The STM in 2008

FINANCIAL REPORT

STM

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Acknowledgements

*The production of the 2008 Financial Report is the fruit of the labours of a large number of employees in the Finance Department. I would like to thank all those who contributed, in particular the **Financial Accounting Section of the Financial Management Division**.*

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A word from management

Concerted efforts to ensure the growth of public transit

With an increase in ridership of 15 million trips in 2008, bringing the total number of trips to 382.5 million, public transit is experiencing a period of exceptional growth. Record ridership such as this has not been seen since 1949 and is primarily due to investments by the Ministère des Transports and the Montréal agglomeration under the service improvement program. This program has enabled the company to increase métro service by 17% and to add more than 100 000 hours of non-peak service on some fifty bus routes. This 4% growth in ridership thus represents half the objective set by the *Quebec Public Transit Policy*, with its target of increasing the service offer by 16% and thus increasing ridership by 8% between now and 2011. This growth in ridership combined with increased control of fare collection thanks to the installation of the new fare sales and collection system contributed to an increase of $15.1 million in passenger revenue in 2008.

The Société is determined to continue its efforts to ensure that this trend continues by offering more service in 2009. To do this, it must continue to invest in its infrastructure, carry out its major service improvement projects and acquire new rolling stock. These capital expenditures, which totalled $315.2 million in 2008, include the purchase of new buses ($69.6 million), the fixed equipment renovation program ($85.6 million), the project to upgrade equipment and the new integrated fare sales and collection systems ($43.5 million) as well as the expansion and upgrading of the Legendre bus depot ($60.3 million). These major sums have a direct impact on the long-term debt, which stands at $886.0 million. However, the total debt for which the Société is responsible, including the participation of its partners, is $461.0 million, compared to $314.9 million in 2007.

The quality, efficiency and performance of the STM's management have been recognized by Moody's and Standard and Poor's. The sound and rigorous management of expenses enabled the Société to receive excellent credit ratings of Aa2 and A+. These results reflect the efforts and professionalism of all our administrators and employees to whom we extend our warmest thanks.

Despite its ongoing efforts, the Société, on its own, cannot make up the shortfall, which became a structural deficit in 2003. To alleviate this situation, it must be able to count on new dedicated, indexed and recurring sources of financing. The Montréal agglomeration did its part in 2008 with its annual contribution of $323.7 million, which included a non-recurring contribution of $22 million to cover the shortfall for that year.

The support for public transit is growing, the willingness to develop and promote it is evident, and clients are using it in even greater numbers. Well positioned to achieve its objectives and resolutely committed to sustainable development, the STM must continue its efforts to develop and promote public transit on its territory.

Yves Devin
Director General

Alain Savard, ing., MBA
Executive Director
Management of Shared Services

Analysis

OF THE CONSOLIDATED FINANCIAL STATEMENTS

Analysis of the Consolidated Financial Statements

Use of new accounting standards

As a government business enterprise, the Société is subject to the accounting standards prescribed by the CICA Handbook - Accounting for the presentation of its general purpose financial statements. Under the legislative provisions of its Constituant Act and in order to meet the consolidation requirements of the Montréal agglomeration, the Société produces special purpose financial statements for certain users in accordance with public sector accounting standards.

In order to simplify the preparation of its annual financial statements, better respond to the needs of its users and adopt the same accounting standards as its controlling entity, the Société decided during the year to stop producing its financial statements in accordance with the accounting standards of the CICA Handbook - Accounting and, as of 2009, to produce its financial statements in accordance with the Public Sector Accounting Handbook accompanied by an auditors' report for special purpose financial statements, which will not be subject to the IFRSs.

This decision followed consultations with financial institutions and rating agencies with which the Société does business, who are the principal users of the financial statements prepared in accordance with private sector standards. These users confirmed that they were in agreement that the Société could provide them with financial statements prepared in accordance with public sector accounting standards as long as the said statements were audited. The external auditor and the auditor-general of the City of Montréal also reacted favourably to this change subject to the condition that the auditors' report they issue with regard to these financial statements be special purpose.

In view of the preceding, the fiscal year ended December 31, 2008, is the last fiscal year for which the Société is using the accounting standards of the CICA Handbook - Accounting in the preparation of its financial statements.

Summary of consolidated income

(in thousands of dollars)

	2008	2007
Operating revenues	899,580	840,895
Operating expenses	(837,172)	(756,835)
Income before other components	62,408	84,060
Other components	(73,546)	(76,341)
Net income (net loss)	**(11,138)**	**7,719**

The Société recorded operating revenues of $899.6 million for fiscal year 2008. While operating expenses amounted to $837.2 million, thus resulting in income before other components of $62.4 million. Once the other components of $73.5 million are deducted, the Société ends fiscal year 2008 with a net loss of $11.1 million.

Analysis of the Consolidated Financial Statements

Summary of operating revenues

(in thousands of dollars)

	2008	2007
Passengers	444,717	415,655
Contribution from the City of Montréal	323,700	306,038
Subsidies from the Government of Quebec	47,953	35,448
Regional contributions	53,200	53,656
Contribution from municipalities outside the Montréal agglomeration	4,336	3,939
Other revenue	25,674	26,159
	899,580	**840,895**

Revenues rose by $58.7 million in comparison with 2007, resulting primarily from a combination of the increase in passenger revenue of $29.1 million (including $6.6 million in regional revenue from the Agence Métropolitaine de Transport), an increase of $17.7 million in the contribution from the City of Montréal and an increase of $12.5 million in the subsidies from the Government of Quebec.

The increase of $22.3 million in passenger revenue is attributable to a growth of 4% in ridership combined with tighter control of fare collection thanks to the implementation of the new fare sales and collection system at a cost of $15.1 million as well as a fare increase of $7.2 million.

The City of Montréal increased its contribution to public transit by $17.7 million in comparison with 2007, thus bringing its contribution to $323.7 million, which is broken out as follows:

(in thousands of dollars)

Indexed base contribution	292,000
PASTEC (service improvement program)	5,700
Surveillance	4,000
Special	22,000
	323,700

Analysis of the Consolidated Financial Statements

Summary of operating revenues (cont'd)

As for the subsidies from the Government of Quebec, the establishment in 2007 of a government assistance program for improving public transit services (PASTEC) means that for each dollar invested in increasing the service offer, the government pays a contribution of up to 50% of the expenses deemed admissible. In 2008, this program brought in additional aid of $11.5 million corresponding to the increase in the service offer. This new program stems from the Quebec Public Transit Policy, which is targeted at increasing public transit ridership by 8% between now and 2011. This new government assistance could reach $48.0 million in 2011 if the growth in the Société's service offer reaches a level of 16.0%. Finally, the Government of Quebec increased the subsidy for Paratransit by $1.4 million in comparison with last year to support the 10% growth in the service offer.

The contribution from the municipalities outside the Montréal agglomeration arises from the adoption of an agreement from the Government of Quebec relating to the rules for the sharing of the métro deficit for a period of five years from 2007 to 2011. The total contribution from the municipalities outside the Montréal agglomeration is pre-established and fixed for the period of the agreement.

Summary of operating expenses

(in thousands of dollars)

	2008	2007
Bus and métro service	792,476	715,094
Paratransit service	44,696	41,741
	837,172	**756,835**

The operating expenses show an increase of $80.3 million consisting of $77.4 million for the bus and métro service and $2.9 million for the Paratransit service. The increase in the expenses for bus and métro service is primarily attributable to the following items:

- The increase in the service offer as part of the service improvement program (PASTEC) generated a cost increase of $25.3 million. However, the Government of Quebec assumes approximately 45.5% of this increase via an increase of $11.5 million in its subsidy for this purpose (note 6).
- The implementation of the new fare sales and collection system generated additional expenses of $18.8 million.
- Indexation of the payroll resulted in an increase of $16.0 million.
- Energy costs increased by $8.1 million, consisting of $1.9 million for electricity and $6.2 million for fuel. It should be noted that fuel costs increased due to the fact that the new swap contracts negotiated in 2008 were at higher rates than the expired contracts.
- Surveillance costs increased by $4.5 million due to the transfer of activities to the SPVM resulting in an increase of $4.0 million. However, the City of Montréal covered this amount in its entirety from its contribution (see page 8). The remaining $0.5 million of the increase is due to the surveillance of the new métro stations in Laval.

The increase in the expenses for Paratransit resulted from the growth of some 8.3% in the number of trips carried out in comparison with 2007. The rise in costs arises primarily from the taxi service.

Analysis of the Consolidated Financial Statements

Other components

(in thousands of dollars)

	2008	2007
Government contributions and subsidies	75,179	60,770
Interest and financing costs	(50,912)	(40,807)
Amortization of tangible capital assets	(95,517)	(89,157)
Amortization of intangible assets	(4,937)	(6,286)
Excess of the expense for employee future benefits over the contributions paid	(3,382)	(7,407)
Revenue from the sinking fund investments	6,023	6,546
	(73,546)	**(76,341)**

Non-operating components show a decrease of $2.8 million, which is composed primarily of the following changes: an increase of $14.4 million in government contributions and subsidies; an increase of $10.1 million in interest and financing costs; and an increase of $6.4 million in the amortization of tangible capital assets.

The government contributions and subsidies of $75.2 million consist of subsidies of $47.4 million related to capital assets (the assistance program for the financing of «traditional» capital assets from the Ministère des Transports du Québec and the public transit capital expenditures assistance program from the Société des infrastructures locales du Québec - SOFIL) as well as subsidies of $27.8 million relating to financing (interest on the long-term debt).

The increase of $10.1 million in interest and financing costs is primarily due to a negative change of $5.6 million resulting from a swap contract whose changes in market value were not included in the comprehensive income. This loss, however, will be reduced upon maturity of the contract. It should also be noted that at the end of 2007, major long-term financing had been carried out enabling the Société to reduce its short-term financing requirements at the beginning of 2008 and, as a result, reducing its short-term financing costs by $2.6 million. On the other hand, this new long-term financing resulted in an increase of $4.8 million in the interest on the long-term debt.

Analysis of the Consolidated Financial Statements

Other comprehensive income

(in thousands of dollars)

	2008	2007
Net change in the unrealized gains and losses on the sinking funds investments	3,054	(617)
Change in the gains and losses on the swap contracts designated as cash flow hedges	(35,163)	7,282
	(32,109)	**6,665**

The purpose of this statement is to present the changes in the fair value of the sinking fund investments as well as the changes in the fair value of the effective portion of the cash flow hedge instruments. These changes are unrealized and therefore have no impact on the Société's net income.

