



OUTSTANDING  
**PUBLIC**  
TRANSPORT  
**SYSTEM**  
2010



**2010**

# ANNUAL FINANCIAL REPORT

SOCIETY IN MOTION



In 2010 the STM received the award as Outstanding Public Transportation System in North America from the American Public Transportation Association (APTA) for the excellent results it achieved in terms of productivity and efficiency. Recognizing excellence among more than 1 500 organizations, the APTA awards represent the standard in public transit.

“It’s a big day for the STM, its employees and Montrealers and well-deserved. Receiving this award of excellence is the equivalent of winning the Stanley Cup. This award signifies that you have much to be proud of. It also signifies that many people have worked very hard over a long period.”

William Millar, President of APTA, October 27, 2010

THANK YOU TO OUR CLIENTS AND EMPLOYEES!





# A RECORD 20 AWARDS RECEIVED!

➤ **Four Infopresse Grafika awards:**

- 2010 Grand Prize, all categories, for positioning
- Grand Prize for “Motion design”: animation in theatres and on the Web
- Grand Prize in the “Visual Identity Program” category: chevrons and their multiple variations
- Award in the “Typographic creation” category

➤ **Special Merit Award for Commitment to the Environment** at MetroRail London

➤ **Sustainable Community Award** from the Canadian Federation of Municipalities for the Urban Transportation Showcase

➤ **AQTR 2010 award of excellence in transportation**, in the “Public” category, for positioning

➤ **Grand prize in the Infopresse 2010 Prix Média awards**, in the “Unique interactive media approaches” category, for the cultural outings planner

➤ **CUTA award** in the “Innovation” category for positioning

➤ **CUTA award** in the “Exceptional Performance” category for métro performance

➤ **Distinguished Budget Presentation Award Program** of the Government Finance Officers Association

➤ **Award of excellence in steel construction** in the “Sustainable Development” category, awarded by the Canadian Institute of Steel Construction

➤ **APTA Outstanding Public Transportation System Achievement Award** (“Best transportation company in North America”)

➤ **APTA Adwheel Award**, in the “Print media: illustrated vehicle” category, for the Funambus

➤ **Recognition award from ATUQ** for the Sécuribus project

➤ **2010 Award of Merit** from the Canadian Society of Value Analysis, municipal public sector

➤ **CUTA recognition award** presented to Daniel Brault and Sylvain Thibault for their volunteer work on the Christmas baskets for Little Burgundy

➤ **AMETVS recognition award** presented to Gérard Brichau at the Gala Améthyste

➤ **Nomination of Denise Vaillancourt** as one of the five best marketers in Canada according to Strategy Marketing magazine

➤ **LUX award** presented by Infopresse to the creator of the stop motion animation for the “*Mouvement collectif*” video shown in theatres

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# INTRODUCTION

## ACKNOWLEDGEMENTS

The production of the 2010 Annual Financial Report involved a collaborative effort of many employees in the Finance and Control Executive Directorate. Thank you to everyone who contributed, particularly the Financial Management and Systems Framework Directorate.

### **Angèle Dubé, CA**

Director

### **Lison Lefebvre, CA**

Division Head

### **Nicole Racine, CA**

Unit Head

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### **Michel Bergeron, CA**

### **Alain Sansregret, CA**

Corporate Advisors

### **Stéphane Dubé, CGA**

### **Marie-Claude Lamarre, CA**

### **Narvi Pho**

Advisors

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### **Alain Bouchard**

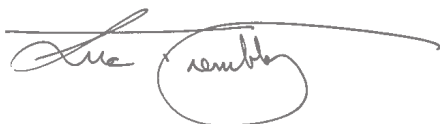
Analysts

### **Stéphanie Deslongchamps**

### **Adela Grigorescu**

### **Maria Mendoza**

Technicians



### **Luc Tremblay, CA**

Treasurer and Executive Director  
Finance and Control

## MEMBERS OF THE BOARD OF DIRECTORS

### **Michel Labrecque**

Chairman  
Representative of public transit users

### **Marvin Rotrand**

Vice-Chairman  
Councillor of the City of Montreal  
Borough of Côte-des-Neiges /  
Notre-Dame-de-Grâce

### **Bernard Blanchet**

Councillor of the City of Montreal  
Borough of Lachine

### **Jocelyn Ann Campbell**

Councillor of the City of Montreal  
Borough of Ahuntsic-Cartierville

### **John W. Meaney**

Mayor of the City of Kirkland

### **Dominic Perri**

Councillor of the City of Montreal  
Borough of Saint-Léonard

### **Monica Ricourt**

Councillor of the City of Montreal  
Borough of Montreal-Nord

### **Marie Turcotte**

Representative of paratransit users

## MEMBERS OF THE AUDIT COMMITTEE

### **Michel Labrecque**

Chairman  
Representative of public transit users

### **John W. Meaney**

Vice-Chairman  
Mayor of the City of Kirkland

### **Yves Gauthier, FCA**

External Member  
Director  
CCAF-FCVI Inc.

### **Yves J. Beauchesne, CA, MBA, D. Fisc.**

External Member  
Senior Partner  
Lamarche et Beauchesne, stratégies et conseils s.e.n.c.



# ORGANIZATION OF THE STM

## MISSION

A public transit authority, the Société de transport de Montréal (hereafter the "Société") is a driver of economic development in the Montreal area and contributes to the quality of life of citizens as well as to sustainable development.

It develops and operates an integrated transit system for users and provides courteous, reliable, fast, safe and comfortable transportation via bus and métro as well as through its paratransit services.

Passengers, employees, and institutional and business partners are proud of their association with the Société, as it is known for providing quality service at a fair price.

## GOVERNANCE

The Board of Directors of the Société is appointed by the Ville de Montréal's Urban Agglomeration Council from among the members of its regular council and the councils of other municipalities within the agglomeration. In addition, three Board members are selected from among the agglomeration residents, namely, two users of public transit services and one user of paratransit services. In appointing the two public transit users, at least one of the appointees must be below age 35 at the time of appointment.

## ROLE AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS

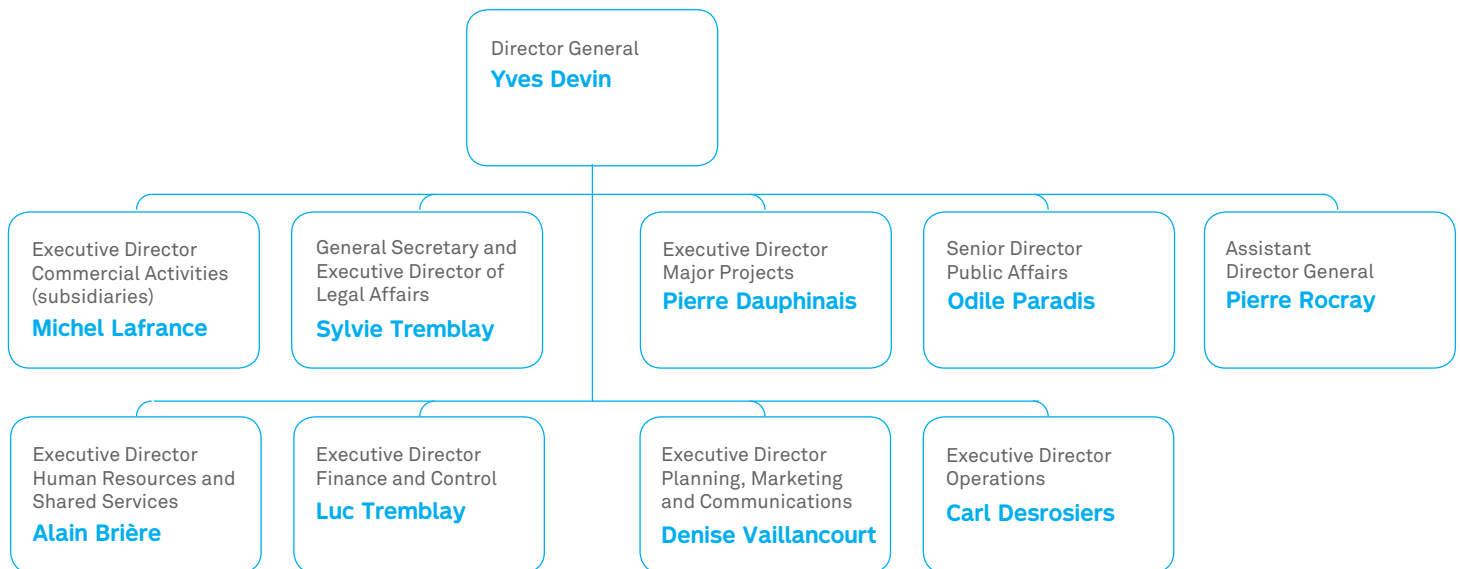
The Board of Directors exercises the functions and powers of the Société and sets the key directions. It adopts the strategic development plan for public transit on its territory and each year adopts a budget, workforce plan, and three-year capital works programs. It establishes the different types of passes and sets the fares. It approves, abolishes or replaces public transit lines and approves permanent changes to the routes.

In exercising its functions, the Board works with eight technical committees, each of which is dedicated to a specific area:

- Arts and Artistic Heritage Committee;
- Customer Service Committee;
- Finance Committee;
- Governance and Ethics Committee;
- Asset Maintenance, Major Projects, and Environment Committee;
- Operational Committee;
- Human Resources Committee;
- Audit Committee.

Lastly, Transgesco Limited Partnership, a wholly owned subsidiary whose mission is to grow the Société's commercial revenues, has been mandated to manage the partnerships with private sector stakeholders who are involved in the development of the Société's commercial activities. The Board of Partners, three of whom are members of the Société's Board of Directors, set strategic direction, adopt a strategic development plan, appoint independent auditors, and review its financial statements.

## ORGANIZATION OF THE STM AT DECEMBER 31, 2010



# MESSAGE FROM MANAGEMENT

## A YEAR OF EXCEPTIONAL RESULTS

With 388.6 million passenger trips on our bus and métro system in 2010, which represents an increase of 5.8 million trips or 1.5% versus 2009, our efforts to develop services and increase ridership have clearly produced results.

Much of this excellent performance can be traced back to the STM's public transit service improvement program (PASTEC), the results of which exceeded expectations, as the supply of public transit service increased by 21.7% and ridership by 7% between 2007 and 2010. PASTEC originated from the Quebec Public Transit Policy of the Ministère des Transports du Québec, the goal of which is to raise the supply of public transit services by 16% in order to achieve 8% growth in ridership by 2011.

The STM closed the year with a slight \$3.0 million surplus. This result should be examined against the initial 2010 budget, which, although balanced, presented a new \$40.0 million revenue source to cover our structural deficit. That deficit was fully eliminated during the year thanks to several factors. First, the president of the Montreal Metropolitan Community had a resolution unanimously adopted in February 2010, asking the Government of Quebec to raise the regional fuel tax by 1.5¢ a litre in order to finance the new metropolitan public transit framework. The increase to this tax, which had not been indexed since 1996, generated \$13.5 million from May onwards. In addition, rate adjustments and good ridership results generated \$5.8 million in passenger revenues over and above budget forecasts.

In the area of spending, sustained cost-control efforts combined with the deferral of certain investments (métro car purchases towards the end of 2010) resulted in budget savings of more than \$30.0 million on expenses and allocations for tax purposes. However, this deferral of investments generated an unfavourable variance of approximately \$6.0 million in subsidies.

In 2010, the STM made significant capital investments. The year's main acquisitions spending consisted of \$267.4 million in bus purchases, \$112.0 million for the renovation program for fixed equipment in the métro, \$21.9 million for the métro station renovation program to replace and upgrade métro infrastructures, and \$12.3 million to upgrade the Frontenac bus depot.

The required upgrading of the subway command centre, the automated brains running the Montreal métro system, received ongoing attention from senior management and the Board of Directors throughout the year. This project, which began in 2003, came back under the control of the STM in March 2010, as mentioned in the 2009 Annual Financial Report. To date, the new project management framework, revised schedule, and adopted budget envelope have been respected. By all indications, this major project will be fully operational at the end of 2012.

## MESSAGE FROM MANAGEMENT

Furthermore, the Government of Quebec and the STM have been working together on the métro car replacement project. These efforts led to the signing, on October 22, 2010, of a contract with the Bombardier-Alstom consortium for the purchase of 468 cars, which, as of 2014, will gradually replace the MR-63s that have been on the rails since 1966. Thanks to the intense negotiations undertaken for this major capital asset project and to proactive management of the associated financial risks, the total budget was reduced by \$50.4 million versus the initial projection.

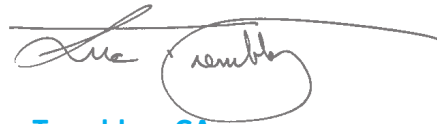
Our 2011-2013 three-year capital works program calls for approximately \$1.9 billion in investment spending aimed primarily at maintaining and replacing assets and improving passenger services.

To meet the Montreal community's growing mobility requirements, the STM needs new dedicated, indexed and recurring sources of financing. This is one prong of our 2020 strategic plan, which aims to boost growth in public transit ridership in the Greater Montreal Area.

Also in 2010, the STM won the American Public Transportation Association award as Outstanding Public Transportation System in North America in recognition of its excellent results in effectiveness and efficiency. Rating agencies Moody's and Standard & Poor's also recognized the quality, efficiency and performance of the Société's management by awarding it credit ratings of Aa2 and A+, respectively. Not only are these exceptional results indicative of our sound management approach, they are tangible proof of the outstanding work accomplished by our employees every day and further motivate us to continue our efforts to develop public transit and keep it moving forward!



