

# An historic year

**Annual Financial Report** 



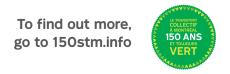
# IN 2011, WE BROKE A RIDERSHIP RECORD WITH...



# 2011 MARKED 150 YEARS OF PUBLIC TRANSPORTATION IN MONTRÉAL.

Construction of the metro's initial network First electric tramway: begins First horse-drawn tramways on Notre-Dame St. 1962 reation of the Mon Tramways Company, that soon held a monopoly on transportation in Montréal 1861 886 pany ntr The Montreal City Passenger Railway Company becomes the Montreal Street Railway Company roll on Beaubien 1966 o1919 The last trolleybuses in Montréal are taken on Bridge St. 1959 out of service The last tra re taken in Montréa out of serv 1985 The CTCUM becomes the Société de transport de la Communauté urbaine de Montréal (STCUM) Official The CTM becomes the Commission inauguration de transport de la Communauté of the Montréal urbaine de Montréal (CTCUM) métro 007 1966 1970 1984 Ridership record (2 million) 01986 **-**01976 lue line Extension of métro Green line 967 1980 2002 for the Olympic Inauguration of metro Yellow line Creation of the CTCUM paratransi service for the handicapped Games The STCUM becomes the Société de transport de Montréal (STM) for Expo 67

# IN 2011, WE CELEBRATED OUR 150<sup>TH</sup> ANNIVERSARY.





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# INTRODUCTION

### **ACKNOWLEDGEMENTS**

The production of the 2011 Annual Financial Report involved a collaborative effort of many employees in the Finance and Control Executive Directorate. Thank you to everyone who contributed, particularly the Financial Management and Systems Framework Directorate.

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Treasurer and Executive Director

Finance and Control

# MEMBERS OF THE BOARD OF DIRECTORS

### Michel Labrecque

Chairman

Representative for public transit users

### **Marvin Rotrand**

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

### **Bernard Blanchet**

Borough Councillor City of Montreal/ Borough of Lachine

### Francesco Miele

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

### **Edward Janiszewski**

Mayor of Dollard-des-Ormeaux

### **Dominic Perri**

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### **Monica Ricourt**

Borough Councillor - District of Ovide-Clermont Borough of Montréal-Nord

### **Marie Turcotte**

Representative for paratransit users

### Claudia Lacroix Perron

Representative for public transit users – below age 35

# MEMBERS OF THE AUDIT COMMITTEE

### Yves Gauthier, FCA

Chairman
Director, 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, CA, MBA, D. Fisc.

External Member Senior Vice-President - Finance and Administration DATSIT Studios inc.

### ORGANIZATION OF THE STM

### **MISSION**

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

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

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

### **GOVERNANCE**

The Board of Directors of the Société is appointed by the City of Montreal's Urban Agglomeration Council from among the members of its regular council and the councils of other municipalities within the agglomeration. In addition, three Board members are selected from among the agglomeration residents, namely two users of public transit services and one user of paratransit services. In appointing the two public transit users, at least one of the appointees must be below age 35 at the time of appointment. The Chairman of the Board, Michel Labrecque, performs his duties on a full-time basis.

The Board's membership is representative of the values of diversity and plurality advocated by the Société. The Board is made up of three women and six men, consisting of six municipal elected officials and three passenger representatives.

### ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS

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

### **BOARD OF DIRECTOR COMMITEES AND THEIR ROLES**

To ensure the sound governance of the Société and obtain assistance in exercising its functions, the Board set up eight technical committees, each of which focuses on a specific area. Most of these committees were created between 2006 and 2008, as part of a review of governance rules, to ensure that the Société performs its activities effectively. They consist of Board of Director members and independent external members.

The Chairman of the Board is an ex officio member of all the committees. The general secretary attends all the meetings and serves as the permanent secretary on all committees without actually being a member.

### **ORGANIZATION OF THE STM**

### **AUDIT COMMITTEE**

The Audit Committee's mandate is to examine the needs, methods and solutions relevant to assuring the Board of Directors that the Société's financial affairs are being managed in an effective, efficient and economical manner and to make sure the information needed to accurately reflect the organization's activities and results is available. It examines and reviews the consolidated financial statements on behalf of the Board, recommends they be approved by the Board, and recommends the appointment of independent auditors.

### **FINANCE COMMITTEE**

The Finance Committee's mandate is to examine the needs, methods and solutions relevant to managing the Société's financial activities and to submit recommendations to the Board. In so doing, it examines the financial framework that supports the Société's business plan and reviews the budget, three-year capital expenditures program and related funding requirements.

### **GOVERNANCE AND ETHICS COMMITTEE**

The Governance and Ethics Committee's mandate is to examine the needs, methods and solutions relevant to embedding sound governance and ethics into the Société's activities and to submit recommendations to the Board.

### **HUMAN RESOURCES COMMITTEE**

The Human Resources Committee's mandate is to examine the needs, methods and solutions relevant to managing the Société's human resources and to submit recommendations to the Board.

### **CUSTOMER SERVICE COMMITTEE**

The Customer Service Committee's mandate is to examine the needs, methods and solutions relevant to the public transit services that the Société provides to passengers and to submit recommendations to the Board. Two subcommittees were formed to specifically address matters of accessibility and diversity. To gauge passenger satisfaction, the committee organizes public consultations every year.

### **ORGANIZATION OF THE STM**

### ASSET MAINTENANCE, MAJOR PROJECTS, AND ENVIRONMENT COMMITTEE

This committee's mandate is to examine the needs, methods and solutions relevant to maintaining the Société's assets (operating equipment and systems, infrastructures and computer equipment), to executing the major projects needed to carry out the Société's business plan, and to managing the environmental policy. The committee also submits recommendations to the Board.

### **OPERATIONAL COMMITTEE**

The Operational Committee's mandate is to examine the needs, methods and solutions relevant to managing the Société's operations and to submit recommendations to the Board.

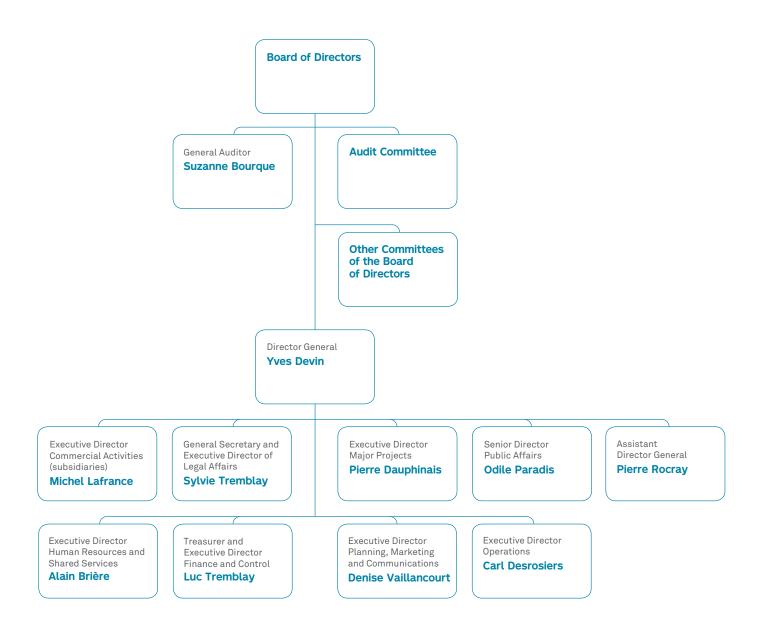
### ARTS AND HERITAGE COMMITTEE

The Arts and Heritage Committee's mandate is to promote and incorporate art into the Société's transit system, to focus on the protection, conservation, proper use and promotion of the Société's heritage property, and to submit recommendations to the Board.

### TRANSGESCO LP (COMMERCIAL ACTIVITIES)

The Board of Partners of Transgesco LP, three members of which are on the Société's Board of Directors, sets its strategic direction and adopts its strategic development plan. In addition to preparing its own financial statements, Transgesco LP consolidates the following entities: Société en commandite Transconseil (99.9 %-owned) and its general partner 9141-1348 Québec Inc. (wholly owned), Société en commandite Collectif Média (99.9 %-owned) and its general partner 9211-8512 Québec Inc. (wholly owned), and Société en commandite Transimmobilier (99.9 %-owned) and its general partner 9223-1240 Québec Inc. (wholly owned).

# ORGANIZATION OF THE STM 31 DECEMBER 2011







### MESSAGE FROM MANAGEMENT

A HISTORIC YEAR

### RECORD RIDERSHIP AND BETTER THAN EXPECTED RESULTS

With 404.8 million passenger trips on its bus and metro system in 2011, which represents an increase of 16.2 million trips or 4.2 % versus 2010—an all-time record in the history of Montreal public transit—the STM's efforts to develop services and increase ridership have clearly produced results.

Much of this excellent performance is due to the public transit service improvement program (PASTEC), funded in equal parts by the Ministère des Transports du Québec (MTQ) and the Montreal Urban Agglomeration. From 2007 to 2011, the STM increased its supply of public transit services by 24.9 % and ridership by 11.4 %. PASTEC originated from the MTQ's Quebec Public Transit Policy, the goal of which was to raise the supply of public transit services by 16 % in order to achieve 8 % growth in ridership between 2007 and 2011. The MTQ confirmed its intention to extend this program in 2012 while work continues on a new program to be implemented in 2013.

The STM closed the year with a slight surplus, that is, \$5.7 million operating surplus for tax purposes. The excellent ridership results generated \$27.1 million in passenger revenues over and above the 2011 budget forecasts. These results should also be examined against the 2011 budget, which, although balanced, had anticipated \$31.6 million in revenues from the share of the fuel tax to cover the structural deficit. However, fuel tax revenues only amounted to \$11.8 million, representing a shortfall of \$19.8 million in 2011.

Since 2010, contributions from the regions and non-Agglomeration municipalities have been subject to an agreement between the municipalities of the Montreal Metropolitan Community (MMC) in order to review the distribution of metropolitan sources of revenues. While the required legislative changes related to this agreement are being prepared, revenues from the 1.5¢/litre fuel tax implemented on May 1, 2010 are shared according to the terms and conditions set by decree for 2010 and 2011. The STM continues to receive the metropolitan subsidies paid by the AMT and the contribution from non-Agglomeration municipalities to fund the metro deficit. Although the fundamentals of this decree are valid, some parameters cause the share of the additional fuel tax allocated to the STM to be significantly less than forecast. In 2012, the STM intends to make the necessary representations to correct the unfavourable parameters.

In the area of spending, sustained cost-control efforts combined with the postponement of certain investments resulted in budget savings of more than \$30.0 million on expenses and allocations for tax purposes.

### **MESSAGE FROM MANAGEMENT (CONT'D)**

Despite the period of global financial instability, rating agencies Moody's and Standard & Poor's have once again recognized the quality, efficiency and performance of the STM's management and maintained its excellent credit ratings of Aa2 and A+.

In 2011, the STM made significant capital investments. The year's main acquisitions consisted of \$167.4 million in bus purchases, \$70.4 million for the renovation program for fixed equipment in the metro, \$25.2 million for the project to prepare the plans and specifications as well as the infrastructures that will serve to maintain the new metro cars, \$22.7 million in engineering and land acquisition costs to add a new bus depot, and \$15.6 million for the metro station renovation program to replace and upgrade metro infrastructures.