Consolidated Balance Sheet at December 31, 2008

ASSETS

(in thousands of dollars)

	2008	2007
Short-term		
Cash and short-term investments	**11,129**	72,031
Sinking fund investments	**39,360**	6,518
Subsidies receivable	**210,295**	188,413
Regional contributions receivable	**24,125**	27,052
Contribution receivable from the municipalities outside the Montréal agglomeration	**2,967**	3,939
Other receivables	**39,149**	36,841
Inventories	**4,094**	1,333
Derivative financial instruments	-	1,411
	331,119	**337,538**
Sinking fund investments	**119,395**	110,862
Tangible capital assets	**1,714,544**	1,497,168
Intangible assets	**18,626**	20,293
Receivables to be allocated to the repayment of the long-term debt	**435,490**	404,231
Other long-term assets	**21,275**	9,102
	2,640,449	**2,379,194**

Analysis of the Consolidated Financial Statements

The assets show an increase of $254.3 million in comparison with 2007 resulting primarily from the increases of $21.9 million in subsidies receivable, $217.3 million in tangible capital assets and $31.3 million in receivables to be allocated to the repayment of the long-term debt. The assets consist of the following principal components:

a) **Sinking fund investments**
The sinking funds investments are the investments in the 16 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. The average return for 2008 was 6.2% on revenues of $6 023 ($6 546 in 2007). This return is higher than the target of 4.0% set for 2008 and also higher than the ScotiaMcLeod municipal bond index for the same period set at 5.3%.

b) **Subsidies receivable**
The increase of $21.9 million results from amounts receivable over the next year for subsidies relating to tangible capital assets from the Government of Quebec under various assistance programs. In addition, there was a reduction of $7.5 million in the amount receivable from the City of Montréal under the public transit capital expenditures assistance program from the Société de financement des infrastructures locales du Québec (SOFIL).

c) **Other receivables**
The other receivables consist of regional revenues of $11.7 million receivable from the Agence métropolitaine de transport, work accident payments recoverable of $1.9 million, tax claims of $5.4 million from various governments, customer receivables of $16.6 million and other receivables totalling $6.3 million.

d) **Inventories**
The short-term inventory consists primarily of smart cards, uniforms, small tools and stationery. The inventories of replacement parts that can be used over more than one year are included in the tangible capital assets.

e) **Tangible capital assets**
This item represents the net value of the Société's tangible capital assets. The change between the 2007 value of $1 497.2 million and the 2008 value of $1 714.5 million can be explained by acquisitions of $315.2 million reduced by amortization of $95.6 million and by the non-amortized value of the tangible capital assets disposed of in the amount of $2.3 million.

The principal acquisitions for the year consisted of bus purchases in the amount of $69.6 million (CA-118, R-078, R-079 and R-801), the program for renovation of fixed equipment in the amount of $85.6 million (CA-52, CA-109, CA-116 and R-058), the equipment upgrade project and the new integrated fare sales and collection system in the amount of $43.5 million (R-010) and the expansion and upgrading of the Legendre bus depot in the amount of $60.3 million (R-055).

f) **Intangible assets**
The intangible assets include software with a net value of $18.6 million.

g) **Receivables to be allocated to the repayment of the long-term debt**
The receivables to be allocated to the repayment of the long-term debt correspond to the amounts of the subsidies receivable from the Ministère des Transports du Québec.

h) **Other long-term assets**
This item includes a deposit of $18.5 million for the purchase of buses and other elements totalling $2.2 million.

Analysis of the Consolidated Financial Statements

Consolidated Balance Sheet at December 31, 2008 (cont'd)

LIABILITIES

(in thousands of dollars)

	2008	2007
Short-term		
Short-term loans	259,807	70,950
Accounts payable and accrued liabilities	191,014	180,487
Derivative financial instruments	554	-
Current portion of long-term debt	89,955	64,030
	541,330	315,467
Financial derivative instruments	35,671	22,456
Long-term debt	796,294	867,653
Accrued benefit liability	123,369	119,987
Deferred subsidies	947,546	821,093
	2,444,210	**2,146,656**

The liabilities show an increase of $297.5 million, consisting of increases of $225.8 million in the short-term liabilities and $71.7 million in the long-term liabilities. The increase in the short-term liabilities is primarily due to an increase of $188.9 million in short-term loans resulting from difficulties encountered in 2008 in finding long-term financing due to the global credit crisis. The increase in the long-term liabilities results primarily from the increase of $126.4 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 $104.1 million, salaries and wage benefits of $17.9 million, sick leaves payable of $4.4 million, vacations payable of $29.0 million, holdbacks on contracts and security deposits of $1.3 million, accrued interest of $8.9 million and other payables of $25.4 million.

b) Derivative financial instrumentss
This item includes the fair value of the swaps that the Société holds to protect itself against interest and exchange rate risks as well as the fluctuation in the price of diesel fuel.

c) Long-term debt
At December 31, 2007, the long-term debt stood at $931.7 million. Debt repayment amounted to $52.1 million, and a loss of $6.6 million on exchange rate variation was recognized. Thus, the long-term debt stood at $886.2 million at December 31, 2008.

d) Accrued benefit liability
This item includes the 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).
During the last quarter of the year, the funding status of the Société's pension funds deteriorated due to the turbulence in the financial markets, thus resulting in an increase of $3.4 million in the accrued benefit liabilities.
Due to the great volatility in the financial markets resulting from the global financial crisis, the Société, in collaboration with its actuaries, carried out rigorous monitoring of the impact that this situation was having, or could have, on the various employee benefit plans.
An actuarial valuation dated December 31, 2008, will be received in the fall of 2009. The result of this evaluation could affect the 2009 income due to possible changes in the contributions that the Société has to pay to the plans.

Analysis of the Consolidated Financial Statements

Consolidated Balance Sheet at December 31, 2008 (cont'd))

EQUITY

(in thousands of dollars)

	2008	2007
Equity	**196,239**	**239,486**

The equity shows a decrease of $43.2 million in comparison with 2007, representing the net loss of $11.1 million for 2008 and the decrease of $32.1 million in 2008 in the other comprehensive income.

Contingencies

Under a potential agreement with the Agence métropolitaine de transport, in 2009 the Société could become the owner of the assets and debt corresponding to the métro extension on the territory of the City of Laval. This transfer of assets and debt will have the effect of increasing the Société's assets and liabilities by an amount of approximately $1 500.0 million, consisting of $750.0 million in tangible capital assets and receivables to be allocated to the repayment of the long-term debt, as well as $750.0 million in long-term debt and deferred subsidies. There should be no impact on the Société's consolidated income due to the subsidies received from the Ministère des Transports du Québec to cover the financing costs. As well, it should be noted that the Société already assumes the operating and maintenance costs of these new assets.

Management Responsibility

FOR THE PRESENTATION OF THE FINANCIAL INFORMATION

Management Responsibility

FOR THE PRESENTATION OF THE FINANCIAL INFORMATION

Under article 138 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, 2008, was submitted to the Board of Directors of the Société on April 14, 2009.

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 the 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 operations are carried out in accordance with the appropriate authorities and that the assets of the Société are properly recorded and protected, 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 members. 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.

Alain Savard, ing., MBA
Executive Director
Management of Shared Services

Luc Tremblay, CA
Treasurer and Director
Finance Department

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 the Société de transport de Montréal at December 31, 2008 and the consolidated statements of income, comprehensive income, equity and cash flows for the year then ended. These financial statements are the responsibility of 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. These standards require that we plan and perform an audit to obtain reasonable assurance that 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, 2008, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

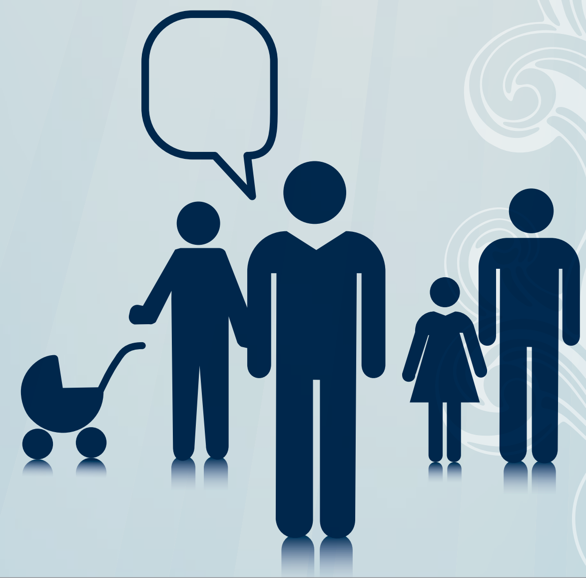
Samson Bélair/Deloitte & Touche s.e.n.c.r.l.
CA auditor permit no 10881

Montréal
April 2, 2009

Michel Doyon, CA
CA auditor

Montréal
April 2, 2009

Consolidated
FINANCIAL STATEMENTS



Consolidated Income

for the year ended December 31, 2008

(in thousands of dollars)

	Note	2008	2007
Operating revenues			
Passengers	5	**444,717**	415,655
Contribution from the City of Montréal [a]		**323,700**	306,038
Subsidies from the Government of Quebec	6	**47,953**	35,448
Regional contributions	7	**53,200**	53,656
Contribution from the municipalities outside the Montréal agglomeration	8	**4,336**	3,939
Other revenue	9	**25,674**	26,159
		899,580	**840,895**
Operating expenses			
Bus and métro service		**792,476**	715,094
Paratransit service		**44,696**	41,741
		837,172	**756,835**
Income before the following components		**62,408**	84,060
Government contributions and subsidies	10	**75,179**	60,770
Interest and financing costs	11	**(50,912)**	(40,807)
Amortization of tangible capital assets		**(95,517)**	(89,157)
Amortization of intangible assetss		**(4,937)**	(6,286)
Excess of the expense for employee future benefits over the contributions paids	24	**(3,382)**	(7,407)
Revenue from sinking fund investments		**6,023**	6,546
		(73,546)	**(76,341)**
Net profit (net loss)		**(11,138)**	**7,719**

[a] *Includes a non-recurring contribution of $22.0 million ($29.0 million in 2007).*

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Comprehensive Income

for the year ended December 31, 2008

(in thousands of dollars)