**Yves Devin**  
Director-General



**Luc Tremblay, CA**  
Treasurer and  
Executive Director  
Finance and Control

# ANALYSIS OF THE FINANCIAL STATEMENTS

## HIGHLIGHTS

(in thousands of dollars)

		2010	2009
	Budget	Actual	Actual
<b>OPERATING REVENUES</b>			
Passenger revenues	481,911	487,670	463,187
Contributions and subsidies before additional contribution from the Montreal Urban Agglomeration	579,544	543,769	504,320
Revenues from sinking fund	8,256	8,210	7,058
Other revenues	29,282	30,579	27,711
	1,098,993	1,070,228	1,002,276
Expenses and allocations for tax purposes	1,098,993	1,067,232	1,021,219
Operating surplus (deficit) for tax purposes before additional contribution from the Montreal Urban Agglomeration	-	2,996	(18,943)
Additional contribution from the Montreal Urban Agglomeration	-	-	18,943
<b>Operating surplus for the year for tax purposes</b>	<b>-</b>	<b>2,996</b>	<b>-</b>
<b>Total assets</b>		<b>3,971,580</b>	<b>2,986,737</b>
Liabilities		1,917,986	1,535,424
Accumulated surplus		2,053,594	1,451,313
		3,971,580	2,986,737
Capital asset acquisitions	858,020	435,737	368,173
Issuance of long-term debt	653,833	209,000	384,500
Long-term debt	1,637,200	1,374,456	1,181,848
Total net long-term indebtedness		478,004	493,142
Cash from operations		166,359	272,919
Ridership (in millions of trips)	386.3	388.6	382.8
Return on sinking fund as a%	4.00%	5.30%	4.35%
Average interest rate on short-term debt	0.81%	0.75%	1.44%
Average interest rate on long-term debt	4.87%	4.89%	5.00%
Credit rating by rating firm:			
Moody's		Aa2	Aa2
Standard & Poor's		A+	A+

# ANALYSIS OF THE FINANCIAL STATEMENTS

## ACCOUNTING FRAMEWORK

As a government organization, the Société applies the Canadian public sector accounting standards issued by the Public Sector Accounting Board. Choosing this framework is consistent with the legal requirements of the Société's incorporating act, meets the needs of its principal users, and simplifies the preparation of its annual financial statements.

Since the Société is a public transit authority as per the classification of the Ministère des Affaires Municipales, des Régions et de l'Occupation du Territoire (MAMROT), its financial statements include information on the accounting particularities applicable to Quebec municipal governments in accordance with Canadian public sector accounting standards and reflect the legal requirements on the presentation of financial information. In addition, the Société presents certain financial information for tax purposes, i.e., operating surplus for tax purposes; investing surplus for tax purposes; the breakdown of the accumulated surplus; and total net long-term indebtedness. This supplementary information is included in the financial statements. The components of the accumulated surplus are not presented in the Statement of Financial Position but rather in a supplementary table (Table 1).

## OPERATING SURPLUS FOR TAX PURPOSES

For fiscal 2010, the Société recorded operating revenues of \$1,070.2 million. Expenses stood at \$845.3 million, generating a \$224.9 million operating surplus for the year before the reconciliation for tax purposes. Once the tax reconciliation adjustments were made, the Société posted a \$3.0 million surplus for fiscal 2010.

### OPERATING REVENUES

Operating revenues increased \$68.0 million versus 2009 but posted a shortfall of \$28.8 million versus the budget, as the budget had included a new \$40.0 million revenue source in the form of a new 1.5¢ per litre fuel tax implemented as of May 1, 2010, the STM's share of which totalled \$13.5 million. This new revenue source was presented with the regional contribution and contributions from municipalities outside the Montreal Urban Agglomeration.

Passenger revenues totalled \$487.7 million, up \$24.5 million from 2009 as a result of a greater supply of public transit service and the economic recovery in the Greater Montreal Area in 2010. In fact, at 388.6 million trips, the Société exceeded its record ridership posted in 2009. A strong economy and milder winter as well as renewed summer tourism and heightened metropolitan travel helped the Société to achieve this performance. Other significant factors include year-long promotional efforts and the partnerships developed with major hubs of public transit. The achievements that helped increase ridership included the new 747 bus line, fare repositioning, and distribution improvements for "one-day" and "three-day" passes.

The Montreal Urban Agglomeration increased its base contribution to public transit by \$27.4 million in comparison with 2009, bringing its contribution to the Société to \$359.4 million. However, an additional contribution was not paid in 2010. In 2009, the Montreal Urban Agglomeration had made an \$18.9 million contribution to absorb the deficit.

As for subsidies, the Government of Quebec increased its contribution by \$18.5 million compared to the previous year. The PASTEC program posted a \$10.2 million increase due to a greater supply of bus and métro services. Part of the Quebec Public Transit Policy, the program aims to increase public transit ridership by 8% and the public transit service supply by 16% by 2011. Between January 1, 2007 and December 31, 2010, ridership has grown 7.0% and the Société has increased public transit service supply by 21.7% (including the métro line extension to Laval).

## ANALYSIS OF THE FINANCIAL STATEMENTS

### OPERATING REVENUES (CONT'D)

The increase in debt servicing resulted in the Government of Quebec increasing its contribution under the assistance program for the public transport of people (PAGTCP) by \$5.9 million. The subsidy for paratransit services went up by \$2.6 million, related to the increase in service supply.

Regional contributions and contributions from municipalities outside the Montreal Urban Agglomeration rose by \$12.5 million. The increase owes mainly to the 1.5¢ per litre fuel tax increase on the AMT territory since May 1, 2010 and to the Government of Quebec's enactment of decree #1183-2010, which sets out the payment terms and conditions for this supplementary fuel tax. For 2010, the Société's provisional share stood at \$13.5 million for the period from May 1 to December 31, 2010. Note, however, that the metropolitan assistance for actual bus and métro travel was limited to \$8.0 million in 2010, partly offset by the fare integration assistance that increased by \$2.0 million, resulting in a \$6.0 million shortfall versus the trips made on our network.

Other revenues increased \$4.0 million from 2009, particularly due to higher advertising revenues that are recognized from the share of Transgesco Limited Partnership.

### EXPENSES

When compared to 2009, expenses were down \$124.8 million, a significant decline arising from a \$133.7 million decrease in bus and métro service expenses. Paratransit service expenses and interest and financing costs were up \$4.9 million and \$4.0 million, respectively. The \$133.7 million decrease in bus and métro service expenses stems from the application of an accounting standard on employee future benefits, which resulted in the recording of an expense reduction of \$313.4 million (\$96.4 million in 2009). As per the tax relief permitted by MAMROT, this expense reduction does not affect the year's operating surplus for tax purposes, as it was offset by an allocation to a provision for future amounts. If not for this expense reduction related to employee future benefits, the actual bus and métro service expense would have been \$1,040.2 million compared to \$957.0 million in 2009, an increase of \$83.2 million and an unfavourable variance of \$13.4 million against the budget.

Excluding the above-described expense reduction, the increase in the bus and métro service expense was mainly due to the following: a \$39.2 million increase in the amortization expense for capital assets, greater supply of public transit services (including an amount of \$20.4 million related to the PASTEC program, 50% of which is assumed by the Government of Quebec), which resulted in a 4.9% increase in bus kilometrage and additional costs of \$29.0 million, and an indexing of the payroll that resulted in an increase of \$15.0 million, as set out in the collective agreements.

The year-over-year increase in paratransit services expense was due to a 10.1% increase in the number of trips, whereas the projected growth in trips in the budget was 1.32%.

The \$4.0 million increase in interest and financing costs stems mainly from the fact that, in 2010, \$209.0 million in new long-term debt was issued to finance the investments needed to rehabilitate the Société's aging infrastructures. As a result of this new long-term financing, interest on long-term debt increased by \$6.1 million. On the other hand, the short-term interest expense was \$2.1 million less than in 2009.

These financing costs were \$16.9 million below budget, as the Société had anticipated greater investment and therefore greater borrowing in 2010. Certain investments were also funded entirely through the program for financing of local infrastructures in Quebec (SOFIL), which reduced the financing requirements.

# ANALYSIS OF THE FINANCIAL STATEMENTS

## INVESTING SURPLUS FOR TAX PURPOSES

With respect to investment revenues, there was an unfavourable variance of \$285.6 million against the budget. An explanation for this variance is the impact of capital asset acquisitions, which were \$422.3 million below budget. A number of notable investments were not fully realized, i.e., the métro car purchase contract was awarded later than anticipated in 2010, the Réno-Systèmes II program was extended to 2012, and a land purchase for the construction of a new bus depot was deferred.

As a result of the unrealized capital asset acquisitions, the long-term financing of investing activities was \$124.3 million less than budgeted.

At \$435.7 million in 2010, investments were up \$67.6 million from 2009. Most of the investments consisted of projects aimed at refurbishing aging infrastructures and of replacements of rolling stock that have reached their estimated useful lives. In 2010, more investments were financed by the SOFIL program. The SOFIL program provides a cash subsidy equal to the eligible expenses, while the PAGTCP program awards subsidies at rates ranging between 50% and 75%.

## STATEMENT OF FINANCIAL POSITION

### FINANCIAL ASSETS

Financial assets increased \$607.4 million from 2009, mainly due to a \$91.9 million increase in the sinking fund investments, a \$139.0 million increase in subsidies receivable, and a \$314.6 million increase in the employee future benefits asset. The Société's financial assets consist essentially of the following:

#### SINKING FUND INVESTMENTS

The sinking fund investments constitute investments in 15 funds earmarked for the repayment of certain long-term debts. At December 31, 2009, the sinking fund investments totalled \$169.2 million. During fiscal 2010, \$91.9 million in contributions were made, leaving a balance of \$261.1 million as at December 31, 2010. The sinking fund investments generated revenues of \$8.2 million (\$7.1 million in 2009), i.e., a return of 5.30% (4.35% in 2009), which exceeded the 4.0% target return set for 2010.

#### CONTRIBUTION RECEIVABLE FROM THE MONTREAL URBAN AGGLOMERATION

The \$13.7 million increase in the contribution receivable from the Montreal Urban Agglomeration is due to the \$32.6 million increase in the contribution receivable from the SOFIL program, which itself stems from the greater amount of eligible expenses, mainly related to the bus purchases. This increase, however, was offset by the fact that the Société did not receive any additional contributions in 2010. In 2009, an amount of \$18.9 million had been allocated to cover the Société's operating deficit.

#### SUBSIDIES RECEIVABLE

The \$139.0 million increase in subsidies receivable is related to the capital asset subsidy amounts receivable from the Government of Quebec under various assistance programs. There was a \$42.1 million increase in receivables to be allocated to the repayment of long-term debt arising from massive infrastructure investment, and there was a \$100.1 million increase in subsidies receivable under the SOFIL program stemming from a greater amount of eligible expenses under this program, mainly related to the bus purchases.



## ANALYSIS OF THE FINANCIAL STATEMENTS

### OTHER RECEIVABLES

Other receivables consist of \$12.1 million in regional revenues receivable from the AMT, \$9.8 million in tax claims from various governments, \$22.9 million in accounts receivable, and \$1.8 million in other forms of receivables.

### EMPLOYEE FUTURE BENEFITS ASSET (LIABILITY)

This item consists of amounts in the Statement of Financial Position that were recognized with respect to pension plans as well as other supplementary retirement benefits and post-employment benefits. As at December 31, 2010, the employee future benefits asset stood at \$314.6 million, whereas it had a \$4.6 million liability balance for 2009. The amount of \$314.6 million is comprised of the following: a \$422.7 million asset for the pension plans and a \$108.1 million liability for supplementary retirement benefits and post-employment benefits.

The \$422.7 million asset for the pension plans stems essentially from \$445.1 million in unamortized actuarial losses that will be amortized in subsequent years over the expected average remaining service life (EARS). These losses constitute the limit on the accrued benefit asset, as required under the employee future benefits accounting standards. The offsetting entry for this \$445.1 million asset (\$93.1 million in 2009) is a reduction to the employee future benefits expense in the Statement of Operations. As per the tax relief permitted by MAMROT following the financial crisis that was prevailing in 2008, this expense reduction was allocated to the provision for future amounts in the operating surplus for tax purposes.

With respect to other employee future benefits (supplementary retirement benefits and post-employment benefits), the liability increased by \$3.3 million, representing the difference between the \$3.0 million in contributions paid and the \$6.3 million expense, thereby bringing the liability to \$108.1 million.

### LIABILITIES

Liabilities rose \$382.6 million, mainly due to a \$244.4 million increase in short-term loans and a \$192.6 million increase in long-term debt. The increase in liabilities was directly related to the capital asset acquisitions. Specifically, the increase in short-term loans was due to the December 2010 legislative amendments on the issuance of new long-term debt and the resulting delay.

### LONG-TERM DEBT

As at December 31, 2009, long-term debt stood at \$1,181.8 million. In 2010, under its financing strategy, the Société issued \$209.0 million in new long-term debt and repaid \$16.4 million of its long-term debt. Therefore, as at December 31, 2010, long-term debt stood at \$1,374.4 million.

### NON-FINANCIAL ASSETS

Non-financial assets rose by \$377.5 million owing mainly to a \$268.5 million increase in capital assets and to a \$96.3 million deposit on the new métro cars.

### CAPITAL ASSETS

This item represents the net value of the Société's capital assets. The change between the 2009 value of \$1,952.0 million and the 2010 value of \$2,220.4 million stems from \$435.7 million in acquisitions less \$158.9 million in amortization and the \$8.4 million unamortized value of disposed of tangible capital assets.

The year's main acquisitions consisted of \$267.4 million in bus purchases, \$112.0 million for the renovation program for fixed equipment in the métro, \$21.9 million for the métro station renovation program to replace and upgrade métro infrastructures, and \$12.3 million to upgrade the Frontenac bus depot.

# ANALYSIS OF THE FINANCIAL STATEMENTS

## OTHER ITEMS

### MÉTRO COMMAND CENTRE

The required upgrading of the métro command centre, the automated brains running the Montreal métro system, received ongoing attention from senior management and the Board of Directors throughout the year. This project, which began in 2003, came back under the control of the STM in March 2010, as mentioned in the 2009 Annual Financial Report. To date, the new project management framework, revised schedule, and adopted budget envelope have been respected. By all indications, this major project will be fully operational at the end of 2012.

In autumn 2010, performance tests confirming the continuation of this project were conclusive. Implementation tests on a métro line provided convincing results and assured management as to the appropriateness of the implementation schedule and the switchover plan of métro operations to new systems as well as in the control room.

