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2012 Annual Financial Report

SOCIETY IN MOTION stm

DOUBLE
LAURÉAT
MERCURIADES
2012

LES MERCURIADES

## STM RECEIVES TWO MERCURIADES AWARDS!

The STM had a particularly strong showing at the 32nd Les Mercuriades competition organized by the Fédération des chambres de commerce du Québec (FCCQ), taking home two Mercure Administration publique awards in the *Growth in productivity* and *Sustainable development* categories.

Over 800 business people attended the gala event held at the Palais des congrès de Montréal on April 12, 2012, under the honorary presidency of Monique F. Leroux, President and CEO of the Mouvement des caisses Desjardins. Yves Devin, at the time General Manager of the STM, was on hand to accept the prestigious awards from the Minister-delegate of Finance Alain Paquet.

**On behalf of the Executive Branch – Finance and Control, we want to thank everyone who contributed to the production of the 2012 Annual Financial Report. We wish also to give special thanks to the Financial Management and Control Branch.**

**Your cooperation, commitment and invaluable work have enabled us to present the 2012 Annual Financial Report.**

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

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# INTRODUCTION

## STM MISSION

The STM is at the core of economic development in the Montreal region, and it contributes to residents' quality of life and to sustainable development. The STM operates and is continuing to develop an integrated metro and bus network and paratransit service for its customers. It offers fast, reliable transit that is safe and comfortable. The STM's customers, employees and institutional and business partners are proud to work with the STM, which has been recognized for its high-quality, low-cost services.

# GOVERNANCE
# BOARD OF DIRECTORS

The members of the STM's board of directors are appointed by the City of Montreal's urban agglomeration council. Members are selected from among the City's regular council and the councils of other municipalities within the agglomeration. In addition, three board members are chosen from among agglomeration residents: two must be public transit customers—one of whom must be under 35 when appointed—and one must be a paratransit customer.

From these board members, the City of Montreal urban agglomeration appoints the STM board chair and vice-chair. Mr. Michel Labrecque is the current full-time STM chair.

The board of directors represents the diversity and inclusiveness the STM advocates. As at December 31, 2012, the board was made up of six elected municipal officials and three customer representatives, three of whom were women and six of whom were men.

**Michel Labrecque**
Chairman of the board
Representative for public transit customers

**Edward Janiszewski**
Mayor of Dollard-des-Ormeaux

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

**Monica Ricourt**
Councillor of the City of Montreal - District of Ovide-Clermont
Borough of Montréal-Nord

**Bernard Blanchet**
Councillor of the City of Montreal
Borough of Lachine

**Marie Turcotte**
Representative for paratransit customers

**Francesco Miele**
Councillor of the City of Montreal - District of Côte-de-Liesse
Borough of Saint-Laurent

**Dominic Perri**
(End of mandate, January 2013)
Councillor of the City of Montreal
Borough of Saint-Léonard

**Claudia Lacroix Perron**
Representative for public transit customers (below age 35)

**Elsie Lefebvre**
(Since January 2013)
Councillor of the City of Montreal
Borough of Villeray - Saint-Michel - Parc-Extension

**Richard Bergeron**
(Since January 2013)
Councillor of the City of Montreal - District of Jeanne-Mance
Borough of Plateau-Mont-Royal

## Roles and responsibilities

The Board of Directors executes the functions and powers of the STM and sets its major orientations. It adopts the strategic plan for the development of public transit on its service territory. Every year, it adopts the budget, staffing plan and capital expenditures program (CEP). It establishes the STM's fare product range and pricing structure. It approves, abolishes or replaces public transit routes and approves permanent route changes.

# COMMITTEES AND THEIR ROLES

To help effectively govern the STM and execute its mandates, the Board of Directors formed technical committees, each of which is dedicated to a specific issue. These committees were formed, mostly between 2006 and 2008, as part of the governance rules review process aimed at helping the STM conduct its activities. The committees are made up of members of the Board of Directors and independent external experts.

The chairman of the board is an ex officio member of all committees. The secretary general attends the meetings and serves as the permanent secretary on all committees while not actually being a member.

### CUSTOMER SERVICE COMMITTEE

This committee's mandate is to study the needs, methods and best possible solutions with respect to the public transit services that the STM delivers to its users, and to make recommendations. To take the pulse of transit users, the committee organizes public consultations on a yearly basis.

### HUMAN RESOURCES COMMITTEE

This committee's mandate is to study the needs, methods and best possible solutions with respect to issues surrounding human resources management at the STM, and to submit its recommendations to the Board of Directors. Every year, the committee studies and assesses the Chief Executive Officer's performance vis-à-vis his specific, pre-established personal and corporate objectives, and determines his annual salary, within the limits set by the Board of Directors. When required, the committee calls on outside experts to examine the salaries paid to STM executives and bring them into line with those earned by senior managers at Québec's public corporations and at North American public transit authorities.

### FINANCE COMMITTEE

This committee's mandate is to study the needs, methods and best possible solutions with respect to the management of the STM's financial activities, and to submit its recommendations to the Board of Directors.

### AUDIT COMMITTEE

The Audit Committee's mandate is to support the functions of the STM's general audit (internal) and external audit and to follow-up on their recommendations. Ultimately, the mandate contributes to improving the methods and solutions used to assure the Board of Directors that the Société's operational and administrative affairs are being managed in an effective, efficient and economical manner, and to enhancing the presentation and disclosure of information needed to accurately reflect the organization's activities and results.

### GOVERNANCE AND ETHICS COMMITTEE

This committee's mandate is to study the needs, methods and best possible solutions with respect to issues surrounding governance and ethics in the management of the STM's activities, and to submit its recommendations to the Board of Directors.

### ASSET MAINTENANCE, MAJOR PROJECTS AND ENVIRONMENT COMMITTEE

This committee's mandate is to study the needs, methods and best possible solutions with respect to the maintenance of STM assets (operating equipment and systems, infrastructures and computer equipment). It is also charged with studying all major projects supporting the implementation of the 2020 Strategic Plan and with overseeing the company's environmental policy. It submits its recommendations to the Board of Directors.

### OPERATIONS COMMITTEE

This committee's mandate is to study the needs, methods and best possible solutions with respect to the management of STM operations, and to submit its recommendations to the Board of Directors.

### ARTS AND ARTISTIC HERITAGE COMMITTEE

This committee's mandate is to promote the integration of art into the STM's network and to concern itself with the protection, conservation, proper use and development of the artistic heritage assets in the STM's possession, as well as to submit appropriate recommendations to the STM's Board of Directors.

# AUDIT COMMITTEE

**Yves Gauthier, FCPA, FCA**
Chairman
Vice-President, International Programs
CCAF – FCVI inc.

**Michel Labrecque**
Vice-Chairman
Chairman of the Board of Directors

**Francesco Miele**
Member
Councillor of the City of Montreal - District of Côte-de-Liesse
Borough of Saint-Laurent

**Yves J. Beauchesne, CPA, CA, MBA, D. Fisc.**
External Member
Senior Vice-President - Finance and Administration
DATSIT Studios inc.

# ORGANIZATION OF THE STM

As at December 31, 2012

Chairman
Board of Directors
**Michel Labrecque**

Assistant to the President
**André Porlier**

General Auditor
**Suzanne Bourque**

General Manager
**Carl Desrosiers**

Executive assistant to the General Manager
**Brigitte Hébert**

Special advisor
**Pierre Rocray**

Executive Director
Business Operations (subsidiaries)
**Michel Lafrance**

General Secretary and Executive Director
Legal Affairs
**Sylvie Tremblay**

- Director
  Legal Affairs
  **Sylvain Joly**
- Assistant General Secretary
  **Christian Portelance**

Executive Director
Human Resources and Shared Services
**Alain Brière**

- Director
  Human Resources
  **Michel Lefebvre**
- Director
  Retirement Plan Department
  **Jacques Fontaine**
- Director
  Information Technology
  **Luc Lamontagne**
- Director
  Supply Chain
  **Line Boucher**

Executive Director
Finance and Control
**Luc Tremblay**

- Director
  Fare Sales & Collection and Passenger Revenue
  **Gordon Teasdale**
- Director
  Budget and Investments
  **Alain Fraser**
- Director
  Financial Management and Control
  **Angèle Dubé**

Executive Director
Planning, Marketing and Communications
**Denise Vaillancourt**

- Director
  Communications and Customer Service
  **Isabelle Trottier**
- Director
  Marketing
  **Pierre Bourbonnière**
- Director
  Network Planning and Development
  **Benoît Gendron**

Executive Director
Major Projects Management
**Pierre Dauphinais**

Senior Director
Major Projects Management
**Pierre Vézina**

Senior Director
Public Affairs
**Odile Paradis**

Executive Director
Outreach and Strategic Planning
**Stéphane Forget**

Senior Director
Strategic Planning and Innovation
**Céline Desmarteau**

Executive Director
Metro
**Dominique Lemay**

Director
Rolling Stock Maintenance
**Carl Arseneault**

Director
Stationary Equipment Maintenance
**Christian Thibault**

Director
Station Operations
**Marie-Claude Léonard**

Director
Security and Control
**Nevine Tadros**

Managing Director
**Serge Dupont**

Director
Train Operations
**Sylvain Duquette**

Executive Director
Buses
**André Poisson**

Director
Service Delivery
**Marc Vendette**

Director
Paratransit
**Mario Gagnon**

Director
Vehicle Maintenance
**Renée Amilcar**

Director
Special Projects
**Serge Jolin**

Executive Director
Technical services
**François Chamberland**

Director
Infrastructure Maintenance
**Minh Truong**

Carl Desrosiers
General Manager

# MESSAGE FROM MANAGEMENT

Once again in 2012, ridership results have confirmed Montrealers enthusiasm for public transit. According to our estimates, we set an all-time record of 412.6 million passenger trips, an increase of 1.9% over 2011, with an overall passenger satisfaction rating of 88%, a new high compared to 84% in 2006. Since 2007, the STM has successfully completed the 2007-2011 *Public Transit Service Improvement Program* (PASTEC) by raising the overall supply of service (metro and bus) by 25%, whereas the growth objective set by the Government of Quebec had been 16%.

Much of this excellent performance was due to the PASTEC program, funded in equal parts by the Ministère des Transports du Québec (MTQ) and the Montreal Urban Agglomeration. The MTQ extended the program in 2012 and 2013 while work continues on a new program to be implemented in 2014. Since 2006, the Montreal Urban Agglomeration has increased its contribution by 34%, totalling $372.9 million in 2012. In terms of investment expenditures, it injected an additional $2.8 million in 2012, bringing its total contribution to the Program for the Financing of Local Infrastructures in Quebec (SOFIL grant program) to $95.5 million.

The STM closed the year with a slight surplus, that is, a $4.1 million consolidated operating surplus for tax purposes. Our strict management of expenditures, as recognized by the Moody's (Aa2) and Standard & Poor's (A+) rating agencies, combined with a deferral of certain investments, has allowed the Société to make up the $10 million budget shortfall that arose from lower-than-anticipated revenues from the implementation of the fuel tax agreement in May 2010. Although the fundamentals of this agreement are sound, certain parameters need to be revised and new sources of revenue must be found for public transit.

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

In 2012, the STM made significant capital investments to replace most of its assets that have reached the end of their useful lives. The year's main acquisitions consisted of $26.3 million for the purchase of buses, $51.5 million for the program to recondition fixed metro equipment, $77.4 million for the replacement of infrastructures that will serve to maintain the new metro cars, $19.5 million for the construction of the new Stinson bus garage, and $20.8 million for the metro station renovation program to replace and upgrade metro infrastructures.

Although investments made in 2012 were lower than those projected in the Société's Three-Year Capital Expenditures Program (CEP), they create significant pressure on the STM's debt servicing efforts and operating budget, despite the subsidies from its partners, i.e., the governments of Quebec and Canada as well as the Montreal Urban Agglomeration. That sums up the key issue for the coming years.

It appears, however, that financial resources will remain insufficient to reach the goals of the *2020 Strategic Plan*, even when taking into account the sustained contributions from passengers, from the Montreal Urban Agglomeration and from the other cities in the metropolitan region. In line with the regional consensus established by the Montreal Metropolitan Community (MMC) and its report published on August 16, 2012, for several years the STM has been advocating greater participation from Montreal area automobile drivers to public transit funding. The openness shown by the Government of Quebec to study those recommendations is good news for the development of public transit. In that sense, the *2012 Financial Report* reiterates the crucial issue of new dedicated, indexed and recurrent funding sources for the STM to better meet the growing and justified demand for public transit by current and future passengers.


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US = 50 AUTOS
INS SUR LA ROUTE
STM

# ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

## HIGHLIGHTS

(in thousands of dollars)

| | Budget | Actual 2012 | Actual 2011 |
|---|---|---|---|
| **OPERATING REVENUES** | | | |
| Passenger revenues | 565,385 | 563,602 | 533,249 |
| Contributions and subsidies | 619,714 | 607,633 | 567,221 |
| Other revenues | 54,400 | 55,797 | 48,714 |
| | 1,239,499 | 1,227,032 | 1,149,184 |
| **EXPENSES** | | | |
| Bus and metro service before relief measures related to employee future benefits | 1,201,694 | 1,188,358 | 1,104,143 |
| Relief measures related to employee future benefits | 33,408 | 21,855 | 69,157 |
| Bus and metro service | 1,235,102 | 1,210,213 | 1,173,300 |
| Paratransit service | 65,852 | 61,784 | 57,465 |
| Interest and financing costs | 90,684 | 73,622 | 64,056 |
| | 1,391,638 | 1,345,619 | 1,294,821 |
| **RECONCILING ITEMS FOR TAX PURPOSES** | (152,139) | (122,649) | (151,358) |
| **RECONCILING EXPENSES AND ITEMS FOR TAX PURPOSES** | 1,239,499 | 1,222,970 | 1,143,463 |
| **CONSOLIDATED OPERATING SURPLUS FOR THE YEAR FOR TAX PURPOSES** | - | 4,062 | 5,721 |
| **TOTAL ASSETS** | | 4,528,818 | 4,224,108 |
| **LIABILITIES** | | 2,336,003 | 2,072,768 |
| **ACCUMULATED SURPLUS** | | 2,192,815 | 2,151,340 |
| | | 4,528,818 | 4,224,108 |
| Capital asset acquisitions | 574,803 | 244,292 | 360,286 |
| Issuance of long-term debt | 495,400 | 346,300 | 354,150 |
| Long-term debt | 2,084,670 | 1,940,216 | 1,684,378 |
| Total net long-term indebtedness | | 527,334 | 513,645 |
| Cash from operations | | 214,702 | 366,869 |
| Ridership (in millions of trips) | 410.0 | 412.6 | 404.8 |
| Revenues from sinking fund (included in Other revenues) | 11,806 | 14,583 | 14,663 |
| Return on sinking fund as a % | 4.00% | 2.97% | 7.48% |
| Average interest rate on short-term debt | 1.18% | 1.13% | 1.12% |
| Average interest rate on long-term debt | 4.51% | 4.42% | 4.67% |
| Credit rating by rating firm: | | | |
| Moody's | | Aa2 | Aa2 |
| Standard & Poor's | | A+ | A+ |

# ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

## ACCOUNTING FRAMEWORK (NOTE 2)

As an other 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 and meets the needs of its principal users.

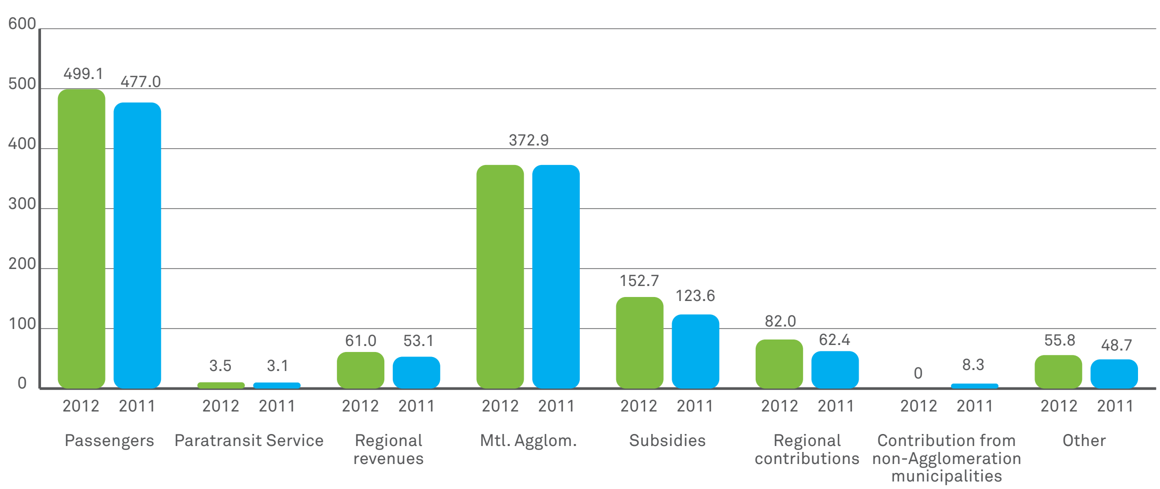
As per the classification of the Ministère des Affaires Municipales, des Régions et de l'Occupation du Territoire (MAMROT), the Société's consolidated financial statements provide information on the accounting particularities applicable to Quebec municipal governments in accordance with Canadian public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

## CONSOLIDATED OPERATING SURPLUS FOR TAX PURPOSES

### OPERATING REVENUES

Operating revenues increased $77.8 million (+6.8%) versus 2011 but posted an unfavourable variance of $12.5 million (1.00%) versus the budget.

