686,644	88,753	84,765
Cost of services rendered during the year	67,717	57,376	7,400	7,096
Employee contributions	23,359	22,759	–	–
Interest cost	14, 311	148,818	4,585	4,379
Benefits paid	(131,302)	(121,999)	(7,832)	(7,487)
Cost of past services	13,584	–	–	–
Actuarial losses on the obligation	738	113,986	–	–
Balance at end of year	**3,028,991**	**2,907,584**	**92,906**	**88,753**
d) Fair value of plan assets				
Balance at beginning of year	2,980,058	2,727,608	–	–
Employer contributions	33,047	32,078	7,832	7,487
Employee contributions	23,359	22,759	–	–
Actual return on pension assets	196,670	319,612	–	–
Benefits paid	(131,302)	(121,999)	(7,832)	(7,487)
Balance at end of year	**3,101,832**	**2,980,058**	**–**	**–**
Composition of pension assets:				
Asset categories (as a percentage)				
Equity securities	57%	55%		
Debt securities	32%	32%		
Real property	8%	8%		
Other	3%	5%		
Total	**100%**	**100%**		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

23. Employee future benefits (cont'd)

(in thousands of dollars)	Pension plans		Other plans	
	2006	2005	2006	2005
e) Reconciliation of the funding status of the employee benefit plans and the amounts in the financial statements				
Fair value of plan assets	3,101,832	2,980,058	–	–
Accrued benefit obligation	(3,028,991)	(2,907,584)	(92,906)	(88,753)
Funding status – surplus (deficit)	**72,841**	**72,474**	**(92,906)**	**(88,753)**
Unamortized cost of past services	12,385	–	–	–
Net unamortized actuarial gain	(49,155)	(37,276)	–	–
Accrued benefit asset (liability)	**36,071**	**35,198**	**(92,906)**	**(88,753)**
Allowance for valuation for accrued benefit asset	(55,745)	(51,990)	–	–
Net liability for valuation allowance	**(19,674)**	**(16,792)**	**(92,906)**	**(88,753)**

Presentation on the consolidated balance sheet

	2006	2005
Pension plans	(19,674)	(16,792)
Other plans	(92,906)	(88,753)
	(112,580)	**(105,545)**
Accrued benefit asset	47	–
Accrued benefit liability	(112,627)	(105,545)
	(112,580)	**(105,545)**

f) Plans whose accrued benefit obligation exceeds the assets

The amounts presented above with regard to the accrued benefit obligation and the fair value of the plan assets at the end of the year include the following amounts relating to the plans that are not entirely funded:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

23. Employee future benefits (cont'd)

(in thousands of dollars)	Pension plans		Other plans	
	2006	2005	2006	2005
Accrued benefit obligation	(800,785)	(760,205)	(92,906)	(88,753)
Fair value of plan assets	766,956	739,216	–	–
Funding status – deficit	**(33,829)**	**(20,989)**	**(92,906)**	**(88,753)**
g) Components of the costs recognized for the year for defined benefits				
Cost of services rendered during the year, net of employee contributions	67,717	57,376	7,400	7,096
Interest cost	147,311	148,818	4,585	4,379
Actual return on plan assets	(196,670)	(319,612)	–	–
Actuarial loss (actuarial gain) on the obligation	738	113,986	–	–
Cost of past services	13,584	–	–	–
Components of the cost of employee future benefits before adjustments to take into account the long-term nature of this cost	**32,680**	**568**	**11,985**	**11,475**
Adjustments to take into account the long-term nature of the cost of employee future benefits				
Difference between the expected return and the actual return on the assets	12,784	151,262	–	–
Difference between the actuarial loss recognized for the year and the actual amount of the actuarial loss on the accrued benefit obligation for the year	(905)	(113,986)	–	–
Difference between the amortization of the cost of past services for the year and the amendments made to the plans for the year	(12,385)	–	–	–
	(506)	**37,276**	**–**	**–**
Change in the valuation allowance for the accrued benefit asset	3,755	(3,466)	–	-
Costs recognized for defined benefits	**35,929**	**34,378**	**11,985**	**11,475**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

