

FINANCIAL REPORT 2003

PUBLIC TRANSIT, AN ESSENTIAL SERVICE



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MEMBERS OF THE BOARD OF DIRECTORS

Claude Dauphin

Chairman
Montréal city councillor
Chairman – Borough of Lachine

Marvin Rotrand

Vice-chairman
Montréal city councillor
Borough of Côte-des-Neiges/
Notre-Dame-de-Grâce

Jacques Cardinal

Member
Montréal city councillor
Chairman – Borough of l’Île-Bizard
Sainte-Geneviève - Sainte-Anne-de-Bellevue

Bernard Blanchet

Member
Montréal city councillor
Borough of Lachine

Pierre Lapointe

Member
Montréal city councillor
Borough of Ahuntsic-Cartierville

Yvette Bissonnet

Member
Montréal city councillor
Borough of Saint-Léonard

Dominic Perri

Member
Montréal city councillor
Borough of Saint-Léonard

Brenda Paris

Member
Transit users’ representative

Marie Turcotte

Member
Paratransit users’ representative

MEMBERS OF THE AUDIT COMMITTEE

Jacques Cardinal

Chairman

Montréal city councillor

Chairman – Borough of l’Île-Bizard

Sainte-Geneviève - Sainte-Anne-de-Bellevue

Pierre Lapointe

Vice-chairman

Montréal city councillor

Borough of Ahuntsic-Cartierville

Pierre Vandelac, CGA

Director-General

Société de transport de Montréal

Michel Bélanger, FCA

External member

Financial Management Advisor

Robert Desforges, CA, Adm. A

External member

Desforges, Germain, Gendron, CA

ACKNOWLEDGEMENTS

The production of the 2003 financial report is the fruit of the labours of a large number of employees in the Finance and Procurement Executive Branch.

I would like to thank all those who contributed, in particular the Financial Accounting Section of the Financial Management Division.

Division Head

Luc Tremblay, CA

Section Head

Angèle Dubé, CA

Corporate Advisor

Nicole Racine, CA

Advisors

Christian Roy, CA

Carmelle Venne

Analysts

Jean-Claude Joseph, CGA

Diane Proulx, CMA

Martin Choinière, CMA

Technicians

Danielle Lavoie

Alain Bouchard

Secretary

Linda St-Amour



Francine Gauthier, CA

Treasurer and Executive Director

Finance and Procurement

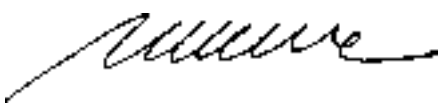
DECISIONS THAT ARE A LONG TIME COMING

We are pleased to present the 2003 financial report for the Société de transport de Montréal (STM), showing a surplus of \$303,000. During the preparation of our 2003 budget, we were counting on the implementation of certain recommendations from the Bernard report in order to make up for a shortfall of \$15 million. As this did not materialize, the Board of Directors found itself in the position of having to make some wrenching decisions such as increasing fares for the second time in a year, reducing or delaying some operating and investment expenditures and asking the City of Montréal for additional assistance in the amount of \$6 million.

The year 2003 was marked by the renewal of the collective agreements. Despite a few periods of unavoidable turbulence, 97% of the employees saw their collective agreements renewed. We succeeded in signing four-year agreements, a first at the STM. We will, therefore, be able to dedicate all our efforts to executing our 2004-2008 business plan that we deposited at the end of the year.

Fiscal year 2003 was also a definitive year for the fare sale and collection project. In fact, this past July, the STM, on behalf of the six participating transit operating authorities, awarded two contracts for the replacement of the old systems with modern technology that supports the smart card. This project of approximately \$133 million for the STM will be implemented in 2006 and will enable us to, among other things, simplify the purchase and use of fares and enhance financial performance and controls.

Despite our greatest hopes, the financing problem was not resolved in 2003. This situation is of great concern, as our infrastructures are ageing and are definitely in need of upgrading. The métro is 37 years old, and the majority of its equipment and rolling stock has exceeded or is at the point of exceeding its useful life. We estimate the investments that will have to be made in our network over the next ten years to ensure dependability and quality of service at close to \$3 billion. It is clear that the STM cannot assume these massive investments on its own. Without a new financial framework and without the staunch support of its partners, it will not be able to fulfil its obligations and support its ridership. It is imperative that decisions in favour of public transit be made quickly in the interest of its customers and the community.



Pierre Vandelac, CGA
Director-General



Francine Gauthier, CA
Treasurer and Executive Director
Finance and Procurement

MANAGEMENT'S RESPONSIBILITY WITH REGARD TO THE PRESENTATION OF THE FINANCIAL INFORMATION

In accordance with article 136 of the *Loi sur les sociétés de transport en commun* (L.R.Q. chapter S-30.01), the financial report for the Société de transport de Montréal for the fiscal year ended December 31, 2003, was prepared by the Société's Treasurer and Executive Director, Finance and Procurement, and was deposited with the Société's Board of Directors on March 30, 2004.

The financial statements presented in this report were prepared taking into account the Société's acts of incorporation and in accordance with generally accepted municipal accounting practices in Quebec as contained in the *Manuel de présentation de l'information financière municipale au Québec*, published by the Ministère des Affaires municipales, du Sport et du Loisir, as described in note 2 of these financial statements.

The financial statements and all information in this financial report are the responsibility of the Société. The Société has also assured itself that there is agreement between the financial statements and all other information disclosed in the financial report.

The financial statements contain certain amounts that are based on the use of professional judgement and projections and whose presentation derives from an assessment of their relative importance. Management has established these amounts in a reasonable manner so as to ensure that the financial statements are accurate in all material respects.

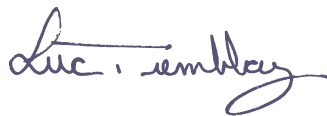
The Société maintains internal administrative and accounting quality control systems. The objective of these systems is to provide a reasonable degree of certainty that the financial information is pertinent, reliable and exact, that the policies of the enterprise are followed, that the operations are carried out in accordance with the appropriate authorizations and that the assets of the Société are well protected.

The Board of Directors is charged with ensuring that management assumes its responsibilities with regard to the presentation of the financial information and bears the ultimate responsibility for the examination and approval of the financial statements. The Board fulfils this responsibility primarily through its audit committee.

The financial statements have been audited by the Société's external auditor whose services were retained by the Board of Directors on the recommendation of the audit committee, and by the auditor general of the City of Montréal.



Francine Gauthier, CA
Treasurer and Executive Director
Finance and Procurement



Luc Tremblay, CA
Interim Division Head
Financial Management

ANALYSIS OF VARIATIONS AND EVALUATION OF TRENDS

For the fiscal year 2003 the STM recorded revenue of \$761.6 million, while the expenditures increased to \$757.2 million. Thus, the surplus from financial activities, before appropriations for the year, was \$4.4 million. The appropriations, consisting of the carry forward of the accumulated surplus from the previous year and the contribution to the reserved funds, amounted to \$4.1 million, thus resulting in a surplus of \$0.3 million for fiscal year 2003.

SUMMARY OF FINANCIAL ACTIVITIES

(in millions of dollars)

	BUDGET	2003	2002
Revenue	786.4	761.6	719.7
Expenditures	(710.1)	(693.7)	(650.7)
Other financial activities	(79.9)	(63.5)	(34.0)
Surplus before appropriations	(3.6)	4.4	35.0
Appropriations	3.6	(4.1)	(22.2)
Surplus	—	0.3	12.8

REVISED BUDGET

In order to balance its 2003 budget following the non-realization of other anticipated sources of revenue, the STM had to increase its fares on two occasions (expected additional revenue of \$6.0 million). The City of Montréal, for its part, revised its contribution upwards by \$14.0 million, \$6.0 million to make up for the shortfall resulting from the non-realization of other sources of revenue and \$8.0 million to deal with the impact of the new collective agreements. To reflect these decisions, the STM revised the budget adopted in November 2002, which had risen to \$764.6 million, and established it at \$772.6 million.

In addition, to conform with the presentation of the financial information as decreed by the Ministère des Affaires municipales, du Sport et du Loisir, the STM's 2003 budget rose to \$786.4 million, an increase of \$13.8 million, representing various operations related to investment and financing activities.

SUMMARY OF REVENUE

(in millions of dollars)

	BUDGET	2003	2002
REVENUE			
Passengers	337.6	334.8	321.8
Contribution from the City of Montréal	263.0	263.0	244.1
Subsidies from the Government of Quebec	74.3	70.8	65.4
Regional contributions	61.9	64.4	64.2
Contribution from the Réseau de transport de Longueuil	1.8	1.8	1.8
Other revenue	20.0	16.8	14.8
	758.6	751.6	712.1
Revenue from third parties relating to investment activities	22.7	3.5	1.8
Revenue on sinking fund investments	5.1	6.5	5.8
	786.4	761.6	719.7

The revenue shows a negative variation of \$24.8 million in comparison with the revised budget. The major portion of this difference, or \$19.2 million, arises from revenue relating to investment activities. In fact, cash subsidies related to investment projects scheduled in the budget were not paid during the fiscal year as the projects were delayed. In addition, passenger revenue shows a negative variation of \$2.8 million, attributable in part to the strike by the maintenance employees in the Syndicat du transport de Montréal (CSN). Finally, the STM's commercial activities, presented under the heading "Other revenue" show results that are \$3.2 million lower than the budget.

Even so, the 2003 revenue shows an increase of \$41.9 million in comparison with the 2002 revenue. This increase results primarily from an increase in passenger revenue of \$13.0 million, attributable principally to the increase in fares as well to the increase of \$18.9 million in the contribution from the City of Montréal.

ANALYSIS OF VARIATIONS AND EVALUATION OF TRENDS

SUMMARY OF EXPENDITURES*(in millions of dollars)*

	BUDGET	2003	2002
Bus and métro service	623.9	618.2	578.1
Paratransit service	29.8	29.8	27.7
Interest and financing costs	39.4	35.7	33.3
Unforeseen expenditures	3.3	—	0.4
Asset maintenance	13.7	10.0	11.2
	710.1	693.7	650.7

Financial management based on achieving fiscal balance, combined with the delay of certain expenditures, resulted in a positive total variation of \$16.4 million in the area of expenditures. The delay of financing planned for 2003 and low interest rates during the year led to a positive variation of \$3.7 million. The lack of unforeseen expenditures saved \$3.3 million. Finally, the delay until 2004 of certain planned maintenance activities under the heading “Asset maintenance” combined with the tightening of operating expenditures under “Bus and métro service” resulted in a saving of \$9.4 million.

The 2003 expenditures show an increase of \$43.0 million in comparison with 2002. The major part of this increase, or \$40.1 million, comes from “Bus and métro service”. The two factors explaining this rise are the resumption of contributions to the STM pension plans and the cost of the new collective agreements.

SUMMARY OF OTHER FINANCIAL ACTIVITIES*(in millions of dollars)*

	BUDGET	2003	2002
Repayment of long-term debt	55.6	55.6	30.0
Transfer to statement of investment activities	24.3	7.9	4.0
	79.9	63.5	34.0

The other financial activities show a positive variation of \$16.4 million resulting from the modification of the schedule for certain projects during the year. Compared with 2002, the other financial activities show an increase of \$29.5 million, \$25.6 million of which results from higher repayments of the long-term debt.

SUMMARY OF APPROPRIATIONS*(in millions of dollars)*

	BUDGET	2003	2002
Accumulated surplus from the previous year carried forward to the current year	14.0	12.8	15.9
Reserved funds			
Contribution to sinking fund and working capital	(54.2)	(59.2)	(49.4)
Use of sinking fund	43.8	42.3	11.3
	3.6	(4.1)	(22.2)

The appropriations show a negative budget variation of \$7.7 million caused primarily by a contribution to the sinking fund that was \$2.8 million higher than planned as a result of lower than anticipated interest rates. Compared with 2002, the appropriations have increased by \$18.1 million, of which \$8.9 million is attributable to the increase in the contribution to the sinking fund.

ANALYSIS OF VARIATIONS AND EVALUATION OF TRENDS

SUMMARY OF INVESTMENT ACTIVITIES

(in millions of dollars)

	BUDGET	2003	2002
Sources of financing	252.2	82.9	92.6
Investment expenditures	(325.1)	(120.6)	(123.9)
Under-financing for the year	<u>(72.9)</u>	<u>(37.7)</u>	<u>(31.3)</u>

During the fiscal year, the Société delayed until 2004 the financing forecast in the budget for certain investment expenditures. This decision resulted in a negative variation of \$169.3 million in terms of sources of financing. In addition, the schedule for the execution of certain projects was modified during the year, leading to a positive variation of \$204.5 million compared to the initial planned amount. However, at December 31, 2003, the Société was committed to various suppliers in the amount of \$417.6 million. Thus, the under-financing for the year rose to \$37.7 million or \$35.2 million less than the planned budget.

The increase in the under-financing in 2003 in comparison with 2002 can be explained by a decrease in the long-term financing of \$9.7 million and a reduction in expenditures of \$3.3 million.