In order to meet the objectives of its 2020 Strategic Plan, the STM depends on the financial support of its partners, provincial and federal governments, the Montreal Urban Agglomeration and the Montreal Metropolitan Community. The plan calls for total investments of \$11.5 billion. Despite the importance of funding from partners, these investments will have a significant impact on debt servicing. Unless there are significant changes to the nature and level of current financial resources, funding will, however, remain insufficient to meet the 2020 Strategic Plan objectives. The STM must therefore be able to count on current sources being increased and even on the creation of new dedicated, indexed and recurring sources of funding to finance the development of its service supply, implement new modes of transportation and invest in the replacement of its aging infrastructures. This will ensure that the STM carries out its 2020 Strategic Plan and makes public transit a sustainable success.

Yves Devin, Fellow CRIA

Director General

Luc Tremblay, CA

**Treasureand Executive Director** Finance and Control

# ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

# ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

### **HIGHLIGHTS**

(in thousands of dollars)

		2011	2010
	Budget	Actual	Actual
OPERATING REVENUES			
Passenger revenues	506,123	533,249	487,670
Contributions and subsidies	618,603	567,221	543,769
Other revenues			
Other revenues excluding revenues			
from the sinking fund	38,788	34,051	30,579
Revenues from sinking fund	11,806	14,663	8,210
	50,594	48,714	38,789
	1,175,320	1,149,184	1,070,228
EXPENSES			
Bus and metro service before relief measures related to			
employee future benefits	1,115,483	1,104,143	1,040,214
Relief measures related to employee future benefits	-	69,157	(313,379)
Bus and metro service	1,115,483	1,173,300	726,835
Paratransit service	60,803	57,465	53,423
Interest and financing costs	85,065	64,056	65,030
		·	
	1,261,351	1,294,821	845,288
RECONCILING ITEMS FOR TAX PURPOSES	(86,031)	(151,358)	221,944
RECONCILING EXPENSES AND ITEMS FOR TAX PURPOSES	1,175,320	1,143,463	1,067,232
CONSOLIDATED OPERATING SURPLUS FOR THE YEAR			
FOR TAX PURPOSES	-	5,721	2,996
TOTAL ASSETS		4,224,108	3,971,580
LIABILITIES		2,072,768	1,917,986
ACCUMULATED SURPLUS		2,151,340	2,053,594
		4,224,108	3,971,580
Capital asset acquisitions	583,346	360,286	435,737
Issuance of long-term debt	443,179	354,150	218,250
Long-term debt	1,892,100	1,684,378	1,374,456
Total net long-term indebtedness	1,002,100	513,645	478,004
Cash from operations		366,869	166,359
Ridership (in millions of trips)	393.3	404.8	388.6
Return on sinking fund as a %	4.00 %	7.48 %	5.30 %
Average interest rate on short-term debt	1.62 %	1.12 %	0.75 %
Average interest rate on long-term debt	4.86 %	4.67 %	4.89 %
Credit rating by rating firm:			1100 70
Moody's		Aa2	Aa2
Standard & Poor's		A+	A+

### ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

### **ACCOUNTING FRAMEWORK**

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

Since the Société is a public transit authority as per the classification of the Ministère des Affaires Municipales, des Régions et de l'Occupation du Territoire (MAMROT), its consolidated financial statements include information on the accounting particularities applicable to Quebec municipal governments in accordance with Canadian public sector accounting standards and reflect the legal requirements on the presentation of financial information. In addition, the Société presents certain financial information for tax purposes, i.e., consolidated operating surplus for tax purposes; consolidated investing surplus for tax purposes; the breakdown of the consolidated accumulated surplus; and total net consolidated long-term debt. The components of the 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

For fiscal 2011, the Société recorded operating revenues of \$1,149.2 million. Expenses stood at \$1,294.8 million, generating a \$145.6 million operating deficit for the year before the reconciliation for tax purposes. Once the tax reconciliation adjustments were made, the Société posted a \$5.7 million surplus for fiscal 2011.

### **OPERATING REVENUES**

Operating revenues increased \$79.0 million versus 2010 but posted a shortfall of \$26.1 million versus the budget.

Passenger revenues totalled \$533.2 million, up \$45.6 million from 2010. In addition to breaking a ridership record dating back to 1947, STM's ridership in 2011 exceeded 400 million trips (404.8 million), up 4.2 % from 2010. These results were largely due to greater service supply than in 2010 combined with favourable economic conditions in the first half of the year and greater sales of monthly CAM passes (2.5 % for the regular fare and 4.8 % for the reduced fare) stemming from the fare strategy and CAMPUS program. However, sales of single fares were down slightly in 2011 (-0.8 %).

The Montreal Urban Agglomeration increased its contribution to public transit by \$13.5 million in comparison with 2010, bringing its contribution to the Société to \$372.9 million.

As for subsidies, the Government of Quebec increased its contribution by \$10.3 million compared to the previous year. The Public transit service improvement program (PASTEC) posted a \$10.1 million increase due to a greater supply of bus and metro services. Part of the Quebec Public Transit Policy, this program had aimed to increase public transit ridership by 8 % and the public transit service supply by 16 % between 2007 and 2011. During that period, ridership experienced real growth of 11.4 % and the Société increased public transit service supply by 24.9 % (including the metro line extension to Laval). In a letter dated March 1, 2012, the MTQ confirmed its intention to extend this program in 2012 and provisionally maintain the STM's cap of \$51.9 million under the program ending in 2011 while awaiting the Ministère des Transports' approval of the 2012 budget forecasts.

Despite an increase in debt servicing, the Government of Quebec reduced its contribution to the government assistance program for the public transport of people (PAGTCP) by \$3.3 million. This reduction is due to the fact that, in 2011, the Société capitalized the interest on the long-term debt accumulated prior to the commissioning of the related capital assets. A \$10.8 million subsidy on its long-term debt interest was thus presented in investment subsidies rather than in operating subsidies. The subsidy for paratransit services went up by \$1.3 million, related to the increase in service supply.

# ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

### **OPERATING REVENUES (CONT'D)**

The regional contributions and contributions from non-Agglomeration municipalities decreased by \$0.4 million year over year. This decrease is largely due to two items: a \$1.7 million decrease in the share of the fuel tax and a \$1.2 million increase in contributions from non-Agglomeration municipalities stemming from the 2007-2011 metro agreement. Since 2010, contributions from the regions and non-Agglomeration municipalities were subject to an agreement between transit operating authorities (AOTs) of the MMC in order to review the distribution of metropolitan sources of revenue.

While the required legislative changes related to this agreement are being prepared, revenues from the 1.5¢/litre fuel tax emplemented on May 1, 2010 are shared according to the terms and conditions set by decree for 2010 and 2011. The STM continues to receive the metropolitain subsidies paid by AMT and the contribution from non-Agglomeration municipalities to finance the metro deficit.

Although the fundamentals of this agreement are sound, certain parameters have resulted in a lower-than-anticipated share of the fuel tax being allocated to STM. Specifically, the STM's budget had forecast an amount of \$31.6 million for 2011 whereas the amounts recognized in the Société's consolidated financial statements totalled \$11.8 million (\$15.6 million for 2011 minus a \$3.8 million adjustment for 2010). STM intends to make the necessary representations to correct the unfavourable parameters.

Other revenues increased \$9.9 million from 2010, particularly due to a \$6.5 million increase in revenues from the sinking fund and \$2.2 million growth in the advertising revenues of Transgesco Limited Partnership. In 2010, the Limited Partnership's advertising revenues had been included in the share of profit from a subsidiary.

### **EXPENSES**

When compared to 2010, expenses were up \$449.5 million. This significant increase stems from a \$446.5 million increase in bus and metro service costs. Paratransit service expenses were up \$4.0 million and interest and financing costs were down \$1.0 million. The substantial \$446.5 million increase in bus and metro service expenses stems from the application of an accounting standard on employee future benefits, which resulted in the recording of a \$69.2 million increase in 2011 compared to a significant \$313.4 million decrease in 2010. As per the tax relief permitted by MAMROT, this change in expense does not affect the year's operating surplus for tax purposes, as it was offset by an allocation to a provision for future amounts. If not for this change in employee future benefits expense, the actual bus and metro service expense would have been \$1,104.1 million compared to \$1,040.2 million in 2010, an increase of \$63.9 million and a favourable variance of \$11.4 million against the budget.

Excluding the above-described change in employee future benefits expense, the year-over-year increase in bus and metro service costs are essentially tied to the greater supply of public transit services, which resulted in a 4.6 % increase in bus kilometrage and additional costs of \$23.3 million (50 % of which is assumed by the Government of Quebec), and a payroll indexing exercise that resulted in an increase of \$14.7 million, as set out in the collective agreements.

The year-over-year increase in paratransit service expenses resulted from an overall growth of 6.5 % in trips carried out largely by the taxi service.

Although \$354.2 million in new long-term debt was issued to finance the investments needed to rehabilitate the Société's aging infrastructures, there was a \$1.0 million decrease in interest and financing costs, i.e., a \$2.0 million decrease in interest on long-term debt and a \$1.0 million increase in short-term financing costs. The decrease in interest on long-term debt was mainly attributable to the capitalized interest on capital assets in progress totalling \$14.3 million following a significant long-term financing operation carried out to cover the liquidity needs as a result of (\$172.6 million) deposits made as part of the procurement contract for the new metro cars. Excluding the

# ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

### **EXPENSES (CONT'D)**

capitalized long-term interest, the increase from 2010 would have been \$12.3 million, owing largely to the new issuances in 2011 for a total impact of \$7.9 million.

These financing costs were \$21.0 million below budget, as the Société had anticipated greater investment and therefore greater borrowing in 2011. Certain investments were also entirely funded through SOFIL (Program for the financing of local infrastructure in Quebec), which reduced the funding needs.

### CONSOLIDATED INVESTING SURPLUS (DEFICIT) FOR TAX PURPOSES

Capital asset acquisitions totalled \$360.3 million in 2011, \$223.1 million less than budgeted and \$75.4 million less than in 2010. The variance against the budget stems mainly from a postponement of certain projects in the asset maintenance program for fixed equipment in the metro and the construction of new infrastructures due to the late approval of funding and smoothing of project costs required by the MTQ in order to lessen its 2011-2015 financial commitments.

As a direct consequence of the lower level of capital asset acquisitions, investment revenue totalled \$243.4 million in 2011, representing an unfavourable variance of \$227.4 million against the budget and \$134.0 million year over year. The same is true for long-term financing, which was \$48.4 million less than budgeted and \$4.2 million less than in 2010.

Subsidies from the Government of Quebec totalled \$225.7 million (i.e., \$127.0 million from the government assistance program for the public transport of people, \$95.6 million from the program for financing of local infrastructures in Quebec and \$3.1 million from the assistance program for improving energy efficiency in passenger road transportation). The balance of funding was provided by the Société (i.e., \$97.0 million from the long-term debt issued in 2011 or forthcoming and \$20.0 million from its operating activities), by the Montreal Urban Agglomeration (i.e., \$16.1 million from the program for financing of local infrastructures in Quebec) and by the federal government (i.e., \$1.5 million from the Building Canada fund).

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### **FINANCIAL ASSETS**

Financial assets decreased \$14.0 million from 2010, mainly due to a \$25.0 million decrease in contributions receivable from the Montreal Urban Agglomeration, a \$29.0 million decrease in regional contributions and contributions from non-Agglomeration municipalities receivable, and a \$63.2 million decrease in the employee future benefits asset offset by a net increase of \$105.3 million in sinking fund investments. The Société's financial assets consist essentially of the following:

### SINKING FUND INVESTMENTS

The sinking fund investments constitute investments in 16 funds earmarked for the repayment of certain long-term debts. At December 31, 2010, the sinking fund investments totalled \$261.1 million. During 2011, contributions totalled \$90.6 million (\$83.7 million in 2010), and the investments generated revenues of \$14.7 million (\$8.2 million in 2010), representing a return of 7.48 % (5.30 % in 2010), which is above the 4.0 % target set for 2011. This excellent performance was due to a sound investment strategy. The balance of the sinking fund investments thus totalled \$366.4 million as at December 31, 2011.