23. Employee future benefits (cont'd)

(in thousands of dollars)	Pension plans		Other plans	
	2006	2005	2006	2005
h) Excess of the expense for employee future benefits over the contributions paid				
Cost recognized for defined benefits	35,929	34,378	11,985	11,475
Employer contributions	(33,047)	(32,078)	(7,832)	(7,487)
	2,882	**2,300**	**4,153**	**3,988**

Presentation on the consolidated income statement

	2006	2005
Pension plans	2,882	2,300
Other plans	4,153	3,988
Excess of the expense for employee future benefits over the contributions paid	**7,035**	**6,288**

	Pension plans		Other plans	
	2006	2005	2006	2005
i) Principal assumptions (weighted rates)				
Cost of benefits (current year)				
Discount rate	5.00%	5.50%	5.20%	5.20%
Expected rate of return for the long-term pension assets	6.24%	6.24%		
Rate of increase in remuneration	3.00%	3.00%	3.22%	3.22%
Accrued benefit obligation (end of year)				
Discount rate	5.00%	5.00%	5.20%	5.20%
Rate of increase in remuneration	3.00%	3.00%	3.22%	3.22%
Assumed health care cost trend rates at December 31				
Initial health care cost trend rate	–	–	7.41%	7.72%
Ultimate health care cost trend rate	–	–	4.59%	4.59%
Year in which the rate should stabilize	–	–	2016	2016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

23. Employee future benefits (cont'd)

Sensitivity analysis

The assumed health care cost trend rates have a major effect on the amounts presented for the health insurance plans. An increase or decrease of one percentage point in the assumed health care cost trend rates would have had the following repercussions for 2006:

(in thousands of dollars)	2006	
	Increase	Decrease
Total cost of benefits for services rendered and arrears interest	388	(356)
Accrued benefit obligation	2,795	(2,681)

24. Deferred subsidies

(in thousands of dollars)	2006	2005
Balance at beginning of year	498,913	458,858
Increase	22,727	43,117
Receipts	29,813	39,704
Amortization	(42,700)	(42,766)
Balance at end of year	**508,753**	**498,913**

25. Supplementary information on the statement of cash flow

Net change in the working capital non-cash components

(in thousands of dollars)	2006	2005
Subsidies and contributions receivable	9,667	(1,833)
Other receivables	(11,362)	(2,031)
Inventories of supplies and replacement parts	(3,508)	(1,983)
Accounts payables and accrued liabilities	10,418	12,567
	5,215	**6,720**

Other information

(in thousands of dollars)	2006	2005
Issuance of long-term debt	(22,727)	(43,117)
Increase in deferred subsidies	22,727	43,117
Interest paid on short-term loans	1,707	651
Interest paid on long-term debt	33,696	32,783

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

26. Commitments

a) Long-term leases

The Société is committed to paying an amount of $86.0 million for rental premises under long-term leases expiring from December 31, 2007 to July 31, 2023. The minimum payments required for the next five years amount to $6.4 million for 2007, $6.3 million annually for 2008 to 2010 and $6.1 million for 2011.

b) Outsourcing of computer centre

The Société is committed to paying a total of $1.4 million for the years 2007 and 2008 for the outsourcing of its computer centre. Future payments amount to $1.2 million for 2007 and $0.2 million for 2008.

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

c) Service contract for a communications solutions integrator

The Société is committed to paying a maximum of $8.1 million for the years 2007 to 2012. The two principal components of this contract are a company telephone system in the amount of $6.9 million and Internet access services in the amount of $1.2 million.

Future payments amount to $1.4 million annually for the years 2007 to 2011 and $1.1 million for 2012.

d) Contract for the supply of bus parts

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

At December 31, 2006, the total residual value of these contracts for all the companies is $4.0 million. The portion attributable to the Société de transport de Montréal is $1.7 million for 2007.

Conversely, the Société mandated two Quebec transit companies to proceed with group purchases of city bus parts. These contracts total $4.3 million at December 31, 2006. The portion attributable to the Société de transport de Montréal is $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 city buses within the context of a group purchase on behalf of the members of the Association du transport urbain du Québec.

