
A photograph of a busy transit station with people moving through turnstiles. The image is blurred to convey motion. A vertical translucent band runs down the right side of the image, serving as a background for the text and logo.

2006 Annual Report

MOVING A WORLD OF PEOPLE





2006 Annual Report

MOVING A WORLD OF PEOPLE

Moving a world of people is much more than just a signature – these words reveal the full meaning of our mission and direction. They were also at the core of the renewed corporate direction undertaken in 2006, a shift that was planned, prepared and carried out for our clients and employees, without whom the STM could not exist. Our company is, above all, a matter of passion and pride.

OUR MISSION

A publicly-funded transit corporation, the STM is a key component to economic growth in the Montréal area, contributing to the quality of life of citizens and to sustainable development.

The STM develops and operates an integrated public transit system, courteously providing fast, reliable, safe and comfortable transportation services.

Its clients, employees, commercial and corporate partners all take pride in this relationship, as the STM is reputed for delivering quality services at a fair price.

Supporting the STM's corporate mission means having people willing to innovate and bring about concrete changes. Throughout 2006, STM leaders demonstrated their vision by renewing the company's direction, the benefits of which will continue to be felt for many years. What is more, beyond any organizational changes, STM leaders have strived to inspire a new sense of internal cohesion by moving closer to management and operational units in the field. This new approach towards employee relations embodies the mission's very values of respect and recognition.

OUR VALUES

To accomplish this mission, the STM promotes five corporate values that inspire attitudes and provide a framework for everyday actions.

TEAMWORK

THOROUGHNESS

RESPECT

ACCOUNTABILITY

TRANSPARENCY



HIGHLIGHTS

*"The future of generations to come requires
that we focus on public transit..."*

HIGHLIGHTS

Ridership on the rise

Some 363.3 million trips were taken by bus and métro in 2006, compared to 359.3 million in 2005. That slight 1.1% increase brings overall growth for the past ten years to 7.8%. As for paratransit service, ridership continues to grow at a phenomenal rate, showing a 14% increase over last year, for a total of 1.9 million trips. That result brings the overall increase in trips during the last ten years to 65%. In only three years, paratransit ridership has grown by almost 40%.

A very good year for Transport adapté

The number of clients transported exclusively aboard accessible vehicles (adapted minibus or accessible taxi) has grown by 11.4%. These 63 393 additional trips only confirm efforts by the STM to better accommodate clients, who now experience a refusal rate of virtually 0%. Regular taxi services continue to generate the strongest increase in demand for transportation, with a 15.6% jump since the start of 2006.

Remarkable growth was also experienced at the call centre where, despite higher ridership levels, waiting times clearly improved. In addition, client satisfaction with minibus and taxi service has reached 86%, while it was only at 66% in 2004.

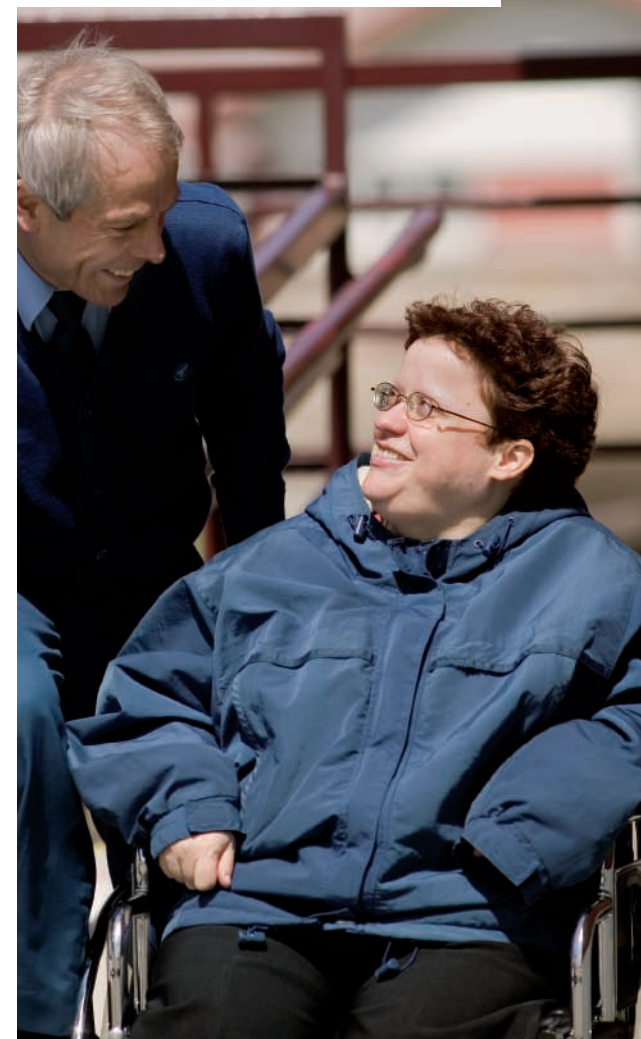
Transport adapté's exceptional performance was also given recognition at the Association du transport urbain du Québec's conference, where the STM received a prize in the "Exceptional Achievement" category to mark the extraordinary results obtained following introduction of the ACCÈS 5 system.

A new Director General

On May 8, 2006, the Board of Directors appointed Yves Devin as Director General to succeed Pierre Vandelac who had held office since 2003. For Mr. Devin, this meant a welcome return to the STM, as he headed several administrative units for over ten years. Known for his extremely mobilizing vision of human resources, he simplified the company's organizational structure, combining bus and métro networks in the same executive branch. This new approach promotes a global vision of the issues, leading to better customer service and lower operating costs.

In 2006, the STM made decisions that committed all levels of the corporate structure to providing better service to clients and better support for employees working with the public on a daily basis. Strategic from every point of view, these decisions will enable the STM to stay in the lead along with other well-managed, performance-driven transit corporations.

A very good year
for Transport
adapté



HIGHLIGHTS

"Our wish to ensure the quality of life of Montréalers and the future of generations to come requires that we focus on public transit, and particularly on the métro as a vehicle for development of the 21st century metropolis that Montréal has become. An invaluable partner to the Montréal population, on an economic as well as environmental level, a central element in our technical and artistic heritage, our métro is an instrument of progress for the Montréal community and the metropolis of Quebec."

Gérald Tremblay

MAYOR OF MONTRÉAL



A green light for tomorrow's métro, a billion dollar plus project

The STM must replace the 336 MR-63 métro cars that were put into service in 1966 when the métro first opened. These cars have exceeded their normal service life and have already gone through a refitting.

In September, the STM announced it had awarded a professional services contract to set up a project management office responsible for the procurement of new métro cars. This brought the STM one important step further in the process leading to the purchase and commissioning of new métro cars, well within the project schedule announced in the spring of 2006, which called for the management office to be at work by October.

Headed by the STM, the project management office gathers together specialists in various fields from both the STM and the DST group. Its mandate includes assisting the transit corporation in defining its operational needs, defining the next generation of rolling stock, drawing up technical specifications and commercial contracts, providing quality assurance and overseeing the operational integration of the new métro cars.

Celebrating the métro's 40 years. Bravo!

In 2006, the STM turned the métro's 40th anniversary celebrations into a powerful symbol for a renewed sense of belonging and for its mobilizing effect on both employees and transit users. The STM wanted the event to be as spectacular and memorable as the official inauguration by Mayor Jean Drapeau had been on October 14, 1966. To that end, it organized a variety of activities, all quite successful, for the benefit of clients, employees and the population at large. Once again, free access to the integrated bus and métro network was offered from 5 am on October 14 to 1:30 am the following night, as it had been on inauguration day in 1966.

Still a leader with respect to equal opportunity

At the Canadian Urban Transit Association (CUTA) 2006 conference, the STM won an award in the "Exceptional Performance / Outstanding Achievement" corporate category for its Equal Access programme. Such recognition rewards the efforts made by the STM to integrate women, Aboriginals, visible and ethnic minorities into the company. In light of its expertise and of the results achieved in the last few years, the STM still plays a leading role in this area. Some 1 619 women and 836 members of various cultural communities represent 22% and 11% respectively of the total workforce.



MESSAGES FROM STM LEADERS

*"Because our company is, above all,
a matter of passion and pride."*

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

In agreeing in January 2006 to preside over the Board of Directors of the Société de transport de Montréal, I wanted this year to be the start of a new era for the company. I hoped that my vision for public transit would translate into a corporate direction marked by dynamism, modernization and engagement in the community. I also intended to update the organization's operating methods and lead it to a clearer awareness of the importance of its role in the realization of a Montréal that is more centred on public transit. The dedication and commitment of management and the employees made it possible for the change to get underway. They also enabled the Société to achieve positive results, as you will see in the course of your reading.

The recent choices by society and the various levels of government in the areas of sustainable development, the environment, and even governance, require that organizations such as ours make decisions and take actions that respect these choices. The STM, conscious of the place that it occupies in Quebec, is resolved to participate with enthusiasm and determination in the development of public transit on its territory.

While its efforts are anchored in the present, the Société is preparing itself for the future. To this end, it has planned for major investments to keep its assets in a state of good repair and to continue to provide the citizens of Greater Montréal with a dependable, safe and appealing public transit service.

Thanks to the government decisions made this year regarding financing, public transit will finally regain its rightful place. These new resources will enable the STM to, among other things, improve its services and acquire the means to respect its commitment regarding sustainable development for the well-being of the population and the generations to come.

I salute the vision of my elected colleagues at the Communauté métropolitaine de Montréal who have recognized the métro as metropolitan equipment and have accepted the principle that it must be financed not only by Montréalers but also by taxpayers in the region. An agreement on the cost-sharing formula is still to be concluded, and I have every hope that it will meet our expectations.

The announcement by the government of Quebec of the implementation of a new policy regarding public transit and the investment of an additional \$100 million per year for its development comes at a crucial time and demonstrates that the government shares our conviction that the fight against greenhouse gases begins with public transit. This policy will contribute to the achieving of the ambitious objectives of our 2007-2011 Business Plan, and the announced investments will enable us to develop our services, ensure the maintenance of our infrastructure and equipment and implement strategies to support ridership growth. These initiatives will provide the Société with the means to respond more effectively to transportation needs in the greater metropolitan area. All this is a reflection of my vision for the development of public transit.

I enthusiastically welcome the arrival of Mr. Yves Devin as Director General of the company, and I would also like to thank the members of the Board of Directors, management and the employees of the STM for the excellent work accomplished during this first year of the new team's mandate.

While the 40th anniversary of the métro has been an occasion for the STM to celebrate and display its pride, on the political level, 2006 will be remembered as a pivotal year in the history of public transit financing in Quebec.



- Claude Trudel

CHAIRMAN OF THE BOARD OF DIRECTORS

MESSAGE FROM THE DIRECTOR GENERAL



My return to the STM seems somewhat like going full circle. The STM is certainly a major enterprise, the 16th largest in Quebec, but it is also an institution that provides essential services to the population and brings together skilled and truly engaging people. Aware of the work to be done within a difficult context, I accepted the mandate to deal with the financial situation, improve customer service and strengthen employee engagement. I certainly will not achieve this on my own, but I will invest the necessary energy to instill a new dynamism and motivate the organization to the importance of working together to achieve these objectives.

After having toured the work locations and met the various partners, I was better able to grasp the impact resulting from the financial crisis in which the company has been immersed for more than fifteen years. Fortunately, there was a breakthrough in 2006 in the deliberations on the importance of providing a new financial framework for public transit, with the Quebec government approving new sources of financing, which the STM will benefit from as of 2007. I have therefore asked the management team to draw up a Business Plan in line with the objectives of the Plan de transport de Montréal, the city's transportation plan, and to prepare a marketing plan that will enable us to promote our initiatives and public transit on our territory.