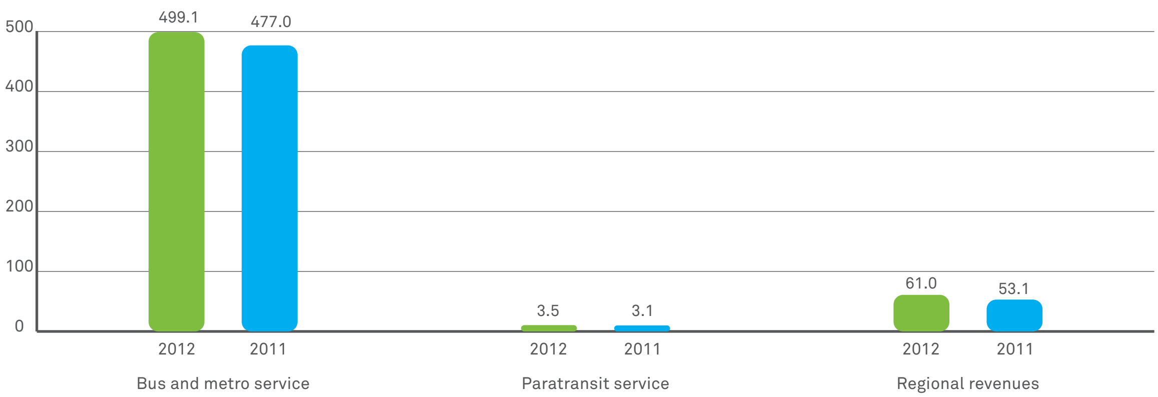
**OPERATING REVENUES**
**(in millions of dollars)**



# ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Passenger revenues, which consist of revenues from bus, metro and paratransit services and of regional revenues, totalled $563.6 million in 2012, up $30.4 million (5.7%) from 2011. Revenues from the bus and metro service rose from $477.0 million to $499.1 million in 2012, representing 4.6% growth, which is higher than the 4% average rate increase.

**PASSENGER REVENUES**
**(in millions of dollars)**



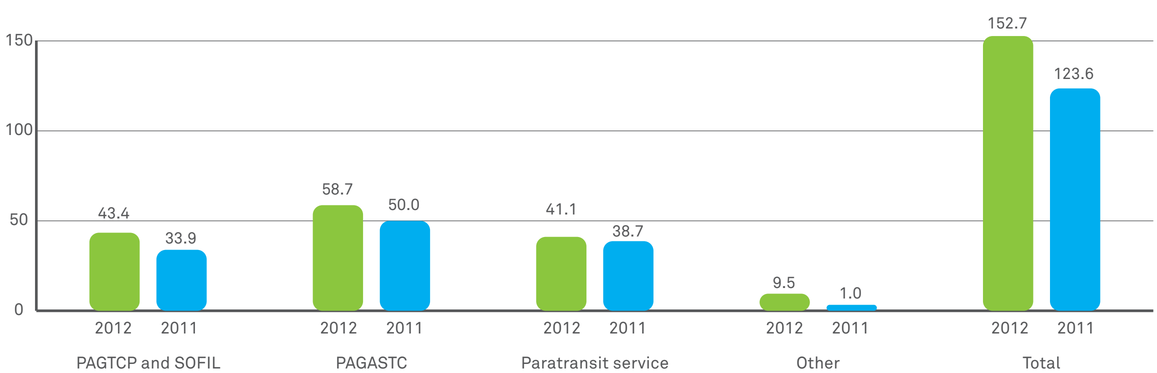

Reference: Note 4 to the consolidated financial statements.

Regional revenues increased $7.9 million (14.9%) owing primarily to new fares in Longueuil, which implemented mandatory TRAM zone 3 passes as of January 1, 2012 (+$5.0 million), and the AMT's 3.4% weighted rate increase (+$2.0 million).

At $372.9 million, the contribution from the Montreal Urban Agglomeration remained unchanged from 2011.

As for subsidies, the Government of Quebec increased its contribution by $29.1 million from last year. The Government Assistance Program for Improving Public Transit Service (PAGASTC) increased by $8.7 million due to a greater supply of bus service. This program supports transit operating authorities (AOTs) in their efforts to enhance the supply of public transit services. Under the program, transit authorities can recover 50% of eligible operating expenditures. The PAGASTC program has been extended for 2012 and 2013. In 2012, program funding was bolstered, bringing the maximum subsidy amount to $61.4 million.

**REVENUES FROM SUBSIDIES - OPERATING ACTIVITIES**
**(in millions of dollars)**




Reference: Note 5 to the consolidated financial statements.

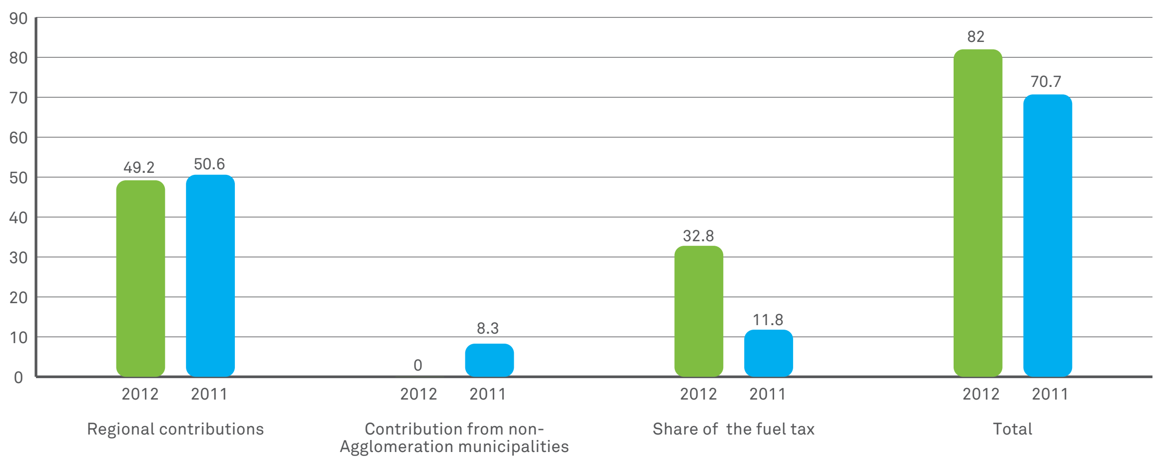
Operating revenues related to debt servicing increased by $9.5 million year over year. In 2012, the Government of Quebec provided $3.7 million in greater funding to the Turcot Interchange mitigation measures. The Société also received a $4.7 million subsidy covering 75% of eligible expenditures incurred during previous years for the legal fees involved in acquiring the new AZUR (MPM-10) metro cars. The subsidy receivable was recognized during the year in which it was granted.

# ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

## OPERATING REVENUES (CONT'D)

The regional contributions and contribution from non-Agglomeration municipalities increased by $11.3 million year over year as a result of two items: the abolishment of the contribution from non-Agglomeration municipalities stemming from the metro agreement, accounting for an $8.3 million decrease, and a $21.0 million increase in the share of the fuel tax taking into account $7.9 million in prior period adjustments. Since 2010, the regional contributions and contribution from non-Agglomeration municipalities have been subject to an agreement between MMC municipalities designed to review the distribution of metropolitan revenue sources. Given that the required legislative changes have not been enacted by Quebec, the sharing of the additional fuel tax is established under decree. An initial decree was set for 2010 and 2011, while a new decree issued in January 2013 covers 2012 and 2013.

**REGIONAL CONTRIBUTIONS AND CONTRIBUTIONS FROM NON-AGGLOMERATION MUNICIPALITIES (in millions of dollars)**



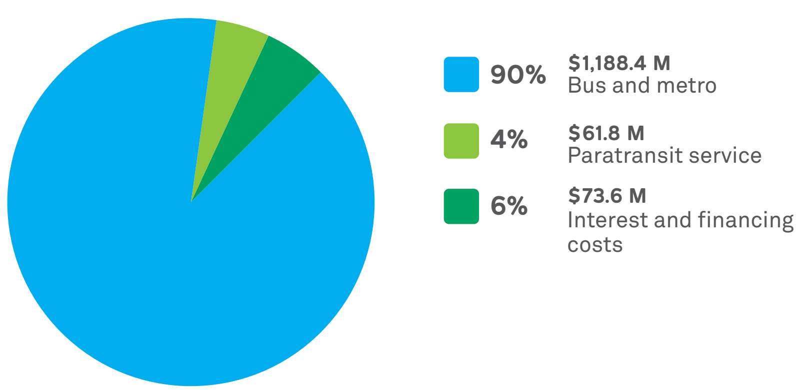

Reference: Note 6 to the consolidated financial statements.

Other revenues, including revenues from the sinking fund, increased $7.1 million from 2011, particularly due to insurance rebate revenues resulting from a $4.3 million excess of premiums over claims.

## EXPENSES

Year over year, the expenses for 2012 increased $50.8 million, but the actual difference – excluding the relief measures related to employee benefits – was an increase of $98.2 million. This significant increase stems from an $84.3 million increase in bus and metro service costs, which rose from $1,104.1 million in 2011 to $1,188.4 million in 2012. Paratransit service expenses and interest and financing costs rose $4.3 million and $9.6 million, respectively.

**BREAKDOWN OF EXPENSES**



# ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The year-over-year increase in bus and metro service costs was partly due to the greater supply of public transit services, which resulted in an approximate 6.2% increase in bus kilometrage and additional costs of approximately $31.2 million in bus service (50% of which is assumed by the Government of Quebec). Moreover, a $2.6 million increase in costs was due to several factors, including the transitional measures to prepare for the new AZUR metro cars. In terms of expenses by item, compensation and benefits totalled $793.9 million in 2012 and $744.4 million in 2011 excluding the relief measures related to employee future benefits of $21.9 million in 2012 and $69.2 million in 2011. The $49.5 million increase (+6.6%) was due to the hiring of 433 full-time employees (+$39.2 million) and the salary escalation (+10.3 million) set out in the collective agreements.

The year-over-year increase in paratransit service expenses comes from an overall 6.9% increase in trips.

Interest on long-term debt increased by $9.5 million. This increase resulted from the increase in loans used to finance new investments. Interest on short-term debt remained unchanged from the previous year as the average interest rate for the year and amounts borrowed remained stable.

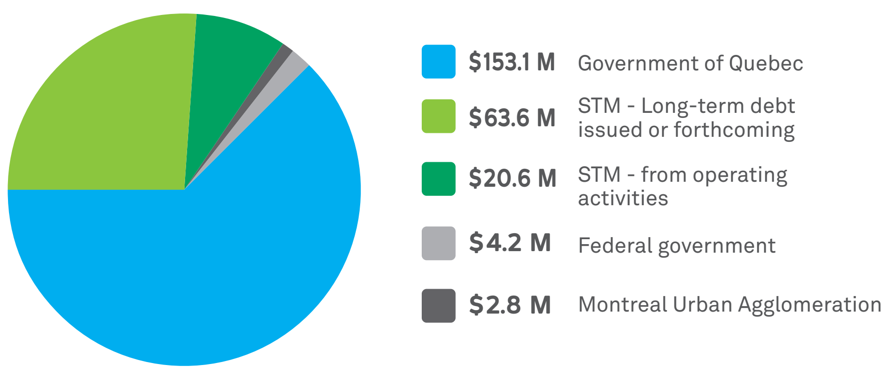
Financing costs were $17.1 million below budget, as the Société had anticipated greater investment and therefore greater borrowing in 2012. Moreover, the budget did not provide for the interest on long-term debt to be capitalized to capital assets. This interest amounted to $12.9 million in 2012 ($16.1 million in 2011).

## CONSOLIDATED INVESTING SURPLUS FOR TAX PURPOSES

Capital asset acquisitions ($244.3 million) and the deposits on bus and metro car purchases ($92.1 million) totalled $336.4 million in 2012, representing variances of $238.4 million against the budget and $85.3 million versus 2011. The variance against the budget stems mainly from a postponement of certain projects.

As a direct consequence of the lower level of capital asset acquisitions, investment revenue totalled $160.1 million in 2012, representing a variance of $282.4 million against the budget and an $83.3 million decrease year over year. Long-term financing was $12.5 million less than budgeted and $54.1 million more than in 2011.

### BREAKDOWN OF THE $244.3 MILLION IN FUNDING FOR CAPITAL ASSET ACQUISITIONS




Subsidies from the Government of Quebec break down as follows: $117.0 million from the Government Assistance Program for the Public Transport of People, $15.9 million from the Program for the Financing of Local Infrastructures in Quebec (SOFIL), $17.9 million from the Program for the Mitigation Measures Related to the Turcot Interchange, $2.1 million from the Government Assistance Program for Improving Public Transit Services and $0.2 million from the Government Assistance Program for Improving Energy Efficiency in Passenger Road Transportation.

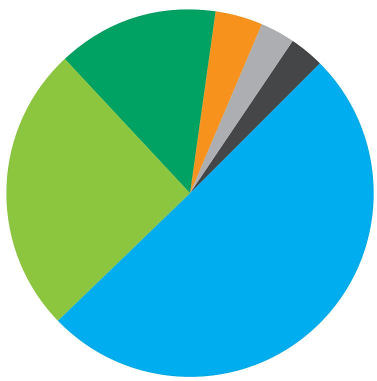
# ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### FINANCIAL ASSETS

Financial assets consist primarily of subsidies receivable (51%), sinking fund investments (25%) and the employee future benefits assets (14%). Total financial assets increased $142.4 million from 2011, mainly due to increases of $53.2 million in cash, $68.8 million in sinking fund investments, and $24.9 million in regional contributions and contribution from non-Agglomeration municipalities receivable.

**BREAKDOWN OF FINANCIAL ASSETS**



| | | |
|---|---|---|
| 51% | **$855.8 M** | Subsidies receivable |
| 25% | **$435.2 M** | Sinking fund investments |
| 14% | **$237.8 M** | Employee future benefits asset |
| 4% | **$76.9 M** | Cash |
| 3% | **$50.8 M** | Other receivables |
| 3% | **$53.1 M** | Regional contributions and contribution from non-Agglomeration municipalities receivables |

#### SINKING FUND INVESTMENTS (NOTE 9)

Sinking fund investments constitute investments in 16 funds earmarked for the repayment of certain long-term debts. At December 31, 2011, sinking fund investments totalled $366.4 million. During 2012, contributions totalled $91.3 million ($90.6 million in 2011), from which an amount of $37.1 million ($0.0 million in 2011) was withdrawn to repay a portion of the long-term debt, and the investments generated revenues of $14.6 million ($14.7 million in 2011). The balance of sinking fund investments thus totalled $435.2 million as at December 31, 2012.

To better position the Société in the event of higher interest rates, the cash balance was maintained at a high level during the year. This strategy resulted in a return on sinking funds – calculated taking into account the market value – of 2.97% for 2012. The average annual return since the implementation of the sinking fund investment policy in 2005 is 5.16%, which is above the 4.00% long-term target.

#### REGIONAL CONTRIBUTIONS AND CONTRIBUTION FROM NON-AGGLOMERATION MUNICIPALITIES RECEIVABLE

The $24.9 million increase stems essentially from the share of the fuel tax following the late adoption in January 2013 of the decree for 2012 and 2013, which sets out the payment terms and conditions.

# ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

### EMPLOYEE FUTURE BENEFITS ASSET (NOTE 12)

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, 2012, the employee future benefits asset stood at $237.8 million ($251.4 million in 2011). The $237.8 million amount is comprised of the following: a $351.2 million asset for the pension plans and a $113.4 million liability for supplementary retirement benefits and post-employment benefits.