The contract runs from 2003 to 2007 and covers the acquisition 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%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

26. Commitments (cont'd)

The revised portion for the Société covers 344 buses for a total estimated amount of $154.6 million. Deliveries in the amount of $31.4 million remain to come in 2007.

f) Asset maintenance program for stationary equipment in the métro

The Société signed a contract with an engineering firm in the amount of $33.8 million in 2005, with a remaining balance of $14.4 million, to operate a project office responsible for carrying out the asset maintenance program for stationary equipment in the métro. The scheduled payments are $12.9 million for 2007 and $0.5 million annually for 2008 to 2010.

g) Contracts for the acquisition of a 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. In 2005 the Société agreed to increase the amounts of these two contracts.

The Société awarded a first contract in its name and as mandatary for six transit operating authorities (AOTs) in the 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 the maintenance of system software and equipment. The portion for the Société relating to the cost for software and equipment maintenance represents $10.7 million. The payments for future years are $0.2 million for 2008 and $2.1 million annually for 2009 to 2013.

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

h) Contract for the supply of diesel fuel

The Société negotiated agreements with financial institutions to protect itself from the risk of fluctuation in the market price of diesel fuel until December 31, 2009. For the total length of these agreements, starting in January 2006 and January 2007 respectively, the Société will have to pay for 124.0 million litres at a fixed price, representing a sum of approximately $67.4 million.

At December 31, 2006, the balance of the Société's commitment amounted to 78.7 million litres for a sum of $42.9 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

27. Financial instruments

The Société makes minimum use of derivative financial instruments in the management of risks related to fuel prices, exchange rates and interest rates, and it does not use them for speculative purposes.

a) Credit risk

The Société, in the normal course of its activities, monitors the financial situation of its clients and examines the credit history of each new client. The Société considers that there is not a major concentration of credit risk.

b) Fuel

In order to mitigate the effect of fluctuations in the price of fuel on operating margins, the Société has a hedge strategy that consists of carrying out swap operations for a target percentage of future fuel consumption up to three years in advance.

At December 31, 2006, two diesel fuel swaps were in effect, one having been signed in October 2006 (note 21).

c) Interest rate risk

The Société uses interest rate swaps to manage the risks associated with fluctuations in the interest rates on its variable rate long-term debt. These swaps have not been designated as hedges for accounting purposes.

At December 31, 2006, these swaps had a fair value of $3.1 million with a position unfavourable to the Société.

d) Exchange risk

While the Société transacts its business and receives its operating revenues primarily in Canadian dollars, a portion of its expenses, assets and long-term debt is denominated in US dollars and Euros. As a result, the Société's income is affected by fluctuations in exchange rates between these currencies.

In order to minimize the impact from the conversion into Canadian dollars of long-term debt denominated in foreign currencies, the Société uses currency swaps that were not designated as hedges for accounting purposes at December 31, 2006.

At December 31, 2006, these swaps had a fair value of $13.2 million with an unfavourable position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

27. Financial instruments (cont'd)

e) Fair value

According to generally accepted accounting principles, the fair value of a financial instrument defines the price at which the instrument could be negotiated between knowledgeable and willing parties dealing at arm's length. The Société uses the following methods and hypotheses to estimate the fair value of each category of financial instrument whose accounting value is presented on the balance sheet in the following accounts:

> Cash, subsidies receivable, regional contributions receivable, contribution receivable from the Réseau de transport de Longueuil, other receivables, short-term loans as well as accounts payable and accrued liabilities.

The accounting value is moving closer to the fair value, as these instruments have an early maturity date.

The following chart presents the accounting values and estimated fair values of the Société's financial instruments at December 31, 2006 and December 31, 2005, for which the accounting values on the balance sheet differ from the fair values:

(in thousands of dollars)	2006		2005	
	Accounting value	Fair value	Accounting value	Fair value
Financial assets				
Sinking fund investments	120,739	121,632	141,395	142,563
Derivative financial instruments	115	115	1,561	1,561
Financial liabilities				
Derivative financial instruments	16,343	16,343	34,057	34,057
Long-term debt (including the portion maturing in less than one year)	668,872	685,794	649,080	668,710