BALANCE SHEET AT DECEMBER 31, 2003

ASSET COMPONENTS

(in millions of dollars)

	2003	2002
ASSETS		
Short-term assets		
Cash	4.9	3.5
Restricted investments in the sinking fund	39.2	32.9
Contribution receivable from the City of Montréal	8.0	—
Subsidies receivable from the Government of Quebec	14.0	6.6
Regional contributions receivable	29.8	24.8
Contribution receivable from the Réseau de transport de Longueuil	0.9	0.9
Other receivables	39.5	29.3
Inventories of supplies and replacement parts	15.3	13.3
Current portion of long-term debt	45.2	13.0
	<u>196.8</u>	<u>124.3</u>
Capital assets	997.6	951.5
Deferred charges	4.8	6.0
Restricted investments in the sinking fund	99.4	94.4
Long-term investments	0.5	—
Long-term debt	167.2	202.0
	<u>1,466.3</u>	<u>1,378.2</u>

The assets show an increase of \$88.1 million in comparison with 2002, of which the major portion, or \$72.5 million, is in short-term assets.

a) Restricted investments

The restricted investments are the investments in the fifteen sinking funds that will be used to repay the long-term debts involved. The portion appearing under short term reflects the repayment of the long-term debt from the sinking fund that will take place during the following fiscal year.

ANALYSIS OF VARIATIONS AND EVALUATION OF TRENDS

b) Other receivables

The other receivables consist of regional revenue receivable in the amount of \$11.0 million, payments recoverable in the amount of \$0.6 million for work accidents (including a provision of \$1.2 million), tax claims in the amount of \$1.1 million from various governments, customer receivables of \$12.8 million (including a provision of \$1.0 million for bad debts), a deposit of \$10.0 million for a bus purchase (guaranteed by a security bond) as well as other receivables totalling \$4.0 million.

c) Inventories of supplies and replacement parts

The inventories consist primarily of parts used in the maintenance and repair of the Société's equipment.

d) Capital assets

This figure presents the unamortized value of the Société's capital assets. The difference between the 2002 value of \$951.5 million and the 2003 value of \$997.6 million results from acquisitions of \$120.6 million, reduced by amortization of \$74.5 million. The capital assets that were disposed of or written off in 2003 were fully amortized. These dispositions and write-offs increased to \$10.3 million.

The principal acquisitions were related to a bus purchase in the amount of \$52.9 million and to costs of \$36.9 million generated by the renovation program for fixed equipment in the métro. It should be noted that the STM includes the assets related to the original network and the métro extensions in its capital assets at the unamortized cost of \$255.1 million, while the corresponding debt is to be found in the financial statements of the City of Montréal.

e) Deferred charges

This figure is composed of software licences acquired in 2002 and amortized as they are allocated to users, over a maximum period of five years.

f) Long-term investments

During the year, the STM created two new legal entities that are in its reporting environment and that are presented in its balance sheet on an equity basis. These entities were created for the purpose of developing new sources of revenue from commercial activities.

In order to limit its liability with regard to these new activities, the STM acquired 99.99% of the outstanding shares of the Transgesco Limited Partnership as well as 100% of the common shares of 9130-8593 Québec Inc. The latter holds the remaining 0.01% of the outstanding shares of the Transgesco Limited Partnership. In addition, at December 31, 2003, the Transgesco Limited Partnership held investments in two other firms, in partnership with companies in the private sector.

ANALYSIS OF VARIATIONS AND EVALUATION OF TRENDS

BALANCE SHEET AT DECEMBER 31, 2003**LIABILITY COMPONENTS***(in millions of dollars)*

	2003	2002
LIABILITIES		
Short-term loans	111.8	48.5
Accounts payable and accrued liabilities	107.3	95.4
Current portion of long-term debt	134.5	55.6
	<u>353.6</u>	<u>199.5</u>
Long-term debt	419.8	479.3
Deferred subsidies	262.6	227.3
	<u>1,036.0</u>	<u>906.1</u>

The liabilities show an increase of \$129.9 million, consisting of an increase of \$154.1 million in short-term liabilities and a decrease of \$24.2 million in long-term liabilities. The increase in the short-term liabilities results from a rise in short-term loans of \$63.3 million (a result of the under-financing of investment activities that amounted to \$86.3 million at December 31, 2003) as well as from the current payments of \$78.9 million on the long-term debt.

a) Accounts payable and accrued liabilities

The accounts payable and accrued liabilities consist of supplier payables and accrued liabilities of \$23.1 million, salaries and wage benefits of \$30.1 million, sick leaves payable in the amount of \$8.4 million, vacations payable of \$23.3 million, holdbacks on contracts and security deposits of \$1.1 million, accrued interest of \$7.7 million and other payables of \$13.6 million.

b) Long-term debt

At December 31, 2002, the long-term debt had risen to \$534.9 million. During the year, the Société proceeded with an issuance of \$75.0 million in new financing. The repayment of the debt amounted to \$55.6 million, with \$42.3 million coming from the sinking fund and \$13.3 million from financial activities. Thus, the long-term debt at December 31, 2003, rose to \$554.3 million.

BALANCE SHEET AT DECEMBER 31, 2003**EQUITY COMPONENTS***(in millions of dollars)*

	2003	2002
EQUITY		
Provision for future amounts	(21.3)	(24.0)
Accumulated surplus	0.3	12.8
Reserved funds	58.1	79.0
Net investment in long-term assets	393.1	404.3
	<u>430.2</u>	<u>472.1</u>

The equity shows a decrease of \$41.9 million in comparison with 2002, attributable to the reduction of \$20.9 million in the reserved funds and to the reduction in the accumulated surplus of \$12.5 million, which was used to balance the expenditures for the year.

a) Provision for future amounts

The provision for future amounts represents the sums due to employees for vacation benefits and sick leaves following the adoption of new accounting rules as of January 1, 2000. Each year, these amounts are reduced based on the departures during the year. At December 31, 2003, the provision for future amounts was \$2.7 million lower in comparison with 2002. This decrease arises from a reduction in vacation benefits of \$1.4 million as well as a reduction in sick leaves of \$1.3 million, as a result of some 700 departures during 2003.

ANALYSIS OF VARIATIONS AND EVALUATION OF TRENDS

b) Reserved funds

The reserved funds decreased by \$20.9 million in comparison with 2002. This reduction can be explained primarily by the increase of \$37.5 million in the under-financing of the projects in progress and by the increase of \$14.5 million in the reserved amounts in the sinking fund.

TOTAL NET LONG-TERM INDEBTEDNESS

(in millions of dollars)

	2003	2002	2001	2000	1999
Long-term debt	554.3	534.9	478.4	475.6	516.0
Amounts accumulated in the sinking fund	(141.8)	(127.3)	(91.4)	(82.4)	(75.6)
Amounts recoverable from third parties for repayment of the long-term debt	(212.4)	(215.0)	(221.5)	(232.6)	(258.1)
Investment expenses to be financed, net of subsidies	32.5	14.6	12.5	13.6	8.9
TOTAL NET LONG-TERM INDEBTEDNESS	<u>232.6</u>	<u>207.1</u>	<u>178.0</u>	<u>174.1</u>	<u>191.1</u>

The total net long-term indebtedness, which was \$25.5 million higher than in 2002, derives from the growth of \$19.4 million in the long-term debt. This rise, however, is under control, as the STM has increased the amounts accumulated in the sinking funds by \$14.5 million. The investment expenses to be financed, net of subsidies, for their part, have risen by \$17.9 million. At December 31, 2003, 62% of the investment expenditures to be financed will be subsidized.

RISKS AND UNCERTAINTIES

In the normal course of business, the STM is exposed to various risks and uncertainties. In order to deal with them effectively, the Société identified these risks, their import and their potential effect on its future activities. It then implemented strategies to mitigate these risks.

Risk related to the concentration of revenue sources

The STM's operations and capital assets are financed in great part by the various levels of government. However, this financing goes down year by year and reflects the lack of financial resources from the public authorities. Moreover, the municipal contributions are determined on an annual basis, making it very difficult to draw up a financial framework.

In order to keep its service offer intact, the STM had to resort to several fare increases over the past few years, including two in 2003. Recourse to this strategy to reduce the STM's dependence on public funds, however, has its limitations and has negative implications. In effect, each fare increase has a direct impact on ridership. The Société's fares, however, are among the lowest in North America.

To reduce this risk, the STM has prepared a five-year business plan (2004-2008) aimed at stabilizing the contribution from the City of Montréal and its other partners as well as increasing its commercial revenue over this period. With this in mind, in 2003 it set up a subsidiary, Transgesco Limited Partnership. Its mandate will be to join with partners in the private sector to develop its commercial potential and thus generate additional autonomous revenue.

Risk in depreciation and replacement of capital assets

The bulk of the Société's equipment is on the point of exceeding its useful life. Despite periodic maintenance, there is a potential risk that the ageing of the assets could result in the inability to keep them operational or to replace them in the required time.

Almost three billion dollars will have to be invested over the next ten years to acquire new métro cars, to replace the outdated fare sale and collection system, to renovate the métro stations, auxiliary structures and the tunnel and to continue with the replacement of the bus fleet. To achieve this, the STM each year prepares a triennial capital assets plan (PTI) that forecasts the investment expenditures over three years and their effect on the following years.

To finance these investments, the Ministère des Transports du Québec, via its public transit assistance program, reimburses a portion of the resulting debt servicing. The size of the sums involved, however, will require an injection of supplementary funds from various levels of government. For several years the Société has stressed the importance of increasing the sources of financing in order to keep its heritage in a state of good repair and improve its services.

Operating risk

The STM operates a fleet of 1,600 buses that consume 44.8 million litres of diesel per year at an annual cost of \$22.7 million. With the objective of protecting itself from fluctuation in the market price of diesel, the Société negotiates agreements with financial institutions to pay a fixed price for the diesel consumed. The last agreement ended on November 30, 2003, and covered 105 million litres of diesel.

The purchase of buses and replacement parts represents a major outlay of funds for the STM (\$187.4 million for the next five years). In order to reduce its costs, the Société undertakes group purchases with the other transit companies, members of the Quebec Urban Transit Association.

Financing risk

In the normal course of business the STM is exposed to interest rate fluctuations. In order to manage this risk, the STM staggers the due dates of its debts to best advantage. To time phase the outflow of funds attributable to the repayment of its long-term debt, the STM annually pays sums into a sinking fund (\$50.4 million in 2003). At December 31, 2003, this fund had risen to \$141.9 million. These sums are placed in risk-free investments, and the realized return enables the Société to reduce future debt servicing. The sinking fund generated \$6.5 million in revenue in 2003.

RISKS AND UNCERTAINTIES

Uncertainty relating to projections used to prepare the financial statements

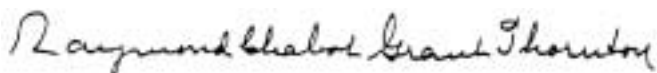
To prepare its financial statements in accordance with the generally accepted municipal accounting practices in Quebec, the management of the Société uses projections and poses hypotheses that have an effect on the amounts presented in the financial statements and their accompanying notes. These projections are based on the knowledge that management has of events in progress and on the measures that the Société could take in the future.

TO THE MEMBERS OF THE BOARD OF DIRECTORS OF THE
SOCIÉTÉ DE TRANSPORT DE MONTRÉAL

We have audited the balance sheet of the Société de transport de Montréal as at December 31, 2003, and the statements of financial activities, investment activities, accumulated surplus, reserved funds, net investment in long-term assets and changes in financial position 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.

Our audit was conducted in accordance with generally accepted Canadian auditing standards. These standards require that the audit be planned and executed in such a manner as to provide reasonable assurance that the financial statements are free of material misstatements. An audit includes examining, on a random basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessment of the accounting principles used and significant estimates made by management as well as an evaluation of the overall presentation of the financial statements.

In our opinion, these financial statements present, in all material respects, a true picture of the financial position of the Société as at December 31, 2003, and the results of its operations and changes in financial position for the year then ended, in accordance with generally accepted principles in municipal accounting in Quebec.