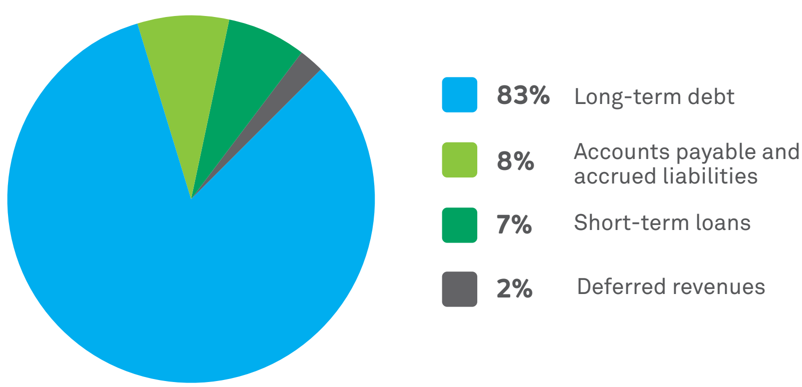
The $351.2 million asset for the pension plans stems essentially from $364.9 million in unamortized actuarial losses that will be amortized in subsequent years over the expected average remaining service life. These losses constitute the limit on the accrued benefit asset, as required under the employee future benefits accounting standards. The $364.9 million decrease in this asset ($380.6 million in 2011) results in a higher 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 change in expense was allocated to the provision for future amounts in the Consolidated Operating Surplus for Tax Purposes.

With respect to the other types of employee future benefit plans (supplementary retirement benefits and post-employment benefits), the liability increased by $2.9 million, representing the difference between the $4.8 million in contributions paid and the $7.7 million expense, bringing the liability to $113.4 million.

## LIABILITIES

Liabilities totalled $2,336.0 million, up $263.2 million from 2011, as a result of increases in long-term debt ($255.8 million), deferred revenues ($15.1 million), accounts payable and accrued liabilities ($19.3 million) combined with decreases in short-term loans ($12.0 million) and the special contribution payable to the Montreal Urban Agglomeration ($15.0 million).

### BREAKDOWN OF LIABILITIES



# ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

### LONG-TERM DEBT

As at December 31, 2011, long-term debt stood at $1,684.4 million. In 2012, the Société issued $346.3 million in new debt and repaid $90.5 million, resulting in long-term debt of $1,940.2 million as at December 31, 2012.

**BREAKDOWN OF LONG-TERM DEBT**


Reference: Note 16 to the consolidated financial statements.

## NON-FINANCIAL ASSETS

Non-financial assets increased $162.3 million owing mainly to a $71.5 million increase in capital assets and to an $86.0 million deposit on the new metro cars in 2012.

### CAPITAL ASSETS

This item represents the net value of the Société's capital assets. The change between the 2011 value of $2,417.0 million and the 2012 value of $2,488.5 million stems from $244.3 million in acquisitions less $172.8 million in amortization. The acquisitions are as follows:

**CAPITAL ASSET ACQUISITIONS TOTALLING $244.3 MILLION**

# ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

## PURCHASE OF METRO CARS

In October 2010, the Société launched its project to purchase 468 metro cars for an estimated price of $2,424.0 million. This amount had included costs of $2,156.0 million for the purchase of rolling stock (including the signing of a $1,811.6 million contract with a consortium) and of $268.0 million to make the necessary modifications to repair centres and metro equipment to accommodate the new cars.

As at December 31, 2012, under the contract that was signed, the Société paid $258.5 million in deposits to the consortium for the metro car purchases, as presented in «Other non-financial assets» of the Consolidated Statement of Financial Position.

The contract was revised downward in 2012 by an amount of $3.1 million following the Société's decision to exercise only one of the contract's initial options. During 2012, $77.4 million was allocated to repair centres and metro equipment modifications prior to the scheduled 2014 delivery of the metro cars, as specified in the contract.

# FINANCIAL INFORMATION

# MANAGEMENT'S 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 consolidated financial statements for the year ended December 31, 2012 included in the Annual Financial Report of the Société de transport de Montréal were certified and submitted by the treasurer at a meeting of the Board of Directors on April 3, 2013.

The consolidated 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 consolidated financial statements and all other information disclosed in the financial report.

The consolidated financial statements contain certain amounts that are based on the use of professional 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 consolidated 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 form an appropriate foundation for the preparation of the consolidated financial statements.

The Board of Directors exercises its responsibility with regard to the consolidated financial statements contained in the financial report primarily through its audit committee, which is composed of members of the Board of Directors and external members. The Audit Committee examines the consolidated financial statements prepared by the treasurer and recommends their approval by the Board of Directors.

The consolidated financial statements have been audited jointly by the Auditor General of the Ville de Montréal and by Deloitte s.e.n.c.r.l., whose services were retained by the Board of Directors on the recommendation of the Audit Committee.

Angèle Dubé

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

**Angèle Dubé, CPA, CA**
Director and Assistant Treasurer
Financial Management and Control

Vérificateur général
de la Ville de Montréal

# INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying consolidated financial statements of the Société de transport de Montréal (the Société), which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated 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 CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## OPINION

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Société de transport de Montréal as at December 31, 2012, and of 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.

## OBSERVATIONS

Without modifying my opinion, I draw attention to "Table 1 – Consolidated Accumulated Surplus" of the consolidated financial statements, which states that the Société includes in its consolidated financial statements 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.

Auditor General of Montréal,

**Jacques Bergeron, CPA auditor, CA**

Montreal, April 3, 2013

Deloitte.

# INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of the Société de transport de Montréal (the Société), which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated 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 CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

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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 consolidated financial statements present fairly, in all material respects, the financial position of the Société de transport de Montréal as at December 31, 2012, and of the results of its operations, change in net debt, and cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

## OBSERVATIONS

Without modifying our opinion, we draw attention to “Table 1 – Consolidated Accumulated Surplus” of the consolidated financial statements, which states that the Société includes, in its consolidated financial statements, 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.

**Deloitte s.e.n.c.r.l.**
[1]CPA auditor, CA, public accountancy permit No. A105976

Montréal, April 3, 2013


Bienvenue
Welcome
MÉTRO
JEAN-DRAPEAU
Bienvenue
Welcome

# CONSOLIDATED STATEMENT OF OPERATIONS

Year ended December 31, 2012

(in thousands of dollars)

| | Notes | Budget (unaudited) | Actual 2012 | Actual 2011 |
|---|---|---|---|---|
| **REVENUES** | | | | |
| **Operations** | | | | |
| Passenger revenues | 4 | **565,385** | **563,602** | 533,249 |
| Contribution from the Montreal Urban Agglomeration | | **372,900** | **372,900** | 387,900 |
| Special contribution to the Montreal Urban Agglomeration | | - | - | (15,000)[a] |
| Subsidies | 5 | **156,781** | **152,699** | 123,575 |
| Regional contributions and contribution from non-Agglomeration municipalities | 6 | **90,033** | **82,034** | 70,746 |
| Other revenues | 7 | **54,400** | **55,797** | 48,714 |
| | | **1,239,499** | **1,227,032** | 1,149,184 |
| **Investment** | | | | |
| Contribution from the Montreal Urban Agglomeration | | **10,310** | **2,786** | 16,113 |
| Subsidies | 5 | **432,107** | **157,276** | 227,270 |
| | | **442,417** | **160,062** | 243,383 |
| | | **1,681,916** | **1,387,094** | 1,392,567 |
| **EXPENSES** | | | | |
| Bus and metro service | | **1,235,102** | **1,210,213** | 1,173,300 |
| Paratransit service | | **65,852** | **61,784** | 57,465 |
| Interest and financing costs | 8 | **90,684** | **73,622** | 64,056 |
| | | **1,391,638** | **1,345,619** | 1,294,821 |
| **Surplus for the year** | | **290,278** | **41,475** | 97,746 |
| **Accumulated surplus at beginning of year** | | | **2,151,340** | 2,053,594 |
| **Accumulated surplus at end of year** | | | **2,192,815** | 2,151,340 |

(a) This payment contributed to the budgetary challenges of the Montreal Urban Agglomeration. It reduced the operating surplus for the year for tax purposes.

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

# CONSOLIDATED OPERATING SURPLUS FOR TAX PURPOSES

Year ended December 31, 2012

(in thousands of dollars)

| | Budget (unaudited) | Actual 2012 | Actual 2011 |
|---|---|---|---|
| **SURPLUS FOR THE YEAR** | **290,278** | **41,475** | 97,746 |
| Less: investment revenues | **(442,417)** | **(160,062)** | (243,383) |
| **Operating deficit for the year before reconciliation for tax purposes** | **(152,139)** | **(118,587)** | (145,637) |
| **RECONCILIATION FOR TAX PURPOSES** | | | |
| **Capital assets** | | | |
| Proceeds from disposal | **-** | **78** | 4,296 |
| Amortization | **174,043** | **172,757** | 159,873 |
| Gain on disposal | **-** | **(73)** | (289) |
| | **174,043** | **172,762** | 163,880 |
| **Financing** | | | |
| Repayment of long-term debt, net of refinancing | **(79,708)** | **(90,462)** | (44,228) |
| Subsidy on the repayment of long-term debt and on the contribution to the sinking fund | **95,146** | **109,360** | 88,219 |
| | **15,438** | **18,898** | 43,991 |
| **Allocations** | | | |
| Investing activities | **(4,250)** | **(20,610)** | (21,130) |
| Sinking fund | **(69,816)** | **(68,829)** | (105,321) |
| Working capital fund | **(984)** | **(984)** | (1,326) |
| Unrestricted operating surplus | **4,300** | **5,721** | 2,996 |
| Provision for future amounts | **33,408** | **15,691** | 68,268 |
| | **(37,342)** | **(69,011)** | (56,513) |
| | **152,139** | **122,649** | 151,358 |
| **Operating surplus for the year for tax purposes** | **-** | **4,062** | 5,721 |



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

# CONSOLIDATED INVESTING SURPLUS (DEFICIT) FOR TAX PURPOSES

Year ended December 31, 2012

(in thousands of dollars)

| | Note | Budget (unaudited) | Actual 2012 | Actual 2011 |
|---|---|---|---|---|
| **INVESTMENT REVENUES** | | **442,417** | **160,062** | 243,383 |
| **RECONCILIATION FOR TAX PURPOSES** | | | | |
| **Capital assets** | | | | |
| Acquisitions | **17** | **(574,803)** | **(244,292)** | (360,286) |
| **Financing** | | | | |
| Long-term financing of investing activities | | **128,136** | **115,641** | 61,569 |
| **Allocations** | | | | |
| Operating activities | | **4,250** | **20,610** | 21,130 |
| Balances available from closed loan by-laws | | **-** | **-** | (1,128) |
| | | **4,250** | **20,610** | 20,002 |
| | | **(442,417)** | **(108,041)** | (278,715) |
| **Investing surplus (deficit) for the year for tax purposes** | | **-** | **52,021** | (35,332) |

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2012

(in thousands of dollars)

| | Notes | 2012 | 2011 |
|---|---|---|---|
| **FINANCIAL ASSETS** | | | |
| Cash | | **76,863** | 23,705 |
| Sinking fund investments | 9 | **435,204** | 366,375 |
| Contribution receivable from the Montreal Urban Agglomeration | | **2,786** | 16,113 |
| Subsidies receivable | 10 | **855,789** | 843,782 |
| Regional contributions and contribution from non-Agglomeration municipalities receivable | | **53,155** | 28,238 |
| Other receivables | 11 | **50,797** | 40,435 |
| Employee future benefits asset | 12 | **237,814** | 251,369 |
| | | **1,712,408** | 1,570,017 |
| **LIABILITIES** | | | |
| Short-term loans | 13 | **160,851** | 172,853 |
| Accounts payable and accrued liabilities | 14 | **194,602** | 175,274 |
| Deferred revenues | 15 | **40,334** | 25,263 |
| Special contribution payable to the Montreal Urban Agglomeration | | **-** | 15,000 |
| Long-term debt | 16 | **1,940,216** | 1,684,378 |
| | | **2,336,003** | 2,072,768 |
| **NET DEBT** | | **(623,595)** | (502,751) |
| **NON-FINANCIAL ASSETS** | | | |
| Capital assets | 17 | **2,488,498** | 2,416,968 |
| Inventories | | **40,479** | 40,983 |
| Other non-financial assets | 18 | **287,433** | 196,140 |
| | | **2,816,410** | 2,654,091 |
| **ACCUMULATED SURPLUS** | | **2,192,815** | 2,151,340 |

Commitments (note 21)
Contingencies (note 22)



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

# CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT

Year ended December 31, 2012

(in thousands of dollars)

| | Budget (unaudited) | 2012 | 2011 |
|---|---|---|---|
| **Surplus for the year** | **290,278** | **41,475** | 97,746 |
| **Change in capital assets** | | | |
| Acquisitions | **(574,803)** | **(244,292)** | (360,286) |
| Proceeds from disposal | **-** | **78** | 4,296 |
| Amortization | **174,043** | **172,757** | 159,873 |
| Gain on disposal | **-** | **(73)** | (289) |
| | **(400,760)** | **(71,530)** | (196,406) |
| Change in inventories | | **504** | (4,822) |
| Change in other non-financial assets | | **(91,293)** | (64,819) |
| | | **(90,789)** | (69,641) |
| Integration of an entity | | **-** | (431) |
| **Change in net debt** | | **(120,844)** | (168,732) |
| **Net debt at beginning of year** | | **(502,751)** | (334,019) |
| **Net debt at end of year** | | **(623,595)** | (502,751) |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2012

(in thousands of dollars)

| | Note | 2012 | 2011 |
|---|---|---|---|
| **Operating activities** | | | |
| Surplus for the year | | **41,475** | 97,746 |
| Non-cash items | | | |
| Amortization of capital assets | | **172,757** | 159,873 |
| Gain on disposal of capital assets | | **(73)** | (289) |
| | | **214,159** | 257,330 |
| Net change in non-cash items | 19 | **543** | 109,539 |
| | | **214,702** | 366,869 |
| **Capital investing activities** | | | |
| Acquisitions | | **(244,292)** | (360,286) |
| Proceeds from disposal | | **78** | 4,296 |
| Change in deposits for bus purchases | | **(6,136)** | 14,826 |
| Change in deposits for metro car purchases | | **(85,985)** | (76,245) |
| | | **(336,335)** | (417,409) |
| **Investing activities** | | | |
| Amortization of premiums and discounts on sinking fund investments | | **3,056** | 4,375 |
| Acquisitions of sinking fund investments | | **(71,885)** | (109,696) |
| Integration of an entity | | **-** | 6,561 |
| | | **(68,829)** | (98,760) |
| **Financing activities** | | | |
| Net change in short-term loans | | **(12,002)** | (158,561) |
| Issuance of long-term debt | | **346,300** | 354,150 |
| Repayment of long-term debt, net of refinancing | | **(90,462)** | (44,228) |
| Change in issuance costs for long-term debt | | **(216)** | (1,921) |
| | | **243,620** | 149,440 |
| **Increase in cash** | | **53,158** | 140 |
| **Cash at beginning of year** | | **23,705** | 23,565 |
| **Cash at end of year** | | **76,863** | 23,705 |

The cash item consists solely of cash.

See note 19 - Additional Information.



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

# CONSOLIDATED EXPENSES BY ITEM

Year ended December 31, 2012

(in thousands of dollars)

| | Budget (unaudited) | Actual 2012 | Actual 2011 |
|---|---|---|---|
| **Compensation** | 604,034 | 637,307 | 590,643 |
| **Benefits** | 212,878 | 178,542 | 222,976 |
| **Goods and services** | 309,749 | 281,671 | 257,018 |
| **Interest and financing costs** | | | |
| Short-term financing costs | 4,182 | 3,021 | 2,925 |
| Interest on long-term debt borne by: | | | |
| The Société | 31,950 | 22,268 | 18,002 |
| Government of Quebec and its enterprises | 54,552 | 48,333 | 43,129 |
| | 90,684 | 73,622 | 64,056 |
| **Amortization of capital assets** | 174,043 | 172,757 | 159,873 |
| **Other** | 250 | 1,720 | 255 |
| | 1,391,638 | 1,345,619 | 1,294,821 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at December 31, 2012

(in thousands of dollars)

## 1. GOVERNING STATUTES AND NATURE OF ACTIVITIES

The Société de transport de Montréal (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 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

As an other government organization, the Société's consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards.

The significant accounting policies used are as follows:

### a) Principles of consolidation

The consolidated financial statements include the accounts of the Société and the organizations it controls, i.e., 9130-8593 Québec inc. (wholly owned) and Transgesco Limited Partnership (99.9%-owned). All inter-organizational transactions and balances are eliminated.