28. Contingencies

Amounts claimed by plaintiffs total $43.6 million. These claims consist of, among others, an application for a class action suit totalling $40.0 million from users inconvenienced during the strike in 2003. The balance of $3.6 million in claims is comprised of individual suits, bodily injuries, material damages and various other litigation. At December 31, 2006, the Société made a provision for an amount deemed sufficient for these claims.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

29. Subsequent event

Long-term debt

On January 19, 2007, the Société concluded a bank loan in the amount of $100.0 million to finance tangible capital assets underway. This long-term debt consists of the following amounts and terms:

(in thousands of dollars)	Amount	Maturity date	Taux
	73,200	19-01-2017	4,48%
	16,300	19-01-2022	6,29%
	10,500	19-01-2027	6,34%
	100,000		

30. Related party transactions

Operations carried out with the City of Montréal are presented separately on the consolidated financial statements. The operations are carried out in the normal course of business and are recorded at the exchange value. The Société is part of the City of Montréal's reporting entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

31. Differences between the canadian generally accepted accounting principles (GAAP) and the *Manuel de la présentation de l'information financière municipale au Québec* (municipal accounting)

The consolidated financial statements have been established according to the Canadian generally accepted accounting principles (GAAP), which differ in certain respects from those that the Société followed in previous years, notably the recommendations of the *Manuel de la présentation de l'information financière municipale au Québec*, published by the ministère des Affaires municipales et des régions (municipal accounting).

(in thousands of dollars)	Budget (unaudited)	2006	2005
OPERATING REVENUES			
Passengers	396,196	394,734	379,358
Contribution from the City of Montréal	278,000	278,000	276,200
Subsidies from the Government of Quebec	84,864	78,857	86,623
Revision of the financial framework	32,000	–	–
Regional contributions	58,166	58,088	61,608
Contribution from the Réseau de Transport de Longueuil	1,803	1,803	1,803
Other revenue	19,722	22,057	21,864
	870,751	**833,539**	**827,454**
EXPENSES			
Bus and métro service	710,708	698,071	684,715
Paratransit service	39,412	40,879	37,338
Debt servicing and financing costs	108,820	102,848	104,437
Unforeseen expenses	5,500	–	–
	864,440	**841,798**	**826,490**
SURPLUS (DEFICIT) BEFORE PRIOR YEAR'S ACCUMULATED DEFICIT	6,311	(8,259)	964
Accumulated deficit from prior year	(6,311)	(5,347)	(6,311)
DEFICIT FOR THE YEAR BASED ON MUNICIPAL ACCOUNTING	–	**(13,606)**	**(5,347)**
Capital assets [a]	–	(11,014)	(7,323)
Employee future benefits [b]	–	(5,193)	(4,480)
Financial instruments [c]	–	(1,148)	1,572
Other [d]	–	10,600	11,440
	–	(6,755)	1,209
NET LOSS BASED ON GAAP	**–**	**(20,361)**	**(4,138)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

31. Differences between the canadian generally accepted accounting principles (GAAP) and the *Manuel de la présentation de l'information financière municipale au Québec* (municipal accounting) (cont'd)

(in thousands of dollars)	Budget (unaudited)	2006	2005
[(a)] **Capital assets**			
Replacement of capital repayment with amortization of the capital assets, net of subsidies	–	(13,222)	(13,195)
Capital assets from revenues, net of subsidy	–	1,468	4,731
Loss on disposal of assets	–	(489)	(608)
Repayment from working capital	–	1,229	1,749
	–	**(11,014)**	**(7,323)**
[(b)] **Employee future benefits**			
Post-retirement	–	(3,319)	(3,191)
Post -employment	–	(834)	(797)
Pension plans	–	(2,882)	(2,300)
	–	(7,035)	(6,288)
Provision for future amounts (previously payroll liabilities)	–	1,842	1,808
	–	**(5,193)**	**(4,480)**
[(c)] **Financial instruments**	–	**(1,148)**	**1,572**
[(d)] **Other**			
Revenue from sinking fund investments	–	5,317	5,870
Elimination of the deferral of the deficit to the following year	–	5,347	6,311
Harmonization of accounting policies for companies under joint control	–	(64)	(741)
	–	**10,600**	**11,440**

32. Comparative numbers

Certain comparative numbers from the previous year have been restated so that their presentation conforms with that adopted for the year covered.