As at December 31, 2010, the costs of this major project stood at \$147.3 million and, in accordance with the budget envelope that was revised on March 10, 2010, (resolution CA-2010-066), total costs are expected to stand at \$207.9 million upon completion. These expenses are eligible for a 75% subsidy under the PAGTCP.

### PURCHASE OF MÉTRO CARS

On October 7, 2010, the Quebec National Assembly unanimously voted for special legislation permitting STM to award, to a consortium, a contract for the purchase of 468 métro cars.

Under resolution CA-2010-322, the Société's Board of Directors approved a loan by-law of \$2,474.4 million on October 18, 2010 to cover the estimated cost of the cars (\$1,235.5 million), related expenses (\$970.9 million) and the costs of modifying métro repair centres and equipment (\$268.0 million), i.e., modifications that were made necessary by the acquisition of these new cars.

On October 22, 2010, the consortium and the STM signed a contract to purchase 468 métro cars at a unit price set at \$2.64 million per car in December 2009, pending approval of the loan by-law by the various government authorities and pending confirmation that the Ministère du Transport du Québec would finance up to 75% of the purchase costs. The STM obtained these approvals on November 15, 2010.

With all the conditions having been met, the STM's Board of Directors held an extraordinary meeting on November 15 to confirm, by way of resolution (CA-2010-357), the commencement of the contract as at November 16, 2010 (\$1,811.6 million) and the setting of the final purchase price of the cars (\$2.54 million), as the contract had provided for a purchase price review clause to adjust the 40% portion of the price subject to foreign currency fluctuations (EURO and USD). Meanwhile, the STM, through a hedging strategy, had protected itself against foreign currency fluctuations that proved favourable between the date on which the initial price per car had been set in December 2009 (\$2.64 million) and the date on which the loan by-law was adopted.

Thanks to the intense negotiations undertaken for this major capital asset project and to the proactive management of the associated financial risks, the total budget was reduced by \$50.4 million when compared to the initial forecast.

## ANALYSIS OF THE FINANCIAL STATEMENTS

(in millions of dollars)

	Loan by-law R-042-3 of 18-10-2010 based on resolution CA-2010-322	Contract in effect on 16-11-2010 based on resolution CA-2010-357 <sup>(c)</sup>	Difference
Rolling stock - cars			
Unit price (according to the December 2009 negotiations)	2.64	-	
Final unit price	-	2.54	
Purchase of 468 métro cars	1,235.5	1,190.5	45.0
Rolling stock - other costs <sup>(a)</sup>	472.0	459.6	12.4
Taxes (less rebates)	167.0	161.5	5.5
<b>Total contract to the consortium</b>	<b>1,874.5</b>	<b>1,811.6</b>	<b>62.9</b>
Rolling stock - project office	240.2	240.2	-
Rolling stock - financial expenses <sup>(b)</sup>	91.7	104.2	(12.5)
<b>Total rolling stock</b>	<b>2,206.4</b>	<b>2,156.0</b>	<b>50.4</b>
Infrastructures, fixed equipment and other deliverables	268.0	268.0	-
<b>Total</b>	<b>2,474.4</b>	<b>2,424.0</b>	<b>50.4</b>

<sup>(a)</sup> This item includes the technical options, spare parts inventory, specialized tools, the provision for indexing, contingencies and bank guarantees.

<sup>(b)</sup> This item includes a \$12.5 million loss on a foreign exchange contract plus an amount of \$0.3 million resulting from the ineffectiveness of the hedge, bringing the total amount of the loss to \$12.8 million.

<sup>(c)</sup> Only for the "Total contract to the consortium" portion.

# FINANCIAL INFORMATION

## MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

Pursuant to sections 136 and 138 of *An act respecting public transit authorities* (R.S.Q. chapter S-30.01), the financial statements for the year ended December 31, 2010 included in the annual financial report of the Société de transport de Montreal were certified by the treasurer and submitted at a meeting of the Board of Directors on April 6, 2011.

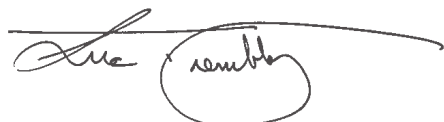
The financial statements and all other information in this financial report are the responsibility of the Société's management. Management has also ensured that there is consistency between the financial statements and all other information disclosed in the financial report.

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

The Société's management maintains internal accounting and administrative 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 organization are followed; that operations are carried out in accordance with the appropriate authorizations; and that the Société's assets are properly recorded and safeguarded, provide reasonable assurance that the accounting records are reliable and an appropriate foundation for the preparation of the financial statements.

The Board of Directors exercises its responsibility with regard to the 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 financial statements prepared by the treasurer, and the Board of Directors then acknowledges that these statements have been filed.

The financial statements have been audited jointly by the Auditor General of Ville de Montreal and 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.



**Luc Tremblay, CA**  
Treasurer and Executive Director  
Finance and Control



**Angèle Dubé, CA**  
Director  
Financial Management and Systems Framework

# INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Société de transport de Montreal (the "Société"), which comprise the statement of financial position as at December 31, 2010, and the statements of operations, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

## Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

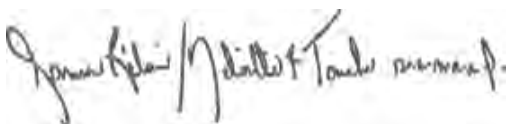
## Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Société as at December 31, 2010, and the results of its operations, change in its net debt, and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

## INDEPENDENT AUDITORS' REPORT

### Observations

Without modifying our opinion, we draw attention to "Table 1 - Accumulated Surplus" of the financial statements, in which the Société includes certain financial information prepared for tax purposes. Management has decided to present this information, which is not required under Canadian public sector accounting standards, as it deems such information necessary in order to provide a more appropriate and comprehensive analysis of the results of operations.



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

CA auditor permit no.10881



Auditor General of Montreal

**Jacques Bergeron, CA auditor**

Montreal, April 6, 2011

# **FINANCIAL STATEMENTS AS AT DECEMBER 31, 2010**



## STATEMENT OF OPERATIONS

Year ended December 31, 2010

(in thousands of dollars)

			2010	2009
	Notes	Budget	Actual	Actual
		(unaudited)		
<b>REVENUES</b>				
<b>Operations</b>				
Passenger revenues	3	481,911	487,670	463,187
Contribution from the Montreal Urban Agglomeration		359,400	359,400	332,000
Additional contribution from the Montreal Urban Agglomeration		-	-	18,943
Subsidies	4	122,001	113,236	94,760
Regional contributions and contributions from municipalities outside the Montreal Urban Agglomeration	5	58,143	71,133	58,617
Other revenues	6	37,538	38,789	34,769
New revenue sources		40,000	-	-
		1,098,993	1,070,228	1,002,276
<b>Investment</b>				
Contribution from the Montreal Urban Agglomeration		30,687	41,117	8,483
Subsidies	4	632,217	336,224	221,874
		662,904	377,341	230,357
		1,761,897	1,447,569	1,232,633
<b>EXPENSES</b>				
Bus and métro service		1,026,835	726,835 <sup>(a)</sup>	860,554 <sup>(a)</sup>
Paratransit service		54,267	53,423	48,475
Interest and financing costs	7	81,936	65,030	61,058
		1,163,038	845,288	970,087
<b>Surplus for the year</b>		598,859	602,281	262,546
<b>Accumulated surplus at beginning of year</b>			1,451,313	1,188,767
<b>Accumulated surplus at end of year</b>			2,053,594	1,451,313

<sup>(a)</sup> See the "Analysis of the Financial Statements - Operating Surplus for Tax Purposes" section under the "Expenses" heading (p. 12).

## OPERATING SURPLUS FOR TAX PURPOSES

Year ended December 31, 2010  
(in thousands of dollars)

		2010	2009
	Budget	Actual	Actual
	(unaudited)		
<b>SURPLUS FOR THE YEAR</b>	<b>598,859</b>	<b>602,281</b>	262,546
Less: investment revenues	(662,904)	(377,341)	(230,357)
<b>Operating surplus (deficit) for the year before reconciliation for tax purposes</b>	<b>(64,045)</b>	<b>224,940</b>	32,189
<b>RECONCILIATION FOR TAX PURPOSES</b>			
<b>Capital assets</b>			
Proceeds from disposal	-	7,909	1,194
Amortization	121,824	158,852	119,650
Loss on disposal	-	486	1,026
	121,824	167,247	121,870
<b>Financing</b>			
Repayment of long-term debt, net of refinancing	(32,127)	(16,392)	(89,955)
Change in debt being refinanced	-	(11,010)	481
Subsidy on the repayment of long-term debt and on the contribution to the sinking fund	65,856	63,610	51,594
Long-term financing of operating activities	-	(1)	143
	33,729	36,207	(37,737)
<b>Allocations</b>			
Investing activities	(5,029)	(17,864)	(6,786)
Sinking fund	(84,128)	(91,877)	(13,843)
Working capital fund	(851)	1,525	(1,377)
Unrestricted operating surplus	-	-	3,821
Provision for future amounts	(1,500)	(317,182) <sup>(a)</sup>	(98,137) <sup>(a)</sup>
	(91,508)	(425,398)	(116,322)
	64,045	(221,944)	(32,189)
<b>Operating surplus for the year for tax purposes</b>	<b>-</b>	<b>2,996</b>	

<sup>(a)</sup> See the "Analysis of the Financial Statements - Operating Surplus for Tax Purposes" section under the "Expenses" heading (p. 12).

## INVESTING SURPLUS FOR TAX PURPOSES

Year ended December 31, 2010

(in thousands of dollars)

		2010	2009
	Budget	Actual	Actual
	(unaudited)		
<b>INVESTMENT REVENUES</b>	<b>662,904</b>	<b>377,341</b>	230,357
<b>RECONCILIATION FOR TAX PURPOSES</b>			
<b>Capital assets</b>			
<b>Acquisitions</b>			
Buildings	(16,774)	(22,735)	(82,204)
Original network and métro extensions	-	(28)	(84)
Improvements to métro infrastructures	(284,728)	(209,660)	(169,767)
Local infrastructures	(47,259)	(3,850)	(2,371)
Rolling stock - buses	(162,377)	(267,444)	(90,095)
Rolling stock - minibuses	(4,131)	(1,542)	(1,483)
Rolling stock - other	(5,140)	(1,499)	(2 769)
Leasehold improvements	(1,443)	-	-
Office equipment and software	(9,328)	6,971	(54,358)
Machinery, tools and equipment	(155,235)	(3,067)	(24,082)
Capital assets in progress	(171,605)	67,117	59,040
	(858,020)	(435,737)	(368,173)
<b>Financing</b>			
Long-term financing of investing activities	190,087	65,767	149,263
<b>Allocation</b>			
Operating activities	5,029	17,864	6,786
	(662,904)	(352,106)	(212,124)
<b>Investing surplus for tax purposes</b>	-	<b>25,235</b>	18,233

## STATEMENT OF FINANCIAL POSITION

As at December 31, 2010

(in thousands of dollars)

	Notes	2010	2009
<b>FINANCIAL ASSETS</b>			
Cash		23,565	20,558
Sinking fund investments	8	261,054	169,177
Contribution receivable from the Montreal Urban Agglomeration		41,117	27,426
Subsidies receivable	9	831,153	692,109
Regional contributions and contributions from municipalities outside the Montreal Urban Agglomeration receivable	10	57,216	29,658
Other receivables	11	46,572	32,678
Long-term investments	12	8,733	5,005
Employee future benefits asset	16	314,557	-
		<b>1,583,967</b>	<b>976,611</b>
<b>LIABILITIES</b>			
Short-term loans	13	331,414	86,961
Accounts payable and accrued liabilities	14	212,116	261,982
Long-term debt	15	1,374,456	1,181,848
Employee future benefits liability	16	-	4,633
		<b>1,917,986</b>	<b>1,535,424</b>
<b>NET DEBT</b>		<b>(334,019)</b>	<b>(558,813)</b>
<b>NON-FINANCIAL ASSETS</b>			
Capital assets	17	2,220,492	1,952,002
Inventories		36,161	34,225
Other non-financial assets	18	130,960	23,899
		<b>2,387,613</b>	<b>2,010,126</b>
<b>ACCUMULATED SURPLUS</b>		<b>2,053,594</b>	<b>1,451,313</b>

Commitments (Note 21)

Contingencies (Note 22)

The accompanying notes are an integral part of the financial statements.

## STATEMENT OF CHANGE IN NET DEBT

Year ended December 31, 2010

(in thousands of dollars)

	Budget	2010	2009
	(unaudited)		
<b>Surplus for the year</b>	<b>598,859</b>	<b>602,281</b>	262,546
<b>Change in capital assets</b>			
Acquisitions	(858,020)	(435,737)	(368,173)
Proceeds from disposal	-	7,909	1,194
Amortization	121,824	158,852	119,650
Loss on disposal	-	486	1,026
	(736,196)	(268,490)	(246,303)
Change in inventories	(1,936)	(1,936)	(1,036)
Change in other non-financial assets	(107,061)	(107,061)	(2,780)
	(108,997)	(108,997)	(3,816)
<b>Change in net debt</b>	<b>(246,334)</b>	<b>224,794</b>	12,427
<b>Net debt at beginning of year</b>	<b>(558,813)</b>	<b>(558,813)</b>	(571,240)
<b>Net debt at end of year</b>	<b>(805,147)</b>	<b>(334,019)</b>	(558,813)

The accompanying notes are an integral part of the financial statements.