### b) Accounting method

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

### c) Use of estimates

Preparation of the consolidated financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the presentation of contingent assets and liabilities at the date of the consolidated financial statements and the revenue and expense amounts recorded during the period covered by the consolidated 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 receivables to be allocated to the repayment of long-term debt, the accounting of non-monetary transactions, assumptions relative to the employee future benefits asset and expenses, and provisions for liabilities and legal claims.

### d) 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.

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

### e) Revenue recognition

Revenues from passenger transportation are recognized in the Consolidated Statement of Operations when the passes are used by 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 Consolidated Statement of Operations when the eligibility conditions for this government or municipal assistance are met.

Other revenues consist essentially of advertising income, recoveries, rights to reduced fares and smart cards, insurance rebates, 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.

During the year, the subsidiary entered into an agreement with an external partner for advertising management of bus shelters. The main terms and conditions of the agreement include the following:

- the minimum royalty is recognized on a straight-line basis over the term of the agreement;
- bus shelter maintenance and installation services are recognized at their fair value as the services are rendered.

### f) Cash

Cash consists of bank balances and bank overdrafts.

### g) Sinking fund investments

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 acquired investments are amortized on a straight-line basis until the maturity of the investment to which that item is related.

### h) 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.

### i) Employee future benefits expense and asset

All of the Société's employee future benefit plans are defined benefit plans.

The asset 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 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 factors, discount rates, the expected rate of return on plan assets and the growth rates of 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 or over the remaining life expectancy of inactive employees. As at December 31, 2012, the average remaining service life varied from 3 to 13 years while the remaining life expectancy varied from 17 to 25 years.

(in thousands of dollars)

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

### j) Non-financial assets

The Société recognizes capital assets and certain other assets as non-financial assets since they can be used to provide services in future years. These assets do not normally provide resources to discharge its liabilities unless they are sold.

### k) 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 | 20 and 40 years |
| Metro infrastructures | 20 à 100 years |
| Local and regional infrastructures | 10 to 40 years |
| Rolling stock - metro cars | 40 years |
| Rolling stock - buses | 5 and 16 years |
| Rolling stock - service vehicles | 5 to 25 years |
| Leasehold improvements | remaining term of the lease |
| Office equipment and software | 5 and 10 years |
| Machinery, tools and equipment | 15 and 20 years |

Capital assets are amortized starting from the date they are put into service. Capital assets in progress (projects being carried out) and temporarily withdrawn capital assets are not amortized.

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 purchases is capitalized until the assets are put into service.

### l) 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.

### m) 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.

### n) Environmental obligations

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

### o) Derivative financial instruments

The Société periodically enters into currency and interest rate swaps as well as commodity swaps with major financial institutions to partially protect itself against fluctuations in exchange rates, interest rates, and the prices of certain purchases (e.g., 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.

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

The Société uses various derivative instruments to translate the cash flow from debt denominated in a foreign currency and having a variable interest rate into cash flow from 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 as a hedge against fuel price fluctuations. Related gains and losses are recorded in the Statement of Operations in the period in which they are realized and are presented with the expense related to the hedged item.

**p) Budgetary data (unaudited)**

The Consolidated Statement of Operations, the Consolidated Statement of Operating Surplus for Tax Purposes, the Consolidated Statement of Investing Surplus (Deficit) for Tax Purposes, the Consolidated Statement of Change in Net Debt, and the Consolidated Expenses by Item provide a comparison against budget figures, adjusted in accordance with Canadian public sector accounting standards.

## 3. FUTURE ACCOUNTING POLICY CHANGES

The CICA issued new accounting standards that the Société will adopt beginning on January 1, 2013:

In June 2011, the CICA issued Section PS 3450 of the CICA Handbook for the public sector – Financial Instruments, as well as Section PS 1201 – Financial Statement Presentation and Section PS 2601 – Foreign Currency Translation, which replaced the earlier PS 1200 and PS 2600 of the same names. These sections will apply to financial statements of other government organizations for years beginning on or after April 1, 2012. Consequently, the Société will adopt the new standards during its fiscal year beginning on January 1, 2013.

The new Section PS 3450 establishes recognition, measurement, presentation and disclosure standards relating to financial instruments, which are grouped into two categories: financial instruments measured at cost or amortized cost and financial instruments measured at fair value.

Section PS 2601 eliminates hedge accounting and the accounting of items as synthetic instruments. It requires that gains and losses on the translation of foreign denominated balances be reported as remeasurement gains and losses.

Lastly, Section PS 1201 is identical to the earlier PS 1200, except for changes made to define the requirements of the new statement for reporting remeasurement gains and losses of financial instruments measured at fair value and remeasurement gains and losses upon the translation of foreign denominated balances.

(in thousands of dollars)

| 4. PASSENGER REVENUES | 2012 | 2011 |
|---|---|---|
| Bus and metro service | **499,068** | 477,047 |
| Paratransit service | **3,509** | 3,113 |
| Regional revenues [a] | **61,025** | 53,089 |
| | **563,602** | 533,249 |

[a] The regional revenues attributable to the Société come from the sharing of metropolitan transit pass sales made by the Agence métropolitaine de transport (AMT).

| 5. SUBSIDIES | 2012 | 2011 |
|---|---|---|
| **Operating** | | |
| Government Assistance Program for the Public Transport of People [a] | **41,345** | 32,319 |
| Government Assistance Program for Improving Public Transit Service [b] | **58,677** | 50,022 |
| Government Assistance Program for Paratransit Services [c] | **41,085** | 38,656 |
| Program for the Financing of Local Infrastructures in Quebec [d] | **2,048** | 1,549 |
| Mitigation Measures - Turcot Interchange [e] | **4,651** | 998 |
| Other | **4,893** | 31 |
| | **152,699** | 123,575 |
| **Investing** | | |
| Government Assistance Program for the Public Transport of people [a] | **116,979** | 127,063 |
| Government Assistance Program for Improving Public Transit Service [b] | **2,127** | - |
| Program for the Financing of Local Infrastructures in Quebec [d] | **15,916** | 95,550 |
| Building Canada Fund [f] | **4,172** | 1,517 |
| Mitigation Measures – Turcot Interchange [e] | **17,891** | - |
| Government Assistance Program for Improving Energy Efficiency in Passenger Road Transportation [g] | **191** | 3,140 |
| | **157,276** | 227,270 |
| | **309,975** | 350,845 |

[a] Government Assistance Program for the Public Transport of People (PAGTCP)

Under Quebec's Government Assistance Program for the Public Transport of People and under other agreements, the Société is eligible for subsidies at rates of 50%, 75% or 100% for acquisitions of capital assets, including long-term debt interest related to bus purchases, the construction of buildings, metro station and metro car upgrades, and other eligible expenses.

(b) Government Assistance Program for Improving Public Transit Service (PAGASTC)

The purpose of this program is to support transit operating authorities (AOTs) in their efforts to increase the supply of public transit services. It allows transit authorities to recover 50% of eligible operating costs and, for certain years, bus acquisition costs. The initial program covered the period of 2007 to 2011 and its goals were to raise the supply of public transit services by 16% and achieve 8% growth in ridership. The program has been extended for 2012 and 2013.

(c) Government Assistance Program for Paratransit Services (PAGTAPH)

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

(d) Program for the Financing of Local Infrastructures in Quebec (SOFIL)

Under the powers granted to SOFIL, the Société is eligible for a subsidy on capital asset acquisitions deemed admissible by the Ministère des Transports in addition to a contribution from the Montreal Urban Agglomeration, bringing the total subsidy for eligible acquisitions to 100%. Acquisitions for which subsidy applications involved amounts already available or reserved as at March 31, 2010 are subject to a cash subsidy of 84.5% from the Ministère des Transports and 15.5% from the Montreal Urban Agglomeration (SOFIL-1). Acquisitions related to projects approved after April 1, 2010 are eligible for an 85% cash or debt servicing subsidy from the Ministère des Transports and 15% cash subsidy from the Montreal Urban Agglomeration (SOFIL-2). This program is slated to remain in effect until 2014.

(e) Mitigation Measures – Turcot Interchange

Under an agreement with the Ministère des Transports du Québec with respect to the payment of costs related to road traffic mitigation measures in the Greater Montreal Area, the Ministère des Transports subsidizes the Société's costs, net of passenger revenues, incurred as a result of the greater supply of services on bus routes near the Turcot Interchange. In terms of investing activities, the Ministère des Transports provided a 100% cash subsidy for the cost of purchasing 32 buses.

(f) Building Canada Fund (BCF)

This federal government program supports investments in public infrastructures. The contribution can reach one-third of the Société's total eligible costs.

(g) Government Assistance Program for Improving Energy Efficiency in Passenger Road Transportation (PAGAAEE)

Under this provincial government program, the Société may apply for a 50% subsidy of capital expenditures. The program's mission is to promote the use of new technologies and improve energy efficiency in passenger road transportation.

(in thousands of dollars)

| 6. REGIONAL CONTRIBUTIONS AND CONTRIBUTION FROM NON-AGGLOMERATION MUNICIPALITIES | 2012 | 2011 |
|---|---|---|
| **Regional contributions** | | |
| For trips on the metro network [a] | **39,625** | 40,128 |
| For trips on metropolitan bus routes [a] | **4,834** | 4,914 |
| Paratransit service [b] | **217** | 207 |
| For equipment and infrastructures [c] | **1,267** | 1,295 |
| Share of the fuel tax [d] | **32,774** | 11,802 |
| Fare integration [e] | **3,317** | 4,079 |
| | **82,034** | 62,425 |
| **Contribution from non-Agglomeration municipalities** [f] | **-** | 8,321 |
| | **82,034** | 70,746 |

[a] Bus and metro

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

[b] Paratransit service

The Société receives $10 in financial assistance from the AMT for each eligible metropolitan paratransit trip.

[c] Regional equipment and infrastructures

Under Section 37 of *An act respecting the Agence métropolitaine de transport*, the AMT must acquire the equipment and facilities needed to operate the metropolitan bus transit system from the Société. As at December 31, 2012, the contract specifying the date and terms for the transfer of these assets had not been signed. However, the AMT is reimbursing the Société for the related operating costs.

[d] Share of the fuel tax (Agreement of the Montreal Metropolitan Community (MMC))

The method for sharing the fuel tax was set out in the Agreement of the Montreal Metropolitan Community on February 25, 2010, while the terms and conditions for paying this additional tax of ¢1.5/litre were renewed by decree #23-2013 on January 16, 2013 for years 2012 and 2013.

[e] Fare integration

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

[f] Contribution from non-Agglomeration municipalities

On February 22, 2007, the Government of Quebec signed an agreement covering the terms for sharing the metro deficit for a period of five years, i.e., from 2007 to 2011. The total contribution from non-Agglomeration municipalities was predetermined for the period of the agreement. It has now been replaced by the share of the fuel tax.

(in thousands of dollars)

| 7. OTHER REVENUES | 2012 | 2011 |
|---|---|---|
| Advertising | **19,656** | 19,438 |
| Revenues from sinking fund | **14,583** | 14,663 |
| Administrative expenses on the sale of OPUS cards | **4,884** | 4,850 |
| Insurance rebates | **4,337** | - |
| Other | **12,337** | 9,763 |
| | **55,797** | 48,714 |

| 8. INTEREST AND FINANCING COSTS | 2012 | 2011 |
|---|---|---|
| Short-term financing costs | **3,021** | 2,925 |
| Interest on long-term debt | **70,601** | 61,131 |
| | **73,622** | 64,056 |

| 9. SINKING FUND INVESTMENTS | 2012 | 2011 |
|---|---|---|
| Cash | **36,093** | 73,662 |
| Bonds and bond coupons | **397,007** | 291,040 |
| Interest receivable | **2,104** | 1,673 |
| | **435,204** | 366,375 |

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

| | Investments guaranteed by the Government of Quebec 2012 | Nominal weighted interest rate 2012 | Investments guaranteed by the Government of Quebec 2011 | Nominal weighted interest rate 2011 |
|---|---|---|---|---|
| 2012 | - | - | 21,521 | 4.10% |
| 2013 | **29,009** | **4.29%** | 23,190 | 4.04% |
| 2014 | **74,431** | **3.68%** | 51,964 | 3.58% |
| 2015 | **38,197** | **3.12%** | 31,424 | 2.81% |
| 2016 | **54,365** | **2.76%** | 54,460 | 2.95% |
| 2017 | **46,503** | **2.97%** | - | - |
| More than 5 years | **154,502** | **3.85%** | 108,481 | 3.85% |
| | **397,007** | **3.53%** | 291,040 | 3.56% |

(in thousands of dollars)

## 10. SUBSIDIES RECEIVABLE

| | 2012 | 2011 |
|---|---|---|
| **Government of Quebec** | | |
| Receivables to be allocated to the repayment of long-term debt [(a)] | **954,637** | 833,338 |
| Receivables to be allocated to the repayment of long-term debt not yet issued [(b)] | **26,675** | 72,110 |
| Receivables related to the long-term debt issued for future capital assets [(c)] | **(225,954)** | (151,292) |
| Program for the Financing of Local Infrastructures in Quebec | **5,179** | 58,089 |
| Government Assistance Program for the Public Transport of People | **7,295** | 7,748 |
| Government Assistance Program for Paratransit Services | **20,321** | 17,144 |
| Mitigation Measures - Turcot Interchange | **22,542** | 998 |
| Government Assistance Program for Improving Public Transit Service | **39,405** | 4,130 |
| | **850,100** | 842,265 |
| **Government of Canada** | | |
| Building Canada Fund | **5,689** | 1,517 |
| | **855,789** | 843,782 |

(a) An amount of $70.4 million related to the SOFIL-2 program ($39.6 million in 2011).

(b) An amount of $1.8 million related to the SOFIL-2 program ($39.4 million in 2011).

(c) An amount of $185.5 million related to the deposit for the purchase of metro cars, as indicated in note 18 ($138.7 million in 2011).

Receipts of receivables to be allocated to the repayment of long-term debt, the terms and conditions of which have been established as at December 31, 2012, are as follows:

| | Receipts 2012 | Nominal weighted interest rate 2012 | Receipts 2011 | Nominal weighted interest rate 2011 |
|---|---|---|---|---|
| 2012 | **-** | **-** | 52,659 | 4.76% |
| 2013 | **17,119** | **4.42%** | 29,881 | 4.32% |
| 2014 | **113,770** | **4.83%** | 113,819 | 4.77% |
| 2015 | **9,434** | **3.99%** | 21,410 | 4.04% |
| 2016 | **37,486** | **4.52%** | 45,163 | 4.42% |
| 2017 | **159,660** | **4.78%** | - | - |
| 1 to 5 years | **337,469** | **4.73%** | 262,932 | 4.60% |
| 6 to 10 years | **584,393** | **4.17%** | 570,406 | 4.57% |
| 11 to 20 years | **32,775** | **3.97%** | - | - |
| | **954,637** | **4.36%** | 833,338 | 4.58% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at December 31, 2012

(in thousands of dollars)

| 11. OTHER RECEIVABLES | 2012 | 2011 |
|---|---|---|
| Regional revenues | **7,829** | 5,575 |
| Tax claims from governments | **6,362** | 4,122 |
| Trade accounts receivable | **36,606** | 30,738 |
| | **50,797** | 40,435 |

A $12.0 million allowance for bad debt ($9.5 million in 2011) has been deducted from trade accounts receivable.

(in thousands of dollars)

| 12. EMPLOYEE FUTURE BENEFITS ASSET | 2012 | 2011 |
|---|---|---|
| Defined benefit pension plans | **351,211** | 361,898 |
| Other plans | **(113,397)** | (110,529) |
| | **237,814** | 251,369 |

The expenses related to the defined benefit plans totalled $82.2 million ($125.5 million in 2011).

**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 Montréal (CSN) pay contributions to the Régime de retraite de la Société de transport de Montréal (CSN) (CSN Plan), while the other employees pay contributions to the Régime de retraite de la Société de transport de Montréal (1992) (1992 Plan). Both plans invest in units of the Fiducie Globale des Régimes de retraite de la Société de transport de Montréal (Fiducie Globale), which administers the funds.

Contributions are calculated on the base salary. For the 1992 Plan, the rate is 6% for employees and 11.9% for the Société, whereas for the CSN Plan, the rate is 7.7% for employees plus a plan amendment cost of $1.7 million and 9.5% for the Société.

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, 2011.

In the case of the 1992 Plan and the CSN Plan, the employer cannot unilaterally use the surplus to lower its contributions. In fact, employees should 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, 2012, the valuation allowance stood at $63.3 million ($82.6 million in 2011).

The Société's employees also benefit from a range of supplementary retirement benefits and post-employment benefits that include life insurance, healthcare 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 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.