33. Opinion of the auditors

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

SUPPLEMENTARY INFORMATION

PASSENGER REVENUE BY TYPE

(in thousands of dollars)	Budget	2006	2005
Bus and métro service			
Regular fare			
Cash	54,192	51,137	50,359
Strip of tickets	68,165	66,905	66,655
CAM	137,255	139,598	131,339
Weekly CAM	29,244	28,485	28,445
	288,856	**286,125**	**276,798**
Reduced fare			
Cash	3,591	3,839	3,296
Strip of tickets	13,326	13,594	12,763
CAM	54,545	54,902	52,647
Weekly CAM	2,756	2,531	2,587
	74,218	**74,866**	**71,293**
Tourist cards	1,382	1,306	1,300
Allocation of revenue relating to commuter trains	600	582	613
	365,056	**362,879**	**350,004**
Paratransit service	**1,882**	**2,024**	**1,716**
Regional revenue	**29,258**	**29,831**	**27,638**
	396,196	**394,734**	**379,358**

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

EXPENSES BY TYPE

(in thousands of dollars)	**Budget**	**2006**	**2005**
Remuneration	566,975	566,381	551,029
Goods and services			
Major expenses	86,335	74,849	75,780
Professional services	33,252	37,686	35,140
Equipment and supplies	37,417	38,259	44,300
Rentals	7,778	8,131	8,247
Financing costs for operations	108,820	102,856	104,437
Sundry expenses	23,863	13,636	7,557
	297,465	275,417	275,461
	864,440	**841,798**	**826,490**

This information was compiled based on the rules of municipal accounting (note 31).

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

EXPENSES BY FUNCTION

(in thousands of dollars)	Budget	2006	2005
NETWORK OPERATIONS			
Bus network			
Remuneration	286,290	292,791	282,520
Goods and services	52,677	55,024	61,242
	338,967	**347,815**	**343,762**
Métro network			
Remuneration	162,979	157,579	156,921
Goods and services	41,822	39,355	38,783
	204,801	**196,934**	**195,704**
Paratransit			
Remuneration	17,820	17,682	16,632
Goods and services	20,229	22,125	19,690
	38,049	**39,807**	**36,322**
Energy			
Goods and services	**13,136**	**6,458**	**7,616**
	594,953	**591,014**	**583,404**
SUPPORT SERVICES			
Management of shared services			
Remuneration	51,291	50,089	48,782
Goods and services	11,328	11,844	7,488
	62,619	**61,933**	**56,270**
Engineering and construction			
Remuneration	25,396	25,300	25,195
Goods and services	8,544	7,880	5,733
	33,940	**33,180**	**30,928**
Communications and marketing			
Remuneration	9,749	9,553	8,433
Goods and services	5,802	4,591	3,489
	15,551	**14,144**	**11,922**
	112,110	**109,257**	**99,120**
CORPORATE SERVICES			
Remuneration	4,581	4,498	4,497
Goods and services	1,338	1,161	1,193
	5,919	**5,659**	**5,690**

This information was compiled based on the rules of municipal accounting (note 31).

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

EXPENSES BY FUNCTION

(in thousands of dollars)	Budget	2006	2005
SPECIAL PROJECTS			
Remuneration	–	2,021	1,336
Goods and services	6,390	3,855	7,650
	6,390	**5,876**	**8,986**
OTHER EXPENSES			
Remuneration	12,241	9,729	9,750
Goods and services	18,507	17,416	15,103
	30,748	**27,145**	**24,853**
FINANCING COSTS			
Goods and services	108,820	102,847	104,437
	108,820	**102,847**	**104,437**
UNFORESEEN EXPENSES			
Rémunération	–	–	–
Goods and services	5,500	–	-
	5,500	–	–
	864,440	841,798	826,490

This information was compiled based on the rules of municipal accounting (note 31).