Aware of the issues that threaten the planet, sustainable development and respect for the environment will be at the core of our actions and our decisions. During my meetings with the employees, I was pleasantly surprised to note to what extent the STM had progressed. A quick examination of our procedures demonstrated that we had in place more than one hundred responsible initiatives. Few enterprises can say as much! But, we want to do more and be among the leaders in this area. This is the challenge that we have set for ourselves and that we intend to realize thanks to the co-operation and ingenuity of our employees.

Resolutely embarked on the road to modernization, the STM likely co-ordinated the greatest number of work sites of any enterprise in 2006: extension of the métro to Laval, re-design of the MR-73 métro cars, renovation of stations, replacement of stationary equipment (Réno-Systèmes), construction of new booths in the métro and installation of new fare boxes in the buses, to name just a few. These projects could be realized thanks to contributions from the provincial and federal governments, the Agence métropolitaine de transport and the City of Montréal. The major sums invested in these projects require exemplary management and rigorous control measures. Our performance is recognized, but we must be vigilant and continue our efforts to increase our effectiveness and efficiency.

I am proud of the work that has been accomplished. I am proud of the employees who are concerned about providing quality services in sometimes restricting conditions. I know that this enterprise can improve its image and build goodwill with Montréalers. I am absolutely convinced that with the skills, expertise and will of the members of the Board of Directors, management and personnel, we will manage to achieve this objective.

Transporting people is our mission; being known for the quality of our services, our ambition.


Yves Devin
DIRECTOR GENERAL



PORTRAIT OF THE ORGANIZATION

"The STM is the largest transit company in Quebec."

PORTRAIT OF THE ORGANIZATION

7 500 employees of which **60%** work in direct contact with the public and **90%** belong to one of six unions

16th largest corporation in Québec (as ranked by Les Affaires business publication)

Assets valued at **10** billion dollars



1 600 buses serving **192** bus routes, of which **118** are wheelchair-accessible for the disabled



93 minibuses for paratransit service



759 métro cars

4 métro lines connecting **65** stations (68 in 2007 with the opening of three stations in Laval)

85% of all public transit use in the Montréal metropolitan area and **75%** of overall use in Québec

363 million trips per year by bus and métro, and another **1.9** million with paratransit

A powerful engine for economic growth

RIDERSHIP (in millions of trips)

	2004	2005	2006
Bus and métro	358.4	359.3	363.3
Paratransit only	1.5	1.7	1.9
Total	359.9	361	365.2



THE PEOPLE WE TRANSPORT

*"Whatever the reason, the métro is always there to get me
to my destination safe and sound."*

STEFANY DE MONTIGNY, CLIENT

THE PEOPLE WE TRANSPORT

HOUSEHOLD INCOME

Under \$20 000	19%	18%	21%
\$20 000 to \$39 999	24%	25%	26%
\$40 000 to \$59 999	16%	17%	16%
\$60 000 to \$79 999	9%	10%	8%
\$80 000 to \$99 999	6%	6%	5%
\$100 000 and over	6%	6%	5%
Refusal/Do not know	18%	17%	19%

AGE

Under 18	14%	8%	18%
18 to 24	23%	26%	21%
25 to 64	55%	61%	52%
65 and over	7%	5%	9%

GENDER

Women	56%	54%	57%
Men	44%	46%	43%

PURPOSE

Work	42%	48%	39%
Studies	30%	28%	31%
Other	28%	24%	30%

Montréal island residents	86%	81%	95%
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Percentage of transit users from households without a car	40%	38%	44%
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Average length of a trip on STM transit: **8 km**

60% of transit users transfer at least once per trip

Source: 2003 Origin-Destination Survey

Out of an ongoing concern with listening to clients and employees, consulting with them and meeting their needs, the STM conducted a comprehensive research programme during 2006. Among the studies carried out, two were for the purpose of collecting information to help define the corporation's strategic external positioning for coming years and to develop client marketing strategies. The studies involve the STM's corporate branding and market segmentation, and they will be used to draw up the 2007-2011 business plan, one that will focus on five main themes: mobilization, innovation and strategic projects, performance, customer feedback, development and marketing.

Another major study conducted among all employees served to measure their degree of mobilization. Analyzing the results will help develop a mobilization plan for the purpose of fostering a work environment that will make it possible for the STM to reach its business goals.

A full-page photograph of a male worker in a blue short-sleeved shirt and denim apron, wearing safety glasses and gloves, operating a large industrial machine. The machine has a large, rusted metal component being moved. The background is a blurred industrial setting with various metal structures and equipment. The overall color palette is dominated by reds and oranges, with the worker's blue clothing providing a contrast.

THE PEOPLE BEHIND THE CORPORATION

*"The STM considers itself privileged to be able
to count on its dedicated employees..."*

THE PEOPLE BEHIND THE CORPORATION

For a public transit system, quality and performance begin with a commitment from the teams of workers ensuring its smooth operation. The STM considers itself privileged to be able to count on its dedicated employees who, above and beyond their professional qualities, never hesitate to do more, each and every time they are needed.

Workforce (permanent staff) at December 31, 2006

	2004	2005	2006
SECTOR OF ACTIVITY			
First-level operational managers and supervisors	304	315	318
Foremen	129	132	133
Corporate managers	194	207	213
Professionals and non-union office staff	83	85	88
Unionized professionals	192	193	201
Divisional clerks	170	201	202
Security staff	151	142	149
Unionized administrative staff	598	609	633
Drivers, operators and related services workers	3 580	3 611	3 671
Maintenance workers	1 918	1 894	1 887
Total	7 319	7 389	7 495

PROPORTION OF WOMEN

	2004	2005	2006
	19.5%	20.7%	22%

PROPORTION OF ETHNIC AND VISIBLE MINORITIES

	2004	2005	2006
	9.4%	10.2%	11.1%

AVERAGE AGE OF EMPLOYEES 46 years

AVERAGE NUMBER OF YEARS OF SERVICE 14.4 years

RECRUITMENT (excluding those rehired)

	2004	2005	2006
	556	567	729*

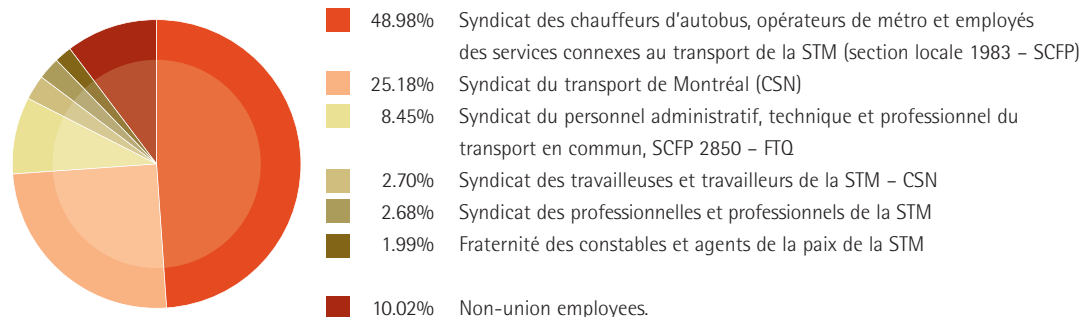
* of which 343 were for permanent positions

RETIREMENT ELIGIBILITY

	2004	2005	2006
	936	1 076	1 071

UNIONS AND ASSOCIATIONS

Some 89.98% of the company's employees are represented by six unions.



There are also four associations representing most of the non-union personnel :

Association des chefs d'opérations - Réseau des autobus — Association des chefs d'opérations - Réseau du métro
 Association des contremaîtres — Association des cadres et des professionnels de la STM

A woman with dark, wavy hair, wearing a light blue button-down shirt, is seated at a desk. She is looking towards a young man on the right. The young man has dark hair and is wearing a dark school uniform with a light-colored shirt underneath. He is also seated at the desk, looking towards the woman. A silver gooseneck microphone is positioned between them. The desk has some papers and a small sign that says "REDUIT". The background is slightly blurred, showing what appears to be a school or office setting. The entire image has a warm, orange-red tint.

CLIENT SERVICES

*"The STM actively listens to the needs of its clients and
adjusts its service according to new demands."*

CLIENT SERVICES

In addition to having client services handled by competent staff, it is important for the company to renew its transportation equipment in order to maintain, indeed improve, the level of passenger service, comfort and security. To that end, the STM takes an active part in the work of various international expert groups who, through benchmarking, share their experience and best practices in the fields of operations, maintenance and customer services.

The bus network – facts and figures

192 bus routes (including 20 for night time service)

11 reserved lanes covering a distance of 45.5 kilometres

BUS FLEET

Standard buses	560
Low-floor buses	1 033
Paratransit minibuses	93
City minibuses	4

ON-TIME PERFORMANCE (Performance expressed in %)

	2004	2005	2006
Goal (-1 min + 3 min)	82.6	83.0	83.7

TOTAL DISTANCE TRAVELLED (km)

Buses	70 458 062
Paratransit minibuses	2 775 922

ACCIDENTS WITH DAMAGES INVOLVING A BUS OR MINIBUS (per 100 000 km)

	2004	2005	2006
	4.61	4.62	4.13

MOST HEAVILY-USED BUS ROUTES

(Average daily ridership – weekdays)

1. 67 – Saint-Michel	40 400
2. 121 – Sauvé/Côte-Vertu	37 000
3. 139 – Pie-IX	36 000
4. 535 – Voie réservée du Parc/Côte-des-Neiges	35 100
5. 69 – Gouin	28 700

DELIVERY OF PLANNED SERVICE

	2004	2005	2006
	99.51%	99.31%	99.15%

On-time
performance
83.7%



CLIENT SERVICES

The STM actively listens to the needs of clients and adjusts its services according to new demand. To that end, the corporation maintains close ties with elected officials and citizens from all areas of the territory it serves, and is always open to making improvements whenever possible.

Service improvements

In 2006, a few noteworthy improvements were made to bus services, including the revised transit plan for Saint-Laurent Borough, the newly redesigned networks for Pointe-aux-Trembles and Montréal-Est, the introduction of shuttle services for seniors, the creation of a new route, 25 – Angus, to serve an industrial sector, as well as modifications to several bus routes, namely 131 – de l'Assomption, 86 – Pointe-aux-Trembles, 30 – Saint-Denis/Saint-Hubert and 43 – Monselet.

Moreover, 96 new bus shelters were installed throughout the company's operating area. And to improve the waiting conditions for some 1 700 transit users who, each day, take the bus at a particular stop next to Sauvé métro station, the STM installed a triple bus shelter. The first of its kind to be deployed by the STM, the shelter was developed in partnership with CBS Affichage Canada.

Vehicle fleet renewal

With respect to equipment, the STM has once again shown it intends to offer clients the most efficient equipment that is best adapted to their needs. In December 2006, the Board of Directors also approved the purchase of 202 articulated low-floor buses. Part of the 2007-2009 three-year capital spending plan, this project is one of the several strategies implemented to better meet the needs of clients in terms of on-time performance, regular service intervals and lesser crowding aboard vehicles. The project also aims to improve the offer of service by increasing ridership capacity on nine heavily-used bus routes.