(in thousands of dollars)

## 12. EMPLOYEE FUTURE BENEFITS ASSET (CONT'D)

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

| | Pension plans 2012 | Other plans 2012 | Pension plans 2011 | Other plans 2011 |
|---|---|---|---|---|
| Actuarial value of plan assets (see d) | **3,305,793** | **-** | 3,221,377 | - |
| Accrued benefit obligation (see e) | **(3,256,105)** | **(127,996)** | (3,157,422) | (121,306) |
| Funded status (deficit) | **49,688** | **(127,996)** | 63,955 | (121,306) |
| Unamortized actuarial losses | **364,855** | **14,599** | 380,551 | 10,777 |
| Accrued benefit asset (liability) | **414,543** | **(113,397)** | 444,506 | (110,529) |
| Valuation allowance | **(63 332)** | **-** | (82,608) | - |
| **Employee future benefits asset (liability)** | **351,211** | **(113,397)** | 361,898 | (110,529) |

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

| | Pension plans 2012 | Other plans 2012 | Pension plans 2011 | Other plans 2011 |
|---|---|---|---|---|
| Accrued benefit obligation | **(811,137)** | **(127,996)** | (797,065) | (121,306) |
| Actuarial value of plan assets | **797,523** | **-** | 778,412 | - |
| **Funding deficit** | **(13,614)** | **(127,996)** | (18,653) | (121,306) |

### d) Actuarial value of plan assets

| | Pension plans 2012 | Other plans 2012 | Pension plans 2011 | Other plans 2011 |
|---|---|---|---|---|
| Balance at beginning of year | **3,221,377** | **-** | 3,089,115 | - |
| Contributions for the year | **103,973** | **4,845** | 93,198 | 4,424 |
| Expected return on plan assets | **198,545** | **-** | 197,763 | - |
| Benefits paid | **(191,851)** | **(4,845)** | (185,187) | (4,424) |
| Gain (loss) during the year on the expected return on plan assets | **(26,251)** | **-** | 26,488 | - |
| **Balance at end of year** | **3,305,793** | **-** | 3,221,377 | - |
| **Fair value of plan assets** | **3,258,253** | **-** | 3,169,732 | - |

(in thousands of dollars)

## 12. EMPLOYEE FUTURE BENEFITS ASSET (CONT'D)

### e) Accrued benefit obligation

| | Pension plans 2012 | Other plans 2012 | Pension plans 2011 | Other plans 2011 |
|---|---|---|---|---|
| Balance at beginning of year | **3,157,422** | **121,306** | 3,052,596 | 113,920 |
| Cost of services rendered during the year | **101,424** | **3,896** | 94,157 | 3,586 |
| Benefits paid | **(191,851)** | **(4,845)** | (185,187) | (4,424) |
| Interest cost on the obligation | **194,323** | **6,042** | 195,256 | 5,675 |
| Loss (gain) on the obligation during the year | **(5,213)** | **1,597** | 600 | 2,549 |
| **Balance at end of year** | **3,256,105** | **127,996** | 3,157,422 | 121,306 |

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

| | Pension plans 2012 | Other plans 2012 | Pension plans 2011 | Other plans 2011 |
|---|---|---|---|---|
| Cost of services rendered during the year | **101,424** | **3,896** | 94,157 | 3,586 |
| Employee contributions | **(40,213)** | **-** | (35,357) | - |
| Amortization of actuarial losses (gains) | **36,734** | **(2,225)** | 38,701 | (2,402) |
| Retirement benefits expense | **97,945** | **1,671** | 97,501 | 1,184 |
| Interest cost on the obligation | **194,323** | **6,042** | 195,256 | 5,675 |
| Expected return on plan assets | **(198,545)** | **-** | (197,763) | - |
| Interest expense (revenue) | **(4,222)** | **6,042** | (2,507) | 5,675 |
| Change in valuation allowance | **(19,276)** | **-** | 23,600 | - |
| **Total expense** | **74,447** | **7,713** | 118,594 | 6,859 |

(in thousands of dollars)

## 12. EMPLOYEE FUTURE BENEFITS ASSET (CONT'D)

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

The significant actuarial assumptions used in the actuarial valuations performed from December 31, 2011 to December 31, 2012, are as follows:

| | Pension plans 2012 | Other plans 2012 | Pension plans 2011 | Other plans 2011 |
|---|---|---|---|---|
| Long-term inflation rate | **2.25%** | **2.25%** | 2.50% | 2.50% |
| Discount rate | **5.99%** | **4.50%** | 6.20% | 5.00% |
| Expected rate of return on plan assets | **6.00%** | **-** | 6.25% | - |
| Rate of compensation increase | **2.50%** | **2.96%** | 2.96% | 3.23% |
| Initial growth rate for healthcare costs | **-** | **9.14%** | - | 9.42% |
| Ultimate growth rate for healthcare costs | **-** | **4.96%** | - | 4.98% |
| Year when rate is expected to stabilize | **-** | **2025** | - | 2025 |

(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 open 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, 2012, the nominal value of commercial paper issuances totalled $160.9 million ($172.9 million in 2011), and the average rate for the 2012 fiscal year was 1.13% (1.12% in 2011).

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 2012 was 3.30% (3.30% in 2011). As at December 31, 2012, the line of credit was unused and was bearing interest at a rate of 3.30% (3.30% in 2011).

*An act respecting public 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 | 2012 | 2011 |
|---|---|---|
| Trade accounts payable and accrued liabilities | **106,570** | 83,213 |
| Salaries and benefits | **58,776** | 63,134 |
| Accrued interest on long-term debt | **13,391** | 13,890 |
| Deposits and holdbacks | **2,235** | 1,945 |
| Other | **13,630** | 13,092 |
| | **194,602** | 175,274 |

| 15. DEFERRED REVENUES | 2012 | 2011 |
|---|---|---|
| Transit passes | **20,008** | 17,967 |
| Advertising income | **17,299** | 3,980 |
| Rent | **3,027** | 3,316 |
| | **40,334** | 25,263 |

(in thousands of dollars)

| 16. LONG-TERM DEBT | 2012 | 2011 |
|---|---|---|
| Bonds, loans and bank loans, at fixed interest rates ranging from 1.25% to 5.85% (1.65% to 5.85% in 2011), maturing from January 2013 to December 2032 | **1,940,216** | 1,684,378 |

The long-term debt consists of bonds, loans 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.

Since the enactment of *An act to amend the Act respecting the Régie du logement and various Acts concerning municipal affairs* (2010, Section 42), the Société must borrow the portion of the investments subsidized by the Government of Quebec from the Minister of Finance. The other borrowings are contracted by the City of Montreal. During the year, an amount of $126.5 million ($57.5 million in 2011) was contracted by the City of Montreal on behalf of the Société, bringing the total amount to $184.0 million.

The Société uses currency and interest rate swaps for loans totalling $159.9 million ($207.0 million in 2011). The swaps eliminate nearly all exchange and interest rate risks.

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

| Year of maturity | Canadian dollars [(a)] 2012 | To be refinanced 2012 | Net maturity 2012 | Nominal weighted interest rate 2012 | Canadian dollars [(a)] 2011 | Nominal weighted interest rate 2011 |
|---|---|---|---|---|---|---|
| 2012 | - | - | - | - | 95,108 | 4.76% |
| 2013 | **75,221** | **14,340** | **60,881** | **4.42%** | 53,967 | 4.32% |
| 2014 | **226,934** | **27,900** | **199,034** | **4.83%** | 205,568 | 4.77% |
| 2015 | **60,153** | **7,800** | **52,353** | **3.99%** | 38,667 | 4.04% |
| 2016 | **103,176** | **8,400** | **94,776** | **4.52%** | 81 568 | 4.42% |
| 2017 | **298,856** | - | **298,856** | **4.78%** | - | - |
| 1 to 5 years | **764,340** | **58,440** | **705,900** | **4.72%** | 474,878 | 4.60% |
| 6 to 10 years | **900,748** | **176,320** | **724,428** | **4.17%** | 1,030,202 | 4.57% |
| 11 years and thereafter | **275,128** | **61,100** | **214,028** | **4.72%** | 179,298 | 5.40% |
| | **1,940,216** | **295,860** | **1,644,356** | **4.42%** | 1,684,378 | 4.67% |

[(a)] Including loans contracted in foreign currencies and subject to hedging.

| Change in long-term debt | 2012 | 2011 |
|---|---|---|
| Balance at beginning of year | **1,684,378** | 1,374,456 |
| New loans | **346,300** | 354,150 |
| Repayment of long-term debt, net of refinancing | **(90,462)** | (44,228) |
| **Balance at end of year** | **1,940,216** | 1,684,378 |
| **Breakdown of long-term debt** | | |
| Amounts accumulated in the sinking fund | **435,204** | 366,375 |
| Amounts to be recovered for repayment of long-term debt: | | |
| Montreal Urban Agglomeration | **550,375** | 484,665 |
| Government of Quebec | **954,637** | 833,338 |
| | **1,505,012** | 1,318,003 |
| | **1,940,216** | 1,684,378 |

(in thousands of dollars)

| 17. CAPITAL ASSETS | Balance at beginning | Increase | Disposal/ Write-off | Balance at end |
|---|---|---|---|---|
| **Cost** | | | | |
| Land | 7,352 | - | - | **7,352** |
| Buildings | 311,582 | 4,265 | - | **315,847** |
| Metro infrastructures | 1,991,101 | 250,279 | - | **2,241,380** |
| Local and regional infrastructures | 30,238 | 3,118 | - | **33,356** |
| Rolling stock - metro cars | 499,763 | 2,264 | - | **502,027** |
| Rolling stock - buses | 904,040 | 24,480 | 4,992 | **923,528** |
| Rolling stock - service vehicles | 50,414 | 5,537 | 2,438 | **53,513** |
| Leasehold improvements | 1,475 | 1,542 | - | **3,017** |
| Office equipment and software | 115,599 | 14,422 | 13,606 | **116,415** |
| Machinery, tools and equipment | 156,643 | 8,691 | 10,681 | **154,653** |
| | 4,068,207 | 314,598 | 31,717 | **4,351,088** |
| Capital assets in progress | 330,915 | (70,306) | - | **260,609** |
| | 4,399,122 | 244,292 | 31,717 | **4,611,697** |
| **Accumulated amortization** | | | | |
| Buildings | 103,497 | 10,559 | - | **114,056** |
| Metro infrastructures | 1,067,321 | 57,293 | - | **1,124,614** |
| Local and regional infrastructures | 17,537 | 1,572 | - | **19,109** |
| Rolling stock - metro cars | 429,990 | 13,169 | - | **443,159** |
| Rolling stock - buses | 227,264 | 58,004 | 4,992 | **280,276** |
| Rolling stock - service vehicles | 35,517 | 4,813 | 2,433 | **37,897** |
| Leasehold improvements | 10 | 149 | - | **159** |
| Office equipment and software | 51,012 | 15,767 | 13,606 | **53,173** |
| Machinery, tools and equipment | 50,006 | 11,431 | 10,681 | **50,756** |
| | 1,982,154 | 172,757 | 31,712 | **2,123,199** |
| **Net carrying value** | 2,416,968 | | | **2,488,498** |

A total of $12.9 million in interest ($16.1 million in 2011) was capitalized to the cost of capital assets in progress.

(in thousands of dollars)

| 18. OTHER NON-FINANCIAL ASSETS | 2012 | 2011 |
|---|---|---|
| Deposits for metro car purchases | **258,546** | 172,561 |
| Loss on foreign exchange contracts [a] | **12,796** | 12,796 |
| Issuance costs for long-term debt | **6,816** | 6,600 |
| Deposits for bus purchases | **6,536** | 400 |
| Prepaid expenses | **1,392** | 2,605 |
| Other | **1,347** | 1,178 |
| | **287,433** | 196,140 |

[a] Loss on foreign exchange contracts incurred to protect against currency fluctuations prior to the signing of a contract to purchase new metro cars. The loss will be fully charged to capital assets upon delivery of the metro cars, which is scheduled for 2014.

## 19. SUPPLEMENTARY CASH FLOW INFORMATION

| Net change in non-cash items | 2012 | 2011 |
|---|---|---|
| Contribution receivable from the Montreal Urban Agglomeration | **13,327** | 25,004 |
| Subsidies receivable | **(12,007)** | (11,631) |
| Regional contributions and contribution from non-Agglomeration municipalities receivable | **(24,917)** | 28,978 |
| Other receivables | **(10,362)** | 11,482 |
| Employee future benefits asset | **13,555** | 63,188 |
| Accounts payable and accrued liabilities | **19,328** | (41,444) |
| Deferred revenues | **15,071** | 25,263 |
| Special contribution payable to the Montreal Urban Agglomeration | **(15,000)** | 15,000 |
| Inventories | **504** | (4,822) |
| Other non-financial assets (excluding the deposits on bus and metro car purchases and the issuance costs for long-term debt) | **1,044** | (1,479) |
| | **543** | 109,539 |

| Other information | 2012 | 2011 |
|---|---|---|
| Interest paid on short-term loans not attributable to capital assets in progress | **3,021** | 2,925 |
| Interest paid on long-term debt | **82,757** | 74,637 |

(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 of its long-term debt and 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, 2012, given the use of currency and interest rate swaps, substantially all of the Société's loans are denominated in Canadian dollars and bear interest at fixed rates..

### 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 are sufficient to meet its current and long-term financial needs at a reasonable cost.

### Fair value

The fair value of cash, the contribution receivable from (payable to) the Montreal Urban Agglomeration, subsidies receivable other than receivables to be allocated to the repayment of long-term debt, regional contributions and the contribution receivable from non-Agglomeration municipalities, other receivables, short-term loans and 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:

| | Fair value 2012 | Carrying value 2012 | Fair value 2011 | Carrying value 2011 |
|---|---|---|---|---|
| Sinking fund investments | **446,068** | **435,204** | 380,993 | 366,375 |
| Receivables to be allocated to the repayment of long-term debt (note 10) | **1,025,483** | **954,637** | 909,249 | 833,338 |
| Long-term debt | **2,096,203** | **1,940,216** | 1,852,224 | 1,684,378 |

The fair value of sinking fund investments is the amount at which they could be exchanged on the market between parties at arm's length. The fair value of receivables to be allocated to the repayment of 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 had closed at that date. As at December 31, 2012, the fair value and carrying value of the financial liabilities associated with currency and interest rate swaps stood at $51.6 million and $18.0 million ($65.7 million and $48.6 million in 2011). They are included in the long-term debt amounts.

## 21. COMMITMENTS

### a) Long-term leases

The Société is committed to paying $86.8 million for the rental of its premises under long-term leases expiring from March 31, 2013 to May 31, 2023. The minimum payments required over the next five years amount to $8.0 million for 2013, $11.3 million for 2014, $9.5 million for 2015, $9.1 million for 2016 and $8.7 million for 2017.

### b) Contract for the acquisition and implementation of an operation and passenger information support system

To improve the quality of its customer service and the service delivery efficiency of its bus network, the Société awarded a contract to a specialized firm to implement an operation and passenger information support system and to replace its radiocommunications system. The contract term is 9 years (2012 to 2021).

As at December 31, 2012, the remaining balance of the contract was $71.4 million, which the Société expects to pay as follows: $12.1 million in 2013 and 2014, $18.1 million in 2015, $9.0 million in 2016 and $12.5 million in 2017. Subsequent payments for years 2018 to 2021 are $7.6 million.

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

In 2012, the Société exercised the option to extend the purchase contract for articulated, low-floor city buses, which runs from 2008 to 2013. The remaining 2013 balance for the delivery of 50 buses is $40.1 million.

The Société awarded a contract for the purchase of diesel-electric hybrid, low-floor buses, which will run from 2013 to 2016, as part of a group purchase on behalf of members of the Association du transport urbain du Québec. The Société’s share is 203 buses having a value of $182.5 million. It expects to receive 31 buses in 2014 for a value of $27.2 million, 112 buses in 2015 for a value of $100.4 million and 60 buses in 2016 for a value of $54.9 million.

The contract includes 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 model involving American and/or European content. As a guide, the American content represents 21% of the base cost, while the European content represents 12%.

### d) Asset maintenance program for fixed equipment in the metro

In order to operate a project office responsible for carrying out an asset maintenance program for fixed equipment in the metro, the Société awarded in 2011 a contract to an engineering firm. As at December 31, 2012, the remaining balance of this contract was $47.6 million. Scheduled payments are $13.7 million in 2013, $13.0 million in 2014, $10.6 million in 2015, $7.7 million in 2016 and $2.6 million in 2017.