## STATEMENT OF CASH FLOWS

Year ended December 31, 2010

(in thousands of dollars)

	Note	2010	2009
<b>Operating activities</b>			
Surplus for the year		602,281	262,546
Items not affecting cash			
Share of profit from a subsidiary		(17,218)	(1,630)
Amortization of capital assets		158,852	119,650
Loss on disposal of capital assets		486	1,026
		744,401	381,592
Net change in non-cash items	19	(578,042)	(108,673)
		166,359	272,919
<b>Capital investing activities</b>			
Acquisitions		(435,737)	(368,173)
Proceeds from disposal		7,909	1,194
Change in deposits for bus purchases		2,022	(934)
Change in deposits for métro car purchases		(96,316)	-
		(522,122)	(367,913)
<b>Investing activities</b>			
Amortization of premiums and discounts on sinking fund investments		772	1,203
Acquisition of sinking fund investments		(92,649)	(60,099)
Proceeds from disposal of sinking fund investments		-	45,053
Distribution from a subsidiary		13,490	2,400
		(78,387)	(11,443)
<b>Financing activities</b>			
Net change in short-term loans		244,453	(172,846)
Issuance of long-term debt		209,000	384,500
Repayment of long-term debt, net of refinancing		(16,392)	(89,955)
Change in issuance costs for long-term debt		96	(4,605)
		437,157	117,094
<b>Increase in cash and cash equivalents</b>		<b>3,007</b>	<b>10,657</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>20,558</b>	<b>9,901</b>
<b>Cash and cash equivalents at end of year</b>		<b>23,565</b>	<b>20,558</b>

Cash and cash equivalents consist solely of cash.

The accompanying notes are an integral part of the financial statements.

## EXPENSES BY ITEM

Year ended December 31, 2010

(in thousands of dollars)

		2010	2009
	Budget	Actual	Actual
	(unaudited)		
<b>Remuneration</b>	<b>557,883</b>	<b>554,355</b>	518,924
<b>Benefits</b>	<b>148,321</b>	<b>(164,366)</b> <sup>(a)</sup>	43,264 <sup>(a)</sup>
<b>Goods and services</b>	<b>252,774</b>	<b>230,692</b>	226,457
<b>Interest and financing costs</b>			
Short-term financing costs	4,582	1,929	4,092
Interest on long-term debt borne by:			
The Société	33,830	27,480	27,291
Government of Quebec and its enterprises	43,524	35,621	29,675
	<b>81,936</b>	<b>65,030</b>	61,058
<b>Amortization of capital assets</b>	<b>121,824</b>	<b>158,852</b>	119,650
<b>Other</b>	<b>300</b>	<b>725</b>	734
	<b>1,163,038</b>	<b>845,288</b>	970,087

<sup>(a)</sup> See the "Analysis of the Financial Statements - Operating Surplus for Tax Purposes" section under the "Expenses" heading (p.12).

## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

### 1. GOVERNING STATUTES AND NATURE OF ACTIVITIES

The Société de transport de Montreal (hereafter the "Société") is incorporated under *An act respecting public transit authorities* (R.S.Q. chapter S-30.01) and is responsible for organizing and providing public transit services, primarily on the territory of the Island of Montreal.

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

Like other government organizations, the Société's financial statements have been prepared in accordance with Canadian public sector accounting standards.

The significant accounting policies used are as follows:

#### a) Accounting method

Transactions are recorded in the Société's books using the accrual basis of accounting. Under this method, assets, liabilities, revenues and expenses are recorded in the year in which the events and transactions occur.

#### b) Use of estimates

Preparation of the financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts for assets and liabilities and the presentation of contingent assets and liabilities at the date of the financial statements as well as on the revenue and expense amounts recorded during the period covered by the financial statements. Actual results could differ from these estimates.

The main items for which management must make estimates are regional revenues, regional contributions, subsidies, the useful lives of capital assets for amortization purposes, the establishment of the receivables to be allocated to the repayment of long-term debt, assumptions used to determine the expenses and asset (liability) for employee future benefits as well as the provisions for liabilities and legal claims.

#### c) Foreign currency translation

The Société uses the temporal method to translate its accounts expressed in foreign currencies. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect on the date of the Statement of Financial Position.

Revenues and expenses related to foreign currency transactions are translated into Canadian dollars at the exchange rate in effect on the transaction date. Exchange gains and losses are included in surplus for the year.

#### d) Revenue recognition

Revenue from the transportation of passengers is recognized in the Statement of Operations when the passes are used by the passengers. For weekly and monthly passes, revenues are recognized in the period for which the passes are valid.

Contributions and subsidies are recognized in the Statement of Operations when the conditions giving right to this government or municipal assistance are met.



## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### d) Revenue recognition (cont'd)

Other revenues consist essentially of the share in the profit of a subsidiary, recoveries, rights to reduced fares and smart cards as well as revenues from sinking fund investments that will be used to repay long-term debt. They are recognized when the operation underlying their recognition is carried out.

#### e) Cash

Cash consists of bank balances and bank overdrafts.

#### f) Sinking fund investments

The sinking fund investments consist mainly of bonds and bond coupons that are recorded at amortized cost and written down when there has been an other-than-temporary decline in their value. Discounts or premiums on investments are amortized on a straight-line basis until maturity of the investment to which this item is related.

#### g) Contributions and subsidies receivable

Receivables to be allocated to the repayment of long-term debt are created at the time of a current or future long-term debt issuance based on the subsidy rates of the capital assets being financed. These rates are established using the terms of the Government of Quebec's assistance program for the public transport of people and other agreements.

#### h) Long-term investments

Investments in subsidiaries are presented according to the modified equity method.

#### i) Employee future benefits asset (liability) and expenses

The Société's employee future benefit plans are all defined benefit plans.

The asset (liability) related to these plans reflects the year-end difference between the value of the accrued benefit obligation and the value of the plan assets, net of unamortized actuarial gains and losses and the valuation allowance. The actuarial valuation of this asset (liability) is determined using the projected benefit method prorated on years of service with salary projection. It is also based on actuarial assumptions that include management's best estimates on, among other things, discount rates, the expected rate of return on plan assets and the rate of increase in salaries and healthcare costs.

Plan assets are valued using a market-related value, determined over a period not exceeding five years.

Past service costs related to plan amendments are recognized in the year in which the amendments are made.

Actuarial gains or losses resulting from the difference between the actual and anticipated returns on the plan assets or resulting from changes in actuarial assumptions are deferred and amortized over the average remaining service life of active employees. As at December 31, 2010, the average remaining service life varied from four to thirteen years.

## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### j) Capital assets

Capital assets are recorded at cost and amortized over their estimated useful lives using the straight-line method over the following periods:

Buildings	40 years
Original network and métro extensions	40 and 100 years
Improvements to métro infrastructures	15, 25, 40 and 100 years
Local infrastructures	20 and 40 years
Regional infrastructures	20 and 40 years
Rolling stock - buses	13 to 16 years
Rolling stock - minibuses	5 years
Rolling stock - other	5 and 10 years
Office equipment and software	5 and 10 years
Machinery, tools and equipment	15 years

Capital assets are amortized from the date they are put into service. Capital assets in progress (projects being carried out) and retired capital assets are not amortized. When the value of the future economic benefits of a capital asset is less than its net carrying value, its cost is reduced to reflect the decline in value.

Capital assets received without consideration are recorded at the cost incurred by the government authority responsible for building or developing them.

Interest on the amounts used to finance capital asset acquisitions is capitalized until these goods are put into service.

#### k) Inventories

Inventories of supplies and replacement parts consist mainly of the parts used to maintain the Société's rolling stock and infrastructures. They are measured at the lower of average cost and net realizable value, the latter corresponding to the replacement cost.

#### l) Issuance costs for long-term debt

Issuance costs for long-term debt are amortized on a straight-line basis over the term of the loans.

#### m) Environmental obligations

The Société recognizes an environmental liability when it is likely that corrective measures will be applied and the costs of these measures can be reasonably estimated.

## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### n) Derivative financial instruments

The Société periodically concludes currency and interest rate swaps as well as commodity swaps with major financial institutions to partially protect itself against fluctuations in foreign currencies, interest rates, and the prices of certain purchases (fuel). The Société does not use financial instruments for speculative purposes.

To manage the currency and interest rate risk on long-term debt, the Société formally documents the risk management objective and strategy upon which its hedging activities are based as well the relationship between the hedging instruments and the hedged items. This process consists of linking these derivative financial instruments to specific assets and liabilities, to firm commitments, or to specific forecasted transactions.

The Société uses various derivative instruments to translate the cash flow for debt denominated in a foreign currency and having a variable interest rate into cash flow for debt at a fixed rate denominated in Canadian dollars, thereby creating a synthetic instrument. Synthetic instrument accounting is used to account for the assets and liabilities that make up the synthetic instrument. As a result, the Société records these to emulate the debt.

The Société periodically uses commodity swaps to protect itself from fuel price fluctuations. Related gains and losses are recorded in the Statement of Operations during the period in which they are realized and are presented with the expense related to the hedged item.

#### o) Budgetary data (unaudited)

The Statement of Operations and the Statement of Change in Net Debt provide a comparison against the budgetary data, adjusted in accordance with Canadian public sector accounting standards.

**NOTES TO THE FINANCIAL STATEMENTS**

As at December 31, 2010

(in thousands of dollars)

**3. PASSENGER REVENUES**

	2010	2009
Bus and métro service	438,712	415,157
Paratransit service	2,819	2,686
Regional revenues <sup>(a)</sup>	46,139	45,344
	487,670	463,187

<sup>(a)</sup> The regional revenues attributable to the Société comes from the sharing of the sales of metropolitan transit passes made by the Agence métropolitaine de transport (AMT).

**4. SUBSIDIES**

	2010	2009
<b>Operating</b>		
Government assistance program for the public transport of people <sup>(a)</sup>	35,621	29,675
Public transit service improvement program <sup>(b)</sup>	39,883	29,724
Paratransit service <sup>(c)</sup>	37,334	34,779
Other	398	582
	113,236	94,760
<b>Investing</b>		
Government assistance program for the public transport of people <sup>(a)</sup>	105,697	169,039
Public transit service improvement program <sup>(b)</sup>	7,605	-
Program for the financing of local infrastructures in Quebec <sup>(d)</sup>	223,139	46,246
Program to improve transportation security <sup>(e)</sup>	-	6,523
Urban Transportation Showcase Program <sup>(f)</sup>	(217)	66
	336,224	221,874
	449,460	316,634

<sup>(a)</sup> Government assistance program for the public transport of people (PAGTCP)

Under the Government of Quebec's assistance program for the public transport of people and under other agreements, the Société is eligible for subsidies at rates ranging from 50% to 75%, for acquisitions of eligible capital assets, including the interest on the long-term debt related to bus purchases, the construction of buildings, renovations of métro stations, renovations of métro cars and for other specific expenses.

## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

### 4. SUBSIDIES (CONT'D)

<sup>(b)</sup> Public transit service improvement program (PASTEC)

The Société is eligible for a subsidy of up to 50% of the operating expenses (or, in certain cases, investing expenses) deemed admissible by the Ministère des Transports, over a period of five years since 2007. The objective of this program, which stems from the Quebec Public Transit Policy, is to increase public transit ridership by 8% from 2007 and 2011. The portion of this government assistance with respect to operating activities could reach \$51.9 million in 2011 if growth in the Société's supply of public transit services reaches the 16% target established in the program.

<sup>(c)</sup> Paratransit service

Under the Government of Quebec's paratransit assistance program, the Société is eligible for a subsidy that includes an annually indexed envelope as well as an amount based on the number of trips.

<sup>(d)</sup> Program for the financing of local infrastructures in Quebec (SOFIL)

Under the powers granted to SOFIL, the Société is eligible, from 2006 to 2010, for a cash subsidy equal to 84.5% of the capital asset acquisitions deemed admissible by the Ministère des Transports. This subsidy is increased by a contribution of 15.5% from the Montreal Urban Agglomeration, bringing the total subsidy for admissible acquisitions to 100%. Furthermore, under a decree to extend the program until 2014, some acquisitions are eligible for an 85% subsidy from the Ministère des Transports and a contribution of 15% from the Montreal Urban Agglomeration. According to the program, the repayments are made in cash and on debt servicing, including interest on the debt.

<sup>(e)</sup> Program to improve transportation security (Transit-Secure)

This federal program is designed to enhance the security of public transit users by placing a focus on systems, training and equipment. This program subsidizes up to 75% of admissible expenses.

<sup>(f)</sup> Urban Transportation Showcase Program (UTSP)

Under this program, financed by Transport Canada, showcases are set up to promote innovative approaches to reducing greenhouse gases.

## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

### 5. REGIONAL CONTRIBUTIONS AND CONTRIBUTIONS FROM MUNICIPALITIES OUTSIDE THE MONTREAL URBAN AGGLOMERATION

	2010	2009
<b>Regional contributions</b>		
For trips on the métro network <sup>(a)</sup>	40,521	45,073
For trips on metropolitan bus routes <sup>(a)</sup>	4,693	5,447
Paratransit service <sup>(b)</sup>	203	-
For equipment and infrastructures <sup>(c)</sup>	1,033	1,207
Share of the fuel tax <sup>(d)</sup>	13,503	-
Fare integration <sup>(e)</sup>	4,071	1,497
	64,024	53,224
<b>Contribution from municipalities outside the Montreal Urban Agglomeration <sup>(f)</sup></b>	7,109	5,393
	71,133	58,617

<sup>(a)</sup> Bus and métro

The Société receives assistance from the AMT for trips carried out by métro and bus on the metropolitan transportation system.

<sup>(b)</sup> Paratransit service

The Société receives financial assistance from the AMT for its paratransit service to compensate for services of a metropolitan nature.

<sup>(c)</sup> Regional equipment and infrastructures

Under Section 37 of *An act respecting the Agence métropolitaine de transport*, the AMT must acquire the equipment and infrastructures needed for the metropolitan bus transportation network from the Société. As at December 31, 2010, the contract specifying the date and terms for the transfer of these assets was not signed. However, the AMT is reimbursing the Société for their operating costs.

<sup>(d)</sup> Share of fuel tax (agreement of the Montreal Metropolitan Community (MMC))

On December 15, 2010, the Government of Quebec adopted decree #1183-2010, which provides the terms and conditions for paying out the additional tax on gasoline. The MMC's regional contribution represents the provisional share of the new fuel tax in effect since May 1, 2010 on the AMT's territory.