The Board of Directors has also approved a loan by-law to proceed with a group purchase of conventional low-floor buses with other public transit authorities in Québec. For the STM, this means a \$172 million investment that will enable it to acquire 305 such vehicles. The delivery of these buses will take place gradually each year until 2012.

In praise of safe driving

In the course of their duties, several bus drivers demonstrate remarkable caution and avoid any accidents for years. Some even manage to maintain an impeccable driving record with no avoidable accidents for 25 years and more. Formal recognition is given to drivers who have cumulated 1 450 hours of driving with no avoidable accidents. In 2005, a total of 1 183 drivers succeeded in doing so. Safe driving habits have a positive effect on passengers, the company and bus drivers. So it was only natural for management to make an annual event of it, during which deserving drivers are awarded a trophy and pin in recognition of their outstanding driving records. At the evening ceremony, 60 drivers were honoured for having completed 25 to 30 years of service without an accident by 2005.



CLIENT SERVICES

The métro network – facts and figures

4 lines totalling 66 km of tracks and serving 65 stations

FLEET

Cars 759 (of which 336 are MR-63 and 423 are MR-73 models)

KILOMETRES TRAVELLED (with passengers)

59 838 784

BUSIEST STATIONS

1. Berri-UQAM	12 053 754
2. McGill	11 094 510
3. Henri-Bourassa	8 308 268
4. Guy-Concordia	7 327 361
5. Longueuil-Université-de-Sherbrooke	7 002 170

BUSIEST DAY

Thursday, October 5, with 806 242 fares.

RELIABILITY

98.05% of clients arrive on time.

NUMBER OF TRIPS DELAYED BY 5 MINUTES* OR MORE

Causes	2004	2005	2006	%
Mischief, ill passengers	2 547 793	2 319 323	2 219 843	-4
Rolling stock	1 179 077	1 186 807	1 249 291	5
Train operations	301 490	183 444	208 099	13
Stationary equipment	393 915	527 943	374 536	-29
External factors	120 697	109 376	123 508	13
Miscellaneous	223 049	138 176	178 759	29
Combined	4 776 021	4 465 066	4 354 036	-2

* When reading this chart, it should be noted that the métro provided over 219.1 million trips in 2006.

Still reliable despite its age

NUMBER OF INCIDENTS LASTING 5 MINUTES OR MORE

Causes	2004	2005	2006	%
Mischief, ill passengers	477	397	409	3
Rolling stock	184	215	218	1
Train operations	70	53	42	-21
Stationary equipment	69	94	78	-17
External factors	24	16	15	-6
Miscellaneous	38	22	32	45
Combined	862	797	794	0

DELIVERY OF PLANNED SERVICE

	2004	2005	2006
	99.06%	99.64%	100.09%

98.05%
of clients
arrive on
time



CLIENT SERVICES

The STM is just as performance-driven underground as above, and just as concerned with providing the best service possible, as the year's numerous achievements clearly demonstrate.

Additional service on the 5 – Blue line

As of March 27, the STM improved the level of service for clients using the métro's 5 – Blue line by running six-car trains from Monday to Friday. On weekends, holidays and during the summer period (mid-June to end of August), however, service will be provided by three-car trains, as ridership is considerably lower at those times.

Métro cars refitted by employees and appreciated by clients

STM employees continued to renovate the fleet's 423 MR-73 métro cars. By December, they had completed 30% of the project, with some 125 cars having undergone a rejuvenating makeover. Concrete improvements benefitting passengers include:

More space

More individual support poles and bars

New, three-pronged support poles for better balance

A symphony of colours and pleasant textures

More resistant materials for seats, bulkheads and wall coverings

New ambient lighting, similar to natural daylight

Easier circulation around doors and between seats

More comfortable seats

More efficient ventilation



CLIENT SERVICES

Métro extension to Laval

In early December, Agence métropolitaine de transport (AMT), as project leader, announced that major construction of the métro extension to Laval was complete. The tunnel's excavation and pouring of concrete were 100% completed, as well as the track's installation and station architecture. As part of the extension project, in 2006 the STM oversaw the acquisition and installation process of stationary equipment worth \$60 million.

High voltage electricity now runs through the tracks and operational trials began on November 20. During these tests, a first train travelled at normal operating speed along the new section of track. Several other tests were carried out, particularly with respect to the integration of the different systems' electrical and mechanical components with centralized traffic control in the three new stations. The testing period should take about six months.

Renovations for a few métro stations

In 2006, the STM also undertook to renovate Papineau and Côte-Vertu métro stations, each time taking all possible measures to minimize the inconvenience, while maintaining the same quality and level of service. Such efficient preparations are indicative of the STM's constant concern for transit users.



CLIENT SERVICES

Client information

MÉTRO NEWSPAPER'S INFO STM PAGE

On February 28, 2006, *Métro* newspaper celebrated the fifth anniversary of its official launch. Number one among free daily newspapers in Montréal, *Métro* ranks third among French-language dailies in Québec with some 265 000 readers each weekday. Launched in Stockholm in 1995, *Métro* is published in 18 languages in nearly 90 cities around the world. The STM is one of the very few public transit organizations to dedicate an entire page in the newspaper to client information, Monday to Friday.

249 *Info STM* pages were produced, reaching an average satisfaction level of 80%.

WEB SITE (in millions of visitors)	2004	2005	2006
	8.4	9	13.9

Nearly 16 200 people used online registration to apply for work at the STM. Development of the @recrutement-interne Web site is well underway, and employees will have access to the same registration process for in-house job applications by 2007.

AUTOBUS TELEPHONE LINE: 10 784 767 calls, or an average of 29 547 calls each day.

STM-INFO TELEPHONE LINE: 824 503 calls

PLANIBUS: 5 000 000, with 1 250 000 distributed for free four times a year.

INFOBUS: 18 000, with 4 500 timetables installed at bus stops four times a year.

SYSTEM MAP: 280 000 distributed for free to clients.

MÉTRO PLAN: 900 000 distributed for free to clients.

COMMENTS AND COMPLAINTS	2004	2005	2006
	17 600	17 862	21 229*

* While the number of complaints decreased at the métro network, the bus network registered an increase. The shortage of vehicles, linked to maintenance of the first-generation low-floor buses, is the main reason for this rise. In this regard, the STM has already begun talks with the ministère des Transports du Québec and NovaBus-Volvo to abandon these buses as quickly as possible.

STIQUE



JAN
FÉV
MAR
AVR
MAI

CONTRIBUTIONS TO THE ECONOMY

*"Public transit is without question a determining factor
in the economic and social development of Montréal."*

CONTRIBUTIONS TO THE ECONOMY

Public transit is without question a determining factor in the economic and social development of Montréal. Hundreds of thousands of people use it each day to go to work, school and to their recreational activities. The STM's operating expenses and investments lead to the creation of thousands of direct and indirect jobs. Moreover, the company generates several million dollars in taxes for the various levels of government.

INVESTMENTS OF \$414 MILLION PER YEAR ON AVERAGE.

Investments of \$6.2 billion over 15 years:

\$6.1 billion to maintain assets (98%)

\$77 million to improve services

\$98 million to improve overall performance

Still affordable fares

The STM is drawing up strategies to provide a framework for the next fare increases. These strategies will take into account both the consumer price index (CPI) and the transportation price index (TPI). They are also based on transit fares covering 50% of operating expenses and on reduced fares being adjusted to 40% over five years. With respect to fares, the STM ranks among the most competitive public transit companies in North America.

Three-year capital asset programme

The STM's three-year capital asset programme (PTI) covers the investment expenses planned for 2006-2008 and their effects on subsequent years. These investments will serve to maintain the company's assets in good working order, while continuing to provide reliable, safe and appealing public transit services to Montréal-area residents. For the 2006-2008 period, the STM and its financial partners will earmark a total of \$1.1 billion for capital projects, including \$804 million in subsidized projects, \$222 million in non-subsidized projects, and \$53 million in various projects that will be directly funded by the operating budget.

CONTRIBUTIONS TO THE ECONOMY

Sector expenses

The portion of investments earmarked for the Métro was set at \$139 million, which the STM used primarily for its ongoing Réno-Systèmes programme aimed at preserving the reliability, availability and security of the métro's stationary equipment. It also began phase II of its Réno-Stations programme covering, among other things, the restoration of certain stations, auxiliary structures, tunnels and works of art, the upgrading of fire prevention systems and the improvement in station access for the visually-disabled. In addition, these 2006 investments enabled the company to continue with the refitting of the métro cars acquired in 1973.

As for the bus network, the 2006 investments totalled more than \$40 million and allowed primarily for the replacement of the city buses and improvement in the reliability of the low-floor buses. This sum also enabled the company to repair and bring up to standard certain bus depots, acquire a computer system to manage bus driver assignments and continue its studies on the projects to expand and refit the Legendre bus depot and the bodywork shop.

Projects of an administrative nature amounted to \$31 million, which was spent mainly on deploying the new fare sales and collection system and installing computer systems for the management of work-related accidents and maintenance.

Over the next few years, through the federal government's financial contribution to the Transit-Secure programme, the STM will be undertaking various projects to increase security in its installations. As a result, the STM will be able to refine its procedures and better prepare for any acts of violence that could be committed inside the transit system.

Important contributions

All these investments were made possible thanks to a major financial contribution by the ministère des Transports du Québec, as part of its public transit assistance programme. The Canadian and Québec governments, through SOFIL, the organization for financing local infrastructure in Québec will make \$366 million of financial aid available for public transit, on condition that the city of Montréal assumes 15.5% of the cost of infrastructure projects submitted by the STM, or \$67 million. The STM is quite pleased to have access to this programme, as it will allow for an injection of \$433 million for its infrastructure expenses.

From 2002 to 2006, the STM has invested \$876.2 million, which represents 9.8% of the replacement cost of its assets, valued at some 10 billion dollars.

CONTRIBUTIONS TO THE ECONOMY

Well-managed finances

Thanks to a SWAP contract (a hedge transaction), the STM was able to maintain its average cost for diesel fuel below market prices and contain fuel expenses for 2006. And once again, the corporation's excellent credit ratings have drawn the attention of overseas investors, providing the STM with access to competitive interest rates. Indeed, Standard & Poor's and Dominion Bond Rating Service (DBRS) have again confirmed the STM's sound management by upholding their respective credit ratings of A+ and A(high). Through sound management, the STM succeeded in trimming its anticipated \$32 million deficit down to \$13.6 million according to the standards of the *Manuel de présentation de l'information financière municipale au Québec*, as presented in note 31 of the consolidated financial statements at December 31, 2006.

Pension funds are celebrating 50 years

The year 2006 marked the 50th anniversary of the STM's pension funds. Several actions were taken to continue to improve their performance, including replacing the administrative system to handle the rising number of employees retiring, updating the annual personalized pension booklet in order to keep participants better informed and launching a specific pension fund Web site (monregime.stm.info). The company's investment policy was also the object of a comprehensive review to make the most of new market realities, while optimizing returns and minimizing risks.

The Fare Sales and Collection project

Thanks to the hard work of all partners in the fare sales and collection project, significant achievements were realized during the year in preparation for the introduction of the centralized system, equipment and smart card in spring 2008. The smart card will be used by several public transit organizations in the Montréal area and in Québec City as their fare card of choice. Over a hundred employees have already attended information sessions, thereby enabling them to smoothly integrate upcoming changes in their respective fields of activity.

Crucial steps were carried out in 2006, such as the start of the installation of new fare control booths in métro stations and the deployment of new electronic fare boxes aboard buses, all of which should be completed by early 2007. Thanks to comments and feedback by bus drivers, maintenance workers and transit users, further improvements were made to the new fare boxes to make them even more user-friendly and easier to use.