### **ANALYSIS OF THE CONSOLIDATED** FINANCIAL STATEMENTS

### CONTRIBUTION RECEIVABLE FROM THE MONTREAL URBAN AGGLOMERATION

The \$25.0 million decrease was due to the equivalent decrease in the contribution receivable from the SOFIL program as a result of the lower investments in 2011 versus 2010, primarily with respect to bus purchases.

### SUBSIDIES RECEIVABLE

The \$11.6 million increase in subsidies receivable is related to the capital asset subsidy amounts receivable from the Government of Quebec under various assistance programs and those receivable from the Government of Canada. There was a \$111.4 million increase in receivables to be allocated to the repayment of long-term debt arising from massive infrastructure investment; a \$70.2 million decrease in subsidies receivable under the SOFIL program stemming from a smaller amount of eligible expenses under this program, mainly related to the bus purchases; and a \$34.3 million decrease in subsidies receivable under the PASTEC program.

### **EMPLOYEE FUTURE BENEFITS ASSET**

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, 2011, the employee future benefits asset stood at \$251.4 million (\$314.6 million in 2010). The amount of \$251.4 million is comprised of the following: a \$361.9 million asset for the pension plans and a \$110.5 million liability for supplementary retirement benefits and post-employment benefits.

The \$361.9 million asset for the pension plans stems essentially from \$380.6 million in unamortized actuarial losses that will be amortized in subsequent years over the expected average remaining service life (EARSL). These losses constitute the limit on the accrued benefit asset, as required under the employee future benefits accounting standards. The \$380.6 million decrease in this asset (\$445.1 million in 2010) 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 other employee future benefits (supplementary retirement benefits and post-employment benefits), the liability increased by \$2.4 million, representing the difference between the \$4.4 million in contributions paid and the \$6.9 million expense, bringing the liability to \$110.5 million.

### LIABILITIES

Liabilities rose \$154.8 million, mainly due to a \$309.9 million increase in long-term debt and a \$158.6 million decrease in short-term loans. The increase in liabilities was directly related to the capital asset acquisitions.

### LONG-TERM DEBT

As at December 31, 2010, long-term debt stood at \$1,374.4 million. In 2011, the Société issued \$354.2 million in new long-term debt and repaid \$44.2 million of its long-term debt. Therefore, as at December 31, 2011, long-term debt stood at \$1,684.4 million.

Total net indebtedness, which stood at \$513.6 million in 2011, increased by \$35.6 million from 2010, whereas the net value of the Société's capital assets increased by \$196.5 million.

### **ANALYSIS OF THE CONSOLIDATED** FINANCIAL STATEMENTS

### **NON-FINANCIAL ASSETS**

Non-financial assets rose by \$266.5 million owing mainly to a \$196.5 million increase in capital assets and to a \$76.2 million deposits on the new metro cars.

### **CAPITAL ASSETS**

This item represents the net value of the Société's capital assets. The change between the 2010 value of \$2,220.5 million and the 2011 value of \$2,417.0 million stems from \$360.4 million in acquisitions less \$159.9 million in amortization and the \$4.0 million unamortized value of disposed tangible capital assets.

The year's main acquisitions consisted of \$167.4 million for the purchase of 273 buses, \$70.4 million for the program to recondition fixed metro equipment, \$25.2 million for the project to prepare the plans and specifications as well as the infrastructures that will serve to maintain the new metro cars that will be replaced over the coming years, \$22.7 million in costs related to a new bus depot, and \$15.6 million for the metro station renovation program to replace and upgrade metro infrastructures. The remaining balance of \$59.1 million consists of smaller-scale projects.

### **PURCHASE OF METRO CARS**

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

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

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

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

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

# ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

### **PURCHASE OF METRO CARS (CONT'D)**

(in millions of dollars)

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

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

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

 $<sup>^{(</sup>c)}$  Only for the «Total contract to the consortium» portion.

# 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, 2011 included in the Annual Financial Report of the Société de transport de Montréal were certified by the treasurer and submitted at a meeting of the Board of Directors on May 2, 2012.

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 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 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 Samson Bélair/Deloitte & Touche s.e.n.c.r.l., whose services were retained by the Board of Directors on the recommendation of the Audit Committee.

Luc Tremblay, CA

Treasurer and Executive Director

Finance and Control

Angèle Dubé, CA

Angile Dube

Director

Financial Management and Systems Framework



### AUDITOR GENERAL OF MONTRÉAL 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, 2011, 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 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.

### **AUDITORS' RESPONSIBILITY**

My responsibility is to express an opinion on these consolidated financial statements based on my 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.

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.

### AUDITOR GENERAL OF MONTRÉAL REPORT

### **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, 2011, and of the results of its operations, change in its net debt, and 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 – Accumulated surplus" of the consolidated financial statements in which the Société includes certain financial information prepared for tax purposes. Management has decided to present this information, which is not required under Canadian public sector accounting standards, as it deems such information necessary in order to provide a more appropriate and comprehensive analysis of the results of operations.

Auditor General of Montréal,

Jacques Bergeron, CA auditor

Montréal, May 2, 2012



### **INDEPENDENT AUDITORS' 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, 2011, 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 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.

### **AUDITORS' 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.

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.

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

### **INDEPENDENT AUDITORS' REPORT**

### **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, 2011, and of the results of its operations, change in its 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 – 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 that is compliant with the model developed by the Ministère des Affaires municipales, des Régions et de l'Occupation du territoire. This information, which is not required under Canadian public sector accounting standards, is presented in order to provide a more appropriate and comprehensive analysis of the results of operations.

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

Janua Kilair Mintle & Touch meneral.

<sup>1</sup>CA auditor permit no. 10881

Montréal, May 2, 2012

# CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011

### **CONSOLIDATED STATEMENT OF OPERATIONS**

Year ended December 31, 2011

(in thousand of dollars)

			2011	2010
	Notes	Budget	Actual	Actual
		(unaudited)		
REVENUES				
Operations				
Passenger revenues	3	506,123	533,249	487,670
Contribution from the Montreal Urban		007.000	007.000	050 (00
Agglomeration		387,900	387,900	359,400
Special contribution to the Montreal Urban Agglomeration			(15,000) <sup>(a)</sup>	
Subsidies	4	140,479	123,575	113,236
Regional contributions and contributions	4	140,479	123,575	113,230
from non-Agglomeration municipalities	5	90,224	70,746	71,133
Other revenues	6	50,594	48,714	38,789
			10,7 1 1	
		1,175,320	1,149,184	1,070,228
Investment				
Contribution from the Montreal				
Urban Agglomeration		27,532	16,113	41,117
Subsidies	4	443,256	227,270	336,224
		470,788	243,383	377,341
		1,646,108	1,392,567	1,447,569
EXPENSES Bus and metro service		1,115,483	1,173,300	726,835
Paratransit service		60,803	57,465	53,423
Interest and financing costs	7	85,065	64,056	65,030
interest and imancing costs	/	85,005	04,050	05,030
		1,261,351	1,294,821	845,288
Surplus for the year		384,757	97,746	602,281
Accumulated surplus at beginning of year			2,053,594	1,451,313
Accumulated surplus at end of year			2,151,340	2,053,594

<sup>&</sup>lt;sup>(a)</sup> This payment contributed to the budgetary challenges of the Montreal Urban Agglomeration. It also reduced the operating surplus for the year for tax purposes.

### **CONSOLIDATED OPERATING SURPLUS FOR TAX PURPOSES**

Year ended December 31, 2011

(in thousand of dollars)

		2011	2010
	Budget	Actual	Actual
	(unaudited)		
SURPLUS FOR THE YEAR Less: investment revenues	384,757 (470,788)	97,746 (243,383)	602,281 (377,341)
Operating surplus (deficit) for the year before reconciliation for tax purposes	(86,031)	(145,637)	224,940
RECONCILIATION FOR TAX PURPOSES Capital assets			
Proceeds from disposal	-	4,296	7,909
Amortization	152,000	159,873	158,852
Loss (gain) on disposal	-	(289)	486
	152,000	163,880	167,247
Financing			
Repayment of long-term debt, net of refinancing	(32,575)	(44,228)	(27,402)
Subsidy on the repayment of long-term debt	00.400	00.040	00.040
and on the contribution to the sinking fund	88,182	88,219	63,610
Long-term financing of operating activities			(1)
	55,607	43,991	36,207
Allocations			
Investing activities	(2,602)	(21,130)	(17,864)
Sinking fund	(116,623)	(105,321)	(91,877)
Working capital fund	(851)	(1,326)	1,525
Unrestricted operating surplus	-	2,996	-
Provision for future amounts	(1,500)	68,268	(317,182)
	(121,576)	(56,513)	(425,398)
	86,031	151,358	(221,944)
Operating surplus for the year for tax purposes	-	5,721	2,996

## CONSOLIDATED INVESTING SURPLUS (DEFICIT) FOR TAX PURPOSES

Year ended December 31, 2011 (in thousands of dollars)

		2011	2010
	Budget	Actual	Actual
	(unaudited)		
INVESTMENT REVENUES	470,788	243,383	377,341
RECONCILIATION FOR TAX PURPOSES			
Capital assets			
Acquisitions			
Buildings	(13,232)	(22,617)	(22,735)
Metro infrastructures	(150,809)	(112,026)	(209,688)
Local and regional infrastructures	(41,727)	(437)	(3,850)
Rolling stock - metro cars	-	(3,295)	-
Rolling stock - buses	(117,479)	(167,445)	(267,444)
Rolling stock - service vehicles	(3,736)	(4,205)	(3,041)
Leasehold improvements	-	(1,475)	-
Office equipment and software	(8,902)	(9,343)	6,971
Machinery, tools and equipment	(130,792)	(11,052)	(3,067)
Capital assets in progress	(116,669)	(28,391)	67,117
	(583,346)	(360,286)	(435,737)
Financing			
Long-term financing of investing activities	109,956	61,569	65,767
Allocations			
Operating activities	2,602	21,130	17,864
Balances available from closed loan by-laws	-	(1,128)	-
	2,602	20,002	17,864
	(470,788)	(278,715)	(352,106)
Investing suplus (deficit) for the year for tax purposes	_	(35,332)	25,235

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2011

(in thousands of dollars)

	Notes	2011	2010
FINANCIAL ASSETS			
Cash		23,705	23,565
Sinking fund investments	8	366,375	261,054
Contribution receivable from the Montreal			
Urban Agglomeration		16,113	41,117
Subsidies receivable	9	842,784	831,153
Regional contributions and contributions from	10	20.220	F7 010
non-Agglomeration municipalities receivable		28,238	57,216
Other receivables	11	41,433	46,572
Long-term investments	12	254.260	8,733
Employee future benefits asset	13	251,369	314,557
		1,570,017	1,583,967
LIABILITIES			
Short-term loans	14	172,853	331,414
Accounts payable and accrued liabilities	15	200,537	212,116
Special contribution payable to the Montreal			,
Urban Agglomeration		15,000	-
Long-term debt	16	1,684,378	1,374,456
		2,072,768	1,917,986
NET DEBT		(502,751)	(334,019)
NON-FINANCIAL ASSETS			
Capital assets	17	2,416,968	2,220,492
Inventories	17	40,983	36,161
Other non-financial assets	18	196,140	130,960
	10	130,140	130,900
		2,654,091	2,387,613
ACCUMULATED SURPLUS		2,151,340	2,053,594

Commitments (Note 22)

Contingencies (Note 23)

# CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT

Year ended December 31, 2011

	Note	Budget	2011	2010
		(unaudited)		
Surplus for the year		384,757	97,746	602,281
Change in capital assets				
Acquisitions		(583,346)	(360,286)	(435,737)
Proceeds from disposal		-	4,296	7,909
Amortization		152,000	159,873	158,852
Loss (gain) on disposal		-	(289)	486
		(431,346)	(196,406)	(268,490)
			(/, 000)	(4,000)
Change in inventories		-	(4,822)	(1,936)
Change in other non-financial assets		-	(64,819)	(107,061)
		-	(69,641)	(108,997)
Integration of an entity	20	-	(431)	-
Change in net debt			(168,732)	224,794
Net debt at beginning of the year			(334,019)	(558,813)
Net debt at end of year			(502,751)	(334,019)

# **CONSOLIDATED STATEMENT OF CASH FLOWS**

Year ended December 31, 2011

(in thousands of dollars)

	Notes	2011	2010
Operating activities			
Surplus for the year		97,746	602,281
Non-cash items		,	, ,
Share of profit from a subsidiary		-	(17,218)
Amortization of capital assets		159,873	158,852
Loss (gain) on disposal of capital assets		(289)	486
		257,330	744,401
Net change in non-cash items	19	109,539	(578,042)
		366,869	166,359
Capital investing activities			
Acquisitions		(360,286)	(435,737)
Proceeds from disposal		4,296	7,909
Change in deposits for bus purchases		14,826	2,022
Change in deposits for metro car purchases		(76,245)	(96,316)
		(417,409)	(522,122)
Investing activities			
Amortization of premiums and discounts on			
sinking fund investments		4,375	772
Acquisition of sinking fund investments		(109,696)	(92,649)
Distribution from a subsidiary		-	13,490
Integration of an entity	20	6,561	-
		(98,760)	(78,387)
Financing activities			
Net change in short-term loans		(158,561)	244,453
Issuance of long-term debt		354,150	218,250
Repayment of long-term debt		(44,228)	(25,642)
Change in issuance costs for long-term debt		(1,921)	96
		149,440	437,157
Increase in cash		140	3,007
Cash at beginning of year		23,565	20,558
Cash at end of year		23,705	23,565

The cash item consists solely of cash.

# **CONSOLIDATED EXPENSES BY ITEM**

Year ended December 31, 2011

		2011	2010
	Budget	Actual	Actual
	(unaudited)		
Compensation	581,862	590,643	554,355
Benefits	163,460	222,976 <sup>(a)</sup>	(164,366) <sup>(a)</sup>
Goods and services	278,664	257,018	230,692
Interest and financing costs			
Short-term financing costs	4,182	2,925	1,929
Interest on long-term debt borne by:			
The Société	32,110	18,002	27,480
Government of Quebec and its enterprises	48,773	43,129	35,621
	85,065	64,056	65,030
Amortization of capital assets	152,000	159,873	158,852
Other	300	255	725
	1,261,351	1,294,821	845,288

<sup>&</sup>lt;sup>(a)</sup> See the «Analysis of the Consolidated Financial Statements - Operating Surplus for Tax Purposes» section under the «Expenses» heading (p.15).

As at December 31, 2011

(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

Like other government organizations, 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 assets, liabilities, operating results and cash flows 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. As at January 1, 2011, the Société initiated full consolidation of Transgesco Limited Partnership (Note 20).

### 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, 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.

As at December 31, 2011

(in thousands of dollars)

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

### e) Revenue recognition

Revenues from passenger transportation are recognized in the 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 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 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.

#### f) Cash

Cash consists of bank balances and bank overdrafts.

### g) Sinking fund investments

The sinking fund investments consist mainly of bonds and bond coupons that are recorded at amortized cost and written down when there has been an other-than-temporary decline in their value. Discounts or premiums on 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 asset and expenses

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 rate of increase in salaries and healthcare costs.

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

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

Actuarial gains or losses resulting from the difference between the actual and anticipated returns on the plan assets or resulting from changes in actuarial assumptions are deferred and amortized over the average remaining service life of active employees. As at December 31, 2011, the average remaining service life varied from three to thirteen years.

As at December 31, 2011

(in thousands of dollars)

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

### j) Capital assets

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

Buildings	20 and 40 years	
Metro infrastructures	20, 25, 30, 40 and 100 years	
Local and regional infrastructures	10, 20 and 40 years	
Rolling stock – metro cars	40 years	
Rolling stock – buses	5 and 16 years	
Rolling stock – service vehicles	5, 10 and 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	

During the year, the Société revised the useful lives of certain capital assets based on its past experience. Consequently, as of the beginning of the year, buildings are being amortized over a period of 20 and 40 years, whereas they had previously been amortized over a period of 40 years; metro infrastructures are being amortized over 25, 30, 40 and 100 years, whereas they had previously been amortized over 15, 25, 40 and 100 years; local and regional infrastructures are being amortized over 10, 20 and 40 years, whereas they had previously been amortized over 20 and 40 years; buses are being amortized over 5 and 16 years, whereas they had previously been amortized over a period of 13 to 16 years; service vehicles are being amortized over 5, 10 and 25 years, whereas they had previously been amortized over 5 and 10 years; and machinery, tools and equipment are being amortized over 15 and 20 years, whereas they had previously been amortized over 15 years. The revised estimates have increased amortization expense by \$12.2 million for the year ended December 31, 2011.

Capital assets are amortized starting from the date they are put into service. Capital assets in progress (projects being carried out) and retired 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.

### k) Inventories

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

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

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

### m) Environmental obligations

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

As at December 31, 2011

(in thousands of dollars)

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

#### n) 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.

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 to protect itself from 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.

### o) Budgetary data (unaudited)

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

As at December 31, 2011

(in thousands of dollars)

3. PASSENGER REVENUES		
	2011	2010
Bus and metro service	477,047	438,158
Paratransit service	3,113	2,819
Regional revenues (a)	53,089	46,693
	533,249	487,670

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

4. SUBSIDIES		
	2011	2010
Operating		
Government assistance program for the public		
transport of people <sup>(a)</sup>	32,319	35,621
Public transit service improvement program (b)	50,022	39,883
Paratransit service (c)	38,656	37,334
Program for the financing of local infrastructures in Quebec (d)	1,549	-
Other	1,029	398
	123,575	113,236
Investing		
Government assistance program for the public		
transport of people <sup>(a)</sup>	127,063	105,697
Public transit service improvement program (b)	-	7,605
Program for the financing of local infrastructures in Quebec (d)	95,550	223,139
Building Canada Fund (e)	1,517	-
Government assistance program for improving		
energy efficiency in passenger road transportation <sup>(f)</sup>	3,140	-
Other	-	(217)
	227,270	336,224
	350,845	449,460

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

Under the Government of Quebec's assistance program for the public transport of people and under other agreements, the Société is eligible for subsidies at rates of 50 %, 75 % or 100 % for acquisitions of eligible 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.

As at December 31, 2011

(in thousands of dollars)

### 4. SUBSIDIES (CONT'D)

b) Public transit service improvement program (PASTEC)

The Société has been eligible for a subsidy of up to 50 % of the operating expenses (or, in certain cases, investing expenses) deemed admissible by the Ministère des Transports, over a period of five years beginning in 2007. Part of the Quebec Public Transit Policy, the program had aimed to increase the public transit service supply by 16 % and public transit ridership by 8 % between 2007 and 2011.

(c) Paratransit service

Under the Government of Quebec's paratransit assistance program, 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 Agglomération (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) Building Canada Fund (BCF)

This federal government program supports investments in public infrastructures owned by provincial, territorial and municipal governments, and in certain cases, private sector and not-for-profit organizations. The federal contribution can reach one-third of the Société's total eligible costs.

(f) 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 eligible capital expenditures. The program's mission is to promote the use of new technologies and improve energy efficiency in passenger road transportation.

As at December 31, 2011

(in thousands of dollars)

#### 5. REGIONAL CONTRIBUTIONS AND CONTRIBUTIONS FROM NON-AGGLOMERATION MUNICIPALITIES

	2011	2010
Regional contributions		
For trips on the metro network (a)	40,128	40,521
For trips on metropolitan bus routes (a)	4,914	4,693
Paratransit service (b)	207	203
For equipment and infrastructures (c)	1,295	1,033
Share of the fuel tax (d)	11,802	13,503
Fare integration (e)	4,079	4,071
	62,425	64,024
Contribution from non-Agglomeration municipalities (f)	8,321	7,109
	70,746	71,133

#### (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, 2011, 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))

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

### (e) Fare integration

Metropolitan assistance paid is 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 non-Agglomeration municipalities

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

As at December 31, 2011

(in thousands of dollars)

6. OTHER REVENUES		
	2011	2010
Advertising	19,438	2,434
Share of profit from a subsidiary	-	17,218
Revenues from sinking fund	14,663	8,210
Administrative expenses on the sale of OPUS cards	4,850	4,528
Other	9,763	6,399
	48,714	38,789

7. INTEREST AND FINANCING COSTS	2011	2010
Short-term financing costs Interest on long-term debt	2,925 61,131	1,929 63,101
	64,056	65,030

8. SINKING FUND INVESTMENTS			
	2011	2010	
Cash	73,662	27,380	
Bonds and bond coupons	291,040	232,191	
Interest receivable	1,673	1,483	
	366,375	261,054	

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

	2011		2010	)
	Investments guaranteed by the Government of Quebec	Nominal weighted interest rate	Investments guaranteed by the Government of Quebec	Nominal weighted interest rate
2011	-	-	8,208	5.00 %
2012	21,521	4.10 %	21,526	4.22 %
2013	23,190	4.04 %	27,168	4.40 %
2014	51,964	3.58 %	41,744	3.86 %
2015	31,424	2.81 %	34,602	2.88 %
2016	54,460	2.95 %	-	-
More than				
5 years	108,481	3.85 %	98,943	4.26 %
	291,040	3.56 %	232,191	4.03 %

As at December 31, 2011

(in thousands of dollars)

9. SUBSIDIES RECEIVABLE		
3. SOBSIDIES RECEIVABLE	2011	2010
Government of Quebec		
Receivables to be allocated to the repayment of long-term debt (a)	833,338	628,976
Receivables to be allocated to the repayment of long-term debt not yet issued (b)	72,110	38,280
Receivables related to the long-term debt issued for future capital assets (c)	(151,292)	(24,510)
Program for the financing of local infrastructures	58,089	128,283
Government assistance program for the public transport of people	7,748	9,643
Paratransit service	17,144	12,021
Public transit service improvement program	4,130	38,460
	841,267	831,153
Government of Canada		
Building Canada Fund	1,517	-
	842,784	831,153

<sup>(</sup>a) An amount of \$39.6 million related to the SOFIL-2 program (\$0.0 million in 2010).

Receipts of receivables to be allocated to the repayment of long-term debt, the terms and conditions ofr which have been established as at December 31, 2011, are as follows:

	2011		20	010
	Receipts	Nominal weighted interest rate	Receipts	Nominal weighted interest rate
2011	-	-	17,732	4.42 %
2012	52,659	4.76 %	40,042	5.06 %
2013	29,881	4.32 %	17,641	4.70 %
2014	113,819	4.77 %	100,187	4.89 %
2015	21,410	4.04 %	9,311	4.41 %
2016	45,163	4.42 %	-	-
1 to 5 years	262,932	4.60 %	184,913	4.84 %
6 to 10 years	570,406	4.57 %	444,063	4.80 %
	833,338	4.58 %	628,976	4.81 %

<sup>(</sup>b) An amount of \$39.4 million related to the SOFIL-2 program (\$0.0 million in 2010).

<sup>(</sup>c) An amount of \$138.7 million related to deposits for the purchase of metro cars, as indicated in Note 18 (\$0.0 million in 2010).