Raymond Chabot Grant Thornton
General Partnership

Montréal
March 9, 2004



Michel Doyon, CA
Auditor-General of the City of Montréal

Montréal
March 9, 2004



AS AT DECEMBER 31, 2003

STATEMENT OF FINANCIAL ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2003

(in thousands of dollars)

	NOTE	BUDGET (note 3)	2003	2002
REVENUE				
Passengers	4	337,571	334,771	321,871
Contribution from the City of Montréal		263,000	263,000	244,100
Subsidies from the Government of Quebec	5	74,307	70,766	65,388
Regional contributions	6	61,930	64,424	64,170
Contribution from the Réseau de transport de Longueuil	7	1,803	1,803	1,761
Other revenue	8	19,989	16,858	14,839
		758,600	751,622	712,129
Revenue from third parties relating to investment activities	11	22,670	3,472	1,762
Revenue from sinking fund investments		5,179	6,468	5,772
		786,449	761,562	719,663
EXPENDITURES				
Bus and métro service		623,971	618,180	578,094
Paratransit service		29,784	29,836	27,689
Interest and financing costs	9	39,372	35,658	33,295
Unforeseen expenditures		3,296	36	404
Asset maintenance		13,689	9,966	11,174
		710,112	693,676	650,656
OTHER FINANCIAL ACTIVITIES				
Repayment of long-term debt	10	55,574	55,574	29,959
Transfer to statement of investment activities	11	24,343	7,943	4,055
		79,917	63,517	34,014
		790,029	757,193	684,670
SURPLUS FROM FINANCIAL ACTIVITIES BEFORE APPROPRIATIONS				
		(3,580)	4,369	34,993
APPROPRIATIONS				
Accumulated surplus from the previous year appropriated to the current year		14,000	12,815	15,962
Reserved funds				
Contribution to sinking fund and working capital		(54,201)	(59,211)	(49,390)
Use of sinking fund		43,781	42,330	11,250
		(10,420)	(16,881)	(38,140)
SURPLUS FOR YEAR		—	303	12,815

Commitments (note 23)

Contingencies (note 25)

STATEMENT OF INVESTMENT ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2003

(in thousands of dollars)

	NOTE	BUDGET	2003	2002
SOURCES OF FINANCING				
Long-term loan issued		226,450	75,000	86,470
Transfer from financial activities	11	24,343	7,943	4,055
Working capital		1,400	—	2,117
		252,193	82,943	92,642
INVESTMENT EXPENDITURES				
Buildings		31,322	438	227
Original network and métro extensions		—	44	—
Improvements to métro infrastructure		1,272	9,515	5,205
Improvements to local infrastructures		10,065	—	—
Rolling stock - buses		80,602	63,685	45,295
Rolling stock - minibuses		2,617	1,312	1,218
Rolling stock - other		2,107	1,470	1,668
Office equipment and computer software		19,162	7,387	5,736
Machinery, tools and equipment		296	808	330
Capital assets in progress		177,613	35,967	64,288
		325,056	(b)120,626	123,967
UNDER-FINANCING FOR YEAR ^(a)		(72,863)	(37,683)	(31,325)

(a) The under-financing for the year is carried over to the statement of reserved funds.

(b) The Société was committed to various suppliers in the amount of \$417,600,000 at December 31, 2003.

BALANCE SHEET

AT DECEMBER 31, 2003

(in thousands of dollars)

	NOTE	2003	2002
ASSETS			
Short-term assets			
Cash		4,912	3,516
Restricted investments in the sinking fund	12	39,206	32,908
Contributions receivable from the City of Montréal		8,000	—
Subsidies receivable from the Government of Quebec	13	14,016	6,585
Regional contributions receivable		29,765	24,820
Contribution receivable from the Réseau de transport de Longueuil		901	901
Other receivables	14	39,523	29,295
Inventories of supplies and replacement parts		15,300	13,249
Current portion of long-term debt	18	45,233	13,012
		196,856	124,286
Capital assets	15	997,597	951,492
Deferred charges	16	4,796	5,995
Restricted investments in the sinking fund	12	99,352	94,414
Long-term investments	17	486	—
Long-term debts	18	167,175	202,000
		1,466,262	1,378,187
LIABILITIES AND EQUITY			
Short-term liabilities			
Short-term loans	19	111,837	48,557
Accounts payable and accrued liabilities	20	107,313	95,367
Current portion of long-term debt	21	134,515	55,574
		353,665	199,498
Long-term debt	21	419,824	479,339
Deferred subsidies	15	262,550	227,281
		1,036,039	906,118
Equity			
Provision for future amounts	22	(21,347)	(24,009)
Accumulated surplus		303	12,815
Reserved funds		58,151	78,953
Net investment in long-term assets		393,116	404,310
		430,223	472,069
		1,466,262	1,378,187

STATEMENT OF ACCUMULATED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2003

(in thousands of dollars)

	2003	2002
Balance at start of year	12,815	15,962
Allocation to financial activities	(12,815)	(15,962)
Surplus for year	303	12,815
Balance at end of year ^(a)	303	12,815

(a) The accumulated surplus is allocated to the following year as revenue.

STATEMENT OF RESERVED FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2003

(in thousands of dollars)

	2003				
	BALANCE AT START OF YEAR	TRANSFER FROM FINANCIAL ACTIVITIES	TRANSFER TO FINANCIAL ACTIVITIES	CONTRIBUTION (TRANSFER) TO INVESTMENT ACTIVITIES	BALANCE AT END OF YEAR
Sinking fund	127,322	^(a) 56,858	(42,330)	—	141,850
Working capital	93	2,353	—	—	2,446
Financing of projects in progress	(48,774)	—	—	(37,544)	(86,318)
Balances on hand from closed loan by-laws	312	—	—	^(b) (139)	173
	<u>78,953</u>	<u>59,211</u>	<u>(42,330)</u>	<u>(37,683)</u>	<u>58,151</u>

(in thousands of dollars)

	2002				
	BALANCE AT START OF YEAR	TRANSFER FROM FINANCIAL ACTIVITIES	TRANSFER TO FINANCIAL ACTIVITIES	CONTRIBUTION (TRANSFER) TO INVESTMENT ACTIVITIES	BALANCE AT END OF YEAR
Sinking fund	91,392	^(a) 47,180	(11,250)	—	127,322
Working capital	—	2,210	—	(2,117)	93
Financing of projects in progress	(17,449)	—	—	(31,325)	(48,774)
Balances on hand from closed loan by-laws	312	—	—	—	312
	<u>74,255</u>	<u>49,390</u>	<u>(11,250)</u>	<u>(33,442)</u>	<u>78,953</u>

	2003	2002
^(a) Contribution to sinking fund	50,390	41,408
Revenue from sinking fund investments	6,468	5,772
	<u>56,858</u>	<u>47,180</u>

	2003	2002
^(b) Balances on hand following closing of loan by-laws	81	—
Use of balances on hand for financing purposes	(220)	—
	<u>(139)</u>	<u>—</u>

STATEMENT OF NET INVESTMENT IN LONG-TERM ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2003

(in thousands of dollars)

	2003	2002
Balance at start of year	404,310	428,301
PLUS		
Acquisition of capital assets	120,626	123,967
Issuance of long-term debt	37,367	34,498
Repayment of long-term debt	55,574	29,959
Amortization of deferred subsidies	14,459	17,947
	<u>228,026</u>	<u>206,371</u>
LESS		
Capital asset depreciation	74,521	68,430
Long-term debt reduction	39,971	40,964
Issuance of long-term debt		
investment activities	75,000	86,470
financial activities	—	660
Debt being refinanced	—	(660)
Deferred subsidies	37,367	34,498
Other	12,361	—
	<u>239,220</u>	<u>230,362</u>
Balance at end of year	<u>393,116</u>	<u>404,310</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 2003

(in thousands of dollars)

	2003	2002
OPERATING ACTIVITIES		
Surplus for year	303	12,815
Transactions not affecting cash		
Appropriation of surplus from prior year	(12,815)	(15,962)
Share of loss from limited partnership	19	—
Amortization of deferred charges	1,199	—
Transfer to working capital	2,353	2,210
	(8,941)	(937)
Transactions not affecting operations		
Transfer to the statement of investment activities	4,471	2,293
Repayment of long-term debt	13,244	18,709
Contribution to sinking fund	50,390	41,408
	59,164	61,473
Net change in non-cash components		
Subsidies and contributions receivable	(20,376)	4,768
Other receivables	(10,228)	8,165
Financing receivable	—	660
Inventories of supplies and replacement parts	(2,051)	(138)
Accounts payable and accrued liabilities	11,946	3,906
Provision for future amounts	2,662	1,946
Cash flow from operating activities	<u>41,117</u>	<u>80,780</u>
INVESTMENT ACTIVITIES		
Acquisition of restricted investments	(4,938)	(10,652)
Acquisition of long-term investments	(505)	—
Acquisition of capital assets	(120,626)	(123,967)
Deferred charges	—	4,199
Cash flow used for investment activities	<u>(126,069)</u>	<u>(130,420)</u>
FINANCING ACTIVITIES		
Issuance of long-term debt	75,000	86,470
Repayment of long-term debt	(55,574)	(29,959)
Capital asset expenditures financed by a third party	3,472	1,762
Revenue from sinking fund investments	6,468	5,772
Cash flow from financing activities	<u>29,366</u>	<u>64,045</u>
INCREASE (DECREASE) IN CASH FLOW	(55,586)	14,405
CASH POSITION, START OF YEAR	(12,133)	(26,538)
CASH POSITION, END OF YEAR	<u>(67,719)</u>	<u>(12,133)</u>

Cash consists of cash on hand, restricted investments and short-term loans.

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, principally on the territory of the island of Montréal.

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting principles

The financial statements are prepared in accordance with generally accepted municipal accounting principles in Quebec, as contained in the *Manuel de présentation de l'information financière municipale au Québec*, published by the Ministère des Affaires municipales, du Sport et du Loisir.

Combined financial statements

The financial statements of the Société are produced on a combined basis so as to represent all activities and transactions irrespective of its accounting structure.

Accounting projections

In order to prepare its financial statements in accordance with the generally accepted municipal accounting principles in Quebec, the management of the Société must make projections and pose hypotheses that have an effect on the amounts presented in the financial statements and their accompanying notes. These projections are based on management's knowledge of the events in progress and on the measures that the Société might take in the future. The actual results could differ from these projections.

Budget data

The budget data relating to the financial activities reflect the 2003 budget adopted by the Board of Directors of the Société in November 2002 and by the municipal council of the City of Montréal in December 2002, as well as the agreement reached with the City of Montréal to cover the cost of the new collective agreements. The budget data relating to the investment activities is derived from the 2003-2004-2005 program of capital expenditures, also adopted by the Board of Directors of the Société in November 2002 and by the municipal council of the City of Montréal in December 2002.

Revenue and expenditures

The Société uses the accrual method of accounting under which revenue and expenditures are accounted for in the year in which the events or transactions occur. Expenditures related to the employee pension plan, however, are recorded on a cash basis.

The expenditures presented in the statement of financial activities are itemized 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: finance and procurement, information technology, heritage management, development and management of commercial activities, human resources, communications, network planning and development, marketing and customer relations, general management, auditing, secretariat and legal affairs and management of major projects.

“Paratransit service” groups together all the activities required for the planning and provision of transportation for the disabled by minibus or taxi.

“Interest and financing costs” include short-term and long-term interest, excluding short-term financing costs, which are allocated to the loan by-laws.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and expenditures (continued)

“Unforeseen expenditures” reflect expenditures that are not likely to be repeated frequently in future years, that are not typical of normal company activities and that do not result from management decisions or judgements.

“Asset maintenance” covers the costs of the periodic major maintenance program aimed at keeping the Société’s infrastructures in good working order.

Inventories of supplies and replacement parts

The inventories of supplies and replacement parts are valued at the lesser of average cost or replacement cost.

Long-term investments

Long-term investments are recorded on an equity basis.

Reserved funds

Sinking fund

This fund is used to accumulate amounts for the repayment of certain long-term debts.

Working capital

The working capital, with a set limit of \$7,000,000, is used for the acquisition of capital assets. The amounts used must be repaid over a maximum period of five years.

Capital assets

Capital assets are recorded at cost and are depreciated over their useful life using the straight-line method over the following periods:

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

The depreciation expense is not recorded in the statement of financial activities. This expense is shown in the statement of net investment in long-term assets.

Deferred subsidies are amortized on the same basis as their related capital assets. The capital assets are depreciated as soon as they are put in service, irrespective of the loan by-law’s closing date.

Charging of the provision for future amounts to financial activities

The provision for a future amount for sick leaves and vacation days accrued prior to January 1, 2000, is charged to the statement of financial activities according to the higher of the straight-line depreciation of the balance over a period of 20 years or the annual disbursements.

Statement of cost for municipal services

No statement of cost for municipal services has been prepared, as it would provide no additional information for the reader.

NOTES TO FINANCIAL STATEMENTS

AT DECEMBER 31, 2003

3. REVISED BUDGET

The Société revised its operating budget upwards by an amount of \$8,000,000, bringing the revised total to \$772,600,000. The following changes were made to the budget items:

(in thousands of dollars)

	ORIGINAL 2003 BUDGET	CHANGE	REVISED 2003 BUDGET
REVENUE			
Passengers	331,571	6,000	337,571
Contribution from the City of Montréal	249,000	^(a) 14,000	263,000
Subsidies from the Government of Quebec	74,307	—	74,307
Regional contributions	61,930	—	61,930
Contribution from the Réseau de transport de Longueuil	1,803	—	1,803
Other revenue	31,989	(12,000)	19,989
	750,600	8,000	758,600
Accumulated surplus from the previous year appropriated to the current year	14,000	—	14,000
	764,600	8,000	772,600
EXPENDITURES	764,600	8,000	772,600

- (a) The City of Montréal increased its contribution by \$14,000,000, of which \$8,000,000 was to cover the new collective agreements and \$6,000,000 was to make up for the \$15,000,000 shortfall that should have come from other sources based on the revised financial framework proposed in the 2003 budget.

4. PASSENGER REVENUE

(in thousands of dollars)

	BUDGET	2003	2002
Bus and métro service	313,208	308,403	298,658
Paratransit service	1,393	1,352	1,251
Regional revenue ^(a)	22,970	25,016	21,962
	337,571	334,771	321,871

- (a) The regional revenue attributable to the Société results from the sharing of revenue from the sale of city transportation fares.