CONTRIBUTIONS TO THE ECONOMY

A pilot project aimed at assisting bus drivers in the enforcement of fare control was conducted on three bus routes handled by the Mont-Royal bus depot. Uniformed security staff reminded clients of the importance of paying their full fare or holding a valid fare card and reduced fare access card, as required. The pilot project is ongoing, and security staff will be visible on the most problematic bus routes at targeted times and locations.

The purpose of the sales and collection project is to significantly reduce the revenue shortfall due to fraud, improve revenue collection and safeguarding, and provide employees with the tools needed to carry out fare control efficiently.

Partnerships to develop the STM's commercial potential

The Board of Directors of the Société de transport de Montréal authorized the creation of Transgesco S.E.C. in May 2003. A separate entity from the STM, Transgesco's aim is to set up subsidiaries in partnership with stakeholders from the private sector in order to ensure the development of the STM's commercial potential. Up to this point, two subsidiaries have been created: Métrocom S.E.C. and Métrovision S.E.C..

Métrocom S.E.C. has a mandate to secure the rental, management and development of commercial areas in the Montréal métro. Thus, in 2005, four new retail areas were set up in the Lionel-Groulx station, and six new outlets will be completed in 2007 at the McGill station.

Métrovision S.E.C., for its part, is responsible for the installation of a digital display network in the métro stations. Up to this point, screens displaying interesting information for travellers have been installed in two stations, Berri-UQAM and McGill, and two new stations should be added in 2007. These partnerships generated profits of \$3 229 576 in 2006, up by 8.9% over 2005.

Delivery of reduced fare access cards

To be entitled to reduced fares, school children, students and seniors must obtain a reduced fare access card. The Carte d'or for use by persons 65 and over is good for life, while the Carte d'écolier and Carte Privilège must be renewed each year. And to make it easier to obtain the appropriate one, the STM along with Photo Art studio travel to most schools and higher education institutions throughout Montréal to photograph clients and issue their access cards. In 2006, the tour included some 169 establishments and about 170 000 cards were delivered.

Consolidated results

(in thousands of dollars)

OPERATING REVENUES

Passengers	394 734
Contribution by the City of Montréal	278 000
Québec government subsidies	27 993
Regional contributions	52 356
Contribution by Réseau de transport de Longueuil (RTL)	1 803
Other revenues	23 280
	<u>778 166</u>

OPERATING COSTS

Bus and métro service	695 021
Paratransit service	39 674
	<u>734 695</u>

INCOME BEFORE THE FOLLOWING COMPONENTS

	43 471
Government contributions and subsidies	60 353
Interest and financing costs	(38 787)
Amortization of tangible capital assets	(77 284)
Amortization of intangible assets	(6 396)
Excess of the expense for employee future benefits over the contributions paid	(7 035)
Revenue from the sinking fund investments	5 317
	<u>(63 832)</u>

NET LOSS

(20 361)

CONTRIBUTIONS TO THE ECONOMY

STM fares

	2004	2005	2006
CAM			
Regular fare	\$59	\$61	\$63
Reduced fare	\$31	\$32.50	\$33.75
CAM HEBDO			
Regular fare	\$18	\$18	\$18.50
Reduced fare	\$9.50	\$9.75	\$10.25
STRIP OF SIX TICKETS			
Regular fare	\$11	\$11.25	\$11.50
Reduced fare	\$5.50	\$5.75	\$6
CASH			
Regular fare	\$2.50	\$2.50	\$2.50
Reduced fare	\$1.25	\$1.25	\$1.50
TOURIST CARD			
1 day	\$8	\$8	\$9
3 days	\$16	\$16	\$17

Transit fare sales

(in thousands of dollars)

Fare	Regular	Reduced
CAM	139 598	54 902
CAM HEBDO	28 485	2 531
STRIP OF SIX TICKETS	66 905	13 594
CASH	51 137	3 839
TOURIST CARD		
1 day	440	
3 days	866	

(in thousands, per fare type)

Fare	Regular	Reduced
CAM	2 217	1 627
CAM hebdo	1 540	247
Strip of six tickets	34 907	13 594
Cash	20 455	2 560
Tourist card		
1 day	49	
3 days	51	



CONTRIBUTIONS TO THE ENVIRONMENT

"In addition to the modernization of the equipment used for industrial wastewater treatment, much effort was expended to better manage their use and maintenance."

CONTRIBUTIONS TO THE ENVIRONMENT

A single bus transports as many passengers as 50 cars... and pollutes up to 18 times less.

A single métro train transports as many people as 15 buses, without any polluting emissions.

As a signatory of the Union internationale des transports publics (UITP) Charter for sustainable development, the STM made a commitment to encourage the primacy of sustainable development, influence national policies, promote staff training and support, and regularly assess the quality of its practices.

Three-year environmental protection programme

The STM adopted a three-year environmental protection programme, developed with the cooperation of representatives of all sectors and phased in from 2003 to 2005 inclusively. At the end of this three-year plan, the STM takes pride in the fact that more than 85 activities have been carried out.

Water

In addition to the modernization of equipment used for industrial wastewater treatment, much effort was expended to better manage their use and maintenance. An audit of the preventive maintenance programme (PMP) served to establish a routine aimed at maintaining the equipment in good working order, and employees received more training. Finally, a procedure for washing escalators was developed to prevent any contaminated water infiltrations, as they drain into the métro tunnel.

Air

The installation of a dust-collector in the sand-blasting room led to compliance with current regulations. Improvement was also noted regarding the emission of volatile organic compounds (VOCs) often contained in paint. By adopting better practices, the STM succeeded in reducing emissions, by, among other things, using paint provided by a single supplier and acquiring more efficient paint-gun cleaning equipment. Progress was also made in lowering greenhouse gas emissions thanks to the renewal of the bus fleet and various other environmental initiatives such as the SmartDriver for Transit programme.

Ground

Much work was dedicated to upgrading fuel equipment. Underground storage tanks were removed, dispenser sumps were installed below fuelling stations, anti-leakage hose guns were purchased, and the kilo-fuel system (which measures bus fuel consumption and is used in the SmartDriver programme) was upgraded. Plans to rehabilitate contaminated soil below the Saint-Henri site and Frontenac bus depot have led to the recovery of a major part of the floating phase hydrocarbons and the reduction of associated risks.

CONTRIBUTIONS TO THE ENVIRONMENT

Residual materials

Considerable effort was put into establishing a paper and cardboard recovery programme. A paper press was installed in 2006 in the major maintenance workshop, to complement an existing one for cardboard in the Crémazie workshop. In addition, 214 recycling bins to recover newspapers were installed throughout the métro network as part of a cleanliness campaign under the theme *Un métro qui nous est propre*, conducted jointly with Médias Transcontinental and Cascades inc. After one year, some 560 tonnes of paper have been recovered, equal to preserving 9 500 trees.

The 67 BPC power transformers that have reached the end of their service life have all been removed except for one, for operational reasons.

Residual hazardous materials

Despite an increased rate of recovery of residual hazardous materials, the STM is pushing ahead with reduction efforts at the source. Optimal use of the aspirator truck needed to recover sludge from industrial wastewater treatment equipment and the re-use of chemical solutions for washing parts in maintenance workshops are some of the projects put forward to reduce the volume of residual materials to be eliminated.

Such encouraging results can be attributed in large part to the active involvement of employees and management in promoting the goals set out in the environmental protection programme.

The SmartDriver for Transit programme

An initiative by Natural Resources Canada aimed at reducing greenhouse gas (GHG) emissions, the SmartDriver for Transit programme was picked up by the STM under the banner *Conduite écologique*, or "ecological driving". Starting with Anjou and Legendre bus depots at the end of 2005, the training programme introducing drivers to green driving techniques moved on to the remaining bus depots throughout the year. By the end of December, some 1 489 drivers (over 50% of the bus operations workforce) had received the two-day training and together contributed to lowering GHG emissions by some 2 540 888 kg, equal to removing 578 cars from the road, each one travelling 20 000 km a year on average.

In addition to having a beneficial effect on the environment, this driving style promotes a smooth ride, increases the feeling of safety, reduces stress and leads to better control of the road environment.

The *Conduite écologique* programme implemented in 2005 has already resulted in the reduction of GHGs by more than 2 500 tonnes, the equivalent of removing 578 cars from the road.



CONTRIBUTIONS TO THE ENVIRONMENT

Cutting the engine for easier breathing

In the fall, the STM adopted a new slogan, *Vous ne roulez pas? Coupez le moteur!*, thereby confirming its commitment to the City of Montréal's own campaign aimed at reducing greenhouse gas emissions produced by engines left idling on stationary vehicles.

Signs reminding drivers to turn off their engines were installed on the grounds of all bus depots and, throughout 2007, the signage will expand to bus terminals and all other locations where buses are likely to be kept idling for several minutes. The signs will also remind drivers that letting their engines run for no reason is an infraction subject to a fine. The drivers' union supported this initiative, as much out of an awareness for the environment as out of concern for current regulations.

A campaign for sustainable development

In March, the STM joined the eight other major public transit companies in Québec, who make up the Association du transport urbain du Québec (ATUQ), to launch a communications campaign at the national level. Under the theme *Super Héros du développement durable* (Sustainable development Super Heroes), the campaign aimed at emphasizing the exceptional contribution by public transit users to the quality of the environment and to economic growth. It also carried a clear, unequivocal message: the fight against greenhouse gas effects and smog begins first and foremost with major investments in public transportation.

En ville sans ma voiture!

For a fourth year, the STM joined Agence métropolitaine de transport (AMT) as a major partner in *En ville, sans ma voiture*, an event dedicated to sustainable development held in downtown Montréal on September 22. A section of the downtown core was closed off to traffic between 9:30 am and 3:30 pm for the occasion, and the population was invited to take part in a number of activities.

Once again, the STM stand – featuring a green driving theme – attracted a large number of visitors, as contest results show the number of participants reached more than 1 900 this year.

The company's information squad was on hand to distribute system maps and other related material to the public. Visitors were invited to board a low-floor bus painted with the SmartDriver for Transit programme's campaign colours, and two training officers were available to field any questions. The public could also meet with a wheelchair passenger who regularly uses that type of accessible vehicle when travelling around Montréal.



CONTRIBUTIONS TO CULTURE AND SOCIETY

*"The STM actively participates in city life
and in welcoming visitors from all over."*

CONTRIBUTIONS TO CULTURE AND SOCIETY

Throughout the year, the STM and its employees are actively involved in major social, cultural and sporting activities that attract crowds of residents and tourists alike. Whether by being an event's official transporter, by hosting various groups within its installations or by offering widespread visibility through its advertising space or the information page published each day in the *Métro* newspaper, the STM takes an active part in city life and in welcoming visitors from all over.

The offer of service is regularly reinforced during events generating greater ridership levels than usual and shuttle services are often organized for the convenience of event participants. Free access to transit is sometimes offered, such as for the *Fête des enfants de Montréal*, when families need only obtain an event pass to use both bus and métro networks during the two days of celebrations. The same applies to the Défi sportif and the Journées de la culture, when the STM provides transportation for the disabled so they may take part in everyday life in Montréal.