### e) Centralized metro control system

In 2012, the Société signed a contract with an engineering firm for the supply of technical support services, the commissioning of the Société’s centralized metro control system and the transfer of the engineering firm’s skills, knowledge and know-how until 2017. This $51.5 million contract has a remaining balance as at December 31, 2012 of $47.6 million. Of this amount, the Société expects to pay $9.9 million in 2013, $12.3 million in 2014, $9.2 million in 2015, $9.9 million in 2016 and $6.3 million in 2017.

### f) Construction of the Stinson bus garage

In 2012, the Société awarded a contract for the construction and installation of a new bus garage. As at December 31, 2012, the remaining balance of the contract was $82.8 million. Scheduled payments should amount to $78.5 million in 2013 and $4.3 million in 2014. The bus garage is expected to be completed in 2014.

## 21. COMMITMENTS (CONT'D)

### 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., from January 2013 to December 2015, the Société is committed to purchasing 246.0 million litres at a fixed price, representing an amount of approximately $165.7 million.

As at December 31, 2012, the balance of the Société's commitment was 90.9 million litres (42.1 million litres at $0.5765/litre and 48.8 million litres at $0.5749/litre, representing an amount of $52.3 million).

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

During 2010, the Société awarded a contract for the purchase of metro cars to a consortium. Under this contract, the Société is committed to purchasing 468 rubber-tired metro cars valued at $1,811.6 million. In 2012, the contract was revised downwards by an amount of $3.1 million because the Société decided to exercise only one of the contract's initial options. The purchase contract contains a price adjustment clause for the metro 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 2010, as well as an additional monthly deposit of 0.5% to be paid over the next 28 months. As at December 31, 2012, the remaining balance was $1,549.3 million. The amounts for future deliveries will be paid as follows: $63.9 million in 2013, $263.7 million in 2014, $320.0 million in 2015, $321.4 million in 2016, $328.5 million in 2017, and $251.8 million from 2018 to 2020.

## 22. CONTINGENCIES

### a) Possible claims

The total of the amounts claimed by plaintiffs stood at $36.2 million ($36.4 million in 2011). The claims include two class action suits totalling $30.5 million as a result of the strike in 2007. The other $5.7 million in claims consists of contractual or extracontractual suits by companies or individuals. As at December 31, 2012, 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 comply with *An act to amend the 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 lands. The Société cannot establish the total cost of the measures to be taken at this time. It has developed a contingency plan, including characterization studies, groundwater quality monitoring, and rehabilitation work in order to comply with the legislation. As at December 31, 2012, the Société made a provision for an amount deemed sufficient.

### c) Transfer of property related to the metro extension to the City of Laval

On April 28, 2007, the AMT transferred property related to the metro extension to 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 contingent on a new agreement being negotiated between the parties before February 28, 2008 (“reconveyance agreement dated December 21, 2007”).

The expiry date of the December 21, 2007 reconveyance agreement has been re-extended to June 30, 2013.

The purpose of this extension 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 metro extension to 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 $970.0 million excluding taxes, i.e., $485.0 million in capital assets and receivables to be allocated to the repayment of long-term debt, and would increase the long-term debt liability by $485.0 million, with the $485.0 million balance being allocated to the accumulated surplus.

## 23. COMPARATIVE FIGURES

Certain figures from the previous year have been reclassified to conform to the current year’s presentation.

## 24. INDEPENDENT AUDITORS’ OPINIONS

The opinions of the independent auditors do not cover the supplementary information or the budget.

# TABLE 1 – CONSOLIDATED ACCUMULATED SURPLUS

As at December 31, 2012

(in thousands of dollars)

| | 2012 | 2011 |
|---|---|---|
| **Accumulated surplus** | | |
| Unrestricted operating surplus | **4,062** | 5,721 |
| Restricted operating surplus | **999** | 999 |
| Sinking fund | **435,204** | 366,375 |
| Working capital fund | **5,576** | 4,592 |
| Balances available from closed loan by-laws | **1,251** | 1,251 |
| Financing of investments in progress | **23,011** | (29,010) |
| Provision for future amounts | **219,763** | 235,454 |
| Net investment in long-term items | **1,502,949** | 1,565,958 |
| | **2,192,815** | 2,151,340 |

In accordance with the model drawn up by Quebec's Ministère des Affaires Municipales, des Régions et de l'Occupation du Territoire, 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 the operating and investing surpluses 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.

| | 2012 | 2011 |
|---|---|---|
| Balance at beginning of year | **5,721** | 2,996 |
| Operating surplus for the year for tax purposes | **4,062** | 5,721 |
| Allocation to operating activities | **(5,721)** | (2,996) |
| **Balance at end of year** | **4,062** | 5,721 |

**Restricted operating surplus**

The restricted operating surplus includes the portion of the accumulated surplus whose use is reserved for specific purposes.

| | 2012 | 2011 |
|---|---|---|
| Balance at beginning of year | **999** | - |
| Net investment in long-term items | **–** | 999 |
| **Balance at end of year** | **999** | 999 |

**Sinking fund**

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

| | 2012 | 2011 |
|---|---|---|
| Balance at beginning of year | **366,375** | 261,054 |
| Contribution from operating activities, including revenue of $14.6 million ($14.7 million in 2011) | **105,959** | 105,321 |
| Repayment of long-term debt | **(37,130)** | - |
| **Balance at end of year** | **435,204** | 366,375 |

# TABLE 1 – CONSOLIDATED ACCUMULATED SURPLUS

As at December 31, 2012

(in thousands of dollars)

**Working capital fund**

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

| | 2012 | 2011 |
|---|---|---|
| Balance at beginning of year | **4,592** | 3,266 |
| Contribution from operating activities | **984** | 1,326 |
| **Balance at end of year** | **5,576** | 4,592 |

**Balances available from closed loan by-laws**

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

| | 2012 | 2011 |
|---|---|---|
| Balance at beginning of year | **1,251** | 123 |
| Contribution to investing activities | **-** | 1,128 |
| **Balance at end of year** | **1,251** | 1,251 |

**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.

| | 2012 | 2011 |
|---|---|---|
| Balance at beginning of year | **(29,010)** | 6,392 |
| Investing surplus (deficit) for tax purposes | **52,021** | (35,332) |
| Integration of an entity | **-** | (70) |
| **Balance at end of year** | **23,011** | (29,010) |

# TABLE 1 – CONSOLIDATED ACCUMULATED SURPLUS

As at December 31, 2012

(in thousands of dollars)

**Provision for future amounts**

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 (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 2019).

| | 2012 | 2011 |
|---|---|---|
| Balance at beginning of year | | |
| Payroll liabilities | **(6,164)** | (7,053) |
| Employee future benefits | **241,618** | 310,775 |
| | **235,454** | 303,722 |
| Change for the year | | |
| Payroll liabilities | **6,164** | 889 |
| Employee future benefits | **(21,855)** | (69,157) |
| | **(15,691)** | (68,268) |
| **Balance at end of year** | | |
| **Payroll liabilities** | **-** | (6,164) |
| **Employee future benefits** | **219,763** | 241,618 |
| | **219,763** | 235,454 |

# TABLE 1 – CONSOLIDATED ACCUMULATED SURPLUS

As at December 31, 2012

(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 receivables to be allocated to the repayment of long-term debt.

| | **2012** | **2011** |
|---|---|---|
| Balance at beginning of year | **1,565,958** | 1,476,041 |
| Investing activities | | |
| Capital asset acquisitions | **244,292** | 360,356 |
| Financing | **(115,641)** | (61,569) |
| | **128,651** | 298,787 |
| Operating activities | | |
| Capital assets | **(172,762)** | (163,880) |
| Financing | **(18,898)** | (43,991) |
| | **(191,660)** | (207,871) |
| Restricted operating surplus | **-** | (999) |
| **Balance at end of year** | **1,502,949** | 1,565,958 |
| **Composition** | | |
| Assets | | |
| Receivables to be allocated to the repayment of long-term debt | **954,637** | 833,338 |
| Capital assets | **2,488,498** | 2,416,968 |
| | **3,443,135** | 3,250,306 |
| Liabilities | | |
| Long-term debt | **(1,940,216)** | (1,684,378) |
| Operating activities to be financed | **30** | 30 |
| | **(1,940,186)** | (1,684,348) |
| | **1,502,949** | 1,565,958 |

## TABLE 2 — CONSOLIDATED TOTAL NET LONG-TERM INDEBTEDNESS

As at December 31, 2012

(in thousands of dollars)

| | 2012 | 2011 |
|---|---|---|
| **Long-term debt** | | |
| Bonds, loans and bank loans | **1,940,216** | 1,684,378 |
| **Plus** | | |
| Investing activities to be financed | **(23,011)** | 29,010 |
| Operating activities to be financed | **(30)** | (30) |
| **Less** | | |
| Amounts accumulated in the sinking fund | **(435,204)** | (366,375) |
| Receivables to be allocated to the repayment of long-term debt | **(954,637)** | (833,338) |
| **TOTAL NET LONG-TERM INDEBTEDNESS** | **527,334** | 513,645 |

The total net long-term indebtedness is the total debt borne by the Société, including the participation of its partners. An upward trend in this indicator can be expected over the coming years given the investment of $11.5 billion set out in the Société's 2020 Strategic Plan to maintain its assets and increase its service supply. This increase in indebtedness will potentially be mitigated, either by the subsidies for which the per-project rates will be higher than in the past or by a reduction in new long-term debt issuances due to the cash financing of certain projects under government assistance programs such as the second phase of the SOFIL program.

# UNAUDITED SUPPLEMENTARY INFORMATION

# CONSOLIDATED RESULTS OF OPERATIONS FOR TAX PURPOSES

As at December 31, 2012

(in thousands of dollars)

| | Budget | Actual 2012 | Actual 2011 | Actual 2010 | Actual 2009 | Actual 2008 |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Passenger revenues | **565,385** | **563,602** | 533,249 | 487,670 | 463,187 | 444,717 |
| Contribution from the Montreal Urban Agglomeration | **372,900** | **372,900** | 387,900 | 359,400 | 332,000 | 301,700 |
| Subsidies | **156,781** | **160,567** | 134,385 | 113,236 | 94,760 | 74,829 |
| Regional contributions and contribution from non-Agglomeration municipalities | **90,033** | **82,034** | 70,746 | 71,133 | 58,617 | 57,536 |
| Deferred surplus | **4,300** | **5,721** | 2,996 | - | 3,821 | 1,582 |
| Other revenues | **38,205** | **39,660** | 33,439 | 31,120 | 28,809 | 26,412 |
| | **1,227,604** | **1,224,484** | 1,162,715 | 1,062,559 | 981,194 | 906,776 |
| **Expenses** | | | | | | |
| Compensation | **789,409** | **800,068** | 745,351 | 707,171 | 660,325 | 615,538 |
| Energy costs, taxes and licences | **118,892** | **119,653** | 118,905 | 95,829 | 93,980 | 85,718 |
| Professional services | **89,066** | **103,119** | 85,896 | 66,487 | 67,742 | 61,610 |
| Equipment and supplies | **56,385** | **57,213** | 56,266 | 52,143 | 48,740 | 48,672 |
| Rentals | **14,814** | **9,914** | 10,737 | 9,309 | 8,302 | 8,212 |
| Interest and financing costs | **128,866** | **108,968** | 110,724 | 112,489 | 103,538 | 88,100 |
| Miscellaneous expenses | **30,172** | **21,487** | 14,115 | 16,135 | 17,510 | 17,105 |
| | **1,227,604** | **1,220,422** | 1,141,994 | 1,059,563 | 1,000,137 | 924,955 |
| Operating surplus (deficit) for tax purposes before additional contribution from (special contribution to) the Montreal Urban Agglomeration | **-** | **4,062** | 20,721 | 2,996 | (18,943) | (18,179) |
| Additional contribution from (special contribution to) the Montreal Urban Agglomeration | **-** | **-** | (15,000) | - | 18,943 | 22,000 |
| **Operating surplus for the year for tax purposes** | **-** | **4,062** | 5,721 | 2,996 | - | 3,821 |



The opinions of the independant auditors do not cover the supplementary information.

## CONSOLIDATED REVENUES BY TYPE

As at December 31, 2012

(in thousands of dollars)

| | Budget | Actual 2012 | Actual 2011 | Actual 2010 | Actual 2009 | Actual 2008 |
|---|---|---|---|---|---|---|
| **OPERATIONS** | | | | | | |
| **PASSENGER REVENUES** | | | | | | |
| **Bus and metro service** | | | | | | |
| **Regular** | | | | | | |
| 1, 2, 6 and 10 trips | **162,964** | **157,644** | 158,304 | 148,850 | 138,496 | 129,744 |
| CAM | **188,949** | **197,108** | 185,752 | 173,912 | 171,278 | 161,068 |
| Weekly CAM | **35,798** | **30,518** | 31,941 | 30,009 | 27,960 | 28,646 |
| | **387,711** | **385,270** | 375,997 | 352,771 | 337,734 | 319,458 |
| **Reduced** | | | | | | |
| 1, 2, 6 and 10 trips | **16,981** | **16,050** | 15,696 | 13,911 | 13,728 | 18,272 |
| CAM | **72,917** | **71,904** | 68,070 | 61,700 | 58,637 | 57,948 |
| Weekly CAM | **1,886** | **1,860** | 1,773 | 1,549 | 1,718 | 2,491 |
| | **91,784** | **89,814** | 85,539 | 77,160 | 74,083 | 78,711 |
| Day passes and special offers | **21,620** | **23,984** | 15,511 | 8,227 | 2,463 | 1,690 |
| | **501,115** | **499,068** | 477,047 | 438,158 | 414,280 | 399,859 |
| **Paratransit service** | **3,487** | **3,509** | 3,113 | 2,819 | 2,686 | 2,325 |
| **Regional revenues** | **60,783** | **61,025** | 53,089 | 46,693 | 46,221 | 42,533 |
| | **565,385** | **563,602** | 533,249 | 487,670 | 463,187 | 444,717 |
| **CONTRIBUTION FROM THE MONTREAL URBAN AGGLOMERATION** | | | | | | |
| Base contribution | **372,900** | **372,900** | 387,900 | 359,400 | 332,000 | 301,700 |
| Additional special contribution | **-** | **-** | (15,000) | - | 18,943 | 22,000 |
| | **372,900** | **372,900** | 372,900 | 359,400 | 350,943 | 323,700 |
| **SUBSIDIES** | | | | | | |
| Government Assistance Program for the Public Transport of People (PAGTCP) | **54,551** | **41,345** | 32,319 | 35,621 | 29,675 | 25,804 |
| Government Assistance Program for Improving Public Transit Service (PAGASTC) | **59,970** | **58,677** | 50,022 | 39,883 | 29,724 | 16,558 |
| Paratransit Service | **42,260** | **41,085** | 38,656 | 37,334 | 34,779 | 32,467 |
| Program for the Financing of Local Infrastructure in Quebec (SOFIL) | **-** | **2,048** | 1,549 | - | - | - |
| Mitigation Measures - Turcot Interchange | | **4,651** | 998 | | | |
| Other | **-** | **4,893** | 31 | 398 | 582 | - |
| | **156,781** | **152,699** | 123,575 | 113,236 | 94,760 | 74,829 |
| Amount to be carried forward | **1,095,066** | **1,089,201** | 1,029,724 | 960,306 | 908,890 | 843,246 |

## CONSOLIDATED REVENUES BY TYPE

As at December 31, 2012

(in thousands of dollars)

| | Budget | Actual 2012 | Actual 2011 | Actual 2010 | Actual 2009 | Actual 2008 |
|---|---|---|---|---|---|---|
| Amount carried forward | **1,095,066** | **1,089,201** | 1,029,724 | 960,306 | 908,890 | 843,246 |
| **REGIONAL CONTRIBUTIONS AND CONTRIBUTION FROM NON-AGGLOMERATION MUNICIPALITIES** | | | | | | |
| **Regional contributions** | | | | | | |
| For trips on the metro network | **39,442** | **39,625** | 40,128 | 40,521 | 45,073 | 43,933 |
| For trips on metropolitan bus routes | **4,518** | **4,834** | 4,914 | 4,693 | 5,447 | 5,714 |
| Paratransit service | **207** | **217** | 207 | 203 | - | - |
| For equipment and infrastructures | **1,313** | **1,267** | 1,295 | 1,033 | 1,207 | 1,267 |
| Share of the fuel tax | **39,923** | **32,774** | 11,802 | 13,503 | - | - |
| Fare integration | **4,630** | **3,317** | 4,079 | 4,071 | 1,497 | 2,286 |
| | **90,033** | **82,034** | 62,425 | 64,024 | 53,224 | 53,200 |
| **Contribution from non-Agglomeration municipalities** | **-** | **-** | 8,321 | 7,109 | 5,393 | 4,336 |
| | **90,033** | **82,034** | 70,746 | 71,133 | 58,617 | 57,536 |
| **OTHER REVENUES** | **54,400** | **55,797** | 48,714 | 38,789 | 34,769 | 30,225 |
| Amount to be carried forward | **1,239,499** | **1,227,032** | 1,149,184 | 1,070,228 | 1,002,276 | 931,007 |



The opinions of the independant auditors do not cover the supplementary information.