<sup>(e)</sup> Fare integration

Metropolitan assistance paid to the transit authorities, the purpose of which is to ensure that, for each fare zone, no authority assumes a portion of the discount for the reduced and intermediate fares that exceeds the discount given to purchasers of TRAM passes (integrated monthly pass providing access to the commuter trains, buses and métro in the metropolitan area) for that zone.

<sup>(f)</sup> Contribution from municipalities outside the Montreal Urban Agglomeration

On February 22, 2007, the Government of Quebec signed an agreement covering the terms 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 Montreal Urban Agglomeration is pre-established for the period of the agreement.

## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

### 6. OTHER REVENUES

	2010	2009
Advertising	2,434	13,674
Share of profit from a subsidiary	17,218	1,630
Revenues from sinking fund	8,210	7,058
Administrative expenses on the sale of OPUS passes	4,528	4,657
Insurance rebates	-	4,048
Other	6,399	3,702
	<b>38,789</b>	<b>34,769</b>

### 7. INTEREST AND FINANCING COSTS

	2010	2009
Short-term financing costs	1,929	4,092
Interest on long-term debt	63,101	56,966
	<b>65,030</b>	<b>61,058</b>

### 8. SINKING FUND INVESTMENTS

	2010	2009
Cash	27,380	24,994
Bonds and bond coupons	232,191	143,200
Interest receivable	1,483	983
	<b>261,054</b>	<b>169,177</b>

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

	2010		2009	
	Investments guaranteed by the Government of Quebec	Nominal weighted interest rate	Investments guaranteed by the Government of Quebec	Nominal weighted interest rate
2010	-	-	3,932	5.58%
2011	8,208	5.00%	8,398	5.03%
2012	21,526	4.22%	13,171	4.27%
2013	27,168	4.40%	27,162	4.41%
2014	41,744	3.86%	33,282	3.46%
2015	34,602	2.88%	-	-
More than 5 years	98,943	4.26%	57,255	4.03%
	<b>232,191</b>	<b>4.03%</b>	<b>143,200</b>	<b>4.10%</b>

## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

### 9. SUBSIDIES RECEIVABLE

	2010	2009
<b>Government of Quebec</b>		
Receivables to be allocated to the repayment of long-term debt	628,976	558,353
Receivables to be allocated to the repayment of long-term debt not yet issued	13,770	42,307
Program for the financing of local infrastructures	128,283	28,192
Government assistance program for the public transport of people	9,643	11,105
Paratransit service	12,021	13,121
Public transit service improvement program	38,460	38,179
	831,153	691,257
<b>Government of Canada</b>		
Program to improve transportation security	-	627
<b>Agence métropolitaine de transport</b>		
Capital assets	-	225
	831,153	692,109

The receipt of receivables to be allocated to the repayment of long-term debt, of which the terms and conditions are established as at December 31, 2010, are as follows:

	2010		2009	
	Receivables	Nominal weighted interest rate	Receivables	Nominal weighted interest rate
2010	-	-	14,879	4.82%
2011	17,732	4.42%	16,257	4.97%
2012	40,042	5.06%	39,889	5.30%
2013	17,641	4.70%	15,900	5.14%
2014	100,187	4.89%	105,670	4.91%
2015	9,311	4.41%	-	-
1 to 5 years	184,913	4.84%	192,595	5.01%
6 to 10 years	444,063	4.80%	365,758	4.89%
	628,976	4.81%	558,353	4.93%



## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

### 10. REGIONAL CONTRIBUTIONS AND CONTRIBUTIONS FROM MUNICIPALITIES OUTSIDE THE MONTREAL URBAN AGGLOMERATION RECEIVABLE

	2010	2009
Regional contributions	48,230	25,857
Contributions from municipalities outside the Montreal Urban Agglomeration	8,986	3,801
	57,216	29,658

### 11. OTHER RECEIVABLES

	2010	2009
Regional revenues	12,053	8,114
Tax claims from governments	9,806	5,542
Trade accounts receivable	22,895	15,591
Other	1,818	3,431
	46,572	32,678

A \$9.7 million allowance for bad debt (\$9.4 million in 2009) has been deducted from other receivables.

### 12. LONG-TERM INVESTMENTS

	2010	2009
Investment in a subsidiary, recognized using the modified equity method <sup>(a)</sup>	8,718	4,990
Other subsidiary	15	15
	8,733	5,005

<sup>(a)</sup> Condensed supplementary information on the 99.9%-owned subsidiary.

<b>Total assets</b>	9,342	6,916
<b>Total liabilities</b>	624	1,758
<b>Equity</b>		
Balance at beginning of year	5,158	5,760
Revenues	19,686	3,369
Expenses	2,636	1,571
<b>Net earnings</b>	17,050 <sup>(b)</sup>	1,798
<b>Distribution</b>	(13,490)	(2,400)
<b>Balance at end of year</b>	8,718	5,158 <sup>(b)</sup>

<sup>(b)</sup> A \$168 adjustment from the previous year was recorded in the current year.

### Commitment

The subsidiary is committed to paying \$0.2 million for the rental of premises under a lease expiring on December 31, 2012.

## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

### 13. SHORT-TERM LOANS

The Société has an authorized loan up to a maximum of \$600.0 million for its current operating expenses and for expenses incurred under a loan by-law.

Of this amount, \$500.0 million can be borrowed, in whole or in part, by way of notes, bankers' acceptances, or other instruments negotiable through the chartered banks or on the free short-term loan market at a rate not exceeding the prime rate of the chartered banks. The repayment term of each of the notes, bankers' acceptances, or other instruments shall not exceed one year from the date of their issuance. As at December 31, 2010, the nominal value of the commercial paper issuances totalled \$332.0 million (\$87.0 million in 2009), and the average rate for the 2010 fiscal year was 0.75% (1.44% in 2009).

The Société also has access to a line of credit of \$100.0 million in the form of demand notes. The interest rate on this line of credit is the banking institution's base rate plus 0.3%, calculated on a daily basis and payable on the last day of each month. The average rate for fiscal 2010 was 2.89% (2.43% in 2009). As at December 31, 2010, the line of credit was unused (\$0.1 million in 2009) and was bearing interest at a rate of 3.30% (2.25% in 2009).

*An act respecting transit authorities* stipulates that the Montreal Urban Agglomeration is the guarantor of the Société's commitments and obligations, including short-term loans contracted by the Société.

### 14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2010	2009
Trade accounts payable and accrued liabilities	105,516	141,336
Salaries and benefits	57,887	75,139
Prepaid revenues	17,353	15,520
Accrued interest on long-term debt	13,066	12,406
Other	18,294	17,581
	212,116	261,982

## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

### 15. LONG-TERM DEBT

	2010	2009
Bonds and bank loans, at fixed interest rates ranging from 1.00% to 5.85% (3.75% to 6.85% in 2009), maturing from April 2011 to November 2027	1,374,456	1,181,848

\$200.0 million in bonds issued in 2010 were acquired by the City of Montreal.

The long-term debt consists of bonds and bank loans that are direct and general obligations of the Société. *An act respecting public transit authorities* stipulates that the Montreal Urban Agglomeration is the guarantor of the Société's commitments and obligations, including long-term debt contracted by the Société.

The Société used currency and interest rate swaps for loans totalling \$207.0 million (\$207.0 million in 2009). The swaps completely eliminate the exchange and interest rate risks.

Estimated long-term debt payments for future years are as follows:

Year of maturity	2010				2009	
	Canadian dollars <sup>(a)</sup>	To be refinanced	Net maturity	Nominal weighted interest rate	Canadian dollars <sup>(a)</sup>	Nominal weighted interest rate
2010	-	-	-	-	25,642	4.83%
2011	32,566	4,541	28,025	4.42%	28,016	4.97%
2012	73,540	15,400	58,140	5.06%	68,740	5.30%
2013	32,400	14,340	18,060	4.70%	27,400	5.14%
2014	184,000	27,900	156,100	4.89%	182,100	4.91%
2015	17,100	7,800	9,300	4.41%	-	-
1 to 5 years	339,606	69,981	269,625	4.84%	331,898	5.01%
6 to 10 years	815,552	52,500	763,052	4.80%	630,652	4.88%
11 years and more	219,298	14,000	205,298	5.31%	219,298	5.31%
	1,374,456	136,481	1,237,975	4.89%	1,181,848	5.00%

<sup>(a)</sup> Including loans contracted in foreign currencies and subject to hedging.

Change in long-term debt	2010	2009
Balance at beginning of year	1,181,848	887,303
New loans	209,000	384,500
Repayment (net of refinancing)	(16,392)	(89,955)
<b>Balance at end of year</b>	<b>1,374,456</b>	<b>1,181,848</b>
<b>Breakdown of long-term debt</b>		
Amounts accumulated in the sinking fund	261,054	169,177
Amounts to be recovered for repayment of long-term debt:		
from the Montreal Urban Agglomeration	484,426	454,318
from the Government of Quebec	628,976	558,353
	1,113,402	1,012,671
	1,374,456	1,181,848

The fair value of the long-term debt stands at \$1,454.6 million (\$1,222.4 million in 2009). It includes net financial liabilities associated with currency and interest rate swaps of \$56.7 million (\$29.4 million in 2009).

## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

### 16. EMPLOYEE FUTURE BENEFITS ASSET (LIABILITY)

	2010	2009
Defined benefit pension plans	422,651	100,218
Other pension plans	(108,094)	(104,851)
	314,557	(4,633)

The expenses related to the defined benefit plans totalled -\$262.3 million (-\$47.1 million in 2009).

#### a) Description of plans

The Société has multiple funded and unfunded defined benefit plans that guarantee the payment of retirement benefits, supplementary retirement benefits, and post-employment benefits to all employees.

The Société's employees are active participants in one of the Société's two defined benefit plans. Employees covered by the Syndicat du transport de Montreal (CSN) pay contributions to the Régime de retraite de la Société de transport de Montreal (CSN) (Régime CSN), while the other employees pay contributions to the Régime de retraite de la Société de transport de Montreal (1992) (Régime 1992). Both plans invest in units of the Fiducie Globale des Régimes de retraite de la Société de transport de Montreal (Fiducie Globale), which administers these funds.

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

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 pension plans for funding purposes was carried out on December 31, 2008. The next valuation will be carried out on December 31, 2011.

In the case of Régime 1992 and Régime CSN, the employer cannot unilaterally use the surplus 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 funding of future benefits (the reserve). Thus, the expected future benefit is nil, giving rise to the recording of a valuation allowance that is deducted from the accrued benefit asset. As at December 31, 2010, the valuation allowance stood at \$59.0 million (\$357.2 million in 2009).

The Société's employees also benefit from a range of supplementary retirement benefits and post-employment benefits that include life insurance, health care coverage, banking of sick leave, salary continuance during short-term disability, plans to supplement benefits paid by the Commission de la santé et de la sécurité du travail (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 an employee belongs.

The Société values its accrued benefit obligations and the fair value of the plan assets for accounting purposes as at December 31 of each year.

## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

### 16. EMPLOYEE FUTURE BENEFITS ASSET (LIABILITY) (CONT'D)

#### b) Reconciliation of the funded status of the employee benefit plans and the amounts recorded on the Statement of Financial Position

	2010		2009	
	Pension plans	Other plans	Pension plans	Other plans
Actuarial value of plan assets	3,089,115	-	3,139,951	-
Accrued benefit obligation	(3,052,596)	(113,920)	(2,775,666)	(119,608)
Funded status (deficit)	36,519	(113,920)	364,285	(119,608)
Unamortized actuarial losses	445,140	5,826	93,091	14,757
Accrued benefit asset (liability)	481,659	(108,094)	457,376	(104,851)
Valuation allowance	(59,008)	-	(357,158)	-
<b>Employee future benefits asset (liability)</b>	<b>422,651</b>	<b>(108,094)</b>	<b>100,218</b>	<b>(104,851)</b>

#### c) Plans for which the accrued benefit obligation exceed the assets

	2010		2009	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit obligation	(770,209)	(113,920)	(11,377)	(119,608)
Actuarial value of plan assets	747,720	-	1,117	-
<b>Funding deficit</b>	<b>(22,489)</b>	<b>(113,920)</b>	<b>(10,260)</b>	<b>(119,608)</b>

#### d) Actuarial value of plan assets

	2010		2009	
	Pension plans	Other plans	Pension plans	Other plans
Balance at beginning of year	3,139,951	-	3,266,758	-
Contributions for the year	85,203	3,054	79,995	6,310
Expected return on plan assets	213,484	-	201,015	-
Benefits paid	(175,865)	(3,054)	(180,118)	(6,310)
Loss during the year on the expected return on plan assets	(173,658)	-	(227,699)	-
<b>Balance at end of year</b>	<b>3,089,115</b>	<b>-</b>	<b>3,139,951</b>	<b>-</b>
<b>Fair value of plan assets</b>	<b>3,163,616</b>	<b>-</b>	<b>2,996,610</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

### 16. EMPLOYEE FUTURE BENEFITS ASSET (LIABILITY) (CONT'D)

#### e) Accrued benefit obligation

	2010		2009	
	Pension plans	Other plans	Pension plans	Other plans
Balance at beginning of year	2,775,666	119,608	2,943,138	97,636
Cost of services rendered during the year	77,239	3,390	82,987	5,892
Benefits paid	(175,865)	(3,054)	(180,118)	(6,310)
Interest cost on the obligation	187,871	4,806	180,769	4,949
Loss (gain) on the obligation during the year	187,685	(10,830)	(251,110)	17,441
<b>Balance at end of year</b>	<b>3,052,596</b>	<b>113,920</b>	<b>2,775,666</b>	<b>119,608</b>

#### f) Components of the defined benefit expense

	2010		2009	
	Pension plans	Other plans	Pension plans	Other plans
Cost of services rendered during the year	77,239	3,390	82,987	5,892
Employee contributions	(31,376)	-	(28,237)	-
Amortization of actuarial losses (gains)	9,294	(1,899)	11,224	(805)
Retirement benefits expense	55,157	1,491	65,974	5,087
Interest cost on the obligation	187,871	4,806	180,769	4,949
Expected return on plan assets	(213,484)	-	(201,015)	-
Interest expense (revenue)	(25,613)	4,806	(20,246)	4,949
Change in valuation allowance	(298,150)	-	(102,922)	-
<b>Total expense</b>	<b>(268,606)</b>	<b>6,297</b>	<b>(57,194)</b>	<b>10,036</b>

## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

### 16. EMPLOYEE FUTURE BENEFITS ASSET (LIABILITY) (CONT'D)

#### g) Significant actuarial assumptions (weighted rates)

The significant actuarial assumptions used in the actuarial valuations performed from December 31, 2009, to December 31, 2010, are as follows:

	2010		2009	
	Pension plans	Other plans	Pension plans	Other plans
Discount rate	6.49%	5.00%	6.88%	5.00%
Expected rate of return on plan assets	6.50%	-	6.90%	-
Rate of increase in salaries	3.00%	3.21%	2.50%	3.25%
Initial growth rate for healthcare costs	-	9.69%	-	9.22%
Ultimate growth rate for healthcare costs	-	5.01%	-	5.04%
Year when rate is expected to stabilize	-	2025	-	2025

## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

### 17. CAPITAL ASSETS

	Balance at beginning	Increase	Disposal/ Write-off	Balance at end
<b>Cost</b>				
Land	7,352	-	-	7,352
Buildings	266,230	22,735	-	288,965
Original network and métro extensions	1,454,920	28	-	1,454,948
Improvements to métro infrastructures	711,222	209,660	(36)	920,918
Local infrastructures	14,555	3,850	-	18,405
Regional infrastructures	11,499	-	-	11,499
Rolling stock - buses	739,316	267,444	165,184	841,576
Rolling stock - minibuses	10,687	1,542	2,795	9,434
Rolling stock - other	36,505	1,499	678	37,326
Office equipment and software	130,084	(6,971) <sup>(a)</sup>	-	123,113
Machinery, tools and equipment	143,519	3,067	-	146,586
	3,525,889	502,854	168,621	3,860,122
Capital assets in progress	369,641	(67,117)	-	302,524
	3,895,530	435,737	168,621	4,162,646
<b>Accumulated amortization</b>				
Buildings	85,371	5,897	-	91,268
Original network and métro extensions	1,261,749	10,651	-	1,272,400
Improvements to métro infrastructures	120,233	44,738	(36)	165,007
Local infrastructures	4,397	510	-	4,907
Regional infrastructures	9,541	285	-	9,826
Rolling stock - buses	363,897	64,236	156,844	271,289
Rolling stock - minibuses	7,158	1,393	2,795	5,756
Rolling stock - other	23,482	2,998	623	25,857
Office equipment and software	36,185	17,979	-	54,164
Machinery, tools and equipment	31,515	10,165	-	41,680
	1,943,528	158,852	160,226	1,942,154
<b>Net carrying value</b>	1,952,002			2,220,492

\$0.3 million in interest (\$0.3 million in 2009) was capitalized to the cost of the capital assets in progress.

<sup>(a)</sup> The negative increase comes from a reclassification between two categories of capital assets, i.e., improvements to métro infrastructures and office equipment and software.



## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

### 18. OTHER NON-FINANCIAL ASSETS

	2010	2009
Deposits for bus purchases	15,226	17,248
Deposit to purchase métro cars	96,316	-
Loss on foreign exchange contracts <sup>(a)</sup> <sup>(b)</sup>	12,796	-
Prepaid expenses	945	810
Issuance costs for long-term debt	4,679	4,775
Other	998	1,066
	<b>130,960</b>	<b>23,899</b>

<sup>(a)</sup> During the year, the Société entered into a foreign exchange contract to protect itself against U.S. and European exchange rate fluctuations between the date the métro car purchase contract was accepted and the date the contract was signed following government approvals. This hedging transaction concluded with a \$12.8 million loss but enabled the Société to protect itself against undue market fluctuations. The loss will be charged fully to the capital assets upon delivery of the métro cars, which is scheduled for 2014. The métro car purchase contract is disclosed in Note 21 h) on commitments.

<sup>(b)</sup> See the "Analysis of the Financial Statements - Other Items, Purchase of Métro Cars." (p.15).

### 19. SUPPLEMENTARY INFORMATION TO THE STATEMENT OF CASH FLOWS

#### Net change in non-cash items

	2010	2009
Contribution receivable from the Montreal Urban Agglomeration	(13,691)	(18,393)
Subsidies receivable	(139,044)	(57,639)
Regional contributions and contributions from municipalities outside the Montreal Urban Agglomeration receivable	(27,558)	(2,566)
Other receivables	(13,894)	2,304
Accounts payable and accrued liabilities	(49,866)	71,124
Employee future benefits asset (liability)	(319,190)	(105,226)
Inventories	(1,936)	(1,036)
Other non-financial assets (excluding deposits for bus purchases, métro cars and issuance costs for long-term debt)	(12,863)	2,759
	<b>(578,042)</b>	<b>(108,673)</b>

#### Other information

Interest paid on short-term loans not attributable to capital assets in progress	1,929	4,092
Interest paid on long-term debt	62,441	54,156

## NOTES TO THE FINANCIAL STATEMENTS

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(in thousands of dollars)

### 20. FINANCIAL INSTRUMENTS

#### Use of derivative instruments

The Société uses derivative financial instruments to reduce the exchange and interest rate risks to which its long-term debt is exposed as well as the commodity risk on the price of fuel. It does not use financial instruments for speculative purposes.

#### Exchange and interest positions

As at December 31, 2010, given the use of currency and interest rate swaps, all of the Société's loans are denominated in Canadian dollars and bear interest at a fixed rate.

#### Credit risk

In using derivative financial instruments, the Société is exposed to credit losses arising from third-party defaults on payment. The Société believes that these parties will be able to meet their obligations, as it deals only with recognized financial institutions whose credit ratings are higher than its own.

#### Liquidity risk

The Société believes that its credit facilities ensure it has sufficient funds to meet its current and longer-term financial requirements at a reasonable cost.

#### Fair value

The fair value of cash, the contribution receivable from the Montreal Urban Agglomeration, the subsidies receivable other than receivables to be allocated to the repayment of long-term debt, the regional contributions and contributions from municipalities outside the Montreal Urban Agglomeration receivable, other receivables, short-term loans as well as accounts payable and accrued liabilities approximate their carrying values due to the short maturities of these financial instruments.

The following table shows the fair values and carrying values of other financial instruments:

	2010		2009	
	Fair value	Carrying value	Fair value	Carrying value
Sinking fund investments	267,422	261,054	173,164	169,177
Receivables to be allocated to the repayment of long-term debt	665,639	628,976	577,734	558,353
Long-term debt	1,454,570	1,374,456	1,222,433	1,181,848

The fair value of sinking fund investments is the amount at which they could be exchanged on the market between independent parties. The fair value of receivables to be allocated to the repayment of repay long-term debt as well as the fair value of long-term debt are essentially based on a discounted cash flow calculation that uses rates of return or the year-end market price of similar instruments with the same maturity. The fair value of the currency and interest rate swaps is the amount the Société would receive or pay if these contracts closed at that date. As at December 31, 2010, the fair value and carrying value of the financial liabilities associated with currency and interest rate swaps stood at \$56.7 million and \$48.0 million (\$29.4 million and \$27.0 million in 2009). They are included in the long-term debt amounts.

## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

### 21. COMMITMENTS

#### a) Long-term leases

The Société is committed to paying \$90.9 million for the rental of its premises under long-term leases expiring from July 31, 2011 to July 31, 2023. The minimum payments required over the next five years amount to \$8.4 million for 2011, \$7.6 million for 2012 and 2013, \$7.5 million for 2014, and \$6.6 million for 2015.

#### b) Service contract for a communications solution integrator

The Société is committed to paying a maximum of \$10.6 million for 2011 and 2012. The contract's three main components consist of a \$5.5 million telephone system, an amount of \$2.6 million for Internet access, and an amount of \$2.5 million for a call centre.

Future payments amount to \$5.0 million for 2011 and \$5.6 million for 2012.

#### c) Contract for the purchase of city buses

The Société awarded two purchase contracts for low-floor city buses and a purchase contract for articulated buses, which run from 2008 to 2011, as part of a group purchase on behalf of members of the Association du transport urbain du Québec.

Only the purchase contract for the accelerated replacement of the first generation low-floor buses calls for a fixed price. The other 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 U.S. exchange rate and the European exchange rate 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 contract for 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 city buses, the Société's share is 310 buses having a value of \$150.3 million, the remaining 2011 delivery balance of which was \$20.3 million as at December 31, 2010.

In the case of the low-floor buses (accelerated replacement), the Société's share is 410 buses having a value of \$210.6 million, the remaining 2011 delivery balance of which was \$54.9 million as at December 31, 2010.

In the case of the articulated buses, the Société's share is 202 buses having a value of \$156.3 million, the remaining 2011 delivery balance of which was \$49.0 million as at December 31, 2010.

#### 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, the balance of which was \$7 million as at December 31, 2010, to operate a project office responsible for carrying out an asset maintenance program for fixed equipment in the métro. Scheduled payments are \$5.9 million in 2011 and \$1.1 million in 2012.

#### e) Métro command centre

The Société has signed a contract with another engineering firm in the amount of \$125.1 million covering all the métro telecommunications systems, the balance of which was \$35.2 million as at December 31, 2010. Scheduled payments are \$17.6 million in 2011 and 2012.

## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

### 21. COMMITMENTS (CONT'D)

#### f) Contract for the maintenance of the fare sales and collection system and equipment

As part of the project to upgrade the sales and collection system and equipment, the Société awarded a contract for the maintenance of the system software and equipment. Payments for future years are \$2.4 million for 2011 and 2012, \$2.1 million for 2013 and \$0.5 million for 2014.

#### g) Contract for the supply of fuel

The Société has negotiated a fuel supply contract with a supplier for a predetermined period. To protect itself from fuel price fluctuations, the Société negotiated swap agreements with financial institutions. For the duration of these agreements, i.e., January 2009 to December 2012 (36 months), the Société is committed to purchasing 128.7 million litres at a fixed price, representing an amount of approximately \$92.7 million.

As at December 31, 2010, the balance of the Société's commitment was 83.4 million litres (15.0 million litres at \$0.80/litre, 25.3 million litres at \$0.67/litre, and 43.1 million litres at \$0.65/litre), representing an amount of \$56.9 million.

#### h) Contract for the purchase of rubber-tired métro cars

During the year, the Société awarded a contract to purchase métro cars to a consortium. In accordance with this contract, the Société is committed to purchasing 468 rubber-tired métro cars valued at \$1,811.6 million. The purchase contract contains a price adjustment clause for the métro cars based on the change in certain indexes, mainly the Consumer Price Index and the Industrial Product Price Index. It also provides for a deposit of 7.5%, which was paid during the year, as well as an additional deposit of 0.5% to be paid over the next 28 months. The remaining balance as at December 31, 2010 was \$1,715.3 million. The amounts for future deliveries will take place as follows: \$111.1 million in 2011, \$98.1 million in 2012, \$46.9 million in 2013, \$262.6 million in 2014, \$311.6 million in 2015, and \$885.0 million from 2016 to 2020.

### 22. CONTINGENCIES

#### a) Possible claims

The total of the amounts claimed by plaintiffs is \$77.3 million (\$68.8 million in 2009). These claims consist of, among others, three class action suits totalling \$70.5 million from users inconvenienced during the strikes in 2003 and 2007. The other \$6.8 million in claims consists of contractual or extracontractual suits by companies or individuals. As at December 31, 2010, the Société made a provision for an amount deemed sufficient for these claims.

#### b) Environmental obligations

As an owner of contaminated land, the Société could be required to take certain actions to conform with *An act to amend the an Environment Quality Act and other legislative provisions with regard to land protection and rehabilitation* (2002, Section 11). It could involve identifying and, if necessary, rehabilitating certain land. The Société cannot establish the total cost of the measures to be taken at this time.

## NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010

(in thousands of dollars)

### 22. CONTINGENCIES (CONT'D)

#### c) Transfer of property relating to the extension of the métro on the territory of the City of Laval

On April 28, 2007, the AMT transferred the property relating to the extension of the métro on the territory of the City of Laval to the Société at no cost under Section 47 of *An act respecting the Agence métropolitaine de transport* ("deed evidencing the transfer dated April 28, 2007"). On December 21, 2007, this transfer was cancelled on the condition that a new agreement be negotiated by the parties before February 28, 2008 ("reconveyance agreement dated December 21, 2007").

The expiry date of the reconveyance agreement dated December 21, 2007, has been extended, once again, to June 30, 2011.

The purpose of this delay is to allow for the conveyance of the property as well as the related debt at the carrying value according to terms that will have no financial impact on the two parties. Thus, if the agreement is concluded, the Société will become 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 debt, as it is subsidized in its entirety by the Ministère des Transports du Québec.

This transfer would increase the Société's assets by an amount of approximately \$1,359.0 million excluding taxes, or \$679.5 million for capital assets and receivables to be allocated to the repayment of long-term debt, and would increase liabilities by \$679.5 million for long-term debt, with the balance affecting the accumulated surplus.

### 23. SUBSEQUENT EVENT

On February 18 and March 16, 2011, the Société concluded bank loans in the amounts of \$116.6 million and \$57.5 million to finance tangible capital assets in progress. This long-term debt will respectively mature on December 1, 2020 and December 1, 2021 and bear interest at 4.1% and 4.5%.

### 24. COMPARATIVE FIGURES

Certain figures from the previous year have been restated to conform to the current year's presentation.

### 25. INDEPENDENT AUDITORS' OPINION

The opinion of the independent auditors does not cover the supplementary information and the budget.