In the area of culture, the following activities are among those that, in one way or another, benefitted from the STM's support :

Montréal Museum Day

La poésie prend le bus et le métro

Montréal-Paris poetry pairing

The métro sings Verdi (Opéra de Montréal)

Mozart takes the métro (Opéra de Montréal)

Aïda under the stars (Opéra de Montréal)

La musique classique, c'est pour tout le monde

Les Journées de la culture

« Quand dans l'autobus
quelqu'un épluche une orange
mars sent la Floride »



LINE MICHAUD
ET SI J'ÉTAIS POÈTE? COMPETITION FINALIST

CONTRIBUTIONS TO CULTURE AND SOCIETY

A few of the social events with which the company and its employees were closely associated in 2006 include:

La Fête des neiges, Montréal's winter festival

La Fête des enfants, Montréal's children's festival

Montréal High Lights Festival and All-Nighter

Action Week Against Racism (Zero exclusion rally)

La Semaine québécoise de la déficience intellectuelle

La Semaine québécoise des familles

Le Mois du Mont-Royal

Earth Day

Several major sporting events also benefitted from the expertise of transit staff during the year, including:

Le Défi sportif, a sports challenge for disabled athletes

Tour de l'île cycling event

World Beach Volleyball Tour

World Outgames

Canadian Grand Prix

The Alouettes football games

The Montréal Grand Prix Champ Car

Moreover, on December 20, the STM was featured in the 34th Gala Sports-Québec, broadcast live by Réseau des sports (RDS). Colourful, and marked by performances by celebrity guests, the gala proved to be a special showcase for the STM. The company also pleased many by sponsoring an award for Sports Federation of the Year.

The Gala Sports-Québec is the only event held in recognition of Québec athletes, coaches, officials, volunteers and teams. The STM is proud of its part in an event that serves to encourage young athletes in their pursuit of excellence in sports, while promoting the advantages of public transportation.



MONTRÉAL HIGH LIGHTS FESTIVAL
AND ALL-NIGHTER



CONTRIBUTIONS TO THE COMMUNITY

*"To see people thinking of others, that's the true Christmas.
No gift can replace this loving gesture."*
DANIELLE, WHO RECEIVED A CHRISTMAS BASKET

CONTRIBUTIONS TO THE COMMUNITY

The qualities and abilities displayed by STM employees far surpass those needed to carry out their daily tasks. And because their work is intrinsic to the lives of so many people, these employees must deal with emergencies and unforeseen situations. Human and social tragedies, as well as the accidents that marked 2006, have led STM employees to quickly adapt to the new needs expressed by clients. And that was enough for the STM to reassess its approach to the working relationships it maintains with its employees. By moving closer to them, the company is demonstrating both recognition and respect.

CP train derailment

On February 17, violent winds caused a Canadian Pacific freight train to derail, at once depriving clients using the Montréal/Delton-Candiac commuter train line of their means of transportation. At AMT's request, employees at the LaSalle bus depot rolled up their sleeves and rapidly deployed a bus shuttle service to make up for the missing train. Work on the track lasted three weeks, but during that time, commuters could count on STM bus service provided to and from Montréal-Ouest train station and the South Shore.

Aid to Lebanese nationals

Following the massive arrival of foreign nationals, victims of the tragic events that struck Lebanon in early summer, a shuttle service was deployed to transport them from Montréal-Trudeau airport to the coordination centre at the Hilton hotel, some universities and numerous hotels who all took part in the humanitarian aid operation.

STM bus drivers and supervisors, volunteers, Red Cross members, Québec Public Security representatives and Garda security staff were busy making the transportation service as efficient and safe as possible. In addition to drivers and supervisors, employees of the Bus Network's coordination centre, maintenance department and clerking staff saw their routine disrupted by these unexpected events.

Drivers and buses needed for this operation were sent in from Anjou, Frontenac, LaSalle, Legendre and Saint-Laurent bus depots. Together, they ran the shuttle 24 hours a day, a service that was used by over 1 600 Lebanese nationals.



CONTRIBUTIONS TO THE COMMUNITY

Dawson College shooting

When shooting broke out at Dawson College on September 13, the STM called back a number of buses to set up a security perimeter and help evacuate students. Some buses also served as a meeting point for police officers. For their part, métro employees had to handle the massive surge in ridership caused by the event. Later, a shuttle service was put at the disposal of students wishing to attend funeral services for the shooting's young victim, Anastasia De Sousa.

De la Concorde overpass collapse

In the wake of the overpass collapse in Laval on September 30, the STM implemented measures to deal with residents of the North Shore suburbs who use public transit to come to Montréal. The métro increased service levels on its Orange and Green lines during morning rush hour and made the necessary adjustments to handle the afternoon peak period.

The level of bus service along some roadways was also increased, particularly on the north-south thoroughfares of boulevard Pie-IX and avenue du Parc (Trainbus 935), as well as along the east-west Gouin and Henri-Bourassa boulevards.

This initiative was in support of Société de transport de Laval (STL) in handling the volume of residents of outlying suburbs to the north who use public transportation to come to Montréal.

Fundraisers

Over the years, STM employees have built up a humanitarian grassroots organization to aid people who are in distress or who have lost everything. Their commitment to volunteer work shows that, above all, they are caring people dedicated to the service and well-being of the citizens they serve.

For the eleventh consecutive year, active and retired STM employees lived up to their reputation for generosity during the corporation's annual fundraising drive, held from November 1 to 30, 2006. In fact, whereas the campaign's goal had been set at \$520 000, in the end, a total amount of \$577 363.47 was shared between Centraide for the Greater Montréal area, the Québec chapter of the Canadian Red Cross, Partenairesanté-Québec and the STM Réchaud Bus, the four organizations for whose benefit the campaign was held.

"I am convinced that during these trying times, STM employees involved with operations, whether they were drivers, supervisors, coordination centre clerks or other behind-the-scene staff, they all made a difference."

Patrick Plamondon

CHIEF OF OPERATIONS – TRANSPORT LOGISTICS



CONTRIBUTIONS TO THE COMMUNITY

STM clients also did their share

Clients were also quite generous during the employees' ninth annual fund raiser, *Les bonnes œuvres des employés*, held November 23, 24 and 25. For the occasion, employees volunteered to collect cash donations inside several métro stations to help out families in need. This year, the public gave \$76 501.32, to which was added another \$16 040.31 collected from employees. The campaign netted a total of \$92 541.63, which was used to purchase food items to prepare some 750 Christmas baskets.

CUTA Excellence Awards

At a conference held in November, the Canadian Urban Transport Association (CUTA) honoured STM employees, active and retired, with awards for excellence in the Volunteer / Advocate category. **Michel Bourassa** and **Ginette Meilleur**, both drivers, received an award in recognition of their long-standing commitment to social causes. **Bobby Beaumier**, **Marco Mencaroni**, **Michel Delli Colli**, all drivers, and **Sabatino Lepore**, fare controller, were also rewarded for their involvement in organizing a pan-Canadian hockey tournament that raised \$32 000 for charity. Finally, **Pierre Sigouin**, retired, was honoured for his tireless dedication to street youth. He is one of the founders and spiritual leader of the Réchaud Bus, a bus converted into a kitchen-on-wheels that, for over ten years, has been travelling the city's streets, providing hot meals to underprivileged teens and breakfasts for children in some 40 elementary schools.

Acts of civic-mindedness and bravery

On September 18, the Director General met with 16 employees to present them with certificates of recognition, as part of a corporate programme established to spotlight acts of bravery and civic-minded actions. During his speech, Yves Devin mentioned that he was particularly impressed by their outstanding actions, adding that "you faced difficult situations and showed sound judgment at the right time. Not everyone would have done what you did. You are good ambassadors for the STM and I take special pride in that!"

The employees who received certificates are: **Slavko Kuzmanovic**, fare controller; **Danielle Boulet**, driver; **Isabelle Malenfant**, driver; **Pierre Major**, driver; **Jacques Hébert** and **Robert Lauzon**, station managers; **Martin Dupont**, chassis repairman; **Pierre Graveline**, works inspector; **Élizabeth Doval**, driver; **Serge Dumont**, driver; **Claude Chartrand**, driver; **Alain Francoeur** and **Jean-Luc Demers**, maintenance mechanics; **Gilbert Dupré**, driver; **Nathalie Rouillard**, operations chief; and **Catherine Banville**, driver.

GOVERNANCE

GOVERNANCE

Board of Directors

(At December 31, 2006)

The new Board of Directors of the STM officially took office on January 1, 2006. Two new members were appointed to replace Claude Dauphin and Jacques Cardinal. These were Claude Trudel, mayor of the Borough of Verdun, and Yvon Labrosse, mayor of the city of Montréal-Est. All other members of the preceding board were reappointed.

The Board of Directors held ten public meetings during which members reviewed 250 files, awarding 127 contracts for the procurement of goods and services valued at \$900 million. Board members also approved loan by-laws totalling \$400 million.

GOVERNANCE

- ① **Claude Trudel**
CHAIRMAN
MAYOR OF VERDUN BOROUGH
- ② **Marvin Rotrand**
VICE-CHAIRMAN
MONTRÉAL CITY COUNCILLOR
CÔTE-DES-NEIGES-NOTRE-DAME-DE-GRÂCE
BOROUGH
- ③ **Pierre Lapointe**
MONTRÉAL CITY COUNCILLOR
AHUNTSIC-CARTIERVILLE BOROUGH
- ④ **Dominic Perri**
MONTRÉAL CITY COUNCILLOR
SAINT-LÉONARD BOROUGH
- ⑤ **Yvette Bissonnet**
MONTRÉAL CITY COUNCILLOR
SAINT-LÉONARD BOROUGH
- * **Yvon Labrosse**
MAYOR OF MONTRÉAL-EST
- ⑥ **Bernard Blanchet**
BOROUGH COUNCILLOR
LACHINE BOROUGH
- ⑦ **Brenda Paris**
PUBLIC TRANSIT USERS' REPRESENTATIVE
- ⑧ **Marie Turcotte**
PARATRANSIT USERS' REPRESENTATIVE

* Mayor Labrosse left the Board of Directors
in December 2006.



GOVERNANCE

Committees

The Board of Directors reviewed the mandates of the board's different committees and, following their review, two new committees were created. By taking on a more active role, the members of these committees contribute to improving the corporation's business processes and support the Board of Directors in carrying out their duties.