5. SUBSIDIES FROM THE GOVERNMENT OF QUEBEC

(in thousands of dollars)

	BUDGET	2003	2002
Capital assets ^(a)	51,127	48,337	43,868
Paratransit service ^(b)	23,180	22,429	21,310
Other	—	—	210
	74,307	70,766	65,388

(a) Public transit assistance program:

In accordance with the Quebec Government's public transit assistance program and special agreements, the Société is eligible for subsidies at rates ranging from 50% to 75% for admissible expenses (purchase of buses, construction of buildings, métro station renovations, métro car renovations and other specific expenses) incurred during the year 2003.

These subsidies are paid in the form of a contribution to debt servicing or as a cash payment, according to the terms of the assistance program and special agreements.

(b) Adapted transit assistance program:

In accordance with the powers granted to the Transport Minister by order-in-council 1106-2002, the Société is eligible for a subsidy of up to a maximum of 75% of the costs deemed eligible by the Ministère des Transports.

6. REGIONAL CONTRIBUTIONS

(in thousands of dollars)

	BUDGET	2003	2002
For trips on the métro ^(a)	44,850	46,842	42,085
For trips on city bus lines ^(a)	6,481	6,976	6,199
For equipment and infrastructure ^(b)	1,870	1,446	1,562
	53,201	55,264	49,846
Debt financing - commuter trains ^(c)	8,729	9,160	14,324
	61,930	64,424	64,170

(a) Buses 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, 2003, the contract stipulating the date and terms for the transfer of these assets had not been signed. Despite the eventual transfer of this property, the Société remains responsible for the debt servicing related to its financing. However, the Agence reimburses the Société for the operating and debt servicing costs, net of any government subsidy.

(c) Commuter trains:

As of January 1, 1996, the Agence assumed the rights and obligations of the Société with regard to the commuter train system.

The track-based rolling stock and all other assets related to the operation of the commuter train system are the property of the Agence. However, the Société retains the long-term debt associated with this property. The Agence reimburses the Société for the principal and interest, and in the event of default, is guaranteed repayment of the debt servicing related to the commuter trains.

7. CONTRIBUTION FROM THE RÉSEAU DE TRANSPORT DE LONGUEUIL

On March 27, 2002, the Government of Quebec adopted order-in-council 404-2002 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 \$1,802,598 per year for fiscal years 2001, 2002 and 2003. The contribution for 2002 includes an adjustment of \$41,000 relating to 2001.

8. OTHER REVENUE

(in thousands of dollars)

	BUDGET	2003	2002
Advertising	10,257	8,971	8,482
Rentals	3,261	3,493	3,147
Incidental activities ^(a)	—	112	150
Share of the loss for the limited partnership	—	(19)	—
Other	6,471	4,301	3,060
	<u>19,989</u>	<u>16,858</u>	<u>14,839</u>

	BUDGET	2003	2002
(a) Incidental activities			
Métro extension			
Revenue	—	5,911	3,914
Expenditures	—	(5,911)	(3,909)
	<u>—</u>	<u>—</u>	<u>5</u>
Other projects			
Revenue	—	1,066	1,108
Expenditures	—	(954)	(963)
	<u>—</u>	<u>112</u>	<u>145</u>
Surplus	<u>—</u>	<u>112</u>	<u>150</u>

9. INTEREST AND FINANCING COSTS

(in thousands of dollars)

	BUDGET	2003	2002
Interest on long-term debt	38,372	34,680	32,761
Financing costs			
short-term	2,039	2,364	960
allocated to loan by-laws	(1,039)	(1,386)	(426)
	<u>1,000</u>	<u>978</u>	<u>534</u>
	<u>39,372</u>	<u>35,658</u>	<u>33,295</u>

NOTES TO FINANCIAL STATEMENTS

AT DECEMBER 31, 2003

10. REPAYMENT OF LONG-TERM DEBT

(in thousands of dollars)

	BUDGET	2003	2002
Repayment of principal			
from financial activities	13,244	13,244	18,709
from sinking fund	42,330	42,330	11,250
	<u>55,574</u>	<u>55,574</u>	<u>29,959</u>

11. TRANSFER TO THE STATEMENT OF INVESTMENT ACTIVITIES

(in thousands of dollars)

	BUDGET	2003	2002
Capital asset expenditures financed by a third party			
Replacement of an operating system	3,104	3,378	1,578
Reliability project for low-floor buses	6,000	—	—
Relocation of the St-Denis complex	13,566	—	—
Disposition of buses	—	50	94
Métro station renovations	—	—	90
Transfer of métro assets in accordance with legal requirements	—	44	—
	<u>22,670</u>	<u>3,472</u>	<u>1,762</u>
Capital asset expenditures financed from revenue			
Bus and métro service	—	3,078	677
Paratransit service	1,362	1,312	1,218
Asset maintenance	311	81	398
	<u>1,673</u>	<u>4,471</u>	<u>2,293</u>
	<u>24,343</u>	<u>7,943</u>	<u>4,055</u>

12. RESTRICTED INVESTMENTS IN SINKING FUND

(in thousands of dollars)

	2003	2002
Cash	29,792	2,383
Bonds and bond coupons, at unamortized cost (market value \$109,967, \$126,279 in 2002)	107,404	123,347
Interest receivable	1,362	1,592
	<u>138,558</u>	<u>127,322</u>
Short-term portion	(39,206)	(32,908)
	<u>99,352</u>	<u>94,414</u>

NOTES TO FINANCIAL STATEMENTS

AT DECEMBER 31, 2003

13. GOVERNMENT OF QUEBEC SUBSIDIES RECEIVABLE

(in thousands of dollars)

	2003	2002
Capital assets	3,655	2,596
Paratransit service	6,070	85
Other	4,291	3,904
	14,016	6,585

14. OTHER RECEIVABLES

(in thousands of dollars)

	2003	2002
Regional revenue receivable	11,013	10,086
Work accident payments recoverable	613	760
Tax claims submitted to governments	1,135	922
General accounts receivable	12,847	6,975
Deposit on bus purchase	10,043	5,876
Other	3,872	4,676
	39,523	29,295

15. CAPITAL ASSETS

(in thousands of dollars)

	2003			2002
	COST	DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Land	7,352	5,950	1,402	1,483
Buildings	144,096	63,090	81,006	83,730
Original network and métro extensions	1,436,629	1,181,507	255,122	271,967
Improvements to métro infrastructure	200,854	43,084	157,770	153,263
Local infrastructures	11,702	2,337	9,365	9,697
Regional infrastructures	11,499	6,119	5,380	5,976
Rolling stock - buses	578,577	269,514	309,063	277,220
Rolling stock - minibuses	7,743	5,150	2,593	2,410
Rolling stock - other	29,855	20,542	9,313	11,142
Leasehold improvements	7,170	4,997	2,173	2,655
Office equipment and computer software	65,946	35,971	29,975	29,462
Machinery, tools and equipment	58,807	29,390	29,417	33,436
Capital assets in progress	105,018	—	105,018	69,051
	2,665,248	1,667,651	997,597	951,492

	2003			2002
	OPENING BALANCE	CHANGE	CLOSING BALANCE	CLOSING BALANCE
Deferred subsidies	227,281	35,269	262,550	227,281

NOTES TO FINANCIAL STATEMENTS

AT DECEMBER 31, 2003

16. DEFERRED CHARGES

(in thousands of dollars)

	2003	2002
Computer software licences	<u>4,796</u>	<u>5,995</u>

Computer software licences are charged to financial activities as and when they are allocated to users, over a maximum period of five years from 2003 to 2007.

17. LONG-TERM INVESTMENTS

(in thousands of dollars)

	2003	2002
Holding of 99.99% of the outstanding shares of the Transgesco Limited Partnership at the acquisition cost	500	—
Share of the net loss of Transgesco Limited Partnership for the year ended December 31, 2003	<u>(19)</u>	<u>—</u>
	481	
1,000 common shares in 9130-8593 Québec Inc., limited partner of Transgesco Limited Partnership, representing 100% of the shares issued at the acquisition cost	<u>5</u>	<u>—</u>
	<u>486</u>	<u>—</u>

18. LONG-TERM DEBT

(in thousands of dollars)

	2003	2002
Amount recoverable for the repayment of long-term debt (note 21)		
Government of Quebec	193,548	189,107
Agence métropolitaine de transport	<u>18,860</u>	<u>25,905</u>
	212,408	215,012
Current portion of long-term debt	<u>(45,233)</u>	<u>(13,012)</u>
	<u>167,175</u>	<u>202,000</u>

19. SHORT-TERM LOANS

The Société has a loan authorization to a limit of \$200,000,000 for its current operating expenses and for those carried out in accordance with a loan by-law. This sum can be borrowed, in whole or in part, through notes, bankers acceptances or other instruments that can be negotiated with 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 for each of the notes, bankers acceptances or other instruments must not exceed one year from the date of their issuance. At December 31, 2003, the average rate on the short-term loans was 2.78%.

The Société also has a line of credit that may be used in the form of demand notes of \$40,000,000 (included in the short-term loan authorization of \$200,000,000). The interest rate on this line of credit is the base rate of the banking institution calculated on a daily basis and payable the last day of each month. The average rate for fiscal year 2003 rose to 4.69%.

20. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands of dollars)

	2003	2002
Suppliers and accrued liabilities	23,105	16,440
Wages and wage benefits	30,133	25,189
Sick leaves payable	8,349	9,538
Vacations payable	23,306	23,617
Holdbacks on contracts and security deposits	1,137	1,430
Accrued interest	7,716	7,312
Other	13,567	11,841
	<u>107,313</u>	<u>95,367</u>

21. LONG-TERM DEBT

(in thousands of dollars)

	2003	2002
Bonds and bank loans, at interest rates varying from 3.55% to 9.60% (3.70% to 9.60% in 2002) due from February 2004 to October 2012	554,339	534,913
Current payments on long-term debt	(134,515)	(55,574)
	<u>419,824</u>	<u>479,339</u>

The long-term debt consists of bonds and bank loans that are a direct and general obligation of the City of Montréal. The City of Montréal is jointly and severally liable with the Société for the payment of principal and interest on the bonds.

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

2004	134,515
2005	67,972
2006	100,611
2007	69,610
2008	33,348
2009 and subsequent years	148,283
Total minimum payments due	<u>554,339</u>

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

(in thousands of dollars)

	2003	2002
Amounts accumulated in the sinking fund	141,850	127,322
Amounts recoverable for the repayment of the long-term debt		
From the City of Montréal	200,081	192,579
From the Government of Quebec	193,548	189,107
From the Agence métropolitaine de transport	18,860	25,905
	<u>412,489</u>	<u>407,591</u>
	<u>554,339</u>	<u>534,913</u>

22. PROVISION FOR FUTURE AMOUNTS

(in thousands of dollars)

	2003	2002
Vacation benefits	(13,867)	(15,197)
Sick leaves	(7,480)	(8,812)
	<u>(21,347)</u>	<u>(24,009)</u>

The difference of \$2,662,000 between December 31, 2002, and December 31, 2003, has been charged to the statement of financial activities.

23. COMMITMENTS

a) Long-term leases

The Société has entered into long-term leases for office space expiring from March 31, 2004, to March 11, 2014, that call for lease payments totalling \$23,980,847. The minimum payments for the next five years are \$5,638,226 in 2004, \$5,204,185 in 2005, \$4,525,962 in 2006, \$4,525,962 in 2007 and \$2,762,711 in 2008.

One of the leases includes a renewal option for an additional five-year period that the Société can exercise by giving advance notice of one year prior to the expiry date.

b) Outsourcing of computer centre

The Société is committed to paying a total of \$5,197,237 for the years 2004 to 2008. Future payments for the outsourcing of its computer centre amount to \$1,272,793 for the years 2004 to 2007 and \$106,065 in 2008.

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

c) Service contract for a communications solution integrator

The Société is committed to paying a maximum of \$12,398,577 for the years 2004 to 2012. The two principal components of this contract are a company telephone system at a cost of \$10,606,950 and Internet access services at a cost of \$1,570,994. The balance of \$220,633 is to be used for various operations projects.

Future payments are scheduled as follows: \$1,333,952 in 2004, \$1,403,498 in 2005 and \$1,380,161 for the years 2006 to 2012.

d) Contract for the supply of bus parts

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

These contracts are spread over periods from three to five years from 2002 to 2007. At December 31, 2003, the total value of these contracts for all the companies involved is \$28,178,765. The portion attributable to the Société de transport de Montréal is \$15,448,014, consisting of \$6,023,101 for the years 2004 and 2005, and \$1,700,906 for the years 2006 and 2007.

23. COMMITMENTS (CONTINUED)

e) Contract for the purchase of city buses

The Société has awarded a contract for the purchase of low-floor buses as part of a group purchase on behalf of the members of the Quebec Urban Transit Association.