As at December 31, 2011

(in thousands of dollars)

# 10. REGIONAL CONTRIBUTIONS AND CONTRIBUTIONS FROM NON-AGGLOMERATION

MUNICIPALITIES RECEIVABLE	2011	2010
Regional contributions Contribution from non-Agglomeration municipalities	28,238	48,230 8,986
	28,238	57,216

11. OTHER RECEIVABLES		
	2011	2010
Regional revenues	5,575	12,026
Tax claims from governments	4,122	9,806
Trade accounts receivable	30,681	22,922
Other	1,055	1,818
	41,433	46,572

A \$9.5 million allowance for bad debt (\$9.7 million in 2010) has been deducted from other receivables.

12. LONG-TERM INVESTMENTS		
	2011	2010
Investment in a subsidiary, recognized using the modified equity method (Note 20) Other subsidiary	- -	8,718 15
	-	8,733

As at December 31, 2011

(in thousands of dollars)

### 13. EMPLOYEE FUTURE BENEFITS ASSET

	2011	2010
Defined benefit pension plans Other pension plans	361,898 (110,529)	422,651 (108,094)
	251,369	314,557

The expenses related to the defined benefit plans totalled \$125.5 million (-\$262.3 million in 2010).

#### 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 12 % for the Société plus an amortization payment of \$0.7 million, whereas for the CSN Plan, the rate is 8.01 % for employees and 10.05 % 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, 2008. The next valuation scheduled for December 31, 2011 is not available as at the date of publication of these financial statements.

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 must be in agreement in determining the use of any surpluses. A portion of the surplus is reserved for the funding of future benefits (the reserve). Thus, the expected future benefit is nil, giving rise to the recording of a valuation allowance that is deducted from the accrued benefit asset. As at December 31, 2011, the valuation allowance stood at \$82.6 million (\$59.0 million in 2010).

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.

As at December 31, 2011 (in thousands of dollars)

## 13. 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

Financial Position				
	2011		2010	
	Pension plans	Other plans	Pension plans	Other plans
Actuarial value of plan assets Accrued benefit obligation	3,221,377 (3,157,422)	- (121,306)	3,089,115 (3,052,596)	- (113,920)
Funded status (deficit) Unamortized actuarial losses	63,955 380,551	(121,306) 10,777	36,519 445,140	(113,920) 5,826
Accrued benefit asset (liability) Valuation allowance	444,506 (82,608)	(110,529) -	481,659 (59,008)	(108,094)
Employee future benefits asset (liability)	361,898	(110,529)	422,651	(108,094)
c) Plans for which the accrued benefit obligation	exceed the asset	ts		
	2011	2010		
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit obligation Actuarial value of plan assets	(797,065) 778,412	(121,306) -	(770,209) 747,720	(113,920) -
Funding deficit	(18,653)	(121,306)	(22,489)	(113,920)
d) Actuarial value of plan assets				
•	2011	2010		
	Pension plans	Other plans	Pension plans	Other plans
Balance at beginning of year Contributions for the year Expected return on plan assets Benefits paid Gain (loss) during the year on the expected return on plan assets	3,089,115 93,198 197,763 (185,187) 26,488	- 4,424 - (4,424)	3,139,951 85,203 213,484 (175,865)	3,054 - (3,054)
Balance at end of year	3,221,377		3,089,115	-
Fair value of plan assets	3,169,732	-	3,163,616	-

As at December 31, 2011

(in thousands of dollars)

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

# e) Accrued benefit obligation

	2011		2010	
	Pension plans	Other plans	Pension plans	Other plans
Balance at beginning of year	3,052,596	113,920	2,775,666	119,608
Cost of services rendered during the year	94,157	3,586	77,239	3,390
Benefits paid	(185,187)	(4,424)	(175,865)	(3,054)
Interest cost on the obligation	195,256	5,675	187,871	4,806
Loss (gain) on the obligation during the year	600	2,549	187,685	(10,830)
Balance at end of year	3,157,422	121,306	3,052,596	113,920

## f) Components of the defined benefit plans expense

	2011		2010	
	Pension plans	Other plans	Pension plans	Other plans
Cost of services rendered during the year Employee contributions Amortization of actuarial losses (gains)	94,157 (35,357) 38,701	3,586 - (2,402)	77,239 (31,376) 9,294	3,390 - (1,899)
Retirement benefits expense	97,501	1,184	55,157	1,491
Interest cost on the obligation Expected return on plan assets	195,256 (197,763)	5,675 -	187,871 (213,484)	4,806
Interest expense (revenue)	(2,507)	5,675	(25,613)	4,806
Change in valuation allowance	23,600	-	(298,150)	-
Total expense	118,594	6,859	(268,606)	6,297

As at December 31, 2011

(in thousands of dollars)

## 13. 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, 2010 to December 31, 2011, are as follows:

	2011		2010	
	Pension plans	Others plans	Pension plans	Other plans
Long-term inflation rate	2.50 %	2.50 %	2.50 %	2.50 %
Discount rate	6.20 %	5.00 %	6.49 %	5.00 %
Expected rate of return on plan assets	6.25 %	-	6.50 %	-
Rate of compensation increase	2.96 %	3.23 %	3.00 %	3.21 %
Initial growth rate for healthcare costs	-	9.42 %	-	9.69 %
Ultimate growth rate for healthcare costs	-	4.98 %	-	5.01 %
Year when rate is expected to stabilize	-	2025	-	2025

As at December 31, 2011

(in thousands of dollars)

#### 14. 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, 2011, the nominal value of commercial paper issuances totalled \$172.9 million (\$331.4 million in 2010), and the average rate for the 2011 fiscal year was 1.12 % (0.75 % in 2010).

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 2011 was 3.30 % (2.89 % in 2010). As at December 31, 2011, the line of credit was unused and was bearing interest at a rate of 3.30 % (3.30 % in 2010).

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.

#### 15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2011	2010
Trade accounts payable and accrued liabilities	83,213	105,516
Salaries and benefits	63,134	57,887
Prepaid revenues	17,967	17,353
Accrued interest on long-term debt	13,890	13,066
Other	22,333	18,294
	200,537	212,116

As at December 31, 2011

(in thousands of dollars)

16. LONG-TERM DEBT		
TO. LONG TERM DEBT	2011	2010
Bonds, loans and bank loans, at fixed interest rates ranging from 1.65 % to 5.85 % (1.00 % to 5.85 % in 2010), maturing from January 2012 to November 2027	1,684,378	1,374,456

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

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 \$57.5 million was contracted by the City of Montreal on behalf of the Société.

The Société used currency and interest rate swaps for loans totalling \$207.0 million (\$207.0 million in 2010). The swaps eliminate nearly all exchange and interest rate risks.

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

	2011		20	2010		
Year of maturity	Canadian dollars <sup>(a)</sup>	To be refinanced	Net maturity	Nominal weighted interest rate	Canadian dollars <sup>(a)</sup>	Nominal weighted interest rate
2011	-	-	_	-	32,566	4.42 %
2012	95,108	15,400	79,708	4.76 %	73,540	5.06 %
2013	53,967	14,340	39,627	4.32 %	32,400	4.70 %
2014	205,568	27,900	177,668	4.77 %	184,000	4.89 %
2015	38,667	7,800	30,867	4.04 %	17,100	4.41 %
2016	81,568	8,400	73,168	4.42 %	-	-
1 to 5 years	474,878	73,840	401,038	4.60 %	339,606	4.84 %
6 to 10 years	1,030,202	151,450	878,752	4.57 %	815,552	4.80 %
11 years and thereafter	179,298	14,000	165,298	5.40 %	219,298	5.31 %
	1,684,378	239,290	1,445,088	4.67 %	1,374,456	4.89 %
(a) Including loans of Change in long-ter		eign currencies	and subject to	hedging.	2011	2010
Balance at beginning of year New loans Repayments			1,374,456 354,150 (44,228)	1,181,848 218,250 (25,642)		
Balance at end of year				1,684,378	1,374,456	
Breakdown of long	-term debt					
Amounts accumulated in the sinking fund			366,375	261,054		
Amounts to be recovered for repayment of long-term debt:						
Montreal Urban Agglomeration			484,665	484,426		
Government of G	Quebec				833,338	628,976
					1,318,003	1,113,402

1,374,456

1,684,378

As at December 31, 2011

(in thousands of dollars)

17. CAPITAL ASSETS				
	Balance at		Disposal/	Balance
	beginning	Increase	Write-off	at end
Cost				
Land	7,352	-	-	7,352
Buildings	288,965	22,617	-	311,582
Metro infrastructures	1,879,398	112,026	323	1,991,101
Local and regional infrastructures	29,904	437	103	30,238
Rolling stock - metro cars	496,468	3,295	-	499,763
Rolling stock - buses	841,576	167,445	104,981	904,040
Rolling stock - service vehicles	46,760	4,205	551	50,414
Leasehold improvements	-	1,475	-	1,475
Office equipment and software	123,113	9,391	16,905	115,599
Machinery, tools and equipment	146,586	11,074	1,017	156,643
	3,860,122	331,965	123,880	4,068,207
Capital assets in progress	302,524	28,391	-	330,915
	4,162,646	360,356	123,880	4,399,122
Accumulated amortization				
Buildings	91,268	12,229	-	103,497
Metro infrastructures	1,020,788	46,856	323	1,067,321
Local and regional infrastructures	14,733	2,854	50	17,537
Rolling stock - metro cars	416,619	13,371	-	429,990
Rolling stock - buses	271,289	57,015	101,040	227,264
Rolling stock - service vehicles	31,613	4,442	538	35,517
Leasehold improvements	-	10	-	10
Office equipment and software	54,164	13,753	16,905	51,012
Machinery, tools and equipment	41,680	9,343	1,017	50,006
	1,942,154	159,873	119,873	1,982,154
Net carrying value	2,220,492			2,416,968

A total of \$16.1 million in interest (\$0.3 million in 2010) was capitalized to the cost of capital assets in progress.

As at December 31, 2011

(in thousands of dollars)

18. OTHER NON-FINANCIAL ASSETS		
	2011	2010
Deposits for bus purchases	400	15,226
Deposits for metro car purchases	172,561	96,316
Loss on foreign exchange contracts (a)	12,796	12,796
Prepaid expenses	2,605	945
Issuance costs for long-term debt	6,600	4,679
Other	1,178	998
	196,140	130,960

<sup>(</sup>a) Loss on foreign exchange contract incurred in 2010 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				
	2011	2010		
Contribution receivable from the Montreal Urban Agglomeration	25,004	(13,691)		
Subsidies receivable	(11,631)	(139,044)		
Regional contributions and contributions from				
non-Agglomeration municipalities receivable	28,978	(27,558)		
Other receivables	11,482	(13,894)		
Accounts payable and accrued liabilities	(16,181)	(49,866)		
Special contribution payable to the Montreal Urban Agglomeration	15,000	-		
Employee future benefits asset	63,188	(319,190)		
Inventories	(4,822)	(1,936)		
Other non-financial assets (excluding the deposits on bus and				
metro car purchases and the issuance costs for long-term debt)	(1,479)	(12,863)		
	109,539	(578,042)		
Other information				
other information				
	2011	2010		
Interest paid on short-term loans not attributable to capital				
assets in progress	2,925	1,929		
Interest paid on long-term debt	60,307	62,441		

As at December 31, 2011

(in thousands of dollars)

### 20. TRANSGESCO LIMITED PARTNERSHIP

On January 1, 2011, the Société began to fully consolidate Transgesco Limited Partnership, which it controls. Prior to that date, the investment had been presented according to the modified equity method. The effects of full consolidation on the financial position of the Société as established on that date are as follows:

Financial assets	
Cash	6,561
Other receivables	6,343
Long-term investments (Note 12)	(8,733)
	4,171
Liabilities	
Accounts payable and accrued liabilities	4,602
	4,602
Net debt	(431)
Non-financial assets	
Capital assets	70
Other non-financial assets	361
	431
Accumulated surplus	-

As at December 31, 2011

(in thousands of dollars)

### 21. 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, 2011, given the use of currency and interest rate swaps, 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 the Montreal Urban Agglomeration, the subsidies receivable other than receivables to be allocated to the repayment of long-term debt, the regional contributions and contributions from non-Agglomeration municipalities receivable, other receivables, short-term loans, accounts payable and accrued liabilities, and the special contribution payable to the Montreal Urban Agglomeration 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:

	2011		2010		
	Fair value	Carrying value	Fair value	Carrying value	
Sinking fund investments Receivables to be allocated to	380,993	366,375	267,422	261,054	
the repayment of long-term debt	909,249	833,338	665,639	628,976	
Long-term debt	1,852,224	1,684,378	1,454,570	1,374,456	

The fair value of sinking fund investments is the amount at which they could be exchanged on the market between independent parties. The fair value of receivables to be allocated to the repayment of 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, 2011, the fair value and carrying value of the financial liabilities associated with currency and interest rate swaps sto od at \$65.7 million and \$48.6 million (\$56.7 million and \$48.0 million in 2010). They are included in the long-term debt amounts.