	2008	2007
Net profit (net loss)	**(11,138)**	7,719
Other comprehensive income		
Net gains (losses) on the sinking fund investments	**3,440**	(190)
Reclassification to net income of the gains realized on the sinking fund investments	**(386)**	(427)
Net change in the unrealized gains and losses on the sinking fund investments	**3,054**	(617)
Net gains (losses) on swap contracts designated as cash flow hedges	**(23,453)**	4,479
Reclassification to net income of the (gains) losses on the swap contracts designated as cash flow hedges	**(11,710)**	2,803
Change in the gains and losses on the swap contracts designated as cash flow hedges	**(35,163)**	**7,282**
Other comprehensive income	**(32,109)**	**6,665**
Comprehensive income	**(43,247)**	**14,384**

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Balance Sheet

at December 31, 2008

(in thousands of dollars)

	Note	2008	2007
ASSETS			
Short-term			
Cash and short-term investments		11,129	72,031
Sinking fund investments	12	39,360	6,518
Subsidies receivable	13	210,295	188,413
Regional contributions receivable		24,125	27,052
Contribution receivable from the municipalities outside the Montréal agglomeration		2,967	3,939
Other receivables	14	39,149	36,841
Inventories	15	4,094	1,333
Derivative financial instruments	22	-	1,411
		331,119	337,538
Sinking fund investments	12	119,395	110,862
Tangible capital assets	16	1,714,544	1,497,168
Intangible assets	17	18,626	20,293
Receivables to be allocated to the repayment of the long-term debt	18	435,490	404,231
Derivative financial instruments	22	-	6,948
Other long-term assets	19	21,275	9,102
		2,640,449	2,386,142
LIABILITIES			
Short-term			
Short-term loans	20	259,807	70,950
Accounts payable and accrued liabilities	21	191,014	180,487
Derivative financial instruments	22	554	-
Current portion of long-term debt	23	89,955	64,030
		541,330	315,467
Derivative financial instruments	22	35,671	22,456
Long-term debt	23	796,294	867,653
Accrued benefit liability	24	123,369	119,987
Deferred subsidies	25	947,546	821,093
		2,444,210	2,146,656
EQUITY		196,239	239,486
		2,640,449	2,386,142

Commitments (note 28)
Contingencies (note 30)

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Equity

for the year ended December 31, 2008

(in thousands of dollars)

	Note	2008	2007
Equity at beginning of year		233,685	225,966
Net profit (net loss)		(11,138)	7,719
		222,547	233,685
Accumulated other comprehensive income at beginning of year		5,801	(864)
Other comprehensive income		(32,109)	6,665
Accumulated other comprehensive income at end of year	26	(26,308)	5,801
Equity at end of year		196,239	239,486

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Cash Flows

for the year ended December 31, 2008

(in thousands of dollars)

	Note	2008	2007
Operating activities			
Net income (net loss) for year		(11,138)	7,719
Non-cash items:			
Amortization of the deferred loss on the derivative financial instruments and of the deferred gain on currency conversion		172	694
Amortization of the subsidies relating to tangible capital assets		(47,422)	(41,317)
Amortization of intangible assets		4,937	6,286
Amortization of tangible capital assets		95,517	89,157
Loss (gain) in value of derivative financial instruments		(2,715)	4,323
Loss on disposal of tangible capital assets		2,210	755
Change in the excess of the expense for employee future benefits over the contributions paid		3 382	7,407
		44,943	75,024
Net change in the non-cash components of the working capital	27	(12,525)	(96,019)
Cash flow related to operating activities		32,418	(20,995)
Investment activities			
Acquisition of tangible capital assets		(315,201)	(219,649)
Disposal of tangible capital assets		98	107
Acquisition of intangible assets		(3,270)	(5,995)
Acquisition of sinking fund investments		(64,527)	(48,222)
Disposal of sinking fund investments		27,145	50,904
Amortization of premiums and discounts on sinking fund investments		(938)	64
Change in other long-term assets		(12,173)	(120)
Cash flow related to investment activities		(368,866)	(222,911)
Financing activities			
Receipt of receivables to be allocated to the repayment of the long-term debt		50,773	34,763
Change in derivative financial instruments		(10,493)	828
Change in short-term debt		188,857	(134,859)
Issuance of long-term debt		-	350,616
Repayment of the long-term debt		(52,046)	(81,814)
Change in the receivables to be allocated to the repayment of the long-term debt		26,610	15,141
Exchange loss (gain) on long-term debt denominated in foreign currency		6,612	(5,991)
Receipt of deferred subsidies		65,233	124,187
Cash flow related to financing activities		275,546	302,871
Net increase (decrease) in cash and cash equivalents		(60,902)	58,965
Cash and cash equivalents at beginning of year		72,031	13,066
Cash and cash equivalents at end of year		11,129	72,031

Supplementary information is presented in note 27.
The accompanying notes are an integral part of the Consolidated Financial Statements.

Notes to Financial Statements

at December 31, 2008

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.*

2. CHANGES IN ACCOUNTING METHODS

a) Financial Instruments - Disclosure and Presentation

On January 1, 2008, the Société adopted the requirements of Section 3862 of the CICA Handbook - *Financial Instruments - Disclosure and Presentation* and Section 3863 - *Financial Instruments - Presentation*, which replace Section 3861 - *Financial Instruments - Disclosure and Presentation.* The new Section 3862 adds to the requirements relating to the disclosure of the nature and extent of the risks from financial instruments as well the methods used by the Société to manage these risks. The rules for presentation in Section 3861 are repeated, without change, in Section 3863 - *Financial Instruments - Presentation.*

b) Inventory

On January 1, 2008, the Société adopted the requirements of Section 3031 of the CICA Handbook - *Inventories*, which establishes standards for the evaluation of inventories including the determination of their cost. The adoption of these recommendations had no effect on the net income but required a reclassification to the balance sheet of $26.4 million to tangible capital assets to account for replacement parts that can be used over more than one year.

c) Capital Disclosures

Due to its legal status as a public body (L.R.Q. chapter S-30.01), the Société does not issue any capital and has no shareholders. Moreover, under this same law, the City of Montréal is guarantor of the Société's commitments and obligations. As a result, the Société does not consider it useful to provide information on its capital and the way in which it is managed or on the management of its liquidity risk, as stipulated in the new Section 1535 of the CICA Handbook - *Capital Disclosures.* However, detailed information on the management of various financial risks, including liquidity risk, is provided in note 29.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles, which include the following significant accounting policies:

a) Reporting entity

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

Investments in satellite companies are presented at the consolidation value.

b) Cash and cash equivalents

The cash and cash equivalents consist of bank balances, cash on hand and bank overdrafts as well as short-term 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 because they are allocated to the repayment of certain long-term debt, are not included in the cash and cash equivalents.

Notes to Financial Statements

at December 31, 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

c) Inventories

The inventories are valued at the lesser of the average cost and the net realizable value, with the latter corresponding to the replacement cost. Inventories of supplies and replacement parts used in the repair of the Société's equipment are presented with the tangible capital assets. The short-term inventories consist primarily of smart cards, uniforms, small tools and stationery.

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

The tangible capital assets are amortized from the date they are put into service. The capital assets in progress (projects underway), tangible capital assets withdrawn from service and inventories of replacement parts that can be used over more than one year 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 these assets are put into service.

e) Intangible assets

Intangible assets are recorded at cost and amortized according to their useful life using the straight line method over a period of five years.

f) 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 their possible withdrawal. The loss in value recognized is the excess of the accounting value of the asset over its fair value.

g) Sinking fund investments

The sinking fund investments consist primarily of bonds and bond coupons that were recorded at the fair value based on the bid price.

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Notes to Financial Statements

at December 31, 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

h) Receivables to be allocated to the repayment of the long-term debt and deferred subsidies

The receivables to be allocated to the repayment of the long-term debt are created upon the current or future issuance of a long-term debt on the basis of the subsidy rates for the various tangible capital assets in progress being financed. These rates are established based on the terms of the Government of Quebec's public transit assistance program and other specific agreements. The receivables to be allocated to the repayment of the long-term debt do not include any interest. The short-term portion consists of anticipated receipts for the following year and is found under «Subsidies receivable».

As for the deferred subsidies, they are created upon the acquisition of tangible capital assets giving rise to the receipt of subsidies awarded under the public transit assistance program or specific agreements. They are transferred to income on the same basis as the tangible capital asset amortization expense to «Amortization of the 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 into Canadian Dollars at the rates in effect on the date of the transactions. The gains and losses on exchange are included in the net income for the year.

The monetary assets and liabilities are converted at the rate of exchange in effect on the balance sheet date.

j) Derivative financial instruments

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

The Société does not use financial instruments for speculative purposes. The Société properly documents its objective and strategy for risk management, which forms the basis for its hedging activities as well as all the relationships between the hedge instruments and the hedged items. This process consists of connecting all the derivative financial instruments to specific assets and liabilities, to firm commitments or to specific planned operations.

As part of the management of its risks, including the commodity price risks and the exchange and interest rate risks described in note 29, the Société uses various derivative financial instruments to establish a cash flow hedge for specific planned operations. As a result, the effective portion of the hedge relationship is recognized in the accumulated other comprehensive income, and the ineffective portion is recognized in the statement of consolidated income under interest and financing costs (note 11). The effective portion of the hedge relationship carried forward in the accumulated other comprehensive income is reclassified in the net income in the same period in which the hedged item affects income. Hedge relationships that do not meet the requirements of hedge accounting or that are not designated as such, are recognized at the fair value on the balance sheet, and their changes on the statement of consolidated income.

Notes to Financial Statements
at December 31, 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

When a hedging relationship is put in place, and throughout its existence, the Société must have reasonable assurance that this relationship will be efficient and that it meets the objective and strategy initially documented. When hedge instruments end or cease to be efficient prior to maturity and are not replaced under the Société's documented hedge strategy, the gains or losses attached to the hedge instrument that had been previously recognized in the accumulated other comprehensive income following the application of hedge accounting, are carried forward to be recorded in net income in the period or periods during which the asset acquired or the liability assumed affects the net income. If the hedged item ceases to exist due to maturity, expiration, cancellation or its exercise before the hedge instrument ends, the gains or losses attached to the hedge instrument that had previously been recognized in the accumulated other comprehensive income following the application of hedge accounting, are recognized in the net income in the period covered by the consolidated financial statements, as are the corresponding gains or losses relating to the hedged item.

k) Employee future benefits

The actuarial evaluation 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 increase in other costs, the retirement ages of the employees, the return on the assets 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 difference between the actual long-term return on the plan assets over a given period and the anticipated return over this period, or the changes made to the actuarial hypotheses used to determine the accrued benefit obligation. The excess of the net cumulated actuarial gain (net cumulated actuarial loss) over 10 % of the accrued benefit 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 active employees covered by the pension plans ranges from 6 to 16 years depending on the plan. The average remaining service life of the active employees covered by the supplementary retirement benefit plans is 12.6 years for the supplementary retirement benefits and 5.2 years for the post-employment benefits.