The contract runs from 2003 to 2007 and covers the purchase of low-floor buses for all the companies involved. Under this contract, the companies can reduce the quantity ordered by 10% or increase it 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 an indicator, the American content represents 29% of the base cost, while the European content represents 9%. During the 2003 fiscal year, the bus purchase was revised downward for all the companies and now involves 773 buses for a total estimated cost of \$384,956,986.

The revised portion attributable to the Société covers 344 buses for a total estimated cost of \$171,799,548 (including deliveries in 2003 that amounted to \$18,026,888). According to the bus delivery schedule, the deliveries in 2004 will cost \$50,748,323, those in 2005, \$23,897,608, those in 2006, \$38,976,814 and those in 2007, \$40,149,915.

f) Heritage maintenance program for fixed equipment in the métro

The Société signed a contract with an engineering firm for an approximate amount of \$46,754,854 for the years 2001 to 2005 to set up and operate a project office responsible for carrying out the heritage maintenance program for the fixed equipment in the métro. At December 31, 2003, there remained approximately \$11,934,228 in expenditures to be incurred between now and 2005.

g) Foreign currencies

The Société negotiated an agreement with a banking institution to buy \$3,310,000 US on September 1, 2005, at the rate of 1.3693, equivalent to \$4,532,000 CAN, and \$8,275,000 US on December 15, 2005, at the rate of 1.3723, equivalent to \$11,356,000 CAN, to cover the currency requirements of the contracts awarded for the fare sale and collection project.

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

The Société awarded two major contracts within the framework of the project to upgrade the system and equipment for fare sales and collection.

As mandatary for six transit operating authorities (AOT), the Société awarded the first contract for a total amount of \$80,440,821, including \$62,729,223 for the Société. This contract covers replacement of the centralized system and related equipment, the purchase of smart cards, which will be the equivalent of transit fares with the new system, as well the maintenance of the software and equipment. The portion relating to the charges for the maintenance of the software and equipment, which is borne entirely by the Société, represents \$11,011,155. The annual payments in the amount of \$2,202,231 will be spread out from 2006 to 2010.

As mandatary for another AOT, the Société awarded a second contract for a total of \$48,804,578, including \$43,328,201 for the Société. This contract covers the replacement of the collection boxes in the buses as well as the maintenance of software and related equipment. The portion relating to the maintenance costs for software and equipment is \$1,010,330. The annual payments in the amount of \$202,066 will be spread out from 2006 to 2010.

24. PENSION PLANS AND PENSION OBLIGATIONS

The Société's pension plans are contributory defined benefits plans. Actuarial valuations were carried out at December 31, 1999, for the CSN Plan and at December 31, 2002, for the 1992 Plan in order to determine the present value of the benefits prorated to years of service. These valuations indicated a surplus in the order of \$207,690,000. Pension plan assets are based on the fair value, with fluctuations spread over a three-year period.

At December 31, 2003, pension plan assets and the present value of accrued pension benefits were not available. As an indicator, these extrapolated values rose to \$2,481,182,000 and \$2,202,868,000 respectively at December 31, 2002. In 2000, 2001 and 2002, no expenditures were charged to the statement of financial activities as the Société benefited from a premium holiday. The expenditure for the year 2003 was \$28,427,381.

At December 31, 2003, the Société was committed in virtue of various pension agreements over and above the obligations ensuing from the above-mentioned pension plans. According to an actuarial valuation dated December 31, 2001, these commitments represent an amount of \$4,669,200 and result primarily from a pension agreement put in place for employees of the Société whose annual remuneration exceeds the ceiling for pension plan contributions as set by the tax authorities. The Société made a provision at December 31, 2003, for an amount deemed to be sufficient for these commitments.

25. CONTINGENCIES

Amounts claimed by plaintiffs total \$126,277,300 (\$7,512,600 in 2002). These claims comprise a class action suit in the amount of \$123,000,000 involving the STM pension plans as well as individual suits, bodily injuries, material damages and various other litigation. At December 31, 2003, the Société made a provision for an amount deemed to be sufficient for these claims.

26. OPINION OF THE AUDITORS

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

RESTATED STATEMENT OF FINANCIAL ACTIVITIES

(in thousands of dollars)

	2003	2002	2001	2000	1999
REVENUE					
Passengers	334,771	321,871	318,265	296,956	285,145
Contribution from the City of Montréal (from municipalities on the MUC territory before 2002)	263,000	244,100	236,600	231,600	^(a) 254,600
Government of Quebec subsidies	70,766	65,388	63,938	64,583	57,877
Regional contributions	64,424	64,170	61,716	66,233	70,030
Contribution from the Réseau de transport de Longueuil	1,803	1,761	1,844	1,803	831
Other revenue	16,858	14,839	16,843	16,841	14,160
	<u>751,622</u>	<u>712,129</u>	<u>699,206</u>	<u>678,016</u>	<u>682,643</u>
EXPENDITURES					
Bus and métro service	623,611	580,981	559,041	535,652	542,642
Paratransit service	31,148	28,907	26,374	26,511	28,655
Debt servicing and financing costs ^(b)	99,292	93,412	94,983	101,600	96,064
Unforeseen expenditures	36	404	137	335	101
Asset maintenance ^(c)	10,047	11,572	11,843	11,271	9,232
	<u>764,134</u>	<u>715,276</u>	<u>692,378</u>	<u>675,369</u>	<u>676,694</u>
SURPLUS (DEFICIT) FOR YEAR	(12,512)	(3,147)	6,828	2,647	5,949
Surplus carried forward from previous year	12,815	15,962	9,134	6,487	538
SURPLUS	<u>303</u>	<u>12,815</u>	<u>15,962</u>	<u>9,134</u>	<u>6,487</u>

(a) Contribution paid during fiscal year 1999 in the amount of \$231.6 million plus the transfer of a portion of the surplus from fiscal year 1998 in the amount of \$23 million (in accordance with the 1999 budget).

	2003	2002	2001	2000	1999
(b) Interest and financing costs	35,658	33,295	33,814	38,077	36,328
Repayment of long-term debt	55,574	29,959	57,828	61,697	51,026
Contribution to sinking fund	50,390	41,408	40,907	37,557	29,983
Use of sinking fund	(42,330)	(11,250)	(37,566)	(35,731)	(21,273)
	<u>99,292</u>	<u>93,412</u>	<u>94,983</u>	<u>101,600</u>	<u>96,064</u>

	2003	2002	2001	2000	1999
(c) Asset maintenance (according to the statement of financial activities)	9,966	11,174	11,681	11,271	9,232
Transfer to the statement of investment activities	81	398	162	—	—
	<u>10,047</u>	<u>11,572</u>	<u>11,843</u>	<u>11,271</u>	<u>9,232</u>

REVENUE BY TYPE

(in thousands of dollars)

	(a) 2003	2002	2001	2000	1999
PASSENGER REVENUE					
Bus and métro service					
<i>Regular fares</i>					
Cash	44,762	48,547	51,091	48,518	43,515
Strip of tickets	61,235	58,171	52,930	50,714	51,603
CAM	107,223	98,921	114,927	106,381	107,637
Weekly CAM	32,395	34,303	36,927	34,439	25,037
	<u>245,615</u>	<u>239,942</u>	<u>255,875</u>	<u>240,052</u>	<u>227,792</u>
<i>Reduced fares</i>					
Cash	2,945	3,348	3,782	3,062	3,007
Strip of tickets	10,550	9,744	8,649	8,309	9,893
CAM	45,352	41,028	23,660	21,814	21,189
Weekly CAM	2,258	1,893	1,387	1,092	766
	<u>61,105</u>	<u>56,013</u>	<u>37,478</u>	<u>34,277</u>	<u>34,855</u>
Tourist cards	1,039	823	757	961	773
Allocation of train revenue	644	1,880	1,209	2,657	2,624
	<u>308,403</u>	<u>298,658</u>	<u>295,319</u>	<u>277,947</u>	<u>266,044</u>

- (a) A total reduction of \$1,089,000 was given to users as compensation for partial service during the labour conflict in November 2003.

EXPENDITURES BY TYPE

(in thousands of dollars)

	2003	2002	2001	2000	1999
EXPENDITURES RELATED TO OPERATIONS					
Remuneration	511,948	470,975	449,788	433,403	451,774
Goods and services					
Major expenditures	3,962	4,927	4,686	3,191	5,018
Energy costs, taxes and licences	55,317	50,688	53,091	50,607	44,819
Professional services	2,750	3,138	2,697	2,341	4,066
Technical and other services	22,151	20,707	18,062	17,795	17,285
Equipment and supplies	35,236	35,292	35,790	33,276	30,419
Rentals	7,021	6,737	6,558	7,366	7,113
Financing of operations	978	534	1,447	1,696	628
Miscellaneous expenditures	8,168	11,496	9,351	7,294	7,067
	135,583	133,519	131,682	123,566	116,415
	647,531	604,494	581,470	556,969	568,189
EXPENDITURES RELATED TO INVESTMENTS					
Asset maintenance	10,047	11,572	11,681	11,271	9,232
Special projects	5,853	3,718	3,992	5,790	3,587
Debt servicing - buses and métro	89,154	78,554	78,473	84,105	75,105
Transfers to working capital	2,353	2,210	1,400	1,100	149
	107,407	96,054	95,546	102,266	88,073
DEBT SERVICING – COMMUTER TRAINS	9,160	14,324	15,063	15,799	20,331
UNFORESEEN EXPENDITURES	36	404	137	335	101
	764,134	715,276	692,216	675,369	676,694

EXPENDITURES BY OPERATION

(in thousands of dollars)

	REVISED BUDGET ^(c)	2003	2002	2001
NETWORK OPERATIONS				
Bus network				
Remuneration	264,792	264,137	244,756	232,350
Goods and services	21,083	21,018	20,992	21,171
	285,875	285,155	265,748	253,521
Métro network				
Remuneration	142,510	142,068	128,610	114,045
Goods and services	16,374	14,986	15,711	13,829
	158,884	157,054	144,321	127,874
Paratransit ^(a)				
Remuneration	16,962	16,518	15,543	15,011
Goods and services	12,629	12,902	11,844	9,834
	29,591	29,420	27,387	24,845
Energy				
Goods and services	47,415	48,041	46,708	49,203
	521,765	519,670	484,164	455,443
SUPPORT SERVICES				
Office of the Assistant Director-General				
Remuneration	30,698	31,090	27,464	28,318
Goods and services	10,992	10,897	10,818	11,324
	41,690	41,987	38,282	39,642
Finance and Procurement				
Remuneration	23,445	22,738	21,031	19,435
Goods and services	6,650	6,821	7,549	7,387
	30,095	29,559	28,580	26,822
Human resources				
Remuneration	12,546	12,316	11,242	10,611
Goods and services	2,123	2,112	2,239	2,038
	14,669	14,428	13,481	12,649
Operations support				
Remuneration	9,043	9,143	8,519	18,484
Goods and services	3,044	2,706	2,804	2,894
	12,087	11,849	11,323	21,378
	98,541	97,823	91,666	100,491
OTHER CORPORATE SERVICES				
Remuneration	4,584	4,230	4,242	4,183
Goods and services	1,027	838	1,745	1,606
	5,611	5,068	5,987	5,789
ASSET MAINTENANCE				
Remuneration	—	5,017	6,508	7,404
Goods and services	14,000	5,030	5,064	4,440
	14,000	10,047	11,572	11,844

EXPENDITURES BY OPERATION

(in thousands of dollars)

	REVISED BUDGET ^(c)	2003	2002	2001
SPECIAL PROJECTS				
Remuneration	—	616	655	1,063
Goods and services	4,700	5,237	3,063	2,919
	<u>4,700</u>	<u>5,853</u>	<u>3,718</u>	<u>3,982</u>
OTHER EXPENDITURES				
Remuneration	8,363	9,762	9,591	7,633
Goods and services	16,136	14,231	12,552	10,749
	<u>24,499</u>	<u>23,993</u>	<u>22,143</u>	<u>18,382</u>
FINANCING COSTS				
Goods and services	<u>98,788</u>	<u>99,291</u>	<u>93,412</u>	<u>94,983</u>
UNFORESEEN EXPENDITURES				
Remuneration	—	—	178	69
Goods and services	3,296	36	226	68
	<u>3,296</u>	<u>36</u>	<u>404</u>	<u>137</u>
APPROPRIATIONS				
Repayment of working capital	1,400	2,353	2,210	1,400
	<u>^(b) 772,600</u>	<u>764,134</u>	<u>715,276</u>	<u>692,451</u>

(in thousands of dollars)

	REVISED BUDGET ^(c)	2003	2002	2001
(a) Paratransit				
Total per the statement of financial activities	29,784	29,836	27,689	26,243
Transfer to statement of investment activities	1,311	1,312	1,218	131
	<u>31,095</u>	<u>31,148</u>	<u>28,907</u>	<u>26,374</u>
Other centres of responsibility	(1,504)	(1,728)	(1,520)	(1,529)
	<u>29,591</u>	<u>29,420</u>	<u>27,387</u>	<u>24,845</u>

(b) The expenditures by operation reflect the expenditures presented in the restated statement of financial activities.

(c) Revised budget including budgetary reallocations.