# CONSOLIDATED REVENUES BY TYPE

As at December 31, 2012

(in thousands of dollars)

| | Budget | Actual 2012 | Actual 2011 | Actual 2010 | Actual 2009 | Actual 2008 |
|---|---|---|---|---|---|---|
| Amount carried forward | **1,239,499** | **1,227,032** | 1,149,184 | 1,070,228 | 1,002,276 | 931,007 |
| **INVESTMENT** | | | | | | |
| **CONTRIBUTION FROM THE MONTREAL URBAN AGGLOMERATION** | | | | | | |
| Contribution for capital assets from the Program for the Financing of Local Infrastructures in Quebec (SOFIL) | **10,310** | **2,786** | 16,113 | 41,117 | 8,483 | 10,417 |
| **SUBSIDIES** | | | | | | |
| Government Assistance Program for the Public Transport of People (PAGTCP) | **329,871** | **116,979** | 127,063 | 105,697 | 169,039 | 102,081 |
| Government Assistance Program for Improving Public Transit Service (PAGASTC) | **-** | **2,127** | - | 7,605 | - | 20,299 |
| Program for the Financing of Local Infrastructure in Quebec (SOFIL) | **49,134** | **15,916** | 95,550 | 223,139 | 46,246 | 56,816 |
| Program to improve transportation security (Transit-Secure) | **-** | **-** | - | - | 6,523 | 5,842 |
| Building Canada Fund (BCF) | **21,368** | **4,172** | 1,517 | - | - | - |
| Government Assistance Program for Energy Efficiency in Passenger Road Transportation (PAGAAEE) | **3,925** | **191** | 3,140 | - | - | - |
| Urban Transportation Showcase Program (UTSP) | **-** | **-** | - | (217) | 66 | 1,375 |
| Government Assistance Program for Paratransit Services | **1,969** | **-** | - | - | - | - |
| Mitigation Measures - Turcot Interchange | **25,840** | **17,891** | - | - | - | - |
| | **432,107** | **157,276** | 227,270 | 336,224 | 221,874 | 186,413 |
| | **1,681,916** | **1,387,094** | 1,392,567 | 1,447,569 | 1,232,633 | 1,127,837 |

The opinions of the independant auditors do not cover the supplementary information.

# CONSOLIDATED EXPENSES BY FUNCTION

As at December 31, 2012

(in thousands of dollars)

| | Budget | Actual 2012 | Actual 2011 | Actual 2010 | Actual 2009 | Actual 2008 |
|---|---|---|---|---|---|---|
| **NETWORK OPERATIONS** | | | | | | |
| **Bus network** | | | | | | |
| Compensation | **381,652** | **385,523** | 356,798 | 337,238 | 322,551 | 304,306 |
| Goods and services | **84,557** | **81,500** | 78,148 | 71,174 | 69,141 | 58,917 |
| | **466,209** | **467,023** | 434,946 | 408,412 | 391,692 | 363,223 |
| **Metro network** | | | | | | |
| Compensation | **192,308** | **188,385** | 176,256 | 169,765 | 162,901 | 155,011 |
| Goods and services | **51,179** | **50,125** | 53,557 | 45,744 | 44,651 | 43,618 |
| | **243,487** | **238,510** | 229,813 | 215,509 | 207,552 | 198,629 |
| **Paratransit** [(a)] | | | | | | |
| Compensation | **21,876** | **21,167** | 19,125 | 21,379 | 20,562 | 19,083 |
| Goods and services | **38,462** | **34,739** | 32,751 | 31,073 | 26,724 | 24,370 |
| | **60,338** | **55,906** | 51,876 | 52,452 | 47,286 | 43,453 |
| | **770,034** | **761,439** | 716,635 | 676,373 | 646,530 | 605,305 |
| **OPERATIONS SUPPORT** | | | | | | |
| **Management and engineering** | | | | | | |
| Compensation | **29,774** | **31,474** | 26,507 | 24,540 | 22,347 | 20,357 |
| Goods and services | **9,591** | **7,133** | 4,521 | 2,769 | 1,877 | 1,575 |
| | **39,365** | **38,607** | 31,028 | 27,309 | 24,224 | 21,932 |
| **Security and control** | | | | | | |
| Compensation | **14,778** | **14,736** | 11,444 | 11,305 | 10,957 | 9,142 |
| Goods and services | **17,419** | **17,680** | 16,622 | 14,978 | 14,763 | 13,366 |
| | **32,197** | **32,416** | 28,066 | 26,283 | 25,720 | 22,508 |
| **Infrastructure maintenance** | | | | | | |
| Compensation | **27,789** | **28,067** | 24,667 | 23,347 | 21,633 | 20,689 |
| Goods and services | **17,543** | **10,935** | 13,946 | 4,187 | 7,831 | 6,653 |
| | **45,332** | **39,002** | 38,613 | 27,534 | 29,464 | 27,342 |
| | **116,894** | **110,025** | 97,707 | 81,126 | 79,408 | 71,782 |
| Amount to be carried forward | **886,928** | **871,464** | 814,342 | 757,499 | 725,938 | 677,087 |



The opinions of the independant auditors do not cover the supplementary information.

# CONSOLIDATED EXPENSES BY FUNCTION

As at December 31, 2012

(in thousands of dollars)

| | Budget | Actual 2012 | Actual 2011 | Actual 2010 | Actual 2009 | Actual 2008 |
|---|---|---|---|---|---|---|
| Amount carried forward | **886,928** | **871,464** | 814,342 | 757,499 | 725,938 | 677,087 |
| **ADMINISTRATIVE SERVICES** | | | | | | |
| **Finance and Control** | | | | | | |
| Compensation | **17,973** | **18,439** | 17,805 | 16,210 | 15,066 | 13,943 |
| Goods and services | **7,055** | **6,960** | 6,267 | 4,749 | 7,264 | 7,534 |
| | **25,028** | **25,399** | 24,072 | 20,959 | 22,330 | 21,477 |
| **Planning, Marketing and Communications** | | | | | | |
| Compensation | **18,255** | **19,916** | 18,187 | 16,772 | 13,762 | 10,969 |
| Goods and services | **16,116** | **15,673** | 14,298 | 9,718 | 8,678 | 8,045 |
| | **34,371** | **35,589** | 32,485 | 26,490 | 22,440 | 19,014 |
| **Human Resources and Shared Services** | | | | | | |
| Compensation | **47,241** | **48,582** | 45,203 | 42,315 | 38,829 | 35,683 |
| Goods and services | **21,576** | **21,280** | 19,751 | 17,068 | 14,545 | 12,636 |
| | **68,817** | **69,862** | 64,954 | 59,383 | 53,374 | 48,319 |
| **Corporate Services** | | | | | | |
| Compensation | **13,352** | **12,698** | 12,203 | 9,708 | 8,527 | 7,600 |
| Goods and services | **8,177** | **6,009** | 3,915 | 3,396 | 2,412 | 2,098 |
| | **21,529** | **18,707** | 16,118 | 13,104 | 10,939 | 9,698 |
| | **149,745** | **149,557** | 137,629 | 119,936 | 109,083 | 98,508 |
| **SPECIAL PROJECTS AND OTHER EXPENSES** | | | | | | |
| Compensation | **19,890** | **25,008** | 36,267 | 30,789 | 21,472 | 21,746 |
| Goods and services | **30,987** | **31,356** | 13,497 | 26,561 | 29,305 | 39,170 |
| | **50,877** | **56,364** | 49,764 | 57,350 | 50,777 | 60,916 |
| **ALLOCATION - PROVISION FOR FUTURE AMOUNTS (employee future benefits)** | | | | | | |
| Compensation | **33,408** | **21,855** | 69,157 | (313,379) | (96,419) | - |
| **FINANCING COSTS** | | | | | | |
| Goods and services | **90,684** | **73,622** | 64,056 | 65,030 | 61,058 | 47,747 |
| **AMORTIZATION** | | | | | | |
| Goods and services | **174,043** | **172,757** | 159,873 | 158,852 | 119,650 | 100,400 |
| **UNFORESEEN EXPENSES** | | | | | | |
| Goods and services | **5,953** | **-** | - | - | - | - |
| | **1,391,638** | **1,345,619** | 1,294,821 | 845,288 | 970,087 | 984,658 |
| [a] **Paratransit** | | | | | | |
| Paratransit service in the Statement of Operations | **65,852** | **61,784** | 57,465 | 53,423 | 48,475 | 44,696 |
| Expenses included in other functions | **(5,514)** | **(5,878)** | (5,589) | (971) | (1,189) | (1,243) |
| | **60,338** | **55,906** | 51,876 | 52,452 | 47,286 | 43,453 |

# FINANCING OF CAPITAL ASSETS

As at December 31, 2012

(in thousands of dollars)

| | Budget | Actual 2012 | Actual 2011 | Actual 2010 | Actual 2009 | Actual 2008 |
|---|---|---|---|---|---|---|
| **CAPITAL ASSET ACQUISITIONS** | **(574,803)** | **(244,292)** | (360,286) | (435,737) | (368,173) | (316,673) |
| **Federal government** | | | | | | |
| Program to improve transportation security (Transit-Secure) | **-** | **-** | - | - | 6,523 | 5,842 |
| Urban Transportation Showcase Program (UTSP) | **-** | | - | (217) | 66 | 1,375 |
| Building Canada Fund (BCF) | **21,368** | **4,172** | 1,517 | - | - | - |
| | **21,368** | **4,172** | 1,517 | (217) | 6,589 | 7,217 |
| **Provincial government** | | | | | | |
| Government Assistance Program for the Public Transport of People (PAGTCP) | **329,871** | **116,979** | 127,063 | 105,697 | 169,039 | 102,081 |
| Government Assistance Program for Improving Public Transit Service (PAGASTC) | **-** | **2,127** | - | 7,605 | - | 20,299 |
| Program for the Financing of Local Infrastructures in Quebec (SOFIL) | **49,134** | **15,916** | 95,550 | 223,139 | 46,246 | 56,816 |
| Government Assistance Program for Improving Energy Efficiency in Passenger Road Transportation (PAGAAEE) | **3,925** | **191** | 3,140 | - | - | - |
| Government Assistance Program for Paratransit Services | **1,969** | **-** | - | - | - | - |
| Program for the Mitigation Measures for the Turcot Interchange | **25,840** | **17,891** | - | - | - | - |
| | **410,739** | **153,104** | 225,753 | 336,441 | 215,285 | 179,196 |
| **Municipal contribution** | | | | | | |
| Program for the Financing of Local Infrastructures in Quebec (SOFIL) | **10,310** | **2,786** | 16,113 | 41,117 | 8,483 | 10,417 |
| **Société de transport de Montréal** | | | | | | |
| Long-term financing of investing activities | **128,136** | **115,641** | 61,569 | 65,767 | 149,263 | 6,560 |
| Allocations to operating activities | **4,250** | **20,610** | 21,130 | 17,864 | 6,786 | 6,273 |
| Closed loan by-laws | **-** | **-** | (1,128) | - | - | 1,073 |
| | **132,386** | **136,251** | 81,571 | 83,631 | 156,049 | 13,906 |
| | **574,803** | **296,313** | 324,954 | 460,972 | 386,406 | 210,736 |
| **Investing surplus (deficit) for the year for tax purposes** | **-** | **52,021** | (35,332) | 25,235 | 18,233 | (105,937) |



The opinions of the independant auditors do not cover the supplementary information.

# LONG-TERM DEBT

As at December 31, 2012

(in thousands of dollars)

| | 2012 | 2011 |
|---|---|---|
| **Bond, $40,000** | | |
| 5.25%, maturing October 24, 2012 | - | 9,110 |
| **Bond, $75,000** | | |
| 5.30%, maturing May 6, 2012 | - | 6,000 |
| 5.40%, maturing May 6, 2013 | **20,600** | 20,600 |
| **Bond, $75,000** | | |
| 4.15%, maturing April 27, 2012 | - | 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 |
| **Bond, $300,000** | | |
| 5.00%, maturing December 1, 2019[a] | **300,000** | 300,000 |
| **Bond, $47,130** | | |
| 5.46%, maturing January 9, 2012[a] | - | 47,130 |
| **Bond, $75,350**[b] | | |
| 4.74%, maturing June 7, 2017 | **54,252** | 54,252 |
| 4.92% maturing June 7, 2017 | **21,098** | 21,098 |
| **Bond, $84,500**[b] | | |
| 5.85%, maturing January 29, 2024 | **84,500** | 84,500 |
| **Bond, $100,000** | | |
| 4.71%, maturing April 21, 2014[a] | **100,000** | 100,000 |
| **Bond, $75,000** | | |
| 5.22%, maturing October 22, 2014[a] | **75,000** | 75,000 |
| **Bank loan, $100,000** | | |
| 4.67%, maturing February 24, 2016[a] | **60,000** | 60,000 |
| 4.89%, maturing February 24, 2021 | **40,000** | 40,000 |
| **Bank loan, $100,000** | | |
| 4.36%, maturing January 19, 2017[a] | **73,200** | 73,200 |
| 4.55%, maturing January 19, 2022 | **16,300** | 16,300 |
| 4.60%, maturing January 19, 2027 | **10,500** | 10,500 |
| **Bank loan, $175,000** | | |
| 5.11%, maturing November 15, 2017[a] | **128,100** | 128,100 |
| 5.27%, maturing November 15, 2022 | **17,700** | 17,700 |
| 5.32%, maturing November 15, 2027 | **29,200** | 29,200 |
| Amount to be carried forward | **1,059,450** | 1,128,190 |

The opinions of the independant auditors do not cover the supplementary information.

# LONG-TERM DEBT

As at December 31, 2012

(in thousands of dollars)

| | 2012 | 2011 |
|---|---|---|
| Amount carried forward | **1,059,450** | 1,128,190 |
| **Bond, $18,250** | | |
| 1.65% maturing April 6, 2012 | **-** | 4,800 |
| 2.30% maturing April 6, 2013 | **5,000** | 5,000 |
| 2.75% maturing April 6, 2014 | **1,900** | 1,900 |
| 3.00% maturing April 6, 2015 | **2,000** | 2,000 |
| **Bond, $200,000** | | |
| 4.50%, maturing December 1, 2020[a] | **200,000** | 200,000 |
| **Loan, $116,625** | | |
| 4.10%, maturing December 1, 2012 | **-** | 11,663 |
| 4.10%, maturing December 1, 2013 | **11,662** | 11,662 |
| 4.10%, maturing December 1, 2014 | **11,663** | 11,663 |
| 4.10%, maturing December 1, 2015 | **11,662** | 11,662 |
| 4.10%, maturing December 1, 2016 | **11,663** | 11,663 |
| 4.10%, maturing December 1, 2017 | **11,662** | 11,662 |
| 4.10%, maturing December 1, 2018 | **11,663** | 11,663 |
| 4.10%, maturing December 1, 2019 | **11,662** | 11,662 |
| 4.10%, maturing December 1, 2020 | **11,663** | 11,663 |
| **Loan, $57,525** | | |
| 4.50%, maturing December 1, 2021[a] | **57,525** | 57,525 |
| **Loan, $180,000** | | |
| 3.31%, maturing December 1, 2012 | **-** | 9,905 |
| 3.31%, maturing December 1, 2013 | **9,905** | 9,905 |
| 3.31%, maturing December 1, 2014 | **9,905** | 9,905 |
| 3.31%, maturing December 1, 2015 | **9,905** | 9,905 |
| 3.31%, maturing December 1, 2016 | **9,905** | 9,905 |
| 3.31%, maturing December 1, 2017 | **9,905** | 9,905 |
| 3.31%, maturing December 1, 2018 | **9,905** | 9,905 |
| 3.31%, maturing December 1, 2019 | **9,905** | 9,905 |
| 3.31%, maturing December 1, 2020 | **9,905** | 9,905 |
| 3.31%, maturing December 1, 2021 | **90,855** | 90,855 |
| **Loan, $111,100** | | |
| 4.50%, maturing December 1, 2021 | **7,500** | - |
| 4.25%, maturing December 1, 2032 | **103,600** | - |
| **Loan, $52,460** | | |
| 3.43%, maturing June 1, 2013 | **2,623** | - |
| 3.43%, maturing June 1, 2014 | **2,623** | - |
| 3.43%, maturing June 1, 2015 | **2,623** | - |
| 3.43%, maturing June 1, 2016 | **2,623** | - |
| 3.43%, maturing June 1, 2017 | **2,623** | - |
| 3.43%, maturing June 1, 2018 | **2,623** | - |
| 3.43%, maturing June 1, 2019 | **2,623** | - |
| 3.43%, maturing June 1, 2020 | **2,623** | - |
| 3.43%, maturing June 1, 2021 | **2,623** | - |
| 3.43%, maturing June 1, 2022 | **2,623** | - |
| 3.43%, maturing June 1, 2023 | **2,623** | - |
| Amount to be carried forward | **1,729,223** | 1,684,378 |



The opinions of the independant auditors do not cover the supplementary information.