Notes to Financial Statements
at December 31, 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

l) Recognition of revenue

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

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

Other revenue includes advertising royalties and rental income as well as revenue from sinking fund investments that will be used for the repayment of the long-term debt. These revenues are recognized as they are earned.

m) Use of estimates

As part of the preparation of the consolidated financial statements, 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 consolidated financial statements. The principal areas that require the use of estimates by management are: useful life for amortization purposes; establishment of the amount for the receivables to be allocated to the repayment of long-term debt; establishment of fair values for the derivative financial instruments; hypotheses relating to the pension expenses and to the other supplementary employee benefits (post-retirement and post-employment); and 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 two new accounting standards that the Société is preparing to adopt as of January 1, 2009 and January 1, 2011:

a) Goodwill and intangible assetss

In February 2008, the CICA published Section 3064 of the CICA Handbook - *Goodwill and Intangible Assets*, replacing Section 3062 - *Goodwill and Other Intangible Assets* and Section 3450 - *Research and Development Costs*. Changes for purposes of uniformity were made to other sections of the CICA Handbook. This new section will apply to financial statements for fiscal years beginning October 1, 2008. Consequently, the Société will adopt the new standards during its fiscal year beginning January 1, 2009. The section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to initial recognition and of intangible assets for profit-making companies. In the case of goodwill, Section 3064 includes the same requirements as the previous Section 3062. The Société is currently evaluating the effect of the adoption of this new section on its consolidated financial statements.

Notes to Financial Statements

at December 31, 2008

4. FUTURE ACCOUNTING CHANGES (cont'd)

b) International Financial Reporting Standards (IFRSs)

In February 2008, the Accounting Standards Board (AcSB) confirmed that the Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises would be replaced by the IFRSs effective January 1, 2011. The IFRSs use a conceptual framework similar to that of the Canadian GAAP, but include major differences in the area of recognition, measurement, presentation and disclosure. During the period preceding the changeover, the AcSB will continue to publish accounting standards that converge towards the IFRSs, such as IAS 2 - *Inventories* and IAS 38 - *Intangible Assets*, thus lessening the effect of the adoption of the IFRSs on the obligatory changeover date.

As a government business enterprise, the Société is subject to the accounting standards prescribed by the CICA Handbook - Accounting in the presentation of its general purpose financial statements. Under the legislative provisions of its Constituent Act and in order to meet the consolidation requirements of the Montréal agglomeration, the Société produces special purpose financial statements for certain users in accordance with public sector accounting standards.

In order the simplify the preparation of its annual financial statements to better respond to the needs of its users and to adopt the same accounting standards as its controlling entity, the Société decided during the year to stop producing its financial statements in accordance with the accounting standards of the CICA Handbook - Accounting and, as of 2009, to produce the financial statements in accordance with the Public Sector Accounting Handbook accompanied by an auditors' report for special purpose financial statements, which will not be subject to the IFRSs.

In accordance with the preceding, the fiscal year ended December 31, 2008, will be the final fiscal year for which the Société uses the accounting standards of the CICA Handbook - Accounting in the preparation of its financial statements.

5. PASSENGERS

(in thousands of dollars)

	2008	2007
Bus and métro service	400,579	378,307
Paratransit service	2,325	2,144
Regional revenues [(a)]	41,813	35,204
	444,717	**415,655**

[(a)] The regional revenues attributable to the Société are derived from the sharing of revenue from the sale of city transportation fares by the Agence métropolitaine de transport.

Notes to Financial Statements

at December 31, 2008

6. SUBSIDIES FROM THE GOVERNMENT OF QUEBEC

(in thousands of dollars)

	2008	2007
Paratransit service [(a)]	31,395	29,865
Improvements in public transit service [(b)]	16,558	5,086
Other	-	497
	47,953	**35,448**

[(a)] Paratransit government assistance program
Under 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)] Government assistance program for improving public transit services
Under the powers conferred on the Transport Minister by order-in-council 153-2007, the Société is eligible for a subsidy of up to 50% of the expenses deemed admissible by the Ministère des Transports over a period of five years starting in 2007. The objective of this program, which stems from the Quebec Public Transit Policy, is to increase public transit ridership by 8% between now and 2011. This new government aid could reach $48.0 million in 2011 if the growth in the Société's service offer reaches a level of 16.0%.

7. REGIONAL CONTRIBUTIONS

(in thousands of dollars)

	2008	2007
For trips on the métro network [(a)]	43,933	44,260
For trips on city bus lines [(a)]	5,714	5,807
For equipment and infrastructure [(b)]	1,267	1,296
Fare integration [(c)]	2,286	2,293
	53,200	**53,656**

[(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:
Under article 37 of the *Loi sur l'Agence métropolitaine de transport*, the latter must acquire from the Société the equipment and infrastructure necessary for the city bus transportation system. At December 31, 2008, 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 métropolitaine de transport reimburses the Société for the associated operating costs.

[(c)] Fare integration:
Metropolitan assistance paid to transit entities, the objective of which is to ensure that for each fare zone no entity assumes a portion of the discount related to reduced and intermediate fares that exceeds the discount given to purchasers of TRAM fares (integrated monthly pass giving access to the commuter train network and the bus and métro networks in the metropolitan area) for this zone.

Notes to Financial Statements

at December 31, 2008

8. CONTRIBUTION FROM THE MUNICIPALITIES OUTSIDE THE MONTRÉAL AGGLOMERATION

On February 22, 2007, the Government of Quebec signed an agreement covering the rules for the sharing of the métro deficit for a period of five years from 2007 to 2011. The total contribution for the municipalities outside the Montréal agglomeration is pre-established and fixed for the period of the agreement.

9. OTHER REVENUE

(in thousands of dollars)

	2008	2007
Advertising	14,199	13,157
Rentals	5,394	5,297
Other	6,081	7,705
	25,674	**26,159**

10. GOVERNMENT CONTRIBUTIONS AND SUBSIDIES

(in thousands of dollars)

	2008	2007
Amortization of the subsidies relating to tangible capital assets [(a) (b)]	47,422	41,317
Subsidies from the Government of Quebec relating to interest payments [(a)]	27,757	18,886
Regional contributions relating to financing	-	567
	75,179	**60,770**

(a) **Public transit assistance program:**
Under 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 relating to bus purchases, building construction, renovation of métro stations, renovation of métro cars and other specific expenses, at rates ranging from 50% to 75%.

(b) **Public transit capital assets assistance program:**
Under the powers conferred on the Société de financement des infrastructures locales du Québec (SOFIL) by order-in-council 115-2007, the Société is eligible for a subsidy equal to 84.5% of the capital expenditures deemed admissible by the Ministère des Transports, starting in 2006. To this subsidy is added a 15.5% contribution from the City of Montréal, thus bringing the total subsidy for admissible expenses to 100%.

Notes to Financial Statements

at December 31, 2008

11. INTEREST AND FINANCING COSTS

(in thousands of dollars)

	2008	2007
Interest on the long-term debt	44,315	39,475
Short-term financing costs	5,441	8,003
Loss (gain) on currency conversion on foreign currency debts	6,612	(5,991)
	56,368	41,487
Financing costs allocated to capital assets in progress	(3,336)	(5,289)
	53,032	36,198
Derivative financial instruments		
Loss (gain) in the value of the derivative financial instruments held for transaction purposes	(2,715)	4,323
Ineffective portion of the cash flow hedge instruments	423	(408)
Reclassification of the deferred net loss on the derivative financial instruments and of the deferred gain on currency conversion, presented in other comprehensive income	172	694
	50,912	40,807

12. SINKING FUND INVESTMENTS

(in thousands of dollars)

	2008	2007
Cash	38,240	23,448
Bonds and bond coupons	119,737	93,278
Interest receivable	778	654
	158,755	117,380
Short-term portion	(39,360)	(6 518)
	119,395	110,862

The maturities of the bonds and bond coupons held by the Société are as follows:

	Investments guaranteed by the Government of Quebec	Weighted nominal interest rate
2009	18,866	4,43 %
2010	4,069	5,17 %
2011	8,761	4,67 %
2012	13,775	4,10 %
2013	28,455	4,19 %
More than 5 years	45,811	3,10 %
	119,737	

Notes to Financial Statements

at December 31, 2008

13. SUBSIDIES RECEIVABLE

(in thousands of dollars)

	2008	2007
Government of Quebec		
Capital assets [(a)]	172,246	152,420
Paratransit	12,840	11,167
Service improvements	8,455	-
Other	586	5,673
	194,127	169,260
City of Montréal		
Capital assets	9,033	16,544
Agence métropolitaine de transport		
Capital assets [(a)]	810	2,399
Other	6,325	210
	210,295	188,413

(a) Includes the short-term portion of the receivables to be allocated to the repayment of the long-term debt (note 18) in the amount of $50,146 ($50,773 in 2007).

14. OTHER RECEIVABLES

(in thousands of dollars)

	2008	2007
Regional revenues	11,684	8,224
Work accident payments recoverable	1,860	1,691
Tax claims submitted to governments	5,448	3,424
Accounts receivable	16,552	21,086
Other	6,293	4,875
	41,837	39,300
Provision for bad debts [(a)]	(2,688)	(2,459)
	39,149	36,841

	2008	2007
(a) Provision for bad debts		
Balance at beginning of year	(2,459)	(2,476)
Increase during the year	(564)	(88)
Amounts written off, net of recoveries	335	105
Balance at end of year	(2,688)	(2,459)

Overdue receivables that were not subject to a write-down: The Société systematically records specific provisions for bad debts with regard to its overdue receivables. These provisions are determined within the framework of its normal practices for the management of collection risk linked to its receivables. As a result, at December 31, 2008, there were no overdue receivables that were subject to a write-down.

Overdue receivables that were subject to a write-down: A total amount of $2,801 in receivables were individually considered as having been subject to a write-down at December 31, 2008. The following factors were taken into account by the Société: the client declared bankruptcy, was in receivership or its payments were the subject of litigation.