ANALYSIS OF PROJECTS IN PROGRESS

(in thousands of dollars)

By-law no	Authorization date	Description	Project amount	Authorized amount (L/B)	Balance at 01/01/2003		
					Loan	Cash	Total
CA-31	08/06/90	Renovation of métro cars	68,800	68,800	65,131	—	65,131
CA-52	11/12/02	Replacement and renovation of fixed equipment in the métro	8,970	8,970	3,368	—	3,368
CA-58	16/08/93	Purchase and installation of 79 escalators in the métro	38,900	38,900	29,882	—	29,882
CA-61	16/08/93	Purchase of specialized rail vehicles	2,660	2,660	2,577	—	2,577
CA-67	25/05/94	Redesigning and/or construction of bus terminals	5,500	5,500	2,923	—	2,923
CA-71	08/11/94	Purchase of 60 city buses (1995)	22,200	22,200	19,895	—	19,895
CA-75	18/08/95	Various capital expenditures 1996	7,200	7,200	5,770	—	5,770
CA-80	29/04/96	Purchase of 140 low-floor buses (1997)	58,500	58,500	53,088	—	53,088
CA-82	22/05/96	Various capital expenditures 1996	2,700	2,700	1,235	—	1,235
CA-83	22/05/96	Renovation of various buildings	4,220	4,220	3,045	—	3,045
CA-86	14/03/97	Métro renovations	4,272	3,266	3,266	1,006	4,272
CA-87	14/03/97	Métro renovations	1,681	1,280	1,280	401	1,681
CA-89	01/05/97	Purchase of 96 low-floor buses (1998)	53,750	53,750	45,547	3,894	49,441
CA-90	10/06/97	Métro renovations	879	680	680	206	886
CA-92	16/06/97	Métro renovations	7,276	5,569	5,549	1,723	7,272
CA-93	16/06/97	Métro renovations	20,332	20,332	14,349	4,457	18,806
CA-94	16/06/97	Métro renovations	11,600	11,095	8,813	2,766	11,579
CA-95	16/06/97	Métro renovations	7,971	6,058	6,058	1,913	7,971
CA-96	16/06/97	Métro renovations	6,389	4,902	4,838	1,523	6,361
CA-97	04/05/98	Various capital expenditures 1998	4,100	4,100	3,159	—	3,159
CA-100	06/07/99	Various capital expenditures 1999	6,870	6,870	5,465	—	5,465
CA-101	12/07/99	Various capital expenditures	1,700	1,700	1,249	—	1,249
CA-102	28/05/99	Rail-based vacuum cleaner	1,945	1,945	—	—	—
CA-103	05/07/99	Purchase of 300 low-floor buses (2000-2002)	135,970	135,970	93,089	205	93,294
CA-104	05/01/00	Purchase of scrubbing-cleaning machines and service vehicles	1,410	1,410	1,270	—	1,270
CA-106	10/05/00	ACCES software replacement and paving repairs at St-Michel bus depot	9,265	9,265	1,092	1,578	2,670
CA-107	02/06/00	Various capital expenditures 2000	2,034	2,034	922	—	922
CA-108	02/06/00	Service vehicles	2,075	2,075	1,549	—	1,549
CA-109	09/09/02	Renovation program for fixed equipment in the métro	30,656	30,656	—	—	—
CA-110	29/03/01	SCAD and updating telecommunications services and equipment	3,991	3,991	1,313	—	1,313
CA-111	08/06/01	Improvement to heritage capital assets	5,000	5,000	3,068	—	3,068
CA-112	12/07/01	Capital asset expenditures	1,980	1,980	358	—	358
CA-113	01/03/02	Implementation of preferential measures and optimization of terminals	13,725	13,725	—	—	—
CA-114	06/07/01	Service vehicles	2,142	2,142	1,477	—	1,477
CA-116	26/04/02	Réno-Systèmes program	311,090	311,090	—	—	—
CA-117	28/02/02	Operations support and customer information system (S.A.E.I.C.)	18,028	18,028	—	—	—
CA-118	11/01/02	Purchase of 382 low-floor buses (2003-2007)	222,600	222,600	—	—	—
R-002	24/04/02	Lift replacement program	7,299	7,299	367	—	367
R-004	29/04/02	Purchase of rail-based vehicles and expansion of track equipment shop	13,171	13,171	—	—	—
R-005	29/04/02	Capital asset expenditures	23,333	23,333	867	—	867
R-006	03/06/02	Various work in the tunnel and at the Angrignon garage	1,919	1,919	—	—	—
R-007	03/06/02	Renovation of the Mont-Royal bus depot	12,150	12,150	—	—	—
R-010	18/06/02	Fare sales and collection	101,650	101,650	—	—	—
R-014	10/09/02	Service vehicles	2,055	2,055	—	—	—
R-016	09/09/02	Replacement of city minibuses	785	785	—	—	—
R-018	09/10/02	Acquisition and renovation of 2000 Berri	12,560	12,560	—	—	—
R-019	08/10/02	Renovation of the Place d'Armes station	3,210	3,210	—	—	—
R-020	11/12/02	Capital asset expenditures	2,760	2,760	—	—	—
R-024	17/01/03	Réno-Métro phase II – emergency work	2,010	2,010	—	—	—
R-025	17/03/03	Acquisition and implementation of SAP/PM	7,000	7,000	—	—	—
R-038	22/09/03	Service vehicles – Vehicle with pump-crane – Elevating platform	5,525	5,525	—	—	—
R-039	25/09/03	Renovation of fire equipment premises	834	834	—	—	—
R-040	24/09/03	Production equipment and tools (APS)	2,556	2,556	—	—	—
R-041	09/09/03	Bousquet ventilation unit	594	594	—	—	—
R-042	09/01/04	Cost for study, plan and estimate, engineering for purchase of MR 2005 métro rolling stock	15,888	15,888	—	—	—
			1,323,680	1,316,462	392,539	19,672	412,211
		Capital assets from 2003 revenue	—	—	—	—	—
			1,323,680	1,316,462	392,539	19,672	412,211

PERMANENT FINANCING

EXPENDITURES

Financing during the year			Balances available	Closed projects	Balance at 31/12/2003			Balance at 01/01/2003	Expenses for the year	Closed projects	Balance at 31/12/2003	Over-financing (under-financing)
Loan	Cash	Total			Loan	Cash	Total					
—	—	—	—	—	65,131	—	65,131	64,301	(13)	—	64,288	843
984	—	984	—	—	4,352	—	4,352	4,340	920	—	5,260	(908)
4,480	—	4,480	—	—	34,362	—	34,362	34,351	992	—	35,343	(981)
—	—	—	83	(2,660)	—	—	—	2,660	—	(2,660)	—	—
—	—	—	(6)	(2,917)	—	—	—	2,917	—	(2,917)	—	—
—	—	—	(18)	(19,877)	—	—	—	19,877	—	(19,877)	—	—
—	—	—	—	—	5,770	—	5,770	5,820	32	—	5,852	(82)
—	—	—	(49)	(53,039)	—	—	—	53,061	(22)	(53,039)	—	—
—	—	—	4	(1,239)	—	—	—	1,239	—	(1,239)	—	—
—	—	—	1	(3,046)	—	—	—	3,046	—	(3,046)	—	—
—	—	—	—	(4,272)	(1,006)	1,006	—	4,272	—	(4,272)	—	—
—	—	—	—	(1,681)	(401)	401	—	1,681	—	(1,681)	—	—
—	—	—	—	—	45,547	3,894	49,441	49,409	201	—	49,610	(169)
—	—	—	(7)	(879)	(206)	206	—	879	—	(879)	—	—
—	—	—	4	(7,276)	(1,723)	1,723	—	7,276	—	(7,276)	—	—
—	—	—	78	(18,884)	(4,457)	4,457	—	18,884	—	(18,884)	—	—
—	—	—	21	(11,600)	(2,766)	2,766	—	11,600	—	(11,600)	—	—
—	—	—	—	—	6,058	1,913	7,971	7,971	—	—	7,971	—
—	—	—	28	(6,389)	(1,523)	1,523	—	6,389	—	(6,389)	—	—
—	—	—	—	—	3,159	—	3,159	3,177	1	—	3,178	(19)
—	—	—	—	—	5,465	—	5,465	5,540	2	—	5,542	(77)
—	—	—	—	—	1,249	—	1,249	1,343	3	—	1,346	(97)
—	—	—	—	—	—	—	—	—	189	—	189	(189)
29,816	50	29,866	—	—	122,905	255	123,160	86,199	38,017	—	124,216	(1,056)
—	—	—	—	—	1,270	—	1,270	1,279	—	—	1,279	(9)
—	3,378	3,378	—	—	4,470	1,578	6,048	3,040	4,865	—	7,905	(1,857)
—	—	—	—	—	922	—	922	953	288	—	1,241	(319)
—	—	—	—	—	1,549	—	1,549	1,588	1	—	1,589	(40)
2,028	—	2,028	—	—	2,028	—	2,028	1,965	2,681	—	4,646	(2,618)
—	—	—	—	—	1,313	—	1,313	2,534	1,134	—	3,668	(2,355)
100	—	100	—	—	3,168	—	3,168	3,171	1,308	—	4,479	(1,311)
200	—	200	—	—	558	—	558	570	339	—	909	(351)
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	1,477	—	1,477	1,490	416	—	1,906	(429)
16,471	—	16,471	—	—	16,471	—	16,471	29,331	36,868	—	66,199	(49,728)
—	—	—	—	—	—	—	—	1,294	4,967	—	6,261	(6,261)
11,074	—	11,074	—	—	11,074	—	11,074	6,491	14,873	—	21,364	(10,290)
388	—	388	—	—	755	—	755	747	1,362	—	2,109	(1,354)
—	—	—	—	—	—	—	—	99	67	—	166	(166)
3,419	—	3,419	—	—	4,286	—	4,286	4,175	2,055	—	6,230	(1,944)
—	—	—	—	—	—	—	—	—	19	—	19	(19)
—	—	—	—	—	—	—	—	—	29	—	29	(29)
576	—	576	—	—	576	—	576	576	292	—	868	(292)
—	—	—	—	—	—	—	—	—	809	—	809	(809)
—	—	—	—	—	—	—	—	—	—	—	—	—
5,464	—	5,464	—	—	5,464	—	5,464	5,450	452	—	5,902	(438)
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	175	—	175	(175)
—	—	—	—	—	—	—	—	—	479	—	479	(479)
—	—	—	—	—	—	—	—	—	2,177	—	2,177	(2,177)
—	—	—	—	—	—	—	—	—	19	—	19	(19)
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	38	—	38	(38)
—	—	—	—	—	—	—	—	—	36	—	36	(36)
—	—	—	—	—	—	—	—	—	39	—	39	(39)
75,000	3,428	78,428	139	(133,759)	337,297	19,722	357,019	460,985	116,111	(133,759)	443,337	(86,318)
—	4,515	4,515	—	(4,515)	—	—	—	—	4,515	(4,515)	—	—
75,000	7,943	82,943	139	(138,274)	337,297	19,722	357,019	460,985	120,626	(138,274)	443,337	(86,318)

LONG-TERM DEBT

(in thousands of dollars)

	2003	2002
Bonds, \$70 million		
8.75%, due September 30, 2007 ^(b)	7,000	7,000
Bonds, \$60 million		
8.15%, due June 2, 2003 ^(a)	—	18,500
Bonds, \$52 million		
7.50%, due September 23, 2003 ^(a)	—	19,550
Bonds, \$50 million		
6.90%, due March 3, 2004 ^(a)	26,200	26,200
Bonds, \$50 million		
9.60%, due December 9, 2004 ^(a)	19,460	19,460
Bonds, \$40 million		
9.10%, due May 12, 2005 ^(a)	20,195	20,195
Bonds, \$30 million		
8.40%, due July 19, 2005 ^(a)	11,242	11,242
Bonds, \$30 million		
8.10%, due July 18, 2006 ^(c)	15,060	15,060
Bonds, \$30 million		
6.25%, due June 5, 2003	—	2,415
6.50%, due June 5, 2004	2,605	2,605
6.60%, due June 5, 2005	2,815	2,815
6.75%, due June 5, 2006	3,040	3,040
6.85%, due June 5, 2007	3,280	3,280
Bonds, \$40 million		
5.25%, due June 4, 2003	—	6,668
5.70%, due June 4, 2008 ^(c)	11,248	11,248
Bonds, \$35 million		
5.10%, due April 8, 2004	14,745	14,745
5.40%, due April 8, 2009 ^(c)	9,005	9,005
Bonds, \$30 million		
5.40%, due August 6, 2003	—	2,710
5.50%, due August 6, 2004	12,575	12,575
5.90%, due August 6, 2009 ^(c)	7,470	7,470

LONG-TERM DEBT

(in thousands of dollars)