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

LONG-TERM DEBT

(in thousands of dollars)	2006	2005
Bonds, $70,000		
8.75%, due September 30, 2007 [a]	7,000	7,000
Bonds, $30,000		
8.10%, due July 18, 2006 [a]	–	15,060
Bonds, $30,000		
6.75%, due June 5, 2006	–	3,040
6.85%, due June 5, 2007	3,280	3,280
Bonds, $40,000		
5.70%, due June 4, 2008 [a]	11,248	11,248
Bonds, $35,000		
5.40%, due April 8, 2009 [a]	9,005	9,005
Bonds, $30,000		
5.90%, due August 6, 2009 [a]	7,470	7,470
Bonds, $25,000		
6.60%, due February 16, 2006	–	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, $60,000		
4.60%, due November 15, 2006	–	15,849
4.95%, due November 15, 2007	4,120	4,120
5.25%, due November 15, 2008	4,334	4,334
5.50%, due November 15, 2009	4,559	4,559
5.70%, due November 15, 2010	4,796	4,796
5.75%, due November 15, 2011	9,586	9,586
Bonds, $40,000		
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

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

LONG-TERM DEBT

(in thousands of dollars)	2006	2005
Bonds, $75,000		
4.00%, due May 6, 2006	–	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		
2.80%, due August 19, 2006	–	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 [a]	19,100	19,100
3.50%, due April 27, 2009	6,900	6,900
3.75%, due April 27, 2010	7,200	7,200
4.00%, due April 27, 2011	6,300	6,300
4.15%, due April 27, 2012	6,500	6,500
4.35%, due April 27, 2013	6,800	6,800
4.50%, due April 27, 2014	7,100	7,100
4.60%, due April 27, 2015	15,100	15,100
Bonds, $14,000		
4.00%, due November 8, 2007	2,600	–
4.00%, due November 8, 2008	2,700	–
4.00%, due November 8, 2009	2,800	–
4.00%, due November 8, 2010	2,900	–
4.00%, due November 8, 2011	3,000	–

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

LONG-TERM DEBT

(in thousands of dollars)	2006	2005
Bank loan, $47,130 [b]		
LIBOR rates plus 0.25%, due January 9, 2012 [a]	34,959	34,977
Bank loan, $30,000		
LIBOR rates plus 0.225%, due January 24, 2006	–	22,207
Bank loan, $30,000		
LIBOR rates plus 0.275%, due December 9, 2006	–	26,220
Bank loan, $30,000 [b]		
LIBOR rates plus 0.15%, due December 12, 2007 [a]	29,217	26,230
Bank loan, $40,000		
6.769%, due December 9, 2009 [a]	40,000	40,000
Bank loan, $100,000		
4.708%, due April 21, 2014 [a]	100,000	100,000
Bank loan, $75 000		
5.222%, due October 22, 2014 [a]	75,000	75,000
Bank loan, $60,000 [a]		
4.665%, due February 24, 2016	60,000	–
Bank loan, $40,000 [a]		
4.888%, due February 24, 2021	40,000	–
Demand notes converted during the year	–	484
Bank loan, $405		
Base rate plus 1.35%, due May 26, 2009	405	–
TOTAL	668,872	649,080

(a) Portion in sinking fund.

(b) Amount the Société will have to pay at maturity under a currency exchange contract.

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

TOTAL NET LONG-TERM INDEBTEDNESS

(in thousands of dollars)	2006	2005
LONG-TERM DEBT		
Bonds and bank loans	668,872	649,080
Amounts accumulated as sinking fund investments	(120,739)	(141,395)
Amounts recoverable for repaymentt of the long-term debt		
Government of Quebec	(257,591)	(266,713)
Agence métropolitaine de transport	(1,837)	(8,027)
	288,705	232,945
Investment expenses to be financed	177,952	110,006
Amounts not used from contracted long-term loans	(1,442)	(8,568)
	176,510	101,438
Subsidies relating to investment expenses to be financed [(a)]	(108,481)	(57,475)
	68,029	**43,963**
TOTAL NET LONG-TERM INDEBTEDNESS	**356,734**	**276,908**

(a) This amount is calculated based on the expenses to be financed in relation to the subsidies attached to the investment expenses. However, this amount is not recorded in the Société's books as the subsidy takes effect only when the long-term debt is actually issued.

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