Notes to Financial Statements

at December 31, 2008

15. INVENTORIES

(in thousands of dollars)

	2008	2007
Balance at start	27,746	26,489
Acquisition	54,394	45,801
Use	(48,762)	(44,171)
Depreciation	(189)	(373)
Balance at end	33,189	27,746
Presented with the tangible capital assets (note 2)	(29,095)	(26,413)
Balance at end	4,094	1,333

16. TANGIBLE CAPITAL ASSETS

(in thousands of dollars)

	2008			2007
	Cost	Accumulated amortization	Net book value	Net book value
Land	7,352	-	7,352	7,352
Buildings	184,026	81,244	102,782	106,432
Original métro network and extensions	1,454,836	1,251,101	203,735	214,214
Improvements to métro infrastructure	541,473	97,175	444,298	413,390
Local infrastructure	12,184	4,035	8,149	8,498
Regional infrastructure	11,499	9,101	2,398	2,995
Rolling stock - buses	690,333	347,330	343,003	324,661
Rolling stock - minibuses	11,530	7,765	3,765	3,464
Rolling stock - other	34,172	20,744	13,428	14,424
Leasehold improvements	7,170	7,170	-	251
Office equipment	46,223	15,046	31,177	19,010
Machinery, tools and equipment	164,185	65,837	98,348	54,961
Inventories of replacement parts (note 2)	29,095	-	29,095	26,413
Tangible capital assets in progress	427,014	-	427,014	301,103
	3,621,092	1,906,548	1,714,544	1,497,168

17. INTANGIBLE ASSETS

(in thousands of dollars)

	2008			2007
	Cost	Accumulated amortization	Net book value	Net book value
Software	50,976	32,350	18,626	20,293

Notes to Financial Statements
at December 31, 2008

18. RECEIVABLES TO BE ALLOCATED TO THE REPAYMENT OF THE LONG-TERM DEBT
(in thousands of dollars)

	2008	2007
Amount recoverable for repayment of the long-term debt	376,993	455,004
Amount recoverable for the repayment of long-term debts not yet issued	108,643	-
	485,636	455,004
Current portion of the receivables to be allocated to the repayment of the long-term debt (included in the subsidies receivable (note 13))	(50,146)	(50,773)
	435,490	**404,231**

19. OTHER LONG-TERM ASSETS
(in thousands of dollars)

	2008	2007
Deposits for bus purchases	18,491	6,674
Other	2,784	2,428
	21,275	**9,102**

20. SHORT-TERM LOANS
The Société has a loan authorization to a limit of $540.0 million ($350.0 million in 2007) for its current operating expenses and for expenses incurred in accordance with a loan by-law.

Of this amount, a sum of $500.0 million ($310.0 million in 2007) can be borrowed, in whole or in part, in the form 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, 2008, the nominal value of the commercial paper issuances totalled $261.0 million ($71.0 million in 2007), and the average rate on the short-term loans was 3.39% (4.53% in 2007).

The Société also has access to 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 2008 was 4.73% (6.10% in 2007). At December 31, 2008, the line of credit used amounted to $3.1 million ($0.0 million in 2007) at an interest rate of 3.50%. In February 2009, the Société renewed this credit facility to bring it up to $100.0 million with the same conditions as in 2008.

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

Notes to Financial Statements
at December 31, 2008

21. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES
(in thousands of dollars)

	2008	2007
Suppliers and accrued liabilities	104,151	72,913
Salaries and benefits	17,886	49,675
Sick leaves payable	4,354	5,062
Vacations payable	28,971	28,005
Revenues received in advance	8,973	-
Accrued interest	8,939	9,470
Other	17,740	15,362
	191,014	**180,487**

Notes to Financial Statements

at December 31, 2008

22. FINANCIAL INSTRUMENTS

(in thousands of dollars)

The classification of the financial instruments and their accounting value and fair value are as follows:

	2008				2007 [a]	
	Carrying value			Fair value	Carrying value	Fair value
Financial assets	Classified as being held for transaction purposes	Available for sale	Loans and receivables			
Cash and short-term investments	11,129			11,129	72,031	72,031
Sinking fund investments		158,755		158,755	117,380	117,380
Subsidies receivable			210,295	210,295	188,413	188,413
Regional contributions receivable			24,125	24,125	27,052	27,052
Contribution receivable from the municipalities outside the Montréal agglomeration			2,967	2,967	3,939	3,939
Other receivables			39,149	39,149	36,841	36,841
Derivative financial instruments				-	1,411	1,411
Receivables to be allocated to the repayment of the long-term debt			435,490	452,383	404,231	415,627
	11,129	**158,755**	**712,026**	**898,803**	**851,298**	**862,694**
Financial liabilities	Classified as being held for transaction purposes	Other liabilities	Derivatives designated in a hedge relationship			
Short-term loans		259,807		259,807	70,950	70,950
Accounts payable and accrued liabilities		191,014		191,014	180,487	180,487
Derivative financial instruments	16,866		19,359	36,225	22,456	22,456
Long-term debt		886,249		932,837	931,683	952,500
	16,866	1,337,070	19,359	1,419,883	1,205,576	1,226,393

[a] *The classification of the financial assets and liabilities is the same for the year 2007 as for the year 2008.*

Notes to Financial Statements

at December 31, 2008

22. FINANCIAL INSTRUMENTS (cont'd)

(in thousands of dollars)

Among the various derivative financial instruments that the Société uses are swap contracts for fuel and others linked to an exchange or interest rate by a specific long-term debt.

At the end of the year, the Société held the following financial instruments with a positive fair value, presented on the balance sheet under «Derivative financial instruments» (assets):

Description of swap contract	Maturity	Fair value CAN $ 2008	Fair value CAN $ 2007
Heating oil	31-12-2008	-	1,411
Heating oil	31-12-2009	-	2,413
Heating oil	31-12-2010	-	4,535
		-	**8,359**

At the end of the year, the Société held the following financial instruments with a negative fair value, presented on the balance sheet under «Derivative financial instruments» (liabilities):

Description of swap contract	Maturity	Residual quantity (in thousands of litres)	Interest rate	Term exchange rate CAN $ / US $ or Euro	Nominal reference amount in CAN $ /US $ or Euro	Fair value in CAN $ 2008	Fair value CAN $ 2007
Heating oil	31-12-2009	11,424				**554**	-
Heating oil	31-12-2010	46,216				**371**	-
Heating oil	31-12-2011	57,615				**13,141**	-
Interest and exchange rates (US/CAN)	09-01-2012		5,465 %	1,571	30,000	**16,866**	19,587
Interest and exchange rates (Euro/CAN)	07-06-2017		4,742 %	1,507	36,000	**3,440**	2,055
Interest and exchange rates (Euro/CAN)	07-06-2027		4,921 %	1,507	14,000	**1,853**	814
						36,225	**22,456**

The exchange and interest rate contract maturing January 9, 2012 was designated as being held for transaction purposes. All other contracts in effect at December 31, 2008 are subject to hedge accounting.

Notes to Financial Statements

at December 31, 2008

23. LONG-TERM DEBT

(in thousands of dollars)

	2008	2007
Bonds and bank loans, at fixed interest rates ranging from 3.50% to 6.85% (3.25% to 6.85% in 2007), maturing from February 2009 to February 2027	764,651	828,505
Bank loans at variable interest rates based on the US LIBOR rate plus a premium of 0.25%, the EURIBOR rate plus a premium of 0.06% and 0.075% and 0.075% and on the Canadian base rate plus 0.35% and 0.5%, maturing from June 2009 to November 2027	121,598	103,178
	886,249	931,683
Current portion of long-term debt	(89,955)	(64,030)
	796,294	**867,653**

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

The Société used exchange and interest rate swap contracts for loans totalling $121.6 million ($102.7 million in 2007). These swaps eliminate a great part of the exchange and interest rate risks.

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

Year of maturity	Canadian Dollars	American Dollars converted into Canadian Dollars	Euros converted into Canadian Dollars	Total	Weighted interest rate
2009	89,955	-	-	89,955	5,72 %
2010	25,642	-	-	25,642	4,82 %
2011	28,016	-	-	28,016	4,97 %
2012	21,610	36,564	-	58,174	5,27 %
2013	27,400	-	-	27,400	5,14 %
1 to 5 years	**192,623**	**36,564**	-	**229,187**	5,34 %
6 to 10 years	458,378	-	61,226	519,604	4,83 %
11 years and more	113,650	-	23,808	137,458	4,97 %
	764,651	**36,564**	**85,034**	**886,249** (a)	

(a) Sinking fund investments totalling $158.8 million were allocated to the repayment of certain long-term debt as of December 31, 2008 (note 12).

Notes to Financial Statements

at December 31, 2008

24. EMPLOYEE FUTURE BENEFITS

a) **Overall description of employee future benefits**

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 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 employees and 12% for the Société less its share of contributions to the Régime des rentes du Québec.

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 valuation of the retirement plans for funding purposes was carried out on December 31, 2005, and the next valuation will be carried out on December 31, 2008.

In the case of the «Régime 1992» and the «Régime CSN», the employer cannot use the surplus unilaterally to lower its contributions. In fact, employees must be in agreement in determining the use of any surpluses. 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, 2008, the allowance for valuation stood at $81.4 million ($60.5 million in 2007).

Given that the «Régime 1992» is in an actuarial deficit or insolvency position, additional contributions will have to be paid to the plan in the following order, taking into account the «bankers' clause»:

- The Société no longer benefits from the contribution holiday calculated on the exemption based on the RRQ contribution.

- The Société pays an additional contribution that is sufficient to cover the amortization of the deficit up to the amount of the contribution holidays from 2000 to 2002.

- The balance of the amortization of the deficit, if applicable, is covered in equal parts by the Société and the employees up to a rate of 9% of the admissible salary for the employee portion.

- When the actuarial deficit or insolvency is reduced and the plan is again showing surpluses not required for its funding, the Société can recover the capital and interest of the additional contributions paid.

The «Régime CSN» does not benefit from a «bankers' clause». Therefore, in situations where there is an actuarial deficiency or insolvency, additional contributions would have to be paid to the plan in equal parts by the Société and the employees up to a rate of 9% of the admissible salary for the employee portion.

Notes to Financial Statements

at December 31, 2008

24. EMPLOYEE FUTURE BENEFITS (cont'd)

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 maintaining 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 December 31 of each year.