## TABLE 1 - ACCUMULATED SURPLUS

As at December 31, 2010

(in thousands of dollars)

	2010	2009
<b>Accumulated surplus</b>		
Unrestricted operating surplus	2,996	-
Sinking fund	261,054	169,177
Working capital fund	3,266	4,791
Balances available from closed loan by-laws	123	123
Financing of investments in progress	6,392	(18,843)
Provision for future amounts	303,722	(13,460)
Net investment in long-term items	1,476,041	1,309,525
	<b>2,053,594</b>	<b>1,451,313</b>

In accordance with the model drawn up by the Ministère des Affaires Municipales, des Régions et de l'Occupation du Territoire of the Government of Quebec, the Société presents certain financial information for tax purposes. In addition to a breakdown of the accumulated surplus into various items specified below, this financial information is reflected in operating surplus and investing surplus for tax purposes.

### Change in the accumulated surplus items

#### Unrestricted operating surplus

The unrestricted operating surplus includes the portion of the accumulated surplus that has no restriction on its use.

	2010	2009
Balance at beginning of year	-	3,821
Operating surplus for the year for tax purposes	2,996	-
Allocation to operating activities	-	(3,821)
<b>Balance at end of year</b>	<b>2,996</b>	<b>-</b>

#### Sinking fund

The sinking fund consists of amounts accumulated to repay long-term debt and the interest income on these amounts.

	2010	2009
Balance at beginning of year	169,177	155,334
Contribution from operating activities, including interest of \$8.2 million (\$7.1 million in 2009)	91,877	58,896
Repayment of long-term debt	-	(45,053)
<b>Balance at end of year</b>	<b>261,054</b>	<b>169,177</b>

## TABLE 1 - ACCUMULATED SURPLUS

As at December 31, 2010

(in thousands of dollars)

### Working capital fund

This fund consists of uncommitted capital that is reserved for the acquisition of certain capital assets.

	2010	2009
Balance at beginning of year	4,791	3,414
Financing of capital expenditures	(2,376)	-
Contributions from operating activities	851	1,377
<b>Balance at end of year</b>	<b>3,266</b>	<b>4,791</b>

### Balances available from closed loan by-laws

This item represents all amounts available following the closing of loan by-laws.

	2010	2009
<b>Balance at beginning and at end of year</b>	<b>123</b>	<b>123</b>

### Financing of investments in progress

The financing of investments in progress relates to the surplus of the capital asset acquisitions over their permanent realized financing.

	2010	2009
Balance at beginning of year	(18,843)	(37,076)
Investing surplus for tax purposes	25,235	18,233
<b>Balance at end of year</b>	<b>6,392</b>	<b>(18,843)</b>

## TABLE 1 - ACCUMULATED SURPLUS

As at December 31, 2010

(in thousands of dollars)

### Provision for future amounts

The provision for future amounts corresponds to the net balance of the expenses recorded on the Statement of Operations that will be transferred in the future to the operating surplus for tax purposes. The provision results from the following items:

- Payroll liabilities: Application of transitional measures relating to the move to accrual accounting as of January 1, 2000 (sick leaves and vacation amortized over a maximum period of 20 years).
- Employee future benefits: Application of relief measures related to employee future benefits (amortization over a period estimated to run until 2023).

	2010	2009
Balance at beginning of year		
Payroll liabilities	(10,856)	(12,574)
Employee future benefits	(2,604)	(99,023)
	(13,460)	(111,597)
Decrease for the year		
Payroll liabilities	3,803	1,718
Employee future benefits	313,379	96,419
	317,182	98,137
Balance at end of year		
Payroll liabilities	(7,053)	(10,856)
Employee future benefits	310,775	(2,604)
	303,722	(13,460)



## TABLE 1 - ACCUMULATED SURPLUS

As at December 31, 2010

(in thousands of dollars)

### Net investment in long-term items

The net investment in long-term items consists of the initial cost of long-term investments and the net carrying value of the capital assets reduced by the debt related to these capital assets and increased by the sinking fund investments and receivables to be allocated to the repayment of long-term debt.

	2010	2009
Balance at beginning of year	1,309,525	1,174,748
Investing activities		
Capital asset acquisitions	435,737	368,173
Financing	(65,767)	(149,263)
	369,970	218,910
Operating activities		
Capital assets	(167,247)	(121,870)
Financing	(36,207)	37,737
	(203,454)	(84,133)
<b>Balance at end of year</b>	<b>1,476,041</b>	<b>1,309,525</b>
<b>Composition</b>		
Assets		
Long-term investments	999	999
Receivables to be allocated to the repayment of long-term debt	628,976	558,353
Capital assets	2,220,492	1,952,002
	2,850,467	2,511,354
Liabilities		
Long-term debt	(1,374,456)	(1,181,848)
Debt being refinanced	-	(11,010)
Operating activities to be financed	30	(8,971)
	(1,374,426)	(1,201,829)
	1,476,041	1,309,525

**TABLE 2 - TOTAL NET LONG-TERM INDEBTEDNESS**

As at December 31, 2010

(in thousands of dollars)

	2010	2009
<b>Long-term debt</b>		
Bonds and bank loans	1,374,456	1,181,848
<b>Plus</b>		
Investing activities to be financed	(6,392)	18,843
Operating activities to be financed	(30)	8,971
Debt being refinanced	-	11,010
<b>Less</b>		
Amounts accumulated in the sinking fund	(261,054)	(169,177)
Receivables to be allocated to the repayment of long-term debt	(628,976)	(558,353)
<b>TOTAL NET LONG-TERM INDEBTEDNESS</b>	<b>478,004</b>	<b>493,142</b>

The total net long-term indebtedness is 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 of \$12 billion required over a period of 10 years to upgrade the Société's aging infrastructures. This increase in indebtedness will potentially be mitigated, either by the subsidies for which the rates will be higher than in the past or by a reduction in the issuance of new long-term debt due to the cash financing of certain projects under government assistance programs such as the second phase of the program from SOFIL.

# **UNAUDITED SUPPLEMENTARY INFORMATION**

## RESULTS OF OPERATIONS

Year ended December 31, 2010

(in thousands of dollars)

		2010	2009	2008	2007
	Budget	Actual	Actual	Actual	Actual
<b>Revenues</b>					
Passenger revenues	481,911	487,670	463,187	444,717	415,655
Contribution from the Montreal Urban Agglomeration	359,400	359,400	332,000	301,700	277,038
Subsidies	122,001	113,236	94,760	74,829	55,400
Regional contributions and contributions from municipalities outside the Montreal Urban Agglomeration	58,143	71,133	58,617	57,536	57,291
New revenue sources	40,000	-	-	-	-
Deferred surplus (deficit)	-	-	3,821	1,582	(13,606)
Other revenues	29,282	31,120	28,809	26,412	25,376
	1,090,737	1,062,559	981,194	906,776	817,154
<b>Expenses</b>					
Remuneration	710,717	707,171	660,325	615,538	584,135
Energy costs, taxes and licences	106,243	95,829	93,980	85,718	76,529
Professional services	65,420	66,487	67,742	61,610	43,268
Matériel et fournitures	55,598	52,143	48,740	48,672	43,807
Rentals	9,753	9,309	8,302	8,212	8,160
Interest and financing costs	124,089	112,489	103,538	88,100	76,504
Sundry expenses	18,917	16,135	17,510	17,105	12,169
	1,090,737	1,059,563	1,000,137	924,955	844,572
Operating surplus (deficit) for tax purposes before additional contribution from the Montreal Urban Agglomeration	-	2,996	(18,943)	(18,179)	(27,418)
Additional contribution from the Montreal Urban Agglomeration	-	-	18,943	22,000	29,000
<b>Operating surplus for the year for tax purposes</b>	-	2,996	-	3,821	1,582

## REVENUES BY TYPE

Year ended December 31, 2010

(in thousands of dollars)

		2010	2009	2008	2007
	Budget	Actual	Actual	Actual	Actual
<b>OPERATIONS</b>					
<b>PASSENGER REVENUES</b>					
<b>Bus and métro service</b>					
<b>Regular</b>					
Cash	74,150	75,986	66,005	56,748	50,967
Tickets	74,539	72,864	72,491	72,996	71,876
CAM	175,716	173,912	171,278	161,068	148,744
Weekly CAM	28,545	30,009	27,960	28,646	27,146
	352,950	352,771	337,734	319,458	298,733
<b>Reduced</b>					
Cash	3,072	2,546	3,003	3,465	3,839
Tickets	9,752	11,365	10,725	14,807	13,993
CAM	60,934	61,700	58,637	57,948	57,262
Weekly CAM	1,750	1,549	1,718	2,491	2,437
	75,508	77,160	74,083	78,711	77,531
	428,458	429,931	411,817	398,169	376,264
Tourist cards	2,121	8,227	2,463	1,690	1,352
Allocation of revenues relating to commuter trains	800	554	877	720	691
	431,379	438,712	415,157	400,579	378,307
<b>Paratransit service</b>	2,782	2,819	2,686	2,325	2,144
<b>Regional revenues</b>	47,750	46,139	45,344	41,813	35,204
	481,911	487,670	463,187	444,717	415,655
<b>CONTRIBUTION FROM THE MONTREAL URBAN AGGLOMERATION</b>					
Base contribution	359,400	359,400	332,000	301,700	277,038
Additional contribution	-	-	18,943	22,000	29,000
	359,400	359,400	350,943	323,700	306,038
<b>SUBSIDIES</b>					
Government assistance program for the public transport of people (PAGTCP)	43,524	35,621	29,675	25,804	19,024
Public transit service improvement program (PASTEC)	41,471	39,883	29,724	16,558	5,086
Paratransit service	37,006	37,334	34,779	32,467	30,793
Other	-	398	582	-	497
	122,001	113,236	94,760	74,829	55,400
Amount to be carried forward	963,312	960,306	908,890	843,246	777,093

The independent auditors' opinion does not cover the supplementary information.

## REVENUES BY TYPE

Year ended December 31, 2010

(in thousands of dollars)

		2010	2009	2008	2007
	Budget	Actual	Actual	Actual	Actual
Amount carried forward	963,312	960,306	908,890	843,246	777,093
<b>REGIONAL CONTRIBUTIONS AND CONTRIBUTIONS FROM MUNICIPALITIES OUTSIDE THE MONTREAL URBAN AGGLOMERATION</b>					
<b>Regional contributions</b>					
For trips on the métro network	40,690	40,521	45,073	43,933	44,260
For trips on metropolitan bus routes	4,902	4,693	5,447	5,714	5,504
Paratransit service	-	203	-	-	-
For equipment and infrastructures	1,322	1,033	1,207	1,267	1,296
Share of the fuel tax	-	13,503	-	-	-
Fare integration	4,120	4,071	1,497	2,286	2,292
	51,034	64,024	53,224	53,200	53,352
Contribution from municipalities outside the Montreal Urban Agglomeration	7,109	7,109	5,393	4,336	3,939
	58,143	71,133	58,617	57,536	57,291
<b>NEW REVENUE SOURCES</b>	40,000	-	-	-	-
<b>OTHER REVENUES</b>	37,538	38,789	34,769	30,225	32,031
<b>INVESTMENT</b>					
<b>CONTRIBUTION FROM THE MONTREAL URBAN AGGLOMERATION</b>					
Contribution for capital assets from the program for the financing of local infrastructures in Quebec (SOFIL)	30,687	41,117	8,483	10,417	16,544
<b>SUBSIDIES</b>					
Government assistance program for the public transport of people (PAGTCP)	463,746	105,697	169,039	102,081	235,476
Public transit service improvement program (PASTEC)	-	7,605	-	20,299	-
Program for the financing of local infrastructures in Quebec (SOFIL)	168,471	223,139	46,246	56,816	90,168
Program to improve transportation security (Transit-Secure)	-	-	6,523	5,842	-
Urban Transportation Showcase Program (UTSP)	-	(217)	66	1,375	-
Canada-Quebec Infrastructure Program (CQIP)	-	-	-	-	16,547
	632,217	336,224	221,874	186,413	342,191
	1,761,897	1,447,569	1,232,633	1,127,837	1,225,150

The independent auditors' opinion does not cover the supplementary information.

## EXPENSES BY FUNCTION

Year ended December 31, 2010

(in thousands of dollars)

		2010	2009	2008	2007
	Budget	Actual	Actual	Actual	Actual
<b>NETWORK OPERATIONS</b>					
<b>Bus network</b>					
Remuneration	341,305	337,238	322,551	304,306	288,166
Goods and services	75,913	71,174	69,141	58,917	52,677
	417,218	408,412	391,692	363,223	340,843
<b>Métro network</b>					
Remuneration	173,106	169,765	162,901	155,011	144,323
Goods and services	44,875	45,744	44,651	43,618	38,235
	217,981	215,509	207,552	198,629	182,558
<b>Paratransit <sup>(a)</sup></b>					
Remuneration	20,326	21,379	20,562	19,083	17,776
Goods and services	32,863	31,073	26,724	24,370	22,831
	53,189	52,452	47,286	43,453	40,607
	688,388	676,373	646,530	605,305	564,008
<b>OPERATIONS SUPPORT</b>					
<b>Management and engineering</b>					
Remuneration	24,757	24,540	22,347	20,357	18,398
Goods and services	3,288	2,769	1,877	1,575	1,829
	28,045	27,309	24,224	21,932	20,227
<b>Surveillance</b>					
Remuneration	15,496	11,305	10,957	9,142	14,035
Goods and services	13,686	14,978	14,763	13,366	2,707
	29,182	26,283	25,720	22,508	16,742
<b>Infrastructure construction and maintenance</b>					
Remuneration	25,707	23,347	21,633	20,689	20,597
Goods and services	11,387	4,187	7,831	6,653	5,890
	37,094	27,534	29,464	27,342	26,487
	94,321	81,126	79,408	71,782	63,456
Amount to be carried forward	782,709	757,499	725,938	677,087	627,464

## EXPENSES BY FUNCTION

Year ended December 31, 2010

(in thousands of dollars)

		2010	2009	2008	2007
	Budget	Actual	Actual	Actual	Actual
Amount carried forward	782,709	757,499	725,938	677,087	627,464
<b>ADMINISTRATIVE SERVICES</b>					
<b>Finance and control</b>					
Remuneration	15,805	16,210	15,066	13,943	13,459
Goods and services	5,537	4,749	7,264	7,534	4,150
	21,342	20,959	22,330	21,477	17,609
<b>Communications and marketing</b>					
Remuneration	15,608	16,772	13,762	10,969	9,957
Goods and services	9,215	9,718	8,678	8,045	4,981
	24,823	26,490	22,440	19,014	14,938
<b>Human resources</b>					
Remuneration	41,636	42,315	38,829	35,683	33,000
Goods and services	16,598	17,068	14,545	12,636	11,847
	58,234	59,383	53,374	48,319	44,847
<b>Corporate services</b>					
Remuneration	9,407	9,708	8,527	7,600	7,126
Goods and services	3,523	3,396	2,412	2,098	1,898
	12,930	13,104	10,939	9,698	9,024
	117,329	119,936	109,083	98,508	86,418
<b>SPECIAL PROJECTS AND OTHER EXPENSES</b>					
Remuneration	23,051	30,789	21,472	21,746	10,049
Goods and services	30,353	26,561	29,305	39,170	35,843
	53,404	57,350	50,777	60,916	45,892
<b>ALLOCATION – PROVISION FOR FUTURE AMOUNTS (employee future benefits)</b>					
Remuneration	-	(313,379)	(96,419)	-	-
<b>FINANCING COSTS</b>					
Goods and services	81,936	65,030	61,058	47,747	43,540
<b>AMORTIZATION</b>					
Goods and services	121,824	158,852	119,650	100,400	94,249
<b>UNFORESEEN EXPENSES</b>					
Goods and services	5,836	-	-	-	-
	1,163,038	845,288	970,087	984,658	897,563
<b>(a) Paratransit</b>					
Paratransit service on the Statement of Operations	54,267	53,423	48,475	44,696	41,741
Expenses included in other functions	(1,078)	(971)	(1,189)	(1,243)	(1,134)
	53,189	52,452	47,286	43,453	40,607

The independent auditors' opinion does not cover the supplementary information.