As at December 31, 2011

(in thousands of dollars)

#### 22. COMMITMENTS

### a) Long-term leases

The Société is committed to paying \$99.6 million for the rental of its premises under long-term leases expiring from January 31, 2012 to July 31, 2023. The minimum payments required over the next five years amount to \$9.9 million for 2012 and 2013, \$9.4 million for 2014, \$8.7 million for 2015, and \$8.3 million for 2016.

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

The Société is committed to paying a maximum of \$6.5 million for 2012. The contract's three main components consist of a \$2.9 million telephone system, an amount of \$1.9 million for Internet access, and an amount of \$1.7 million for a call centre.

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

The Société awarded a purchase contract for low-floor city buses, which runs from 2008 to 2012, as part of a group purchase on behalf of members of the Association du transport urbain du Québec.

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 29 % of the base cost, while the European content represents 9 %. The companies have the option of reducing the quantities ordered by 10 % or increasing them by 20 %.

The Société's share is 411 buses having a value of \$202.1 million. The remaining 2012 delivery balance is \$16.9 million.

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

The Société awarded two contracts to an engineering firm, one in 2007 and the other in 2011, to operate a project office responsible for carrying out an asset maintenance program for fixed equipment in the metro. The remaining balance of these two contracts is \$67.2 million. Scheduled payments are \$11.4 million in 2012 and \$55.8 million from 2013 to 2016.

# e) Centralized metro control system

The Société signed a contract with an engineering firm in the amount of \$125.1 million covering all the metro telecommunications systems (the «automated brains»). The remaining balance, which was \$14.8 million as at December 31, 2011, will be fully repaid in 2012.

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

As part of the project to upgrade the sales and collection system and equipment, the Société awarded a contract for the maintenance of the system software and equipment. Payments for future years are \$4.3 million for 2012, \$3.6 million for 2013 and \$0.2 million for 2014.

As at December 31, 2011

(in thousands of dollars)

### 22. 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., January 2009 to December 2014 (72 months), the Société is committed to purchasing 197.2 million litres at a fixed price, representing an amount of approximately \$137.6 million.

As at December 31, 2011, the balance of the Société's commitment was 96.7 million litres (13.1 million litres at \$0.67/litre, 15.1 million litres at \$0.65/litre, 26.4 million litres at \$0.78/litre, and 42.1 million litres at \$0.58/litre), representing an amount of \$63.6 million.

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

During 2010, the Société awarded a contract for the purchase metro cars to a consortium. In accordance with this contract, the Société is committed to purchasing 468 rubber-tired metro cars valued at \$1,811.6 million. 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. The remaining balance as at December 31, 2011 was \$1,638.9 million. The amounts for future deliveries will be paid as follows: \$88.2 million in 2012, \$56.5 million in 2013, \$263.9 million in 2014, \$322.9 million in 2015, \$326.9 million in 2016, and \$580.5 million from 2017 to 2020.

#### 23. CONTINGENCIES

### a) Possible claims

TThe total of the amounts claimed by plaintiffs stood at \$36.4 million (\$77.3 million in 2010) following the settlement, after the end of the reporting period, of a major \$40.0M class action suit from users inconvenienced during the 2003 strike. Claims now consist of two class action suits totalling \$30.5 million from users inconvenienced during the strike in 2007. The other \$5.9 million in claims consists of contractual or extracontractual suits by companies or individuals. As at December 31, 2011, 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 that will extend until 2013 in order to comply with the legislation.

As at December 31, 2011

(in thousands of dollars)

### 23. CONTINGENCIES (CONT'D)

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

On April 28, 2007, the AMT transferred the property relating to the extension of the metro 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 on the condition that a new agreement be negotiated by the parties before February 28, 2008 («reconveyance agreement dated December 21, 2007»).

The expiry date of the reconveyance agreement dated December 21, 2007, has been re-extended to June 30, 2012.

The purpose of this postponement 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 on the territory of the City of Laval without, however, having to repay the debt, as it is subsidized in its entirety by the Ministère des Transports du Québec.

This transfer would increase the Société's assets by an amount of approximately \$1,100.0 million excluding taxes, i.e., \$550.0 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 \$550.0 million, with the \$550.0 million balance being allocated to the accumulated surplus.

#### 24. SUBSEQUENT EVENT

On April 23, 2012, the Société entered into loans of \$7.5 million and \$103.6 million to finance capital assets in progress. This long-term debt will respectively mature on December 1, 2021 and December 1, 2032 and bear interest at 4.50 % and 4.25 %, respectively.

### 25. COMPARATIVE FIGURES

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

### **26. INDEPENDENT AUDITORS' OPINION**

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

As at December 31, 2011

(in thousands of dollars)

	2011	2010
Accumulated surplus		
Unrestricted operating surplus	5,721	2,996
Restricted operating surplus	999	-
Sinking fund	366,375	261,054
Working capital fund	4,592	3,266
Balances available from closed loan by-laws	1,251	123
Financing of investments in progress	(29,010)	6,392
Provision for future amounts	235,454	303,722
Net investment in long-term items	1,565,958	1,476,041
	2,151,340	2,053,594

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 surplus and investing surplus for tax purposes.

### Change in the accumulated surplus items

### Unrestricted operating surplus

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

	2011	2010
Balance at beginning of year  Operating surplus for the year for tax purposes  Allocation to operating activities	2,996 5,721 (2,996)	- 2,996 -
Balance at end of year	5,721	2,996

### Restricted operating surplus

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

	2011	2010
Balance at beginning of year	-	-
Net investment in long-term items	999	-
Balance at end of year	999	-

As at December 31, 2011

(in thousands of dollars)

## Sinking fund

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

Balance at end of year	366,375	261,054
of \$14.7 million (\$8.2 million in 2010) Repayment of long-term debt	105,321	91,877 -
Contribution from operating activities, including revenue		
Balance at beginning of year	261,054	169,177
	2011	2010

### Working capital fund

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

	2011	2010
Balance at beginning of year	3,266	4,791
Financing of capital expenditures	-	(2,376)
Contribution from operating activities	1,326	851
Balance at end of year	4,592	3,266

### Balances available from closed loan by-laws

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

	2011	2010
Balance at beginning of year	123	123
Contribution to investing activities	1,128	-
Balance at end of year	1,251	123

### 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.

	2011	2010
Balance at beginning of year Investing surplus (deficit) for tax purposes Integration of an entity	6,392 (35,332) (70)	(18,843) 25,235 -
Balance at end of year	(29,010)	6,392

As at December 31, 2011 (in thousands of dollars)

### Provision for future amounts

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

- Payroll liabilities: Application of transitional measures relating to the move to accrual accounting as of January 1, 2000 (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).

	2011	2010
Balance at beginning of year		
Payroll liabilities	(7,053)	(10,856)
Employee future benefits	310,775	(2,604)
	303,722	(13,460)
Change for the year		
Payroll liabilities	889	3,803
Employee future benefits	(69,157)	313,379
	(68,268)	317,182
Balance at end of year		
Payroll liabilities	(6,164)	(7,053)
Employee future benefits	241,618	310,775
	235,454	303,722

As at December 31, 2011

(in thousands of dollars)

## Net investment in long-term items

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

	2011	2010
Balance at beginning of year	1,476,041	1,309,525
Investing activities		
Capital asset acquisitions	360,356	435,737
Financing	(61,569)	(65,767)
	298,787	369,970
Operating activities		
Capital assets	(163,880)	(167,247)
Financing	(43,991)	(36,207)
	(207,871)	(203,454)
Restricted operating surplus	(999)	-
Balance at end of year	1,565,958	1,476,041
Composition		
Assets		
Long-term investments	-	999
Receivables to be allocated to the repayment of long-term debt	833,338	628,976
Capital assets	2,416,968	2,220,492
	3,250,306	2,850,467
Liabilities		
Long-term debt	(1,684,378)	(1,374,456)
Operating activities to be financed	30	30
	(1,684,348)	(1,374,426)
	4 5	
	1,565,958	1,476,041

# TABLE 2 - CONSOLIDATED TOTAL NET LONG-TERM INDEBTEDNESS

As at December 31, 2011

(in thousands of dollars)

	2011	2010
Long-term debt Bonds, loans and bank loans	1,684,378	1,374,456
Plus	1,001,010	.,07.,100
Investing activities to be financed	29,010	(6,392)
Operating activities to be financed	(30)	(30)
Less		
Amounts accumulated in the sinking fund	(366,375)	(261,054)
Receivables to be allocated to the repayment of long-term debt	(833,338)	(628,976)
TOTAL NET LONG-TERM INDEBTEDNESS	513,645	478,004

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 to clearly reflect the massive investment of nearly \$11.9 billion required over a period of 10 years to upgrade the Société's aging infrastructures. This increase in indebtedness will potentially be mitigated, either by the subsidies for which the per-project rates will be higher than in the past or by a reduction in the issuance of new long-term debt due to the cash financing of certain projects under government assistance programs such as the second phase of the SOFIL program.