(in thousands of dollars)

	Pension plans		Other plans	
	2008	2007	2008	2007
b) Total cash payments				
Contributions by the Société for employee future benefits	35,149	34,043	6,039	(8,198)
c) Accrued benefit obligation				
Balance at beginning of year	2,969,744	3,028,991	95,114	92,906
Cost of services rendered during the year	62,956	69,786	5,711	7,719
Employee contributions	24,833	24,059	-	-
Interest cost	164,105	152,625	4,833	4,802
Benefits paid	(147,589)	(140,712)	(6,039)	(8,198)
Cost of past services	60,122	-	-	-
Actuarial gains on the obligation	(581,969)	(165,005)	(27,672)	(2,115)
Balance at end of year	**2,552,202**	**2,969,744**	**71,947**	**95,114**
d) Fair value of plan assets				
Balance at beginning of year	3,393,700	3,101,832	-	-
Contributions by the Société	35,149	34,043	6,039	8,198
Employee contributions	24,833	24,059	-	-
Actual return on plan assets	(487,482)	374,478	-	-
Benefits paid	(147,589)	(140,712)	(6,039)	(8,198)
Balance at end of year	**2,818,611**	**3,393,700**	-	-

Composition of plan assets		
Asset category (as a percentage)		
Equity securities	51 %	54 %
Debt securities	36 %	33 %
Real property	13 %	10 %
Other	-	3 %
Total	100 %	100 %

Notes to Financial Statements

at December 31, 2008

24. EMPLOYEE FUTURE BENEFITS (cont'd)

(in thousands of dollars)

	Pension plans		Other plans	
	2008	2007	2008	2007
e) Reconciliation of the funding status of the employee benefit plans and the amounts in the financial statements				
Fair value of plan assets	2,818,611	3,393,700	-	-
Accrued benefit obligation	(2,552,202)	(2,969,744)	(71,947)	(95,114)
Funding status - surplus (deficit)	266,409	423,956	(71,947)	(95,114)
Unamortized cost of past services	69,984	11,124	-	-
Net unamortized actuarial gain	(277,281)	(397,383)	(29,178)	(2,115)
Accrued benefit asset (liability)	59,112	37,697	(101,125)	(97,229)
Allowance for valuation for accrued benefit asset	(81,356)	(60,455)	-	-
Net liability for valuation allowance	(22,244)	(22,758)	(101,125)	(97,229)

Presentation on the consolidated balance sheet

	2008	2007
Pension plans	(22,244)	(22,758)
Other plans	(101,125)	(97,229)
	(123,369)	**(119,987)**
Accrued benefit asset	-	-
Accrued benefit liability	(123,369)	(119,987)
	(123,369)	**(119,987)**

Notes to Financial Statements
at December 31, 2008

24. EMPLOYEE FUTURE BENEFITS (cont'd)

f) **Plans whose accrued benefit obligation exceeds its 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 fully funded:

(in thousands of dollars)

	Pension plans		Other plans	
	2008	2007	2008	2007
Accrued benefit obligation	(7,169)	(8,285)	(71,947)	(95,114)
Fair value of plan assets	1,036	1,029	-	-
Funding status - deficit	(6,133)	(7,256)	(71,947)	(95,114)
g) Components of the costs for defined benefits recognized for the year				
Cost of services rendered during the year	62,956	69,786	5,711	7,719
Interest cost on the accrued benefit obligation	164,105	152,625	4,833	4,802
Actual return on plan assets	487,482	(374,478)	-	-
Actuarial gain on the obligation	(581,969)	(165,005)	(27,672)	(2,115)
Cost of past services	60,122	-	-	-
Components of the cost of employee future benefits before adjustments to take into account the long-term nature of this cost	192,696	(317,072)	(17,128)	10,406
Adjustments to take into account the long-term nature of the cost of employee future benefits				
Difference between the anticipated return and the actual return on the assets	(696,819)	183,223	-	-
Difference between the amount of the actuarial gain recognized for the year and the actual amount of the actuarial gain on the accrued benefit obligation for the year	576,717	165,005	27,063	2,115
Difference between the amortization of the cost of past services for the year and the amendments made to the plans for the year	(58,860)	1,261	-	-
	(178,962)	349,489	27,063	2,115
Change in the valuation allowance for the accrued benefit asset	20,901	4,710	-	-
Costs recognized for the defined benefits	34,635	37,127	9,935	12,521

Notes to Financial Statements
at December 31, 2008

24. EMPLOYEE FUTURE BENEFITS (cont'd)

(in thousands of dollars)

	Pension plans		Other plans	
	2008	2007	2008	2007
h) Excess of the expense for employee future benefits over the contributions paid				
Costs recognized for defined benefits	34,635	37,127	9,935	12,521
Contributions by the Société	(35,149)	(34,043)	(6,039)	(8,198)
	(514)	3,084	3,896	4,323

Presentation on the consolidated income statement

	2008	2007
Pension plan	(514)	3,084
Other plans	3,896	4,323
Excess of the expense for employee future benefits over the contributions paid	3,382	7,407

	Pension plans		Other plans	
	2008	2007	2008	2007
i) Principal assumptions (weighted rates)				
Cost of benefits (current year)				
Discount rate	5,50 %	5,50 %	5,00 %	5,20 %
Anticipated rate of return on the long-term pension assets	6,25 %	6,24 %		
Rate of increase in remuneration	3,00 %	3,00 %	3,25 %	3,22 %
Accrued benefit obligation (end of year)				
Discount rate	7,50 %	5,50 %	7,50 %	5,00 %
Rate of increase in remuneration	3,00 %	3,00 %	3,25 %	3,25 %
Assumed health care cost trend rates at December 31				
Initial health care cost trend rate	-	-	8,94 %	6,74 %
Level to which the trend rate is dropping	-	-	5,13 %	4,52 %
Year in which the rate should stabilize	-	-	2016	2016

Notes to Financial Statements
at December 31, 2008

24. EMPLOYEE FUTURE BENEFITS (cont'd)

(in thousands of dollars)

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 health care cost trend rates would have the following repercussions for 2008:

	2008	
	Increase	Decrease
Total cost of benefits for services rendered and interest cost	285	(243)
Accrued benefit obligation	1,407	(1,274)

25. DEFERRED SUBSIDIES

(in thousands of dollars)

	2008	2007
	Increase	Decrease
Balance at beginning of year	821,093	508,753
Increase	108,642	229,470
Receipts	65,233	124,187
Amortization	(47,422)	(41,317)
Balance at end of year	**947,546**	**821,093**

26. ACCUMULATED OTHER COMPREHENSIVE INCOME

(in thousands of dollars)

	2008			2007
	Available-for-sale financial assets	Derivative financial instruments	Total	Total
Balance at beginning of year	367	5,434	5,801	-
Adoption of new accounting standards in 2007	-	-	-	(864)
Other comprehensive income	3,054	(35,163)	(32,109)	6,665
Balance at end of year	**3,421**	**(29,729)**	**(26,308)**	**5,801**

Notes to Financial Statements
at December 31, 2008

27. SUPPLEMENTARY INFORMATION ON THE STATEMENT OF CASH FLOWS

Net change in the non-cash components of the working capital

(in thousands of dollars)

	2008	2007
Subsidies and contributions receivable	(17,983)	(135,495)
Other receivables	(2,308)	79
Inventories of supplies and replacement parts	(2,761)	(1,257)
Accounts payable and accrued liabilities	10,527	40,654
	(12,525)	**(96,019)**

Other information

(in thousands of dollars)

	2008	2007
Issuance of receivables to be allocated to the repayment of the long-term debt	(108,642)	(229,470)
Increase in deferred subsidies	108,642	229,470
Interest paid on short-term loans not allocated to tangible capital assets in progress	2,105	2,714
Interest paid on the long-term debt	44,844	36,668

28. COMMITMENTS

a) **Long-term leases**
The Société is committed to paying a sum of $88.1 million for rental premises under long-term leases expiring from July 31, 2009 to July 31, 2023. The minimum payments required for the next five years amount to $7.3 million for 2009, $7.1 million for 2010, $7.0 million for 2011, $6.9 million for 2012 and $7.0 million for 2013.

b) **Service contract for a communications solution integrator**
The Société is committed to paying a maximum of $8.0 million for the years 2009 to 2012. The three main components of this contract are the company telephone system in the amount of $4.8 million, Internet access services in the amount of $1.4 million and the call centre in the amount of $1.8 million.

Future payments amount to $2.0 million annually for the years 2009 to 2012.

Notes to Financial Statements
at December 31, 2008

28. COMMITMENTS (cont'd)

c) Contract for the purchase of city buses
The Société awarded a contract for the purchase of low-floor city buses and a contract for the purchase of articulated buses as part of a group purchase on behalf of the members of the Association du transport urbain du Québec.

The contracts run from 2008 to 2011 and cover the purchase of low-floor buses and articulated buses for all the companies involved. The two contracts include an indexation clause based on the Consumer Price Index and the Industry Price Index as well as on the change in the American exchange rate (US) and the European exchange rate (EURO) for the portion of the cost of a bus involving American and/or European content. As a guide, in the case of the contract for the low-floor buses, the American content represents 29% of the base cost, while the European content represents 9%. In the case of the articulated buses, the American content represents 23% and the European content, 6%. The companies have the option of reducing the quantities ordered by 10% or increasing them by 20%.

In the case of the low-floor buses, the Société's share is 305 buses for a total value of $141.8 million. A delivery valued at $41.8 million took place in 2008. The remaining deliveries will take place as follows: $80.4 million in 2009 and $19.6 million in 2010.

In the case of the articulated buses, the Société's share is 202 buses valued at $133.8 million. Based on the schedule for the delivery of the buses, the deliveries will amount to $46.0 million in 2009, $50.7 million in 2010 and $37.1 million in 2011.

d) Asset maintenance program for fixed equipment in the métro
The Société signed a contract with an engineering firm in the amount of $83.8 million in 2007, with a remaining balance of $41.1 million in 2008, to operate a project office responsible for carrying out the asset maintenance program for fixed equipment in the métro. The scheduled payments are $21.2 million in 2009 and $19.9 million in 2010.

e) Contract for the maintenance of the fare sales and collection system and equipment
As part of the project to upgrade the fare sales and collection system and equipment, the Société awarded a contract for the maintenance of the system software and equipment. Payments for future years amount to $2.1 million annually from 2009 to 2013.

f) Contract for the supply of diesel fuel
The Société negotiated a contract with a supplier for the provision of diesel fuel for a pre-determined period. In order to protect itself from price variations, the Société negotiated agreements (swap contracts) with financial institutions. Over the total length of these agreements, from January 2007 to December 2011, the Société will have purchased 169.9 million litres at a fixed price, representing a sum of approximately $108.4 million.

At December 31, 2008, the balance of the Société's commitment amounted to 115.3 million litres for a sum of $78.3 million.