FINANCE AND HUMAN RESOURCES COMMITTEE (NEW)

(AT DECEMBER 31, 2006)

Yvon Labrosse

(UNTIL DECEMBER 1, 2006)
MEMBER OF THE BOARD OF DIRECTORS
COMMITTEE CHAIRMAN

Bernard Blanchet

MEMBER OF THE BOARD OF DIRECTORS
COMMITTEE MEMBER

Yvette Bissonnet

MEMBER OF THE BOARD OF DIRECTORS
COMMITTEE MEMBER

Claude Trudel

COMMITTEE LIAISON MEMBER, AS
CHAIRMAN OF THE BOARD OF DIRECTORS

Yves Devin

DIRECTOR GENERAL
COMMITTEE MEMBER

Sylvain Gonthier

EXECUTIVE DIRECTOR, SHARED SERVICES,
COMMITTEE MEMBER AND COORDINATOR

André Harvey

ASSISTANT TO THE CHAIRMAN OF THE
BOARD OF DIRECTORS

Sylvie Tremblay

COMMITTEE SECRETARY

ASSET MAINTENANCE, MAJOR PROJECTS AND ENVIRONMENT COMMITTEE (NEW)

(AT DECEMBER 31, 2006)

Bernard Blanchet

MEMBER OF THE BOARD OF DIRECTORS
COMMITTEE CHAIRMAN

Dominic Perri

MEMBER OF THE BOARD OF DIRECTORS
COMMITTEE MEMBER

Pierre Lapointe

MEMBER OF THE BOARD OF DIRECTORS
COMMITTEE MEMBER

Claude Trudel

COMMITTEE LIAISON MEMBER, AS
CHAIRMAN OF THE BOARD OF DIRECTORS

Yves Devin

DIRECTOR GENERAL
COMMITTEE MEMBER

Daniel Côté

EXECUTIVE DIRECTOR, MAJOR PROJECTS,
COMMITTEE MEMBER AND COORDINATOR

Pierre Dauphinais

ASSOCIATE EXECUTIVE DIRECTOR,
INFRASTRUCTURE PROJECTS,
COMMITTEE MEMBER

André Harvey

ASSISTANT TO THE CHAIRMAN OF THE
BOARD OF DIRECTORS

Sylvie Tremblay

COMMITTEE SECRETARY

AUDIT COMMITTEE

(AT DECEMBER 31, 2006)

Pierre Lapointe

MEMBER OF THE BOARD OF DIRECTORS
COMMITTEE CHAIRMAN

Marvin Rotrand

VICE-CHAIRMAN OF THE BOARD OF
DIRECTORS
COMMITTEE VICE-CHAIRMAN

Michel Bélanger

EXTERNAL COMMITTEE MEMBER

Robert Desforges

EXTERNAL COMMITTEE MEMBER

Claude Trudel

COMMITTEE LIAISON MEMBER, AS
CHAIRMAN OF THE BOARD OF DIRECTORS

Yves Devin

DIRECTOR GENERAL
COMMITTEE MEMBER

Yvon Marsolais

AUDITOR GENERAL
COMMITTEE COORDINATOR

André Harvey

ASSISTANT TO THE CHAIRMAN OF THE
BOARD OF DIRECTORS

Sylvie Tremblay

COMMITTEE SECRETARY

CLIENT SERVICES COMMITTEE

(AT DECEMBER 31, 2006)

Marvin Rotrand

VICE-CHAIRMAN OF THE BOARD OF
DIRECTORS
COMMITTEE CHAIRMAN

Marie Turcotte

MEMBER OF THE BOARD OF DIRECTORS
COMMITTEE MEMBER

Brenda Paris

MEMBER OF THE BOARD OF DIRECTORS
COMMITTEE MEMBER

Claude Trudel

COMMITTEE LIAISON MEMBER, AS
CHAIRMAN OF THE BOARD OF DIRECTORS

Yves Devin

DIRECTOR GENERAL
COMMITTEE MEMBER

Denise Vaillancourt

EXECUTIVE DIRECTOR, PLANNING,
MARKETING AND COMMUNICATIONS,
COMMITTEE MEMBER AND COORDINATOR

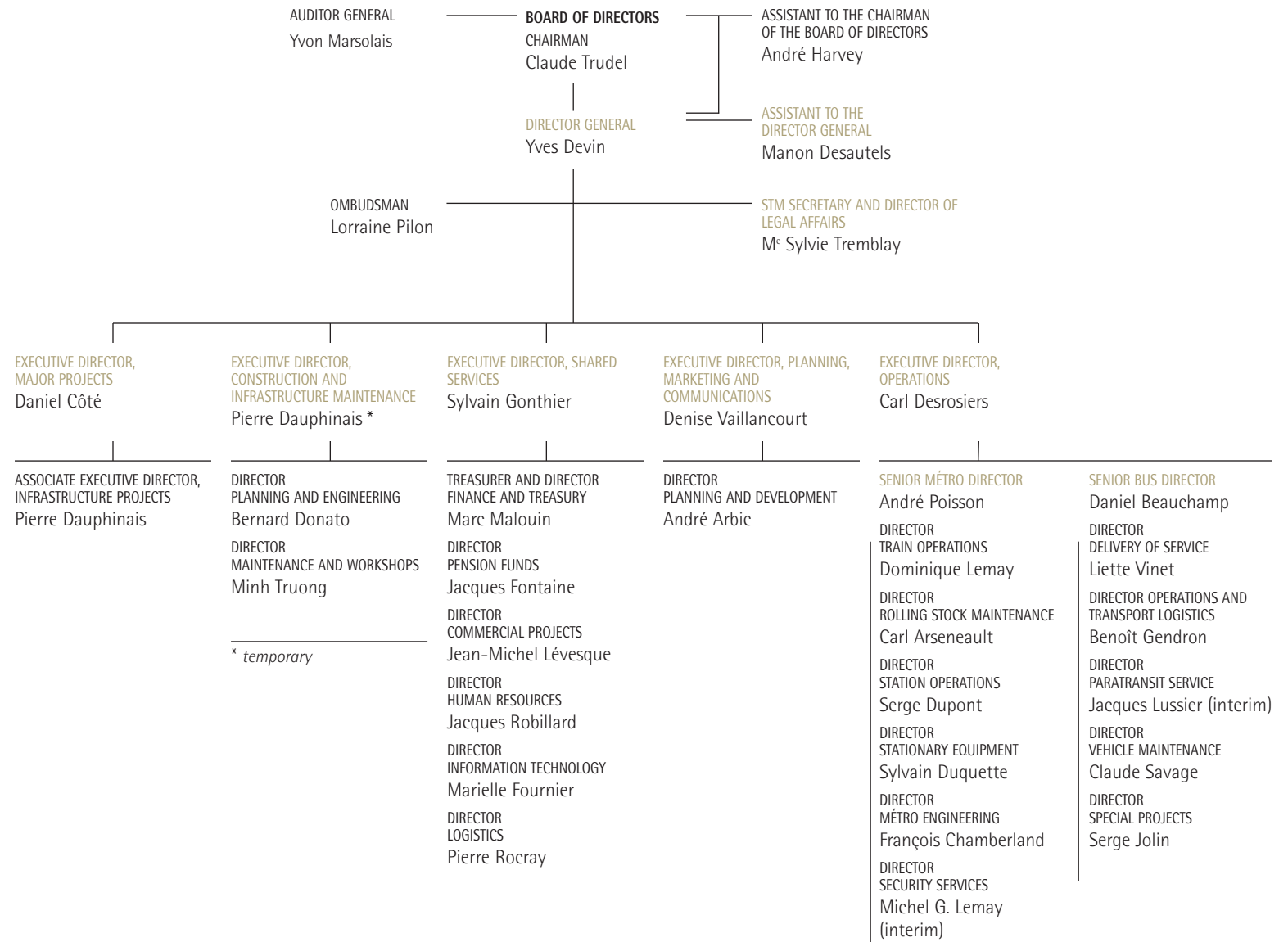
André Harvey

ASSISTANT TO THE CHAIRMAN OF THE
BOARD OF DIRECTORS

Sylvie Tremblay

COMMITTEE SECRETARY

MANAGEMENT STRUCTURE



A woman with dark, wavy hair is looking down at a document held by a man. The man is wearing glasses and a striped shirt, and is also looking at the document. The background is a solid orange color. The text "FINANCIAL STATEMENTS" is overlaid on the right side of the image.

FINANCIAL STATEMENTS

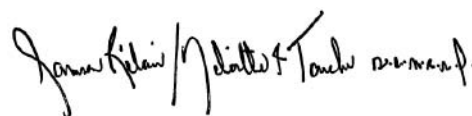
AUDITORS' REPORT

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

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

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

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



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

Montréal
March 30, 2007



Michel Doyon, CA
Auditor General of Montréal

Montréal
March 30, 2007

CONSOLIDATED
FINANCIAL STATEMENTS
AT DECEMBER 31, 2006

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2006

(in thousands of dollars)

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

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2006

(in thousands of dollars)

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

Commitments (note 26)

Contingencies (note 28)

CONSOLIDATED EQUITY FOR THE YEAR ENDED DECEMBER 31, 2006

(in thousands of dollars)

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

CONSOLIDATED CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2006

(in thousands of dollars)

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

Supplementary information is presented in note 25.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

1. Governing statutes and nature of activities

The Société de transport de Montréal (hereinafter the Société) is incorporated under the *Loi sur les sociétés de transport en commun* (L. R. Q. chapter S-30.01) and is responsible for organizing and providing public transit, primarily on the territory of the island of Montréal.

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

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

Transportation services sector

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

The details of the expenses presented in the income statement are as follows:

"Bus and métro service" includes all activities relating to the operation and maintenance of the bus and métro networks as well as the support for these activities. The principal operations support functions are the management of shared services (finance and treasury, human resources, procurement, information technology, pension plan, commercial activities, business plan and project portfolio management), planning, marketing and communications (network planning and development, marketing, communications, public affairs and customer service), management of major projects, construction and infrastructure projects and corporate services (senior management, auditing, secretariat and legal affairs).

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

Commercial sector

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

2. Changes in accounting methods

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

2. Changes in accounting methods (cont'd)

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

a) Employee future benefits

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

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

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

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

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

c) Financial instruments

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

2. Changes in accounting methods (cont'd)

d) Long-term investment

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

e) Revenue from sinking fund investments

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

f) Allocation of the deficit from the prior year

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

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

Restatement of consolidated equity

(in thousands of dollars)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

2. Changes in accounting methods (cont'd)

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

2. Changes in accounting methods (cont'd)

Restatement of Consolidated Balance Sheet at December 31, 2005

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

3. Summary of significant accounting policies

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

a) Reporting entity

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

b) Cash and cash equivalents

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

c) Inventories of supplies and replacement parts

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

d) Tangible capital assets

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

Buildings	40 years
Original network and métro extensions	40 and 100 years
Improvements to métro infrastructure	25, 40 and 100 years
Local infrastructure	20 and 40 years
Regional infrastructure	20 and 40 years
Rolling stock – buses	16 years
Rolling stock – minibuses	5 years
Rolling stock – other	5 and 10 years
Leasehold improvements	Length of lease
Office equipment	5 and 10 years
Machinery, tools and equipment	15 years

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

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

e) Depreciation of long-term assets

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

f) Intangible assets

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

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

g) Sinking fund investments

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

h) Long-term receivables and deferred subsidies

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

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

i) Currency conversion

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

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

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

j) Derivative financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

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

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

k) Employee future benefits

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

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

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

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

l) Recognition of revenue

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

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

m) Use of estimates

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

4. Future accounting changes

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

Financial instruments

- a) Section 3855, *Financial Instruments – Recognition and Measurement*. This section applies to fiscal years beginning on or after October 1, 2006. It establishes the standards for recognition and measurement of financial instruments appearing on the balance sheet and the standards for presentation of gains and losses in the financial statements. The financial assets available for sale, the assets and liabilities held for trading and the derivative financial instruments, whether or not they are part of a hedging relationship, must be valued at the fair value. The effect of the reevaluation of our financial assets and liabilities to their fair value will be recognized in the opening balance of the deficit and in the cumulative amounts of the other consolidated income items.
- b) Section 1530, *Comprehensive Income*. This section applies to fiscal years beginning on or after October 1, 2006. It outlines the recommendations with regard to the information to be provided and the presentation of comprehensive income and its components. Comprehensive income corresponds to the change in net assets resulting from operations, events and circumstances from non-owner sources. These operations and events include non-realized gains and losses from fluctuations in the fair value of certain financial instruments.
- c) Section 3865, *Hedges*. This section applies to fiscal years beginning on or after October 1, 2006. The recommendations provide additional information to that contained in accounting guideline number 13 (AcG-13), *Hedging Relationships*. This section describes when hedge accounting can be applied and in what manner and also indicates the information to be provided. Hedge accounting allows for the recording of the gains, losses, revenues and expenses resulting from derivative financial instruments during the same year as those resulting from the underlying hedge component.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

5. Passengers

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

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

6. Subsidies from the government of Quebec

<i>(in thousands of dollars)</i>	2006	2005
Paratransit service ^(a)	27,941	22,764
Revision of the financial framework ^(b)	–	10,818
Other	52	23
	27,993	33,605

^(a) Adapted transit government assistance program

In accordance with the powers conferred on the Transport Minister by order-in-council 279 2005, the Société is eligible for a subsidy of up to 75% of the costs deemed admissible by the ministère des Transports.