	2003	2002
Bonds, \$25 million		
6.30%, due February 16, 2003	—	5,731
6.40%, due February 16, 2004	2,187	2,187
6.50%, due February 16, 2005	7,507	7,507
6.60%, due February 16, 2006	1,662	1,662
6.70%, due February 16, 2007	1,780	1,780
6.80%, due February 16, 2008	1,906	1,906
6.85%, due February 16, 2009	2,041	2,041
6.85%, due February 16, 2010	2,186	2,186
Bonds, \$17 million		
5.60%, due December 20, 2005 ^(a)	17,000	17,000
Bonds, \$60 million		
3.70%, due November 15, 2004 ^(a)	12,243	12,243
4.15%, due November 15, 2005	4,513	4,513
4.60%, due November 15, 2006	15,849	15,849
4.95%, due November 15, 2007	4,120	4,120
5.25%, due November 15, 2008	4,334	4,334
5.50%, due November 15, 2009	4,559	4,559
5.70%, due November 15, 2010	4,796	4,796
5.75%, due November 15, 2011	9,586	9,586
Bonds, \$40 million		
4.20%, due October 24, 2007 ^(a)	18,130	18,130
4.50%, due October 24, 2008	2,960	2,960
4.80%, due October 24, 2009	3,110	3,110
5.00%, due October 24, 2010	3,260	3,260
5.15%, due October 24, 2011	3,430	3,430
5.25%, due October 24, 2012	9,110	9,110
Bonds, \$75 million		
3.55%, due May 6, 2004	4,500	—
3.60%, due May 6, 2005	4,700	—
4.00%, due May 6, 2006	5,000	—
4.25%, due May 6, 2007	5,300	—
4.50%, due May 6, 2008	12,900	—
4.80%, due May 6, 2009	5,000	—
5.00%, due May 6, 2010	5,300	—
5.15%, due May 6, 2011	5,700	—
5.30%, due May 6, 2012	6,000	—
5.40%, due May 6, 2013	20,600	—

LONG-TERM DEBT

(in thousands of dollars)

	2003	2002
Bank loan, \$47.13 million ^(d)		
5.465%, due January 9, 2012 ^(a)	47,130	47,130
Bank loan, \$30 million ^(d)		
8.04%, due January 24, 2006 ^(a)	30,000	30,000
Bank loan, \$30 million ^(d)		
6.75%, due December 9, 2006 ^(a)	30,000	30,000
Bank loan, \$30 million ^(d)		
6.09%, due December 12, 2007 ^(a)	30,000	30,000
Bank loan, \$40 million ^(d)		
6.087%, due December 9, 2004 ^{(a) (e)}	40,000	40,000
Total	554,339	534,913

(a) Portion in existing sinking fund.

(b) Portion for which the Société began contributing to the sinking fund during the year.

(c) Portion for which a sinking fund is anticipated.

(d) Contract that formed part of a currency and interest rate agreement. Only the amount for which the Société is ultimately responsible is shown as the current balance.

(e) Loan renewable at the lender's discretion for an additional term of five years at the rate of 6.769% due December 9, 2009.

TOTAL NET LONG-TERM INDEBTEDNESS

(in thousands of dollars)

	2003	2002	2001	2000	1999
LONG-TERM DEBT					
Bonds and bank loans	554,339	534,913	477,742	475,570	505,406
Debt being refinanced	—	—	660	—	10,570
	<u>554,339</u>	<u>534,913</u>	<u>478,402</u>	<u>475,570</u>	<u>515,976</u>
Amounts accumulated in the sinking fund	(141,850)	(127,322)	(91,392)	(82,423)	(75,560)
Amounts recoverable from third parties for repayment of the long-term debt					
From the Government of Quebec	(193,548)	(189,107)	(184,435)	(184,266)	(193,816)
From the Agence métropolitaine de transport	(18,860)	(25,905)	(37,043)	(48,376)	(64,317)
	<u>200,081</u>	<u>192,579</u>	<u>165,532</u>	<u>160,505</u>	<u>182,283</u>
Investment expenditures to be financed	87,161	56,789	18,563	36,560	28,888
Amounts not used from contracted long-term loans	(843)	(8,015)	(914)	(1,811)	(856)
	<u>86,318</u>	<u>48,774</u>	<u>17,649</u>	<u>34,749</u>	<u>28,032</u>
Subsidies relating to investment expenditures to be financed ^(a)	(53,845)	(34,221)	(5,178)	(21,192)	(12,662)
Subsidies relating to the debt being refinanced ^(a)	—	—	—	—	(6,505)
	<u>32,473</u>	<u>14,553</u>	<u>12,471</u>	<u>13,557</u>	<u>8,865</u>
TOTAL NET LONG-TERM INDEBTEDNESS	<u><u>232,554</u></u>	<u><u>207,132</u></u>	<u><u>178,003</u></u>	<u><u>174,062</u></u>	<u><u>191,148</u></u>

At December 31, 2003, the amount authorized by loan by-laws was \$1,173,558,655, of which \$443,337,269 has been expended. The unexpended approved balance of \$730,221,386 is eligible for a subsidy in the order of \$359,420,000.

- ^(a) This amount is calculated based on the expenditures to be financed in relation to the rates of the subsidies related to the investment expenditures. However, this amount is not recorded in the Société's books, as the subsidy takes effect when the long-term debt is actually issued.

MATURITY OF THE LONG-TERM DEBT

(in thousands of dollars)

BONDS AND NOTES			
Value on the books in Canadian dollars			
Years	Maturity ^(a)	To be refinanced ^(b)	Net maturity
2004	134,515	27,891	106,624
2005	67,972	12,486	55,486
2006	100,611	18,310	82,301
2007	69,610	3,609	66,001
2008	33,348	10,573	22,775
2009	31,185	11,422	19,763
2010	15,542	—	15,542
2011	18,716	4,541	14,175
2012	62,240	15,400	46,840
2013	20,600	14,340	6,260
	554,339	118,572	^(c)435,767

(a) These amounts represent the loans coming due during each of the indicated years.

(b) These amounts are included in the “Maturity” column.

(c) Of the total amount of \$435.8 million, \$141.9 million is already accumulated in the sinking fund at December 31, 2003 (market value of \$144.4 million).

PROVISION FOR FUTURE AMOUNTS

In accordance with new accounting standards that went into effect on January 1, 2000, the provisions recorded as of this date can be amortized using the straight-line method over a maximum period of 20 years, unless the annual disbursements are higher. However, from 2000 to 2003, the annual disbursements were higher than the amortization. At this rate, the provisional amounts will be completely amortized in 2013 rather than in 2019.

(in thousands of dollars)

		DISBURSEMENTS		AMORTIZATION
Provision at 01/01/2000		30,376		30,376
Greater of the disbursements or the amortization				
2000	(2,462)	27,914	(1,519)	28,857
2001	(1,959)	25,955	(1,519)	27,338
2002	(1,946)	24,009	(1,519)	25,819
2003	(2,662)	21,347	(1,519)	24,300
2004 ^(a)	(2,257)	19,090	(1,519)	22,781
2005	(2,257)	16,833	(1,519)	21,262
2006	(2,257)	14,576	(1,519)	19,743
2007	(2,257)	12,319	(1,519)	18,224
2008	(2,257)	10,062	(1,519)	16,705
2009	(2,257)	7,805	(1,519)	15,186
2010	(2,257)	5,548	(1,519)	13,667
2011	(2,257)	3,291	(1,519)	12,148
2012	(2,257)	1,034	(1,519)	10,629
2013	(1,034)	—	(1,519)	9,110
2014	—	—	(1,519)	7,591
2015	—	—	(1,519)	6,072
2016	—	—	(1,519)	4,553
2017	—	—	(1,519)	3,034
2018	—	—	(1,519)	1,515
2019	—	—	(1,515)	—
	<u>(30,376)</u>		<u>(30,376)</u>	

(a) This amount was established by averaging the disbursements for 2000 to 2003.



FINANCIAL RATIOS

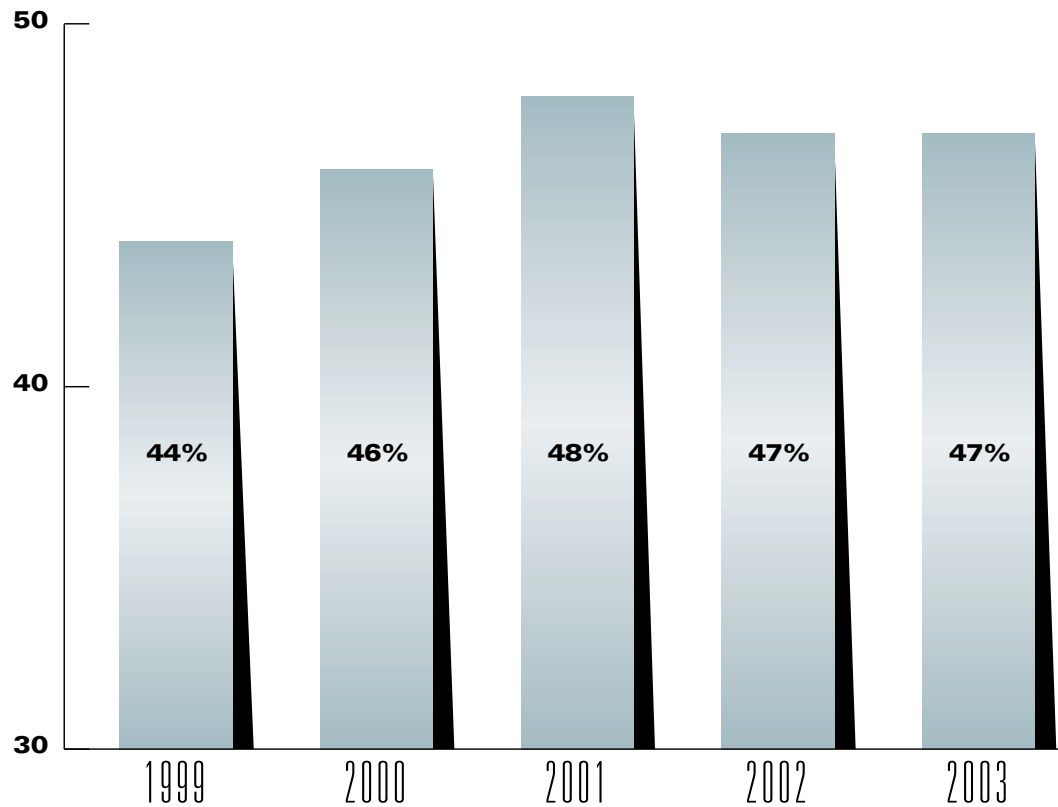
While respecting the budget is an important financial objective for the STM and a revealing gauge of its performance, it is not sufficient on its own to evaluate the financial health of the Société and the quality of its management.

Evaluation of the financial performance requires the analysis of all the financial statements through the calculation of various financial ratios. These ratios, once established, and compared over time and with those of other enterprises in the same sector, validate the financial decisions made by the Société and allow for assessment of their pertinence.

The following pages present these financial ratios:

- Autonomous revenue
- Percentage of revenue allocated to debt servicing
- Interest coverage
- Working capital and liquidity
- Long-term indebtedness
- Percentage of total net indebtedness
- Annual interest for the total long-term debt as a percentage