Notes to Financial Statements
at December 31, 2008

29. MANAGEMENT OF FINANCIAL RISK

The Société is mainly exposed to credit risk, liquidity risk and market risk resulting from the holding of financial instruments. Rigorous monitoring and the adoption of strategies including the use of derivative instruments reduce the exposure to these risks.

a) Credit risk
Credit risk is defined as an unforeseen loss resulting from the inability of a debtor to meet its obligations to the Société in a timely fashion or a situation in which a party is incapable of meeting its obligations to the Société where the Société has acted as a guarantor. The Société is exposed to the credit risk associated with short-term investments, sinking fund investments and derivative financial instruments that it transacts with financial institutions. It is also exposed to the credit risk associated with other receivables resulting from its current operations to organize and provide public transit. The credit risk is limited to the accounting value presented on the balance sheet.

a.1) Short-term investments, sinking fund investments and derivative financial instruments
The effective monitoring and control of credit risk is a key component in the Société's risk management activities. Credit risk resulting from cash management activities is managed by the Finance Department in accordance with the Société's policy on investment management (the «policy»). The objective of this policy is to reduce the Société's exposure to credit risk resulting from its cash management activities by ensuring that the Société deals only with high quality financial institutions in accordance with the pre-established limits for each.

a.2) Other receivables
The credit risk resulting from the Société's current operations is managed and controlled by the Finance Department. The principal managed credit risk is the credit risk involving clients. Clients' credit ratings as well as their credit limits are analyzed based on the Société's experience with its clients and are examined in relation to the clients' payment patterns.

b) Liquidity risk
Liquidity risk is the risk that an entity experiences from difficulties in meeting its obligations with regard to financial liabilities.

The Société manages this risk by taking into account all the obligations to which it has committed on both the cash level and the operational level and by maintaining detailed financial forecasts. The adequacy of the liquidity is evaluated by taking into account the maturity profile of the debt and the derivatives as well the various daily cash flows derived primarily from the receipt of passenger revenue and from the payment of accounts payable. In this way, the Société ensures that the necessary funds are available via its short-term and long-term financing programs. Easily accessible credit facilities are in place for situations where the cash flow related to operating activities is not sufficient and the liquidity requirements are too high. The Société ensures that there is optimal management of liquidity by constantly being on the look-out for financing opportunities to optimize its capital structure and preserve adequate financial flexibility.

Notes to Financial Statements
at December 31, 2008

29. MANAGEMENT OF FINANCIAL RISK (cont'd)

The contractual maturities relating to the Société's undiscounted financial liabilities at December 31, 2008, which include related interest where applicable, are presented as follows:

(in thousands of dollars)

Maturity	Short-term loans	Payables and accrued liabilities	Long-term debt	Cash inflow swap	Cash outflow swap	Total
Less than 1 year	259,807	191,014	131,278	(28,327)	41,304	595,076
1 to 5 years			275,070	(88,136)	111,226	298,160
6 to 10 years			614,531	(75,821)	68,432	607,142
11 to 15 years			100,836	(5,433)	5,194	100,597
16 to 20 years			74,660	(27,050)	24,733	72,343
Total	**259,807**	**191,014**	**1,196,375**	**(224,767)**	**250,889**	**1,673,318**

c) Market risk

Market risk is the risk that the fair value or future cash flows from a financial instrument will vary due to changes in the current market price, whether these changes are due to factors particular to this financial instrument or its issuer or to factors having an effect on all similar financial instruments negotiated on the market. The Société is exposed to three types of market risk - exchange risk, interest rate risk and commodity risk related to the price of diesel fuel.

c.1) Exchange risk

The Société carries out certain purchases in US Dollars and in Euros, and a portion of its long-term debt is denominated in these currencies. The Société uses various strategies including the use of derivative financial instruments to mitigate these risks.

The Société's principal exchange risks are managed by the Finance Department. The objective in exchange risk is to mitigate the effect of the fluctuation in exchange rates on the Société's consolidated financial statements. The various services are responsible for identifying and communicating any exposure to exchange risk to the Finance Department who will carry out hedge operations if the amounts at risk exceed a certain level and if the exchange rate fluctuation has a major effect on the financial statements. In particular, any debt denominated in foreign currency is converted into debt in Canadian Dollars via exchange and interest rate swaps, with two of the three swaps designated as hedge instruments for financial purposes at December 31, 2008. All the derivative financial instruments used in the hedging of exchange risk are held until their maturity.

At December 31, 2008, these swaps had a total negative fair value of $22.2 million ($22.5 million in 2007). The portion of this fair value related to exchange risk was $0.9 million ($20.1 million in 2007) (note 22).

Notes to Financial Statements
at December 31, 2008

29. MANAGEMENT OF FINANCIAL RISK (cont'd)

c.2) Interest rate risk

The Société is exposed to interest rate risk due to its financial obligations that bear interest at variable rates. The Société's exposures to interest rate risk are managed by the Finance Department, which converts all its obligations at variable rates into fixed rate obligations via exchange and interest rate swaps, with two of the three swaps designated as cash flow hedge instruments for accounting purposes at December 31, 2008. All the derivative financial instruments used in the hedging of interest rate risk are held until their maturity.

At December 31, 2008, these swaps had a total negative fair value of $22.2 million ($22.5 million in 2007). The portion of this fair value related to interest rate risk was $21.3 million ($2.4 million in 2007) (note 22).

c.3) Commodity risk

The Société is exposed to a risk in the price of fuel due to the fact that it carries out major diesel fuel purchases on which the prices are subject to large fluctuations. The Société's exposures to this risk are managed by the Finance Department who take advantage of the use of a swap on heating oil. While the hedge relationship between diesel fuel and heating oil is not perfect, the use of such derivative financial instruments reduces the impact of the price fluctuations. The inefficiency of the relationship is quantified and transferred to income. The Société applies hedge accounting with regard to its diesel fuel transactions.

At December 31, 2008, the heating oil swaps had a negative fair value of $14.1 million ($8.4 million positive in 2007) (note 22).

d) Fair value

According to Canadian 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 instruments:

The accounting value of cash and short-term investments, subsidies receivable, regional contributions receivable, contribution receivable from municipalities outside the Montréal agglomeration, other receivables , short-term loans as well as payables and accrued liabilities is moving closer to the fair value, as these instruments have an approaching maturity date.

The fair value of the sinking fund investments is established from the bid price values.

The fair value of the derivative financial instruments is determined by means of price-setting models that integrate the current market prices and the contractual prices of the underlying instruments, the temporal value of the money and the return curves.

The fair value of the long-term debt and the fair value of the receivables to be allocated to the repayment of the long-term debt are determined by means of the present value of future cash flows according to the current financing agreements, based on the interest rate that the Société believes that it is currently able to obtain for the loans having similar conditions and maturities. The fair value of the long-term debt at December 31, 2008, stood at $932.8 million ($952.5 million in 2007), and the fair value of the receivables to be allocated to the repayment of the long-term debt stood at $502.5 million ($466.4 million in 2007).

Notes to Financial Statements

at December 31, 2008

30. CONTINGENCIES

a) **Possible claims**

The total amount claimed by plaintiffs stands at $68.7 million. These claims consist of, among others, an application for a class action suit totalling $65.3 million from users inconvenienced during the strikes in 2003 and 2005. The balance of $3.4 million in claims consists of suits by individuals for individual cases, bodily injuries, material damages and various other litigation. At December 31, 2008, the Société made a provision for an amount deemed sufficient for these claims.

b) **Conveyance of property relating to the extension of the métro on the territory of the City of Laval**

On April 28, 2007, the Agence métropolitaine de transport conveyed to the Société, without consideration, the property relating to the extension of the métro on the territory of the City of Laval under article 47 of the *Loi sur l'Agence métropolitaine de transport* («l'entente de cession du 28 avril 2007»). On December 21, 2007, this conveyance was tentatively cancelled so that a new agreement could be negotiated between the parties prior to February 28, 2008 («l'entente de rétrocession du 21 décembre 2007»).

The deadline for the reconveyance agreement of December 21, 2007 has been extended to June 30, 2009.

The purpose of this delay is to allow for the conveyance of the said property as well as the related debt according to the terms, which will have no financial impact on the two parties. Thus, if the agreement is firmed up, the Société will become the owner of the assets and the corresponding debt for the métro extension on the territory of the City of Laval without, however, having to repay the said debt, as it is subsidized in its entirety by the Ministère des Transports du Québec.

This asset and debt transfer will have the effect of increasing the Société's assets and liabilities by an amount of approximately $1 500.0 million, consisting of $750.0 million in tangible capital assets and receivables to be allocated to the repayment of the long-term debt as well as $750.0 million in long-term debt and subsidies receivable. This transfer of assets should have no impact on the Société's consolidated income due to the subsidies received from the Ministère des Transports du Québec to cover the financing costs. It should be noted that the Société already assumes the operating and maintenance costs of these new assets.

In the event that no agreement has been concluded by June 30, 2009, and no extension has been granted by this date, the Société will become sole owner of the assets as stipulated in the conveyance agreement of April 28, 2007. The Société, however, will be able to terminate this agreement by giving written notice to this effect to the AMT without any obligation to take any proceedings whatsoever to establish such termination.

Notes to Financial Statements

at December 31, 2008

31. EVENT SUBSEQUENT TO THE DATE OF THE BALANCE SHEET

Long-term debt

On January 29, 2009, the Société concluded a bank loan in the amount of 50.0 million euros to finance tangible capital assets in progress. This long-term debt will come due on January 29, 2024, and bears a variable interest rate based on the EURIBOR rate plus a premium of 2.25%, payable quarterly. In parallel with this issue, the Société concluded an agreement (swap) to convert the debt of 50.0 million euros to a debt of $84.5 million and to convert the variable interest rate to a fixed interest rate of 5.85%, payable semi-annually.

Contract for the purchase of city buses

In February 2009, the Société awarded a new contract in the amount of $208.9 million for the purchase of 410 low-floor buses to replace the first generation of low-floor buses. This purchase contract is not part of a group purchase with the members of the Association du transport urbain du Québec. Based on the bus delivery schedule, the deliveries will amount to $33.2 million in 2009, $99.6 million in 2010 and $61.7 million in 2011. In addition, according to the agreement, a fixed price has been set for these buses. It is therefore not subject to variations in the exchange rate and in the Consumer Price Index.

Notes to Financial Statements

at December 31, 2008

32. DIFFERENCES BETWEEN THE CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) AND THE ACCOUNTING STANDARDS APPLICABLE TO MUNICIPAL ENTITIES PUBLISHED BY THE PUBLIC SECTOR ACCOUNTING BOARD OF THE CICA

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), which differ in certain respects from the accounting standards applicable to municipal entities published by the Public Sector Accounting Board of the CICA.