## LONG-TERM DEBT

As at December 31, 2012

(in thousands of dollars)

| | 2012 | 2011 |
|---|---|---|
| Amount carried forward | **1,729,223** | 1,684,378 |
| **Loan, $52,460 (cont'd)** | | |
| 3.43%, maturing June 1, 2024 | **2,623** | - |
| 3.43%, maturing June 1, 2025 | **2,623** | - |
| 3.43%, maturing June 1, 2026 | **2,623** | - |
| 3.43%, maturing June 1, 2027 | **2,623** | - |
| 3.43%, maturing June 1, 2028 | **2,623** | - |
| 3.43%, maturing June 1, 2029 | **2,623** | - |
| 3.43%, maturing June 1, 2030 | **2,623** | - |
| 3.43%, maturing June 1, 2031 | **2,623** | - |
| 3.43%, maturing June 1, 2032 | **2,623** | - |
| **Loan, $107,540** | | |
| 2.71%, maturing December 1, 2013 | **10,754** | - |
| 2.71%, maturing December 1, 2014 | **10,754** | - |
| 2.71%, maturing December 1, 2015 | **10,754** | - |
| 2.71%, maturing December 1, 2016 | **10,754** | - |
| 2.71%, maturing December 1, 2017 | **10,754** | - |
| 2.71%, maturing December 1, 2018 | **10,754** | - |
| 2.71%, maturing December 1, 2019 | **10,754** | - |
| 2.71%, maturing December 1, 2020 | **10,754** | - |
| 2.71%, maturing December 1, 2021 | **10,754** | - |
| **Loan, $75,200** | | |
| 2.91%, maturing December 1, 2013 | **5,033** | - |
| 2.91%, maturing December 1, 2014 | **5,033** | - |
| 2.91%, maturing December 1, 2015 | **5,033** | - |
| 2.91%, maturing December 1, 2016 | **5,033** | - |
| 2.91%, maturing December 1, 2017 | **5,033** | - |
| 2.91%, maturing December 1, 2018 | **5,033** | - |
| 2.91%, maturing December 1, 2019 | **5,033** | - |
| 2.91%, maturing December 1, 2020 | **5,033** | - |
| 2.91%, maturing December 1, 2021 | **5,033** | - |
| 2.91%, maturing December 1, 2022 | **29,903** | - |
| **Loan, $15,400** | | |
| 1.25%, maturing December 20, 2013 | **2,843** | - |
| 1.40%, maturing December 20, 2014 | **2,957** | - |
| 1.65%, maturing December 20, 2015 | **3,075** | - |
| 1.85%, maturing December 20, 2016 | **3,199** | - |
| 2.05%, maturing December 20, 2017 | **3,326** | - |
| **TOTAL** | **1,940,216** | 1,684,378 |
| **TOTAL NET LONG-TERM INDEBTEDNESS** | **527,334** | 513,645 |

[a] Portion in sinking fund.

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

The opinions of the independant auditors do not cover the supplementary information.

# FINANCIAL RATIOS

As at December 31, 2012

The Société formalized the normal management practices on which it bases its financing decisions. To do so, it adopted and implemented a corporate policy and segment guidelines, including debt 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 how investing decisions impact the Société's long-term financial position.

These ratios must be compared on a historical basis. Following international benchmarking against same-size entities, the Société set limits for each of the ratios.

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

As at December 31, 2012, all of the ratios are within the limits set by the Société.



The opinions of the independant auditors do not cover the supplementary information.

# FINANCIAL RATIOS

As at December 31, 2012

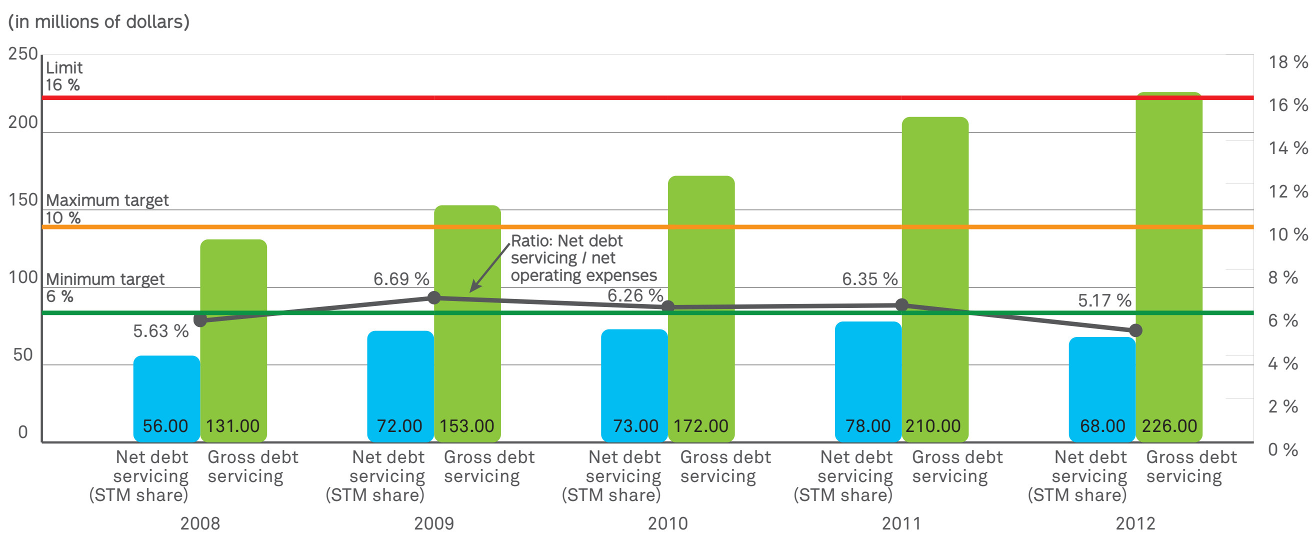
**Debt servicing assumed by the STM / Operating expenses net of the subsidies earmarked for debt servicing**

This ratio represents the portion of expenses allocated to debt servicing. The optimal ratio ranges from 6% to 10%. The ratio is currently 5.17%, which is below the 16% limit set by the Société. The ratio shows that the portion of expenses earmarked for debt servicing is reasonable and under control. The ratio's stability over the past three years indicates that the change in the Société's indebtedness is on par with its growth rate.

The breakdown of the ratio is as follows:

Net debt servicing consists of the repayment of long-term debt, contributions to the sinking fund, and the interest expense including interest on long-term debt capitalized to capital assets in progress. Subsidies related to long-term debt repayments, sinking fund contributions and interest paid are deducted from that total.

Net operating expenses include total expenses plus the repayment of long-term debt, contributions to the sinking fund and interest expense including interest on long-term debt capitalized to capital assets in progress. Subsidies related to long-term debt repayments, sinking fund contributions and interest paid are deducted from that total. An adjustment is made to employee future benefits to present them on an operating basis for tax purposes so that they can be compared from year to year.



## FINANCIAL RATIOS

As at December 31, 2012

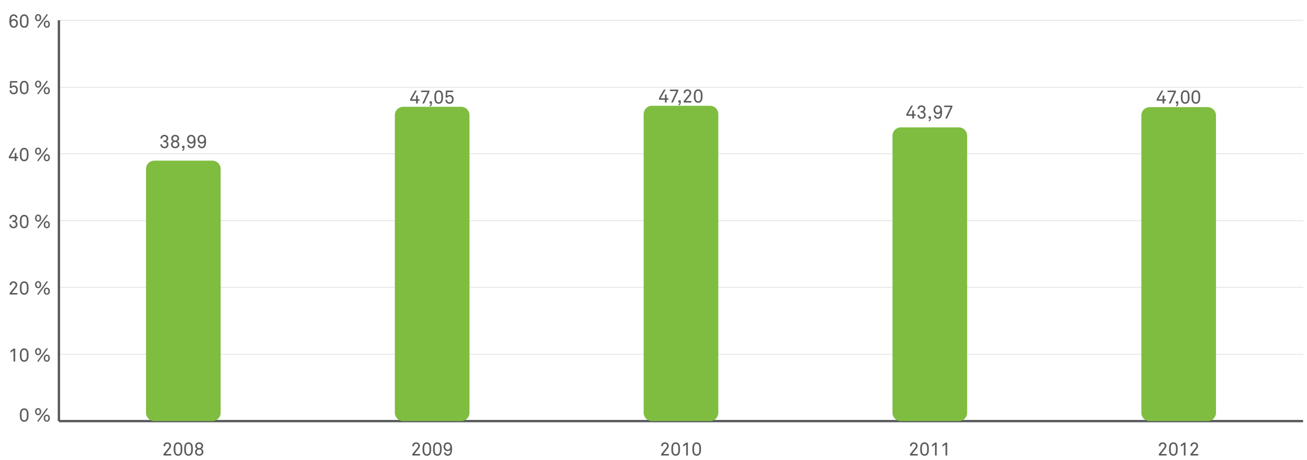
**Debt excluding the financial partners' portion / Annual revenues net of the subsidies earmarked for debt servicing**

The long-term debt must increase in proportion to revenues. The ratio is currently 47.31%, which is below the 100% limit set by the Société. The five-year growth trend for this ratio shows the Société's significant financing requirements, but revenues are also growing, albeit at a slower pace.

The breakdown of the ratio is as follows:

Debt excluding the financial partners' portion is total debt less the amount to be recovered from the Government of Quebec for repayment of long-term debt and less amounts accumulated in the sinking fund.

Net annual revenues consist of operating revenues less subsidies related to the payment of interest and less revenues from the sinking fund.






The opinions of the independant auditors do not cover the supplementary information.

# FINANCIAL RATIOS

As at December 31, 2012

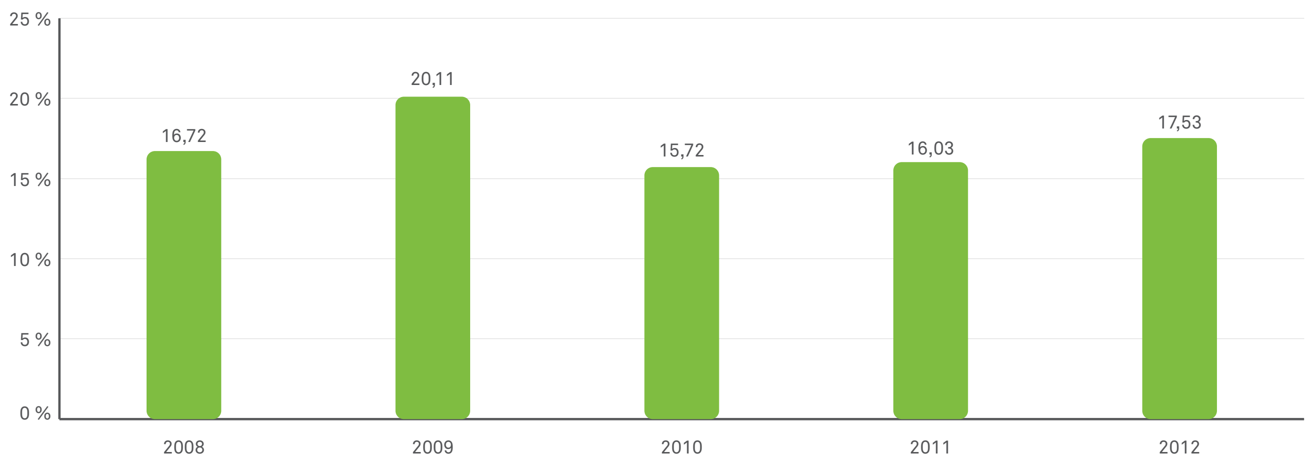
**Debt excluding the financial partners' portion / Assets net of subsidies receivable earmarked for debt servicing**

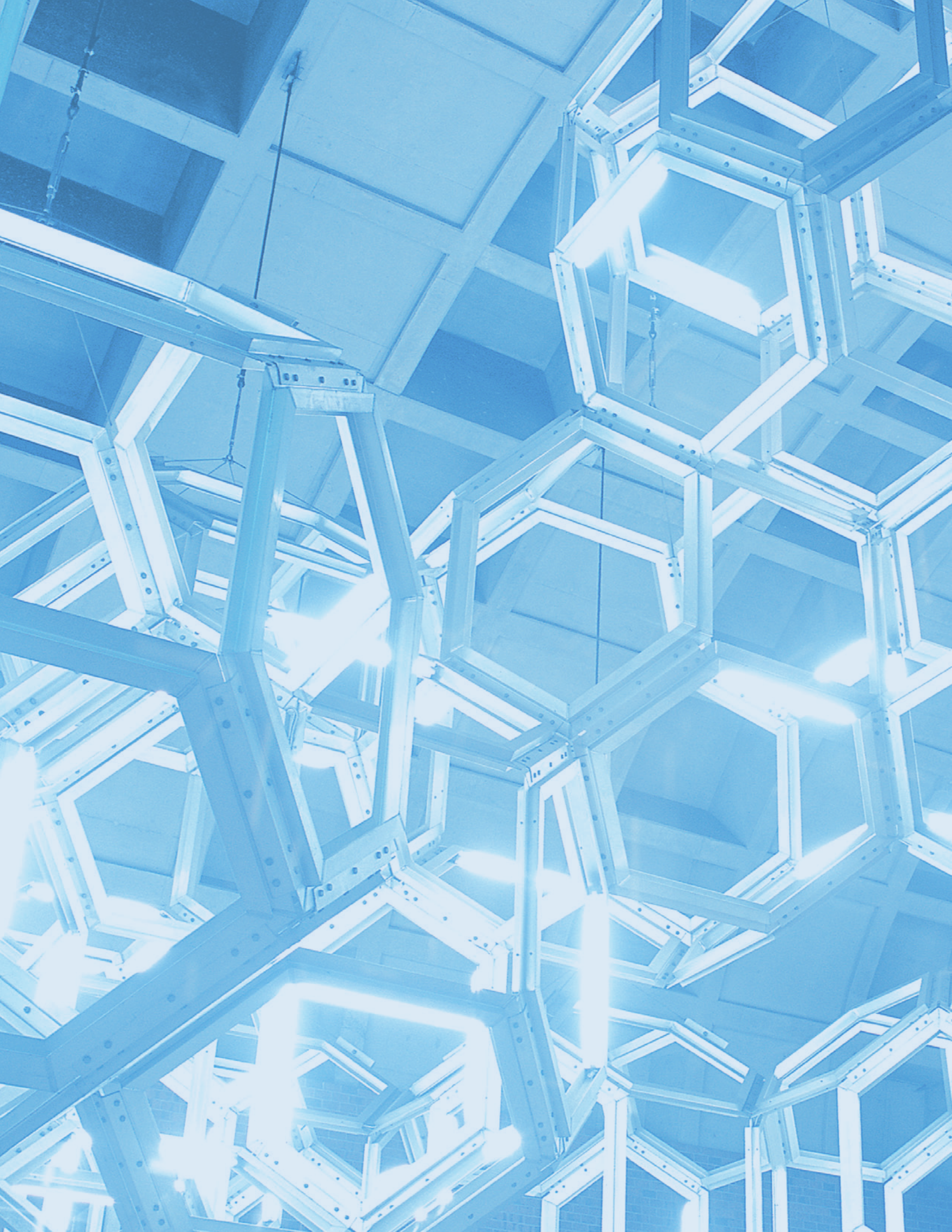
This ratio is an indicator of the leverage used by the Société. The ratio is currently 17.53%, which is below the 100% limit set by the Société. This ratio is at a reasonable level and shows that the financial partners are making larger contributions to asset financing, particularly with respect to cash subsidies.

The breakdown of the ratio is as follows:

Debt excluding the financial partners' portion is total debt less the amount to be recovered from the Government of Quebec for repayment of long-term debt and less amounts accumulated in the sinking fund.

Net assets are equal to total assets less the amount to be recovered from the Government of Quebec for repayment of long-term debt and less amounts accumulated in the sinking fund.





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You can also view the *2012 Sustainable Development Report*, the *2012 Activities Report*, as well as the *2012 Budget* and the *2012-2014 Three-year Capital Expenditures Program* in the Documentation Centre section of our website.