# UNAUDITED SUPPLEMENTARY INFORMATION

# **CONSOLIDATED RESULTS OF OPERATIONS**

Year ended December 31, 2011

		2011	2010	2009	2008	2007
	Budget	Actual	Actual	Actual	Actual	Actual
Revenues						
Passenger revenues	506,123	533,249	487,670	463,187	444,717	415,655
Contribution from the Montreal						
Urban Agglomeration	387,900	387,900	359,400	332,000	301,700	277,038
Subsidies	140,479	134,385	113,236	94,760	74,829	55,400
Regional contributions and						
contributions from non-Agglomeration municipalities	90,224	70,746	71,133	58,617	57,536	57,291
Deferred surplus (deficit)	-	2,996	-	3,821	1,582	(13,606)
Other revenues	38,788	33,439	31,120	28,809	26,412	25,376
	1,163,514	1,162,715	1,062,559	981,194	906,776	817,154
Expenses						
Compensation	751,426	745,351	707,171	660,325	615,538	584,135
Energy costs, taxes and licences	114,881	118,905	95,829	93,980	85,718	76,529
Professional services	75,542	85,896	66,487	67,742	61,610	43,268
Equipment and supplies	53,303	56,266	52,143	48,740	48,672	43,807
Rentals	12,702	10,737	9,309	8,302	8,212	8,160
Interest and financing costs	129,725	110,724	112,489	103,538	88,100	76,504
Miscellaneous expenses	25,935	14,115	16,135	17,510	17,105	12,169
	1,163,514	1,141,994	1,059,563	1,000,137	924,955	844,572
0 (1 (1 (1 (1 (1 (1 (1 (1 (1 (1 (1 (1 (1						
Operating surplus (deficit) for tax purposes before additional						
contribution from (special						
contribution to) the Montreal						
Urban Agglomeration	-	20,721	2,996	(18,943)	(18,179)	(27,418)
Additional contribution from						
(special contribution to) the Montreal Urban Agglomeration	_	(15,000)	_	18,943	22,000	29,000
		, , , , , ,		, -	,	
Operating surplus for the year for tax purposes	-	5,721	2,996	-	3,821	1,582

# **CONSOLIDATED REVENUES BY TYPE**

Year ended December 31, 2011

	2011	2010	2009	2008	2007
Budg	et Actual	Actual	Actual	Actual	Actual
OPERATIONS					
PASSENGER REVENUES					
Bus and metro service					
Regular					
1, 2, 6 and 10 trips 131,9	158,304	148,850	138,496	129,744	122,843
CAM 180,0	185,752	173,912	171,278	161,068	148,744
Weekly CAM 31,2	31,941	30,009	27,960	28,646	27,146
343,2	375,997	352,771	337,734	319,458	298,733
Reduced					
1, 2, 6 and 10 trips <b>14,5</b> 5	15,696	13,911	13,728	18,272	17,832
CAM 65,20	68,070	61,700	58,637	57,948	57,262
Weekly CAM 1,70	1,773	1,549	1,718	2,491	2,437
81,43	85,539	77,160	74,083	78,711	77,531
Day passes and special offers 29,56	15,511	8,227	2,463	1,690	1,352
454,2	477,047	438,158	414,280	399,859	377,616
Paratransit service 3,1	3,113	2,819	2,686	2,325	2,144
Regional revenues 48,73	53,089	46,693	46,221	42,533	35,895
506,1	23 533,249	487,670	463,187	444,717	415,655
CONTRIBUTION FROM THE MONTREAL URBAN AGGLOMERATION					
Base contribution 387,90	387,900	359,400	332,000	301,700	277,038
Additional from (special to) contribution	- (15,000)		18,943	22,000	29,000
387,9	372,900	359,400	350,943	323,700	306,038
Amount to be carried forward 894,0	906,149	847,070	814,130	768,417	721,693

# **CONSOLIDATED REVENUES BY TYPE**

Year ended December 31, 2011

		2011	2010	2009	2008	2007
	Budget	Actual	Actual	Actual	Actual	Actual
Amount carried forward	894,023	906,149	847,070	814,130	768,417	721,693
CURCINIES						
SUBSIDIES						
Government assistance program for the public transport of people						
(PAGTCP)	48,773	32,319	35,621	29,675	25,804	19,024
Public transit service improvement	,	,	,	•	,	,
program (PASTEC)	51,949	50,022	39,883	29,724	16,558	5,086
Paratransit service	39,757	38,656	37,334	34,779	32,467	30,793
Program for the financing of local						
infrastructures in Quebec (SOFIL)	-	1,549	-	-	-	-
Other	-	1,029	398	582	-	497
	140,479	123,575	113,236	94,760	74,829	55,400
REGIONAL CONTRIBUTIONS AND CONTRIBUTIONS FROM						
CONTRIBUTIONS FROM NON-AGGLOMERATION MUNICIPALITY	ΓΙES					
CONTRIBUTIONS FROM	ΓΙΕS 40,308	40,128	40,521	45,073	43,933	44,260
CONTRIBUTIONS FROM NON-AGGLOMERATION MUNICIPALIT Regional contributions		40,128 4,914	40,521 4,693	45,073 5,447	43,933 5,714	44,260 5,504
CONTRIBUTIONS FROM NON-AGGLOMERATION MUNICIPALIT Regional contributions For trips on the metro network	40,308	*	,	,	,	,
CONTRIBUTIONS FROM NON-AGGLOMERATION MUNICIPALIT Regional contributions For trips on the metro network For trips on metropolitan bus routes	40,308 4,634	4,914	4,693	,	,	,
CONTRIBUTIONS FROM NON-AGGLOMERATION MUNICIPALIT Regional contributions For trips on the metro network For trips on metropolitan bus routes Paratransit service	40,308 4,634 207	4,914 207	4,693 203	5,447	5,714	5,504
CONTRIBUTIONS FROM NON-AGGLOMERATION MUNICIPALIT Regional contributions For trips on the metro network For trips on metropolitan bus routes Paratransit service For equipment and infrastructures	40,308 4,634 207 1,294	4,914 207 1,295	4,693 203 1,033	5,447	5,714	5,504
CONTRIBUTIONS FROM NON-AGGLOMERATION MUNICIPALIT Regional contributions For trips on the metro network For trips on metropolitan bus routes Paratransit service For equipment and infrastructures Share of the fuel tax	40,308 4,634 207 1,294 31,601	4,914 207 1,295 11,802	4,693 203 1,033 13,503	5,447 - 1,207	5,714 - 1,267	5,504 - 1,296 -
CONTRIBUTIONS FROM NON-AGGLOMERATION MUNICIPALIT Regional contributions For trips on the metro network For trips on metropolitan bus routes Paratransit service For equipment and infrastructures Share of the fuel tax Fare integration  Contribution from	40,308 4,634 207 1,294 31,601 3,858	4,914 207 1,295 11,802 4,079 62,425	4,693 203 1,033 13,503 4,071	5,447 - 1,207 - 1,497	5,714 - 1,267 - 2,286	5,504 - 1,296 - 2,292
CONTRIBUTIONS FROM NON-AGGLOMERATION MUNICIPALIT Regional contributions For trips on the metro network For trips on metropolitan bus routes Paratransit service For equipment and infrastructures Share of the fuel tax Fare integration	40,308 4,634 207 1,294 31,601 3,858	4,914 207 1,295 11,802 4,079	4,693 203 1,033 13,503 4,071	5,447 - 1,207 - 1,497	5,714 - 1,267 - 2,286	5,504 - 1,296 - 2,292
CONTRIBUTIONS FROM NON-AGGLOMERATION MUNICIPALIT Regional contributions For trips on the metro network For trips on metropolitan bus routes Paratransit service For equipment and infrastructures Share of the fuel tax Fare integration  Contribution from	40,308 4,634 207 1,294 31,601 3,858 81,902	4,914 207 1,295 11,802 4,079 62,425	4,693 203 1,033 13,503 4,071 64,024	5,447 - 1,207 - 1,497 53,224	5,714 - 1,267 - 2,286 53,200	5,504 - 1,296 - 2,292 53,352
CONTRIBUTIONS FROM NON-AGGLOMERATION MUNICIPALIT Regional contributions For trips on the metro network For trips on metropolitan bus routes Paratransit service For equipment and infrastructures Share of the fuel tax Fare integration  Contribution from	40,308 4,634 207 1,294 31,601 3,858 81,902	4,914 207 1,295 11,802 4,079 62,425	4,693 203 1,033 13,503 4,071 64,024	5,447 - 1,207 - 1,497 53,224	5,714 - 1,267 - 2,286 53,200 4,336	5,504 - 1,296 - 2,292 53,352

# **CONSOLIDATED REVENUES BY TYPE**

Year ended December 31, 2011

		2011	2010	2009	2008	2007
	Budget	Actual	Actual	Actual	Actual	Actual
Amount carried forward	1,175,320	1,149,184	1,070,228	1,002,276	931,007	866,415
INVESTMENT						
CONTRIBUTION FROM THE MONTRE URBAN AGGLOMERATION	AL					
Contribution for capital assets from the program for the financing of local infrastructures in Quebec (SOFIL)	27,532	16,113	41,117	8,483	10,417	16,544
	,	,	,		,	,
SUBSIDIES						
Government assistance program for						
improving the public transport of people (PAGTCP)	261,438	127,063	105,697	169,039	102,081	235,476
Public transit service improvement	201,100	127,000	100,007	100,000	102,001	200, 170
program (PASTEC)	-	-	7,605	-	20,299	-
Program for the financing of local infrastructures in Quebec (SOFIL)	181,818	95,550	223,139	46,246	56,816	90,168
Program to improve transportation	101,010	00,000	220,100	10,210	00,010	00,100
security (Transit-Secure)	-	-	-	6,523	5,842	-
Building Canada Fund (BCF)	-	1,517	-	-	-	-
Government assistance program for energy efficiency in passenger road						
transportation (PAGAAEE)	-	3,140	-	_	-	-
Urban Transportation Showcase			4			
Program (UTSP)	-	-	(217)	66	1,375	_
Canada-Quebec Infrastructure Program	(CQIP) -	-	-	-	-	16,547
	443,256	227,270	336,224	221,874	186,413	342,191
	1,646,108	1,392,567	1,447,569	1,232,633	1,127,837	1,225,150

# **CONSOLIDATED EXPENSES BY FUNCTION**

Year ended December 31, 2011

		2011	2010	2009	2008	2007
	Budget	Actual	Actual	Actual	Actual	Actual
NETWORK OPERATIONS Bus network						
Compensation	366,165	356,798	337,238	322,551	304,306	288,166
Goods and services	78,942	78,148	71,174	69,141	58,917	52,677
	445,107	434,946	408,412	391,692	363,223	340,843
Metro network						
Compensation	174,018	176,256	169,765	162,901	155,011	144,323
Goods and services	49,647	53,557	45,744	44,651	43,618	38,235
	223,665	229,813	215,509	207,552	198,629	182,558
Paratransit (a)						
Compensation	19,319	19,125	21,379	20,562	19,083	17,776
Goods and services	34,470	32,751	31,073	26,724	24,370	22,831
	53,789	51,876	52,452	47,286	43,453	40,607
	722,561	716,635	676,373	646,530	605,305	564,008
OPERATIONS SUPPORT						
Management and engineering						
Compensation	28,846	26,507	24,540	22,347	20,357	18,398
Goods and services	3,450	4,521	2,769	1,877	1,575	1,829
	32,296	31,028	27,309	24,224	21,932	20,227
Security and control						
Compensation	14,135	11,444	11,305	10,957	9,142	14,035
Goods and services	16,404	16,622	14,978	14,763	13,366	2,707
	30,539	28,066	26,283	25,720	22,508	16,742
Infrastructure maintenance						
Compensation	26,336	24,667	23,347	21,633	20,689	20,597
Goods and services	13,174	13,946	4,187	7,831	6,653	5,890
	39,510	38,613	27,534	29,464	27,342	26,487
	102,345	97,707	81,126	79,408	71,782	63,456
Amount to be carried forward	824,906	814,342	757,499	725,938	677,087	627,464

### **CONSOLIDATED EXPENSES BY FUNCTION**

Year ended December 31, 2011

(in thousands of dollars)