(in thousands of dollars)

	2008	2007
OPERATING REVENUES		
Passengers	444,717	415,655
Contribution from the City of Montréal	323,700	306,038
Subsidies from the Government of Quebec	74,828	55,966
Regional contributions	53,200	53,656
Contribution from the municipalities outside the Montréal agglomeration	4,336	3,939
Other revenue	26,413	24,506
	927,194	859,760
EXPENSES		
Bus and métro service	790,658	725,061
Paratransit service	46,197	43,007
Debt servicing and financing costs	88,100	76,504
	924,955	844,572
SURPLUS BEFORE PRIOR YEAR'S ACCUMULATED SURPLUS (DEFICIT)	2,239	15,188
Accumulated surplus (deficit) from prior year	1,582	(13,606)
SURPLUS FOR THE YEAR BASED ON PUBLIC SECTOR ACCOUNTING	3,821	1,582
Capital assets [a]	(8,357)	(14,781)
Employee future benefits [b]	2,748	(1,117)
Financial instruments [c]	(3,961)	1,879
Other [d]	(5,389)	20,156
	(14,959)	6,137
NET PROFIT (NET LOSS) BASED ON GAAP	(11,138)	7,719

Notes to Financial Statements

at December 31, 2008

32. DIFFERENCES BETWEEN THE CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) AND THE ACCOUNTING STANDARDS APPLICABLE TO MUNICIPAL ENTITIES PUBLISHED BY THE PUBLIC SECTOR ACCOUNTING BOARD OF THE CICA (cont'd)

(in thousands of dollars)

	2008	2007
[a] Capital assets		
Replacement of capital repayment with the amortization of capital assets, net of subsidies	(12,628)	(19,969)
Capital assets from revenues, net of subsidies	5,104	4,525
Loss on disposal of assets	(2,210)	(630)
Repayment from working capital	1,377	1,293
	(8,357)	(14,781)
[b] Employee future benefits		
Post-retirement	(3,884)	(3,447)
Post-employment	(12)	(876)
Retirement plans	514	(3,084)
	(3,382)	(7,407)
Employee future benefits based on the public sector	4,510	4,742
Provisions for future amounts (previously payroll liabilities)	1,620	1,548
	2,748	(1,117)
[c] Financial instruments	(3,961)	1,879
[d] Other		
Revenue from sinking fund investments	6,023	6,546
Elimination of the deferral of the deficit (surplus) to the following year	(1,582)	13,606
Operating expenses financed long-term	(8,828)	-
Harmonization of the accounting policies for companies under joint control	(1, 002)	4
	(5,389)	20,156

33. RELATED PARTY TRANSACTIONS

The Société is part of the City of Montréal's reporting entity. The Société does not carry out any major operations with the City of Montréal in the normal course of business, excluding the contributions received from the City of Montréal under various programs amounting to $323,700 in 2008 ($306,038 in 2007).

34. COMPARATIVE NUMBERS

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

35. 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	2008	2007
Bus and métro service			
Regular fare			
Cash	54,007	**56,926**	50,967
Strip of tickets	76,834	**72,996**	71,876
CAM	153,869	**160,767**	148,744
Weekly CAM	28,132	**28,646**	27,146
	312,842	**319,335**	**298,733**
Reduced fare			
Cash	4,038	**3,604**	3,839
Strip of tickets	14,836	**14,807**	13,993
CAM	59,082	**57,932**	57,262
Weekly CAM	2,500	**2,491**	2,437
	80,456	**78,834**	**77,531**
Tourist cards	1,369	**1,690**	1,352
Allocation of revenue relating to commuter trains	720	**720**	691
	395,387	**400,579**	**378,307**
Paratransit service	**2,479**	**2,325**	**2,144**
Regional revenue	**37,128**	**41,813**	**35,204**
	434,994	**444,717**	**415,655**

This information was compiled based on the accounting standards applicable to municipal entities published by the Public Sector Accounting Board (note 32).

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

Expenses by type

(in thousands of dollars)

	Budget [a]	2008	2007
Remuneration	**615,300**	**615,537**	**584,135**
Goods and services			
Major expenses	91,033	**85,718**	76,529
Professional services	55,725	**61,610**	43,268
Equipment and supplies	44,868	**48,672**	43,807
Rentals	6,855	**8,212**	8,160
Financing costs for operations	101,182	**88,100**	76,504
Sundry expenses	23,075	**17,106**	12,169
	322,738	**309,418**	**260,437**
	938,038	**924,955**	**844,572**

[a] *The amounts indicated differ from the 2008 budget as, in the latter, the goods and services items were grouped differently.*

This information was compiled based on the accounting standards applicable to municipal entities published by the Public Sector Accounting Board (note 32).

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

Expenses by function

(in thousands of dollars)

	Budget [(a)]	2008	2007
NETWORK OPERATIONS			
Bus network			
Remuneration	303,338	305,941	289,810
Goods and services	55,898	57,238	51,032
	359,236	363,179	340,842
Métro network			
Remuneration	154,980	154,904	143,359
Goods and services	43,439	43,726	39,199
	198,419	198,630	182,558
Paratransit			
Remuneration	18,994	18,944	17,666
Goods and services	29,359	25,992	24,207
	48,353	44,936	41,873
	606,008	606,745	565,273
OPERATIONS SUPPORT			
Management and engineering			
Remuneration	21,143	20,459	18,463
Goods and services	3,465	3,884	2,538
	24,608	24,343	21,001
Surveillance			
Remuneration	9,869	9,142	14,035
Goods and services	11,259	11,566	2,167
	21,128	20,708	16,202
Construction and maintenance of infrastructure			
Remuneration	21,851	20,701	20,594
Goods and services	7,295	7,181	6,264
	29,146	27,882	26,858
	74,882	72,933	64,061

[(a)] *The amounts indicated are grouped differently from the official 2008 budget document.*

This information was compiled based on the accounting standards applicable to municipal entities published by the Public Sector Accounting Board (note 32).

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

Expenses by function

(in thousands of dollars)

	Budget [(a)]	2008	2007
ADMINISTRATIVE SERVICES			
Management of shared servicess			
Remuneration	34,867	34,382	32,899
Goods and services	13,049	17,139	13,383
	47,916	51,521	46,282
Communications and marketing			
Remuneration	12,084	11,538	10,565
Goods and services	5,387	8,152	5,094
	17,471	19,690	15,659
Human resources			
Remuneration	14,755	15,060	13,494
Goods and services	2,481	3,325	2,680
	17,236	18,385	16,174
Corporate services			
Remuneration	7,475	6,878	6,306
Goods and services	1,887	1,665	1,763
	9,362	8,543	8,069
	91,985	98,139	86,184
SPECIAL PROJECTS			
Remuneration	2,561	1,240	-
Goods and services	10,858	7,173	7,678
	13,419	8,413	7,678
OTHER EXPENSES			
Remuneration	13,382	16,348	13,890
Goods and services	31,458	34,277	30,982
	44,840	50,625	44,872
FINANCING COSTS			
Goods and services	101,182	88,100	76,504
UNFORESEEN EXPENSES			
Goods and services	5,722	-	-
	938,038	924,955	844,572

[(a)] *The amounts indicated are grouped differently from the official 2008 budget document.*

This information was compiled based on the accounting standards applicable to municipal entities published by the Public Sector Accounting Board (note 32).

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

Long-term debt

(in thousands of dollars)

	2008	2007
Bonds, $40,000		
5.70%, due June 4, 2008 [a]	-	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		
6.80%, due February 16, 2008	-	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		
5.25%, due November 15, 2008	-	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		
4.50%, due October 24, 2008 [a]	-	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 auditor does not cover the supplementary information.

Long-term debt

(in thousands of dollars)

	2008	2007
Bonds, $75 000		
4.50%, due May 6, 2008	-	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		
3.80%, due August 19, 2008	-	8,720
4.15%, due August 19, 2009	9,070	9,070
Bonds, $75 000		
3.25%, due April 27, 2008 [a]	-	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, 2008	-	2,700
4.00%, due November 8, 2009	2,800	2,800
4.00%, due November 8, 2010	2,900	2,900
4.00%, due November 8, 2011	3,000	3,000

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

Long-term debt

(in thousands of dollars)

	2008	2007
Bank loan, $47,130 [b]		
LIBOR US rate plus 0.25%, due January 9, 2012[a]	**36,564**	29,952
Bank loan, $75,350 [b]		
EURIBOR rate plus 0.06%, due June 7, 2017	**61,226**	52,356
EURIBOR rate plus 0.075%, due June 7, 2027	**23,808**	20,361
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, $100 000		
4.665%, due February 24, 2016[a]	**60,000**	60,000
4.888%, due February 24, 2021	**40,000**	40,000
Bank loan, $100,000		
4.364%, due January 19, 2017[a]	**73,078**	73,064
4.546%, due January 19, 2022	**16,270**	16,270
4.596%, due January 19, 2027	**10,480**	10,480
Bank loan, $175,000		
5.111%, due November 15, 2017[a]	**128,100**	128,100
5.266%, due November 15, 2022	**17,700**	17,700
5.32%, due November 15, 2027	**29,200**	29,200
Bank loan		
Base rate plus 0.35%, due January 1, 2011	**-**	266
Bank loan		
Base rate plus 0.5%, due June 2009	**-**	243
TOTAL	**886,249**	**931,683**

[a] *Portion in sinking funds*

[b] *Amount that the Société will have to disburse at maturity in accordance with currency exchange swaps.*

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

Long-term debt

(in thousands of dollars)

	2008	2007
LONG-TERM DEBT		
Bonds and bank loans	**886,249**	931,683
Amounts accumulated in sinking fund investments	**(158,755)**	(117,380)
Receivables to be allocated to the repayment of the long-term debt Government of Quebec	**(376,993)**	(455,004)
	350,501	**359,299**
Capital expenditures to be financed long-term (net of subsidies)	**113,829**	18,774
Amounts not used from contracted long-term loans (net of subsidies)	**(3,507)**	(63,124)
	110,322	(44,350)
TOTAL NET LONG-TERM INDEBTEDNESS	**460,823**	**314,949**

The total net long-term indebtedness represents the total debt for which the Société is responsible including the participation of its partners. An upward trend in this indicator can be expected over the coming years to clearly reflect the massive investment required to upgrade the Société's aging infrastructure, estimated at more than $6.5 billion over a period of ten years. This increase in indebtedness will potentially be mitigated by subsidies for which the rates per project will be higher than in the past and by a reduction in the issuance of new long-term debt due to the cash financing of certain projects thanks to government assistance programs such as that from the Société de financement des infrastructures locales du Québec (SOFIL).

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

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