^(b) Revision of the financial framework

In accordance with order-in-council 280-2005 of March 30, 2005, the Government of Quebec awarded a one-time non-recurring subsidy of \$20.0 million to the public transit companies for the year 2005 pending the new Quebec-municipalities fiscal pact planned for 2006. The portion attributable to the Société is \$13.2 million, with \$10.8 million coming from the Ministère des transports du Québec and \$2.4 million from the share of the 2004 surplus of the Agence métropolitaine de transport.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

7. Regional contributions

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

^(a) Bus and métro

The Société receives assistance from the Agence métropolitaine de transport for trips taken by métro or bus on the city transportation system.

^(b) Regional equipment and infrastructure

The Agence must acquire from the Société the equipment and infrastructure necessary for the city bus transportation system. At December 31, 2006, the contract stipulating the date and terms for the transfer of these assets was not signed. Despite the eventual ownership transfer, the Société remains responsible for the debt relating to this property. However, the Agence reimburses the Société for the operating costs and debt servicing, net of any government subsidy.

^(c) Sharing of surplus from the Agence métropolitaine de transport

The Agence's surplus was distributed on a pro rata basis for each of the transit operating authorities based on the amounts of city bus and métro aid as well as the aid for reduced fares allocated in 2005.

^(d) Fare integration

Metropolitan aid paid to transit entities, the objective of which is to ensure that for each fare zone no entity assumes a portion of the discount exceeding that accorded to the purchasers of monthly TRAM passes for that zone.

8. Contribution from the Réseau de transport de Longueuil

On March 29, 2006, the Government of Quebec adopted order-in-council 261-2006 covering the establishment of conditions of operation for the métro line linking the territories of the Société de transport de Montréal and the Réseau de transport de Longueuil. The contribution from the Réseau de transport de Longueuil was set at \$1.8 million for fiscal year 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

9. Other revenue

<i>(in thousands of dollars)</i>	2006	2005
Advertising	11,582	11,316
Rentals	4,195	3,844
Incidental activities ^(a)	306	90
Other	7,197	7,772
	23,280	23,022
	2006	2005
(a) Incidental activities		
Métro extension		
Revenues	8,072	5,649
Expenses	(7,881)	(5,649)
	191	—
Other projects		
Revenues	1,302	917
Expenses	(1,187)	(827)
	115	90
	306	90

10. Government contributions and subsidies

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

(a) Public transit assistance program

In accordance with the Government of Quebec's public transit assistance program and special agreements, the Société is eligible for subsidies for admissible expenses including interest on the long-term debts related to bus purchases, building construction, renovation of métro stations, renovation of métro cars and other specific expenses, at rates ranging from 48% to 75%.

(b) Commuter trains

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

11. Interest and financing costs

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

12. Sinking fund investments

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

13. Subsidies receivable

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

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

14. Other receivables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

15. Tangible capital assets*(in thousands of dollars)*

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

16. Intangible assets*(in thousands of dollars)*

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

17. Long-term receivables*(in thousands of dollars)*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

18. Other long-term assets

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

19. Short-term loans

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

Of this amount, a sum of \$310.0 million can be borrowed, in whole or in part, by means of notes, bankers' acceptances or other instruments negotiable through the chartered banks or on the open short-term loan market, at a rate not to exceed the prime rate of the chartered banks. The repayment term of each of the notes, bankers' acceptances or other instruments must not exceed one year from the date of their issuance. At December 31, 2006, the average rate on the short-term loans was 4.11% (2.74% in 2005).

The Société also has a line of credit of \$40.0 million in the form of demand notes. The interest rate on this line of credit is the banking institution's base rate calculated on a daily basis and payable on the last day of each month. The average rate for fiscal year 2006 was 5.76% (4.40% in 2005).

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

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

20. Accounts payable and accrued liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

21. Derivative financial instruments

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

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

(in thousands of dollars)

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

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

(in thousands of dollars)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

22. Long-term debt

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

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

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

The Société uses currency and interest rate swap contracts for loans totalling \$77.1 million (\$137.1 million in 2005). These swaps completely eliminate exchange and interest rate risks.

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

<i>(in thousands of dollars)</i>					
Year of maturity	Canadian dollars	American dollars converted into Canadian dollars	Euros converted into Canadian dollars	Total	Weighted interest rate
2007	50,762	—	29,217	79,979	—
2008	64,030	—	—	64,030	—
2009	90,036	—	—	90,036	—
2010	25,642	—	—	25,642	—
2011	28,016	—	—	28,016	—
1 to 5 years	258,486	—	29,217	287,703	4.97%
6 to 10 years	306,210	34,959	—	341,169	4.95%
11 years and more	40,000	—	—	40,000	4.89%
	604,696	34,959	29,217	^(a) 668,872	

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

22. Long-term debt (cont'd)

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

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

23. Employee future benefits**a) Overall description of employee benefit plans**

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

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

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

The benefits paid for service are equal to 2% of the average salary for the three consecutive years with the highest earnings, multiplied by the number of years of credited service in the plan, and cannot exceed 70% of this average salary.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

23. Employee future benefits (cont'd)

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

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

(in thousands of dollars)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

23. Employee future benefits (cont'd)

(in thousands of dollars)

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

Presentation on the consolidated balance sheet

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

f) Plans whose accrued benefit obligation exceeds the assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

23. Employee future benefits (cont'd)

(in thousands of dollars)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

23. Employee future benefits (cont'd)*(in thousands of dollars)*

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

Presentation on the consolidated income statement

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

23. Employee future benefits (cont'd)

Sensitivity analysis

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

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

24. Deferred subsidies

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

25. Supplementary information on the statement of cash flow

Net change in the working capital non-cash components

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

Other information

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

26. Commitments

a) Long-term leases

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

b) Outsourcing of computer centre

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

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

c) Service contract for a communications solutions integrator

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

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

d) Contract for the supply of bus parts

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

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

Conversely, the Société mandated two Quebec transit companies to proceed with group purchases of city bus parts. These contracts total \$4.3 million at December 31, 2006. The portion attributable to the Société de transport de Montréal is \$3.6 million in 2007 and \$0.7 million in 2008.

e) Contract for the purchase of city buses

The Société awarded a contract for the purchase of low-floor city buses within the context of a group purchase on behalf of the members of the Association du transport urbain du Québec.

The contract runs from 2003 to 2007 and covers the acquisition of low-floor buses for all the companies involved. Under this contract, the companies have the option of reducing the quantities ordered by 10% or increasing them by 20%. This contract also includes an indexation clause based on the Consumer Price Index and the Industry Price Index as well as on the variation in the American exchange rate (US) and the European exchange rate (EURO) for the portion of the cost of a bus with American or European content. As a guide, the American content represents 29% of the base cost, while the European content represents 9%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

26. Commitments (cont'd)

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

f) Asset maintenance program for stationary equipment in the métro

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

g) Contracts for the acquisition of a fare sales and collection system and equipment

In 2003 the Société awarded two major contracts as part of the project to upgrade the fare sales and collection system and equipment. In 2005 the Société agreed to increase the amounts of these two contracts.

The Société awarded a first contract in its name and as mandatary for six transit operating authorities (AOTs) in the total revised amount of \$94.7 million, including \$73.9 million for the Société. This contract covers the replacement of the centralized system and related equipment, the purchase of smart cards (the equivalent of transit fares in the new system) as well as the maintenance of system software and equipment. The portion for the Société relating to the cost for software and equipment maintenance represents \$10.7 million. The payments for future years are \$0.2 million for 2008 and \$2.1 million annually for 2009 to 2013.

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

h) Contract for the supply of diesel fuel

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

27. Financial instruments

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

a) Credit risk

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

b) Fuel

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

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

c) Interest rate risk

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

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

d) Exchange risk

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

27. Financial instruments (cont'd)

e) Fair value

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

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

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

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

(in thousands of dollars)

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

28. Contingencies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

29. Subsequent event**Long-term debt**

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

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

30. Related party transactions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

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

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

(in thousands of dollars)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006

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

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

32. Comparative numbers

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

33. Opinion of the auditors

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

CODE OF ETHICS

THE SOCIÉTÉ DE TRANSPORT DE MONTRÉAL AND ITS EMPLOYEES SERVE THE PUBLIC AND THE COMMUNITY. ONE MUST SEE IN THEIR BEHAVIOUR A DEDICATION TO EXCELLENCE AND INDICATIONS OF EXEMPLARY CONDUCT IN ORDER TO MAINTAIN AND INCREASE THE CONFIDENCE OF THE PUBLIC IN THE **INTEGRITY, OBJECTIVITY AND IMPARTIALITY** OF THE ADMINISTRATION OF THE SOCIÉTÉ.

OBSERVANCE OF THE LAWS AND BY-LAWS

The Société de transport de Montréal, its employees, its administrators, the external members of its various committees as well as all persons called on to do business with it or provide it with services must observe all the laws and by-laws that regulate the activities of the Société as well as the provisions set out in this Code of Ethics. In the event of a conflict between the specific provisions in this code and the Société's collective labour agreements or the laws regulating the Société, the latter take precedence.

All employees must have reasonable knowledge of the laws and by-laws that apply to the duties that they perform for the Société.

The laws and by-laws relating to the Société's activities are sometimes very complex, and they can also be subject to frequent changes. In case of uncertainty, employees should talk to the Société's secretary and director of legal affairs.

THE SOCIÉTÉ'S COMMITMENTS

To its clientele

The Société de transport de Montréal places customer service at the top of its list of priorities and expects its employees to adhere unreservedly to this commitment and to the directions the company takes to achieve it. The safety of individuals is crucial, and the Société cannot accept any compromise that puts it in jeopardy.

Serving customers with respect and dignity is also an objective to which the Société is committed, and employees must serve as ambassadors in both their behaviour and attitude. Employees must also be sensitive to the reality of the diversity of the population served by the Société as well as to its multicultural character.

THE SOCIÉTÉ'S COMMITMENTS

To its employees

The Société has made specific commitments to its employees: fair and equitable treatment without discrimination in hiring and employment; work that uses their talents and aptitudes and promotes their development; favourable working conditions comparable to those in other like or similar companies; a safe work environment as well as efficient channels of information and communication. In order for employees to adhere to its objectives, the company must clearly communicate its expectations to them. Communications from management to the employees deal as much with the mission of the company and its management and operating objectives as with the moral principles that must guide the conducting of business.

To individual rights and freedoms

The Société's equal access program is evidence of its adherence to the Charte des droits et libertés de la personne du Québec, the Quebec Charter of Human Rights and Freedoms. In its hiring policies, as in its relations with its employees, the Société is committed to developing and maintaining practices that are free of discrimination, thus ensuring the recognition of their rights and freedoms for every job applicant and every employee. Employees of the Société who act against these principles through racist or discriminatory attitudes or behaviour would demonstrate a serious lack of ethics.