	Budget					
	-200000	Actual	Actual	Actual	Actual	Actual
Amount carried forward	824,906	814,342	757,499	725,938	677,087	627,464
ADMINISTRATIVE SERVICES						
Finance and Control						
Compensation	17,252	17,805	16,210	15,066	13,943	13,459
Goods and services	6,730	6,267	4,749	7,264	7,534	4,150
	23,982	24,072	20,959	22,330	21,477	17,609
Planning, Marketing and Communications						
Compensation	17,684	18,187	16,772	13,762	10,969	9,957
Goods and services	11,871	14,298	9,718	8,678	8,045	4,981
	29,555	32,485	26,490	22,440	19,014	14,938
Human Resources and Shared Services						
Compensation	45,065	45,203	42,315	38,829	35,683	33,000
Goods and services	17,766	19,751	17,068	14,545	12,636	11,847
	62,831	64,954	59,383	53,374	48,319	44,847
Corporate services						
Compensation	11,054	12,203	9,708	8,527	7,600	7,126
Goods and services	6,895	3,915	3,396	2,412	2,098	1,898
	17,949	16,118	13,104	10,939	9,698	9,024
	134,317	137,629	119,936	109,083	98,508	86,418
SPECIAL PROJECTS AND OTHER EXPENSES						
Compensation	26,948	36,267	30,789	21,472	21,746	10,049
Goods and services	38,328	13,497	26,561	29,305	39,170	35,843
	·	,				
ALLOCATION PROVISION FOR	65,276	49,764	57,350	50,777	60,916	45,892
ALLOCATION - PROVISION FOR FUTURE AMOUNTS (employee future benefits)						
Compensation	(1,500)	69,157	(313,379)	(96,419)	-	-
FINANCING COSTS						
Goods and services	85,065	64,056	65,030	61,058	47,747	43,540
AMORTIZATION	450.000	450.070	450.050	440.050	100 /00	0/.0/0
Goods and services	152,000	159,873	158,852	119,650	100,400	94,249
UNFORESEEN EXPENSES	4 007					
Goods and services	1,287	-				
	1,261,351	1,294,821	845,288	970,087	984,658	897,563
(a) Paratransit						
Paratransit service in the	60.002	E7 / CF	E2 /22	48,475	44,696	<u>/,1 7/.1</u>
Statement of Operations Expenses included	60,803	57,465	53,423	40,4/0	44,090	41,741
in other functions	(7,014)	(5,589)	(971)	(1,189)	(1,243)	(1,134)

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

### FINANCING OF CAPITAL ASSETS

As at December 31, 2011

		2011	2010	2009	2008	2007
	Budget	Actual	Actual	Actual	Actual	Actual
CAPITAL ASSET ACQUISITIONS	(583,346)	(360,286)	(435,737)	(368,173)	(316,673)	(225,240)
FINANCING						
Federal government						
Program to improve transportation	n			6 500	E 0/2	
security (Transit-Secure) Urban Transportation Showcase	-	_	-	6,523	5,842	-
Program (UTSP)	_	-	(217)	66	1,375	_
Building Canada Fund (BCF)	-	1,517	-	-	-	-
	-	1,517	(217)	6,589	7,217	-
Provincial government						
Government assistance						
program for the public transport of people (PAGTCP)	261,438	127,063	105,697	169,039	102,081	235,476
Public transit service	201,400	127,000	100,007	100,000	102,001	200,470
improvement program (PASTEC)	-	-	7,605	-	20,299	-
Program for the financing of						
local infrastructures in Quebec (SOFIL)	101 010	95,550	222 120	46.246	EC 016	90,168
Government assistance program	181,818	95,550	223,139	46,246	56,816	90,100
for improving energy efficiency in						
passenger road transportation						
(PAGAAEE)	-	3,140	-	-	-	-
Canada-Quebec Infrastructure Program (CQIP)	-	-	-	-	-	16,547
	443,256	225,753	336,441	215,285	179,196	342,191
Municipal contribution						
Program for the financing of						
local infrastructures in Quebec	07.500	40.440	/4 447	0.700	10 / 17	40 5//
(SOFIL)	27,532	16,113	41,117	8,483	10,417	16,544
Société de transport de Montréal						
Long-term financing of	100.056	61 560	6F 767	1/0 262	6 560	102 772
investing activities Allocations to operating activities	109,956 2,602	61,569 21,130	65,767 17,864	149,263 6,786	6,560 6,273	103,773 5,560
Closed loan by-laws	-,002	(1,128)		-	1,073	2,542
	112,558	81,571	83,631	156,049	13,906	111,875
	583,346	324,954	460,972	386,406	210,736	470,610
Investing surplus (deficit) for the		(0.0.0.0.0.0.0.0.0.0.0.0.0.0.0.0.0.0.0.			(107.005)	
year for tax purposes	-	(35,332)	25,235	18,233	(105,937)	245,370

### **LONG-TERM DEBT**

As at December 31, 2011 (in thousands of dollars)

	2011	2010
Bond, 60,000 \$		
5.75 %, maturing November 15, 2011	-	9,586
Bond, 40,000 \$		
5.15 %, maturing October 24, 2011 5.25 %, maturing October 24, 2012	9,110	3,430 9,110
	0,110	0,110
<b>Bond, 75,000 \$</b> 5.15 %, maturing May 6, 2011	_	5,700
5.30 %, maturing May 6, 2012	6,000	6,000
5.40 %, maturing May 6, 2013	20,600	20,600
Bond, 75,000 \$		
4.00 %, maturing April 27, 2011	-	6,300
4.15 %, maturing April 27, 2012 4.35 %, maturing April 27, 2013	6,500 6,800	6,500 6,800
4.50 %, maturing April 27, 2010	7,100	7,100
4.60 %, maturing April 27, 2015	15,100	15,100
Bond, 14,000 \$		
4.00 %, maturing November 8, 2011	-	3,000
Bond, 300,000\$		
5.00 %, maturing December 1, 2019 <sup>(a)</sup>	300,000	300,000
Bond, 47,130 \$ (b)		
5.46 %, maturing January 9, 2012 <sup>(a)</sup>	47,130	47,130
Bond, 75,350 \$ (b)		
4.74 %, maturing June 7, 2017 4.92 %, maturing June 7, 2027	54,252 21,098	54,252 21,098
4.52 %, maturing sune 7, 2027	21,090	21,090
Bond, 84,500 \$ (b)	07.500	07.500
5.85 %, maturing January 29, 2024	84,500	84,500
Bond, 100,000 \$		
4.71 %, maturing April 21,2014 <sup>(a)</sup>	100,000	100,000
Bond, 75,000 \$		
5.22 %, maturing October 22, 2014 <sup>(a)</sup>	75,000	75,000
Bank loan, 100,000 \$		
4.67 %, maturing February 24, 2016 <sup>(a)</sup>	60,000	60,000
4.89 %, maturing February 24, 2021	40,000	40,000
Bank loan, 100,000 \$		
4.36 %, maturing January 19, 2017 <sup>(a)</sup>	73,200	73,200
4.55 %, maturing January 19, 2022 4.60 %, maturing January 19, 2027	16,300 10,500	16,300 10,500
Amount to be carried forward	953,190	981,206

 $The \ opinion \ of \ the \ independent \ auditors \ does \ not \ cover \ the \ supplementary \ information \ or \ the \ budget.$ 

### **LONG-TERM DEBT**

As at December 31, 2011

	2011	2010
Amount carried forward	953,190	981,206
Bank loan, 175,000 \$		
5.11 %, maturing November 15, 2017 <sup>(a)</sup>	128,100	128,100
5.27 %, maturing November 15, 2022	17,700	17,700
5.32 %, maturing November 15, 2027	29,200	29,200
Bond, 18,250 \$		
1.00 %, maturing April 6, 2011	-	4,550
1.65 %, maturing April 6, 2012	4,800	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 <sup>(a)</sup>	200,000	200,000
Loan, 116,625\$		
4.10 %, maturing December 1, 2012	11,663	-
4.10 %, maturing December 1, 2013	11,662	-
4.10 %, maturing December 1, 2014	11,663	-
4.10 %, maturing December 1, 2015	11,662	-
4.10 %, maturing December 1, 2016	11,663	-
4.10 %, maturing December 1, 2017	11,662	-
4.10 %, maturing December 1, 2018	11,663	-
4.10 %, maturing December 1, 2019	11,662	-
4.10 %, maturing December 1, 2020	11,663	-
Loan, 57,525 \$		
4.50 %, maturing December 1, 2021 <sup>(a)</sup>	57,525	-
Loan, 180,000 \$		
3.31 %, maturing December 1, 2012	9,905	-
3.31 %, maturing December 1, 2013	9,905	-
3.31 %, maturing December 1, 2014	9,905	-
3.31 %, maturing December 1, 2015	9,905	-
3.31 %, maturing December 1, 2016	9,905	-
3.31 %, maturing December 1, 2017	9,905	-
3.31 %, maturing December 1, 2018	9,905	-
3.31 %, maturing December 1, 2019	9,905	-
3.31 %, maturing December 1, 2020	9,905	-
3.31 %, maturing December 1, 2021	90,855	-
TOTAL	1,684,378	1,374,456
TOTAL NET LONG-TERM INDEBTEDNESS	513,645	478,004

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

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

As at December 31, 2011

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. The Société uses these to demonstrate the impact of investing decisions on its financial position.

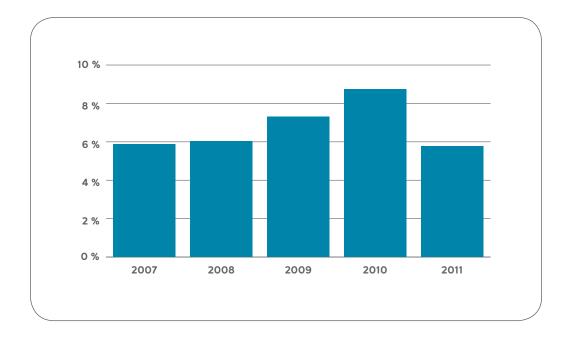
All financial statements items used to calculate ratios have been adjusted so that they represent only expenses exclusive to the Société. As such, for comparison purposes, any impact from subsidies related to capital assets has been eliminated.

As at December 31, 2011, all of the ratios are within the limits set by the Société.

As at December 31, 2011

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

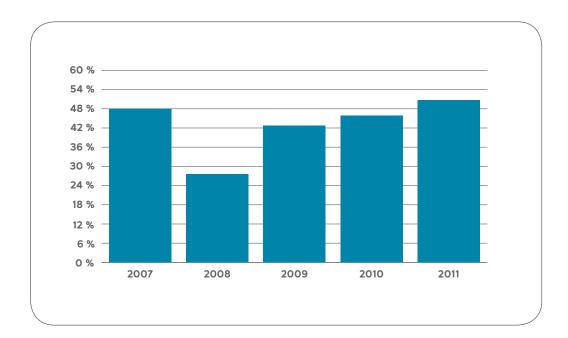
This ratio represents the portion of expenses allocated to debt servicing. The ratio is currently 5.77 %, which is below the 16 % limit set by the Société. The ratio shows that the portion of expenses earmarked for debt servicing is reasonable and under control. The decline in the ratio for 2011 is due to the higher level of net operating expenses, as debt servicing remained almost at the same level; the significant increase in expenses is attributable to a substantial year-over-year increase in employee future benefits.



As at December 31, 2011

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

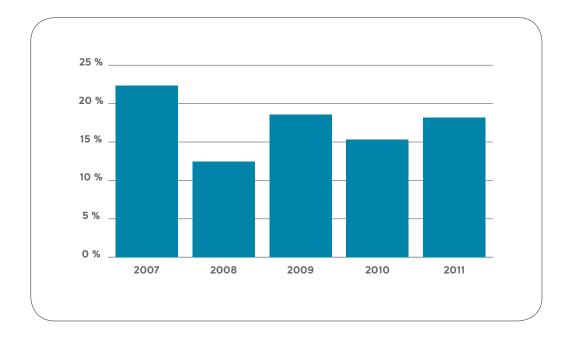
The long-term debt must increase in proportion to revenues. The ratio is currently 50.70 %, which is below the 100 % limit set by the Société. The four-year growth trend for this ratio shows the Société's significant financing requirements but the revenues are also growing, albeit at a slower pace.



As at December 31, 2011

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

This ratio is an indicator of the leverage used by the Société. The ratio is currently 18.17 %, 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.





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You can also view the 2011 Sustainable Development Report, the 2011 Activities Report, as well as the 2011 Budget and 2011-2013 Three-year Capital Expenditures Program in the Documentation Centre section of our website.