## FINANCING OF CAPITAL ASSETS

As at December 31, 2010

(in thousands of dollars)

		2010	2009	2008	2007
	Budget	Actual	Actual	Actual	Actual
<b>CAPITAL ASSET ACQUISITIONS</b>	<b>(858,020)</b>	<b>(435,737)</b>	<b>(368,173)</b>	<b>(316,673)</b>	<b>(225,240)</b>
<b>FINANCING</b>					
<b>Federal government</b>					
Program to improve transportation security (Transit-Secure)	-	-	6,523	5,842	-
Urban Transportation Showcase Program (UTSP)	-	(217)	66	1,375	-
	-	(217)	6,589	7,217	-
<b>Provincial government</b>					
Government assistance program for the public transport of people (PAGTCP)	463,746	105,697	169,039	102,081	235,476
Public transit service improvement program (PASTEC)	-	7,605	-	20,299	-
Program for the financing of local infrastructures in Quebec (SOFIL)	168,471	223,139	46,246	56,816	90,168
Canada-Québec Infrastructure Program (CQIP)	-	-	-	-	16,547
	632,217	336,441	215,285	179,196	342,191
<b>Municipal contribution</b>					
Program for the financing of local infrastructures in Quebec (SOFIL)	30,687	41,117	8,483	10,417	16,544
<b>Société de transport de Montreal</b>					
Long-term financing of investing activities	190,087	65,767	149,263	6,560	103,773
Allocations to operating activities	5,029	17,864	6,786	6,273	5,560
Closed loan by-laws	-	-	-	1,073	2,542
	195,116	83,631	156,049	13,906	111,875
	858,020	460,972	386,406	210,736	470,610
<b>Investing surplus (deficit) for tax purposes</b>	-	25,235	18,233	(105,937)	245,370

## LONG-TERM DEBT

As at December 31, 2010

(in thousands of dollars)

	2010	2009
<b>Bond, \$25,000</b>		
6.85%, maturing February 16, 2010	-	2,186
<b>Bond, \$60,000</b>		
5.70%, maturing November 15, 2010	-	4,796
5.75%, maturing November 15, 2011	9,586	9,586
<b>Bond, \$40,000</b>		
5.00%, maturing October 24, 2010	-	3,260
5.15%, maturing October 24, 2011	3,430	3,430
5.25%, maturing October 24, 2012	9,110	9,110
<b>Bond, \$75,000</b>		
5.00%, maturing May 6, 2010	-	5,300
5.15%, maturing May 6, 2011	5,700	5,700
5.30%, maturing May 6, 2012	6,000	6,000
5.40%, maturing May 6, 2013	20,600	20,600
<b>Bond, \$75,000</b>		
3.75%, maturing April 27, 2010	-	7,200
4.00%, maturing April 27, 2011	6,300	6,300
4.15%, maturing April 27, 2012	6,500	6,500
4.35%, maturing April 27, 2013	6,800	6,800
4.50%, maturing April 27, 2014	7,100	7,100
4.60%, maturing April 27, 2015	15,100	15,100
<b>Bond, \$14,000</b>		
4.00%, maturing November 8, 2010	-	2,900
4.00%, maturing November 8, 2011	3,000	3,000
<b>Bond, \$300,000</b>		
5.00%, maturing December 1, 2019 <sup>(a)</sup>	300,000	300,000
<b>Bank loan, \$47,130 <sup>(b)</sup></b>		
5.46%, maturing January 9, 2012 <sup>(a)</sup>	47,130	47,130
<b>Bank loan, \$75,350 <sup>(b)</sup></b>		
4.74%, maturing June 7, 2017	54,252	54,252
4.92%, maturing June 7, 2027	21,098	21,098
Amount to be carried forward	521,706	547,348

The independent auditors' opinion does not cover the supplementary information.

## LONG-TERM DEBT

As at December 31, 2010

(in thousands of dollars)

	2010	2009
Amount carried forward	521,706	547,348
<b>Bank loan, \$84,500<sup>(b)</sup></b>		
5.85%, maturing January 29, 2024	84,500	84,500
<b>Bank loan, \$100,000</b>		
4.71%, maturing April 21, 2014 <sup>(a)</sup>	100,000	100,000
<b>Bank loan, \$75,000</b>		
5.22%, maturing October 22, 2014 <sup>(a)</sup>	75,000	75,000
<b>Bank loan, \$100,000</b>		
4.67%, maturing February 24, 2016 <sup>(a)</sup>	60,000	60,000
4.89%, maturing February 24, 2021	40,000	40,000
<b>Bank loan, \$100,000</b>		
4.36%, maturing January 19, 2017 <sup>(a)</sup>	73,200	73,200
4.55%, maturing January 19, 2022	16,300	16,300
4.60%, maturing January 19, 2027	10,500	10,500
<b>Bank loan, \$175,000</b>		
5.11%, maturing November 15, 2017 <sup>(a)</sup>	128,100	128,100
5.27%, maturing November 15, 2022	17,700	17,700
5.32%, maturing November 15, 2027	29,200	29,200
<b>Bank loan, \$18,250</b>		
1.00%, maturing April 6, 2011	4,550	-
1.65%, maturing April 6, 2012	4,800	-
2.30%, maturing April 6, 2013	5,000	-
2.75%, maturing April 6, 2014	1,900	-
3.00%, maturing April 6, 2015	2,000	-
<b>Bank loan, \$200,000</b>		
4.50%, maturing December 1, 2020 <sup>(a)</sup>	200,000	-
<b>TOTAL</b>	<b>1,374,456</b>	<b>1,181,848</b>
<b>TOTAL NET LONG-TERM INDEBTEDNESS</b>	<b>478,004</b>	<b>493,142</b>

<sup>(a)</sup> Portion in sinking fund.

<sup>(b)</sup> Amount that the Société will have to disburse at maturity in accordance with currency swaps.

## FINANCIAL RATIOS

As at December 31, 2010

(in thousands of dollars)

The Société formalized the normal management practices on which it bases its financing decisions. The approach was formalized with the implementation of a corporate "Cash transactions management" policy and three segment guidelines, including "Debt management," "Investment management," and "Financial risk management" segment guidelines. The "Debt management" segment guideline favours the use of financial ratios that will serve as long-term indicators of the Société's financial health. Among these indicators are the indebtedness ratios.

The three ratios chosen are indicators that illustrate the impact of investing decisions on the Société's long-term financial position. These ratios must be compared on a historical basis.

Following comparisons (international benchmarking) with companies of the same size, the Société established limits for each of the ratios. The Société uses these to demonstrate the impact of investing decisions on its financial position.

All the items in the financial statements used to calculate the ratios have been adjusted so that they represent only expenses exclusive to the Société. For comparison purposes, any impact from the subsidies related to capital assets has been eliminated.

As at December 31, 2010, all the ratios are within the target set and are below the limits established by the Société.

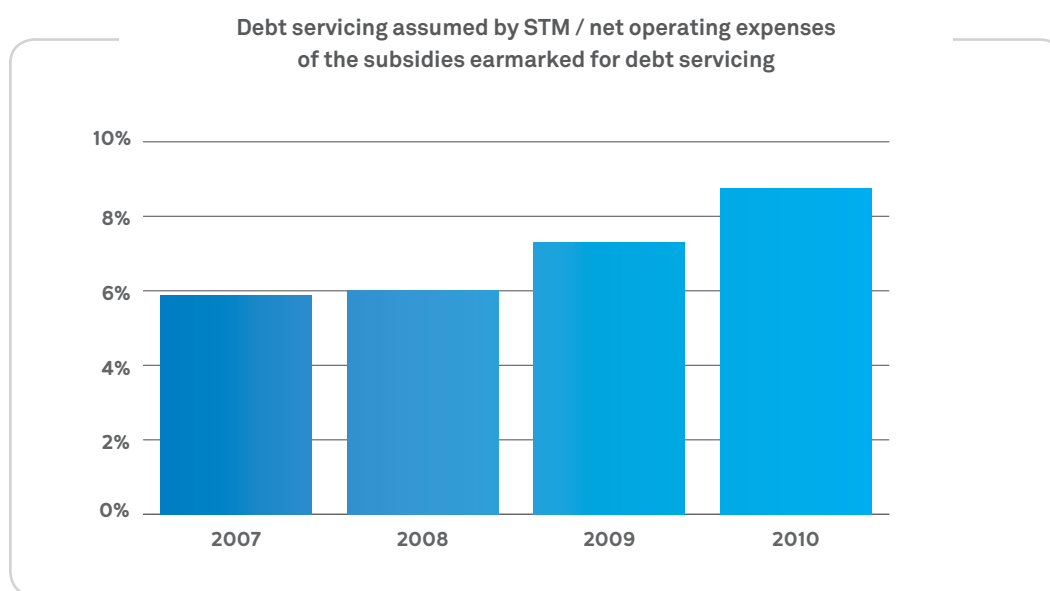
## FINANCIAL RATIOS

As at December 31, 2010

(in thousands of dollars)

### Debt servicing assumed by STM / net operating expenses of the subsidies earmarked for debt servicing

This ratio represents the portion of expenses allocated to debt servicing. The ratio is currently 8.74%, which is below the 16% limit set in the segment guideline. The moderate annual growth of the ratio shows that the portion of expenses earmarked for debt servicing is reasonable and under control.



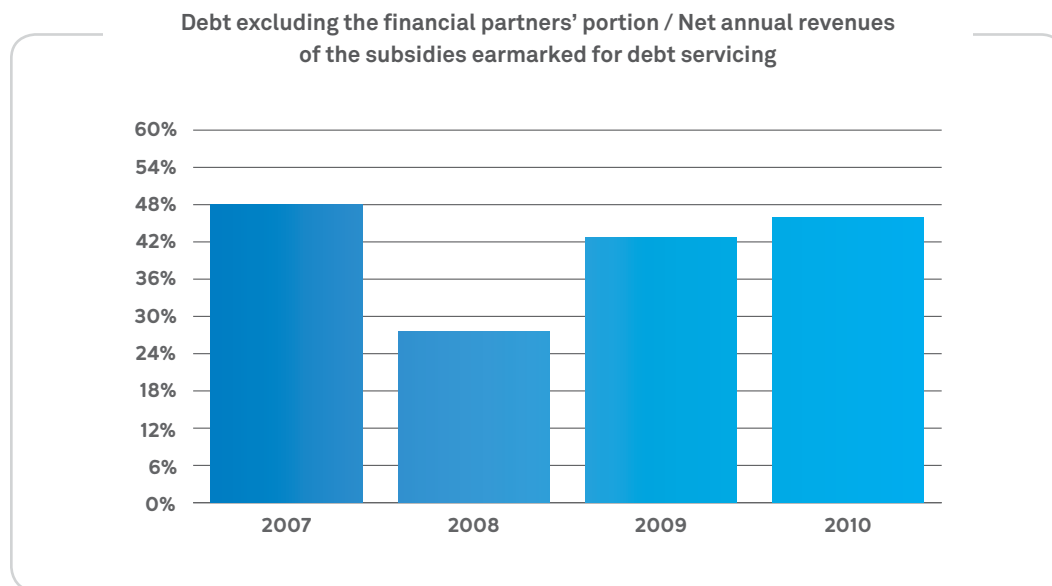
## FINANCIAL RATIOS

As at December 31, 2010

(in thousands of dollars)

### Debt excluding the financial partners' portion / Net annual revenues of the subsidies earmarked for debt servicing

The long-term debt must increase in proportion to revenues. The ratio is currently 45.86%, which is below the 100% limit set by the Société. The three-year growth trend for this ratio shows the Société's significant financing requirements but the revenues are also growing, albeit at a slower pace.



## FINANCIAL RATIOS

As at December 31, 2010

(in thousands of dollars)

### Debt excluding the financial partners' portion / Net assets of the subsidies earmarked for debt servicing

This ratio is an indicator of the leverage used by the Société. The ratio is currently 15.34%, which is below the 100% limit set by the Société. The downward trend in the ratio shows that the financial partners are making larger contributions to asset financing, particularly with respect cash subsidies.

Debt excluding the financial partners' portion / Net assets of the subsidies earmarked for debt servicing