To its property

A company financed from public funds, the Société de transport de Montréal manages considerable material and financial resources. It does everything in its power to collect and process its receipts in full. Because it collects fares from the travelling public, the Société establishes very strict rules of conduct with regard to employees directly involved in this area,

EMPLOYEE STANDARDS OF ETHICS

and it expects exemplary conduct on their part. Any disloyal behaviour would not be excepted. On the other hand, the Société takes all necessary means to ensure the preservation and appropriate use of its property.

Despite the fact that certain of the following provisions are addressed particularly to managers, all employees personally involved in a similar situation must also respect them.

General rules

In requiring that its employees respect this code, the Société would like to stress the importance that it attaches to the integrity of its employees, to the transparency of its management and to its good reputation with clients, suppliers and organizations with which it does business. The Société believes that employees' adherence to rigorous ethical standards can only contribute to developing the transparency of the company's management.

The very nature of the company and its activities naturally makes it subject to public scrutiny of its administrative practices and its management results. The conduct of the managers and the reasons they give in support of a direction or a decision are likely to be scrutinized closely by a public that demands sound use of the funds managed by public entities.

Employees must conduct themselves with integrity so as not to undermine the reputation of the Société nor compromise its capacity to carry out its functions without external pressures. Employees must therefore at all times avoid placing themselves in situations where their integrity or that of the Société could be placed in doubt. They must take justified and justifiable actions that they would be in a position to defend publicly, should the need arise. They must refrain from creating obligations for the Société that are not part of their duties.

EMPLOYEE STANDARDS OF ETHICS

Employees, in the exercise of their duties, must respect individuals for who they are, regardless of their race, colour, age, sex, religion, political convictions, language, national or ethnic origins, social status, sexual orientation or handicap.

Employees must carry out the tasks related to their duties efficiently. They have an obligation to be accountable for their actions and decisions. To this end, the Société puts the necessary means at their disposal and encourages them to show initiative in the pursuit of their objectives.

The exercise of decision-making power results furthermore in an obligation to be accountable, and in the area of ethics, even more so than in other domains, this responsibility cannot be shared. Employees must thus assume responsibility for their actions.

Conflicts of interest

Employees have a personal obligation with regard to the company. They must refrain from having interests or maintaining relationships that could be or appear to be prejudicial to their employer. Employees must not only avoid actual conflicts of interest but also any situation likely to create a conflict of interest or the appearance of a conflict of interest that could tarnish their reputation or that of the Société.

Employees are in a conflict of interest when they have, or could have, a personal interest at odds with the company's in the outcome of a transaction undertaken for the Société, or an interest that is major enough to affect the independence of their judgement. In such a case, their loyalty to the company risks being compromised by the real or potential benefits that they could realize from the transaction.

Generally speaking, employees must avoid any investment, interest or association likely to affect their judgement or impartiality in the exercise of their duties within the Société.

Receiving / giving / exchanging gifts or favours

The act of receiving, for oneself or for others including close relatives, giving or exchanging gifts or favours (even symbolic) can give rise to a situation of dependence on or at least uneasiness with regard to the third party who offered or received it. A favour or gift could also be offered with the explicit or implicit goal of influencing the judgement of employees in the exercise of their duties within the Société.

In such circumstances, employees must ask themselves, for example, if the nature or value of the gift, donation or favour is sufficient to influence their decision, under what circumstances they were offered or they made a donation or exchange, and whether or not they would feel a certain embarrassment in admitting that they had received or offered a gift, donation or favour.

The Société therefore expects its employees to demonstrate caution in their relationships with its suppliers and stakeholders and to ensure that their independence and freedom of judgement are in no way influenced or biased by any kind of benefit whatsoever.

EMPLOYEE STANDARDS OF ETHICS

Each situation, however, must be considered individually. One must take into account certain particularities such as:

- a) the inexpensive nature of the gift;
- b) refusal of the gift would be considered hurtful for cultural reasons;
- c) the gift is offered publicly, and its refusal would be embarrassing;
- d) the invitation is job-related.

When a gift of significant value is accepted for cultural reasons or reasons of protocol, it must be given to the administration and not be considered as belonging by rights to the employee. It is also appropriate, should this happen, to try one's best to return the gift in a diplomatic manner.

If an employee has doubts about the nature of certain bonuses, the matter should be referred to a superior or to the Société's secretary and director of legal affairs.

Outside professional activities

The exercise of a professional activity outside the company can give rise to a conflict of interest if this activity is prejudicial to the work for which an employee is remunerated by the Société. Employees of the Société must not, therefore, occupy any outside post or job whose requirements could be incompatible with their duties within the Société or could call into question their ability to fulfil these duties objectively.

The Société recognizes, however, that an outside professional activity could constitute an opportunity for personal improvement that could prove profitable for the company to the extent that this activity contributes to improving the competence of the employee or even to enhancing the image of the company. On the other hand, the Société would not approve the exercise of an outside activity that would prevent employees from fully fulfilling their duties, diminish their work performance, harm the Société's reputation or image or would be likely to result in a conflict of interest.

It is incumbent upon employees to obtain the approval of their superior and to make the required arrangements before starting the activity outside the company, as well as demonstrate that the activity is not prejudicial to their regular work.

Ownership of shares and financial interests

Employees must abstain from making any investment that risks affecting the impartiality of their decisions. The latter could be compromised if the employee or a close relative holds a major direct or indirect interest in a company with which the Société carries on business, thus putting their personal interest in conflict with the Société's interest.

The awarding of a contract can also give rise to a conflict of interest if an employee holds financial interests or shares of substantial value in a bidding company.

EMPLOYEE STANDARDS OF ETHICS

In order to avoid such situations, the Société requests that its employees and, in particular, its managers divulge to their superiors all the financial, commercial or business interests that they hold personally or that one of their close relatives holds personally, in cases where such interests could be in conflict with their professional obligations. Moreover, in such cases, the employees would have to exclude themselves from any contract negotiation with these companies if such an involvement existed.

Situations that can result in conflicts of interest are not limited to those mentioned previously. The Société expects its employees to handle their personal affairs in such a manner so as to avoid any conflict of interest and to be quite vigilant in identifying and preventing any situation where their freedom and independent judgement risk being compromised. Management, therefore, recommends to its employees that they be open and frank with their immediate superior and that they not hesitate to consult other resource personnel within the Société, including, in particular, the Société's secretary and director of legal affairs.

In the following situations, the holding of securities or financial interests would not have any consequences:

- if its extent in all probability does not place the employee in a conflict of interest situation;
- its nature or extent is common to the general population or in a particular sector in which the employee works;
- if they are securities issued or guaranteed by the Société, a government or a municipality under identical conditions for everyone.

Participation in political life or public life

As far as political parties are concerned, the Société advocates the strictest neutrality for itself and does not make any financial contribution to any party whatsoever. Employees wishing to become involved in the political or public arena and play a role there that is free from partiality or conflicts of loyalty will have to establish the conditions of their participation with management.

The Société considers it normal that its employees are interested in the political or public life and that they are able to express themselves freely on questions in the public interest. Such activities must, however, remain an individual responsibility and commitment and in no way associated with a corporate commitment. As a result, when employees of the Société express themselves on questions of public interest, they must specify that they do so in their own name and not in the name of the Société.

However, this situation is likely to result in a conflict of loyalty. This would be the case, for instance, when questions discussed at the municipal, provincial or federal levels are linked directly to activities or projects in which employees of the Société are participating, or relates to information that they possess but cannot divulge due to their function. In such circumstances, employees must explain to the Société's management committee the nature of their participation in political or public life in order to determine whether or not it is in conflict with the duties they perform.

Rules applicable to post-employment

The professional obligations of employees and their loyalty and integrity continue after they cease to hold a job or perform functions at the Société.

EMPLOYEE STANDARDS OF ETHICS

Former employees must continue to respect and ensure the protection of certain information that they might have become aware of in the context of their duties. They must continue to respect the integrity of the Société and not use any confidential or strategic element to their advantage or to the detriment of the Société or a third party. In this sense, they cannot profit from the fact that they were employees of the Société to obtain a benefit to which they would not have been entitled had they not been in their previous post.

Respect of the Société's rights regarding its property

The employees must respect the Société's rights regarding its property, whether the latter be of a financial, material or intellectual nature. This position forbids the illegal appropriation of property, its inappropriate use or negligence in maintaining it. The funds and property belonging to the Société must only be used for the operational and administrative purposes for which they were intended. Any other use must be subject to a prior agreement with the appropriate authority.

All employees must assume their responsibilities and demonstrate through their behaviour that they respect that which is made available to them but does not belong to them. They must remember that the use of the Société's materials or equipment for personal use is forbidden except under certain circumstances, which are identified and overseen by the Société.

Employees must also consider information made available to them in the exercise of their duties as the property of the Société in the same way as material and financial resources. Various laws as well as internal policies and guidelines relate to this subject. The Société expects its employees to adhere to these.

Consequently, employees who leave the Société must return all objects, documents or data belonging to the Société such as identity cards, access cards and keys, tools, mobile phones and pagers, credit cards, books and manuals, computer material or software, databases or any other property of the Société.

Whether it is a question of accounts to be verified, expenses to commit to or even expense claims, employees must show judgement and ensure that the Société receives maximum benefit for the sums expended, in other words, ask themselves what the value received is against the money expended. A superior does not need to approve the expenses or sign the supporting documents as long as there is no doubt that the expenses are justified and the amounts exact. Any employee who has the responsibility for dispensing, committing or processing the Société's funds has the obligation to ensure that these sums are used exclusively for the day-to-day management of the Société's affairs.

Some examples of the improper use of property or illegal appropriation of funds are:

- the falsification of expense accounts, accounting journals, ledgers;
- the act of paying a supplier for services not rendered;
- the act of using the Société's material or equipment for profit;
- the act of using the Société's materials or equipment for personal use without prior authorization.

EMPLOYEE STANDARDS OF ETHICS

The Société believes in the honesty of its employees. It believes that the compliance measures outlined previously are targeted as much at the protection of individuals as at the protection of the company. In return, it expects its employees to handle the Société's funds and property with the same respect and care as they would their own.

Respect of the professional code of ethics

On the professional level, the Société expects, of course, that employees already regulated by a professional code of ethics will observe the ethical standards of their membership group and ensure that their professional actions conform to the standards of the profession. If they are in any doubt, employees should submit the problem to their superior so that together they can come to a satisfactory conclusion.

Similarly, the policy of the Société, save for cases of gross fault or negligence, is to indemnify its employees against any loss or damages they could suffer – and indemnify them against any civil suit brought against them by a third party – for acts or omissions committed in the exercise of their duties for the Société.

CONCLUSION

General in their formulation, the standards of ethics set out here constitute more of a statement of guidelines than a precise guide to the behaviour to adopt in a specific situation.

When a possibility of conflict exists, the Société believes that its employees are in a position to carry out an appropriate analysis and make the best decision based on their judgement and on the circumstances.

The Société believes, moreover, in the value of communication and dialogue. Employees who have doubts about the behaviour to adopt in a given situation should, before making a decision, discuss it with their immediate superior and, if necessary, with the department or individual capable of providing them with the information necessary to make a clear decision, including, in particular, the Société's secretary and director of legal affairs.

The standards set out above reflect the values of the company, and the company expects its employees to adhere to them unreservedly. The act of contravening them would be a breach of a fundamental element of the company and could lead to serious consequences up to and including loss of employment.

The policies, directives and guidelines adopted by the Société on specific subjects complete this Code.