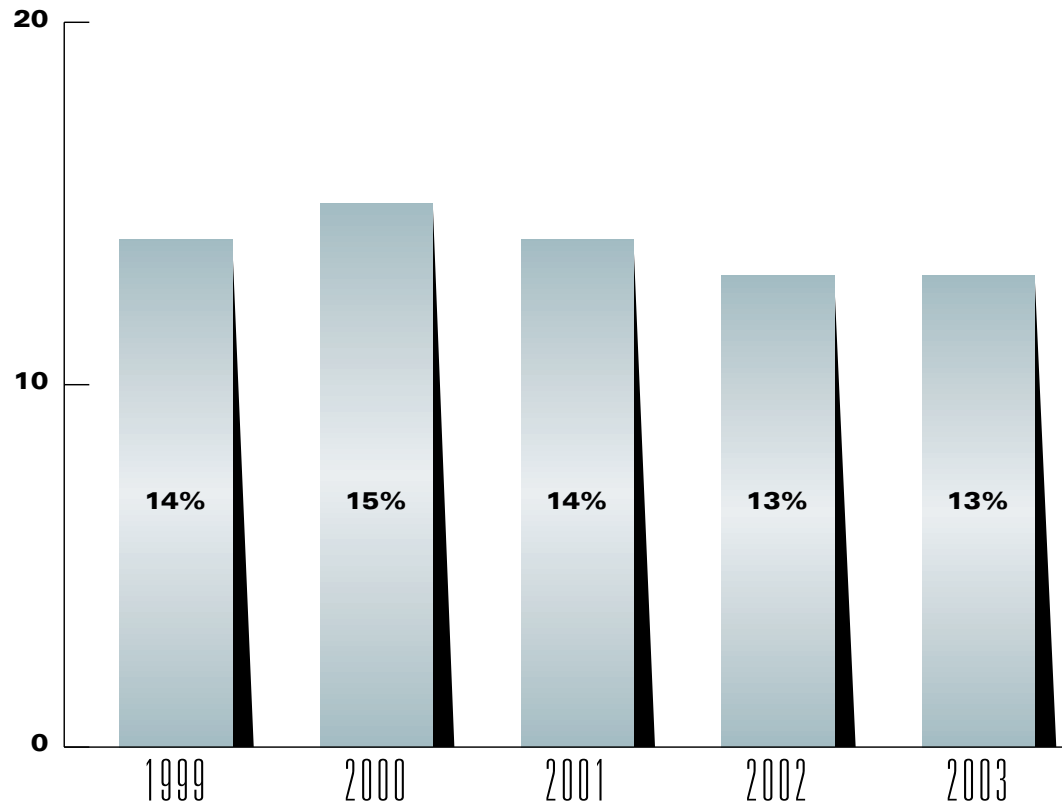
AUTONOMOUS REVENUE



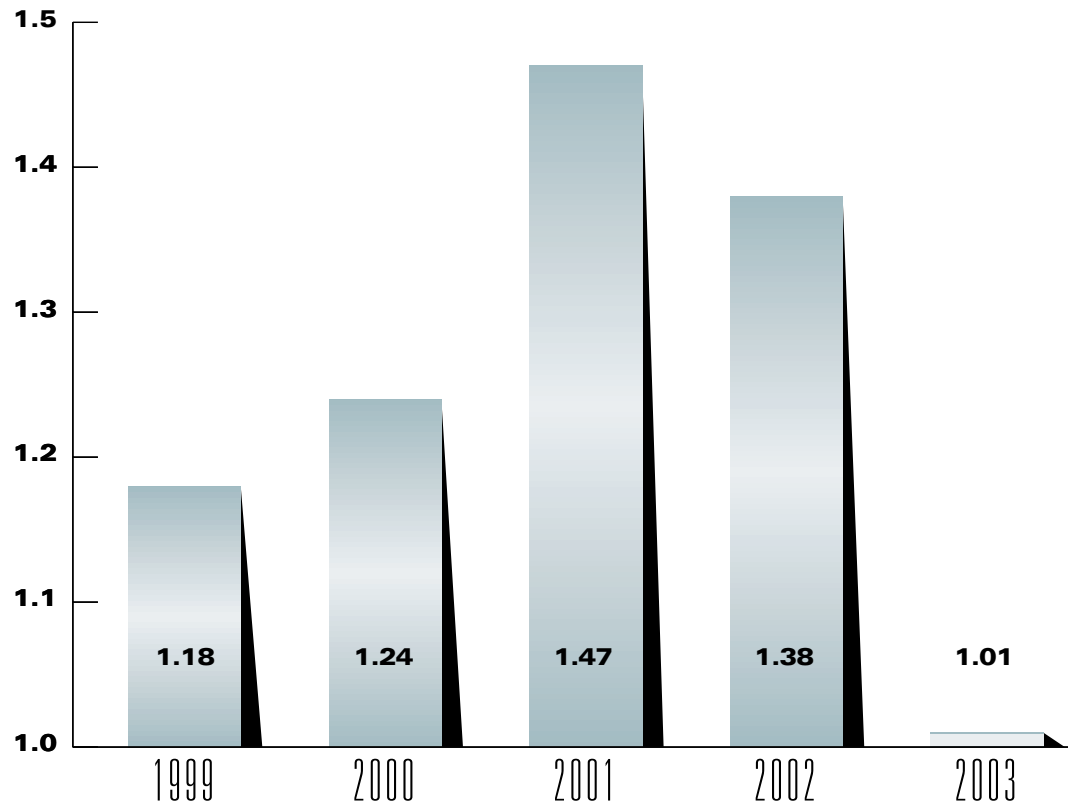
This ratio makes it possible to determine what proportion of total revenue is generated directly from the operations of the Société. At December 31, 2003, 47 % of the total revenue of the STM consisted of autonomous revenue.

Autonomous revenue includes passenger revenue and other commercial revenue. In coming years, the STM would like to build on its autonomous revenue. In 2003 it set up a company, the Transgesco Limited Partnership, whose mission it is to develop the STM's commercial revenue.

PERCENTAGE OF REVENUE ALLOCATED TO DEBT SERVICING

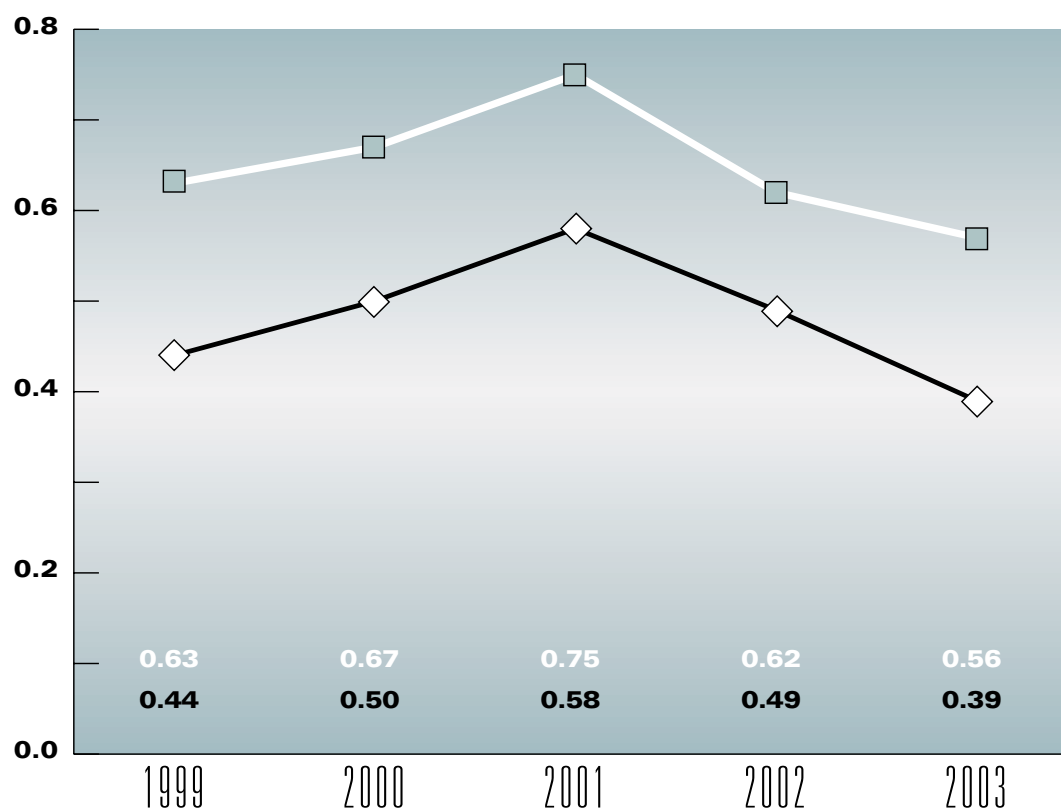


This ratio makes it possible to determine how much revenue must be dedicated to debt servicing before expenditures for other purposes.

INTEREST COVERAGE

This ratio makes it possible to determine in what proportion creditors can receive the interest due to them in relation to the surplus calculated, before the recording of interest charges. Thus, the STM's surplus before interest for the year ended December 31, 2003, enables it to cover 1.01 times the interest expense for the year.

WORKING CAPITAL AND LIQUIDITY



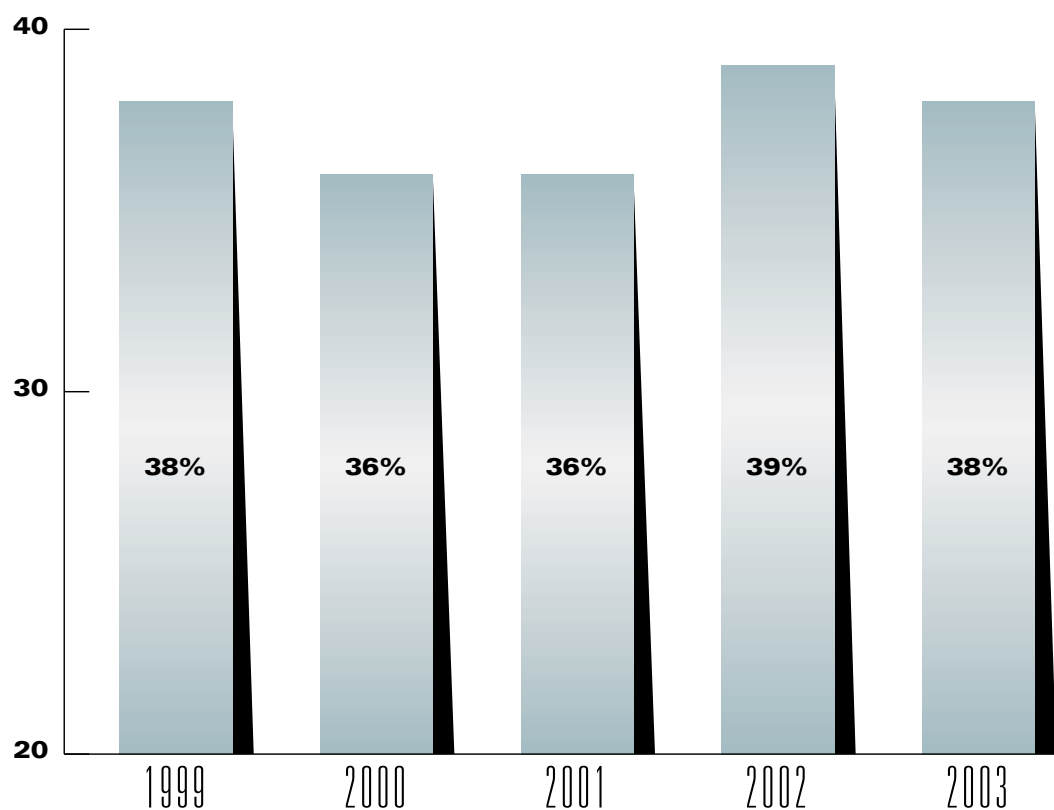
WORKING CAPITAL

The working capital ratio indicates the ease with which the Société will be able to meet its short-term obligations. Thus, at December 31, 2003, the STM had \$0.56 in short-term assets for each dollar in short-term liabilities. This can be explained, in part, by the delay in the long-term financing of certain capital assets, as can be seen in the financing of projects in progress (under-financing of \$86,318,000).

LIQUIDITY

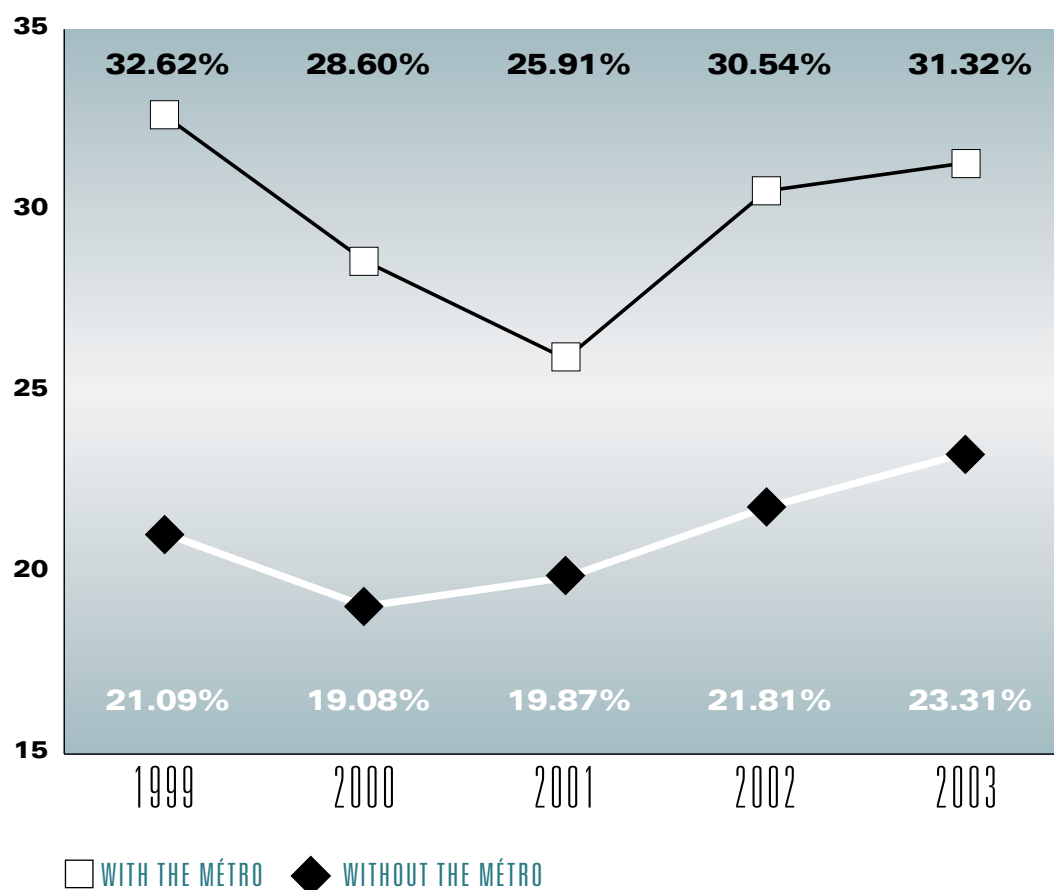
The liquidity ratio is derived from the working capital ratio and excludes short-term assets not affecting cash. At December 31, 2003, the company had \$0.39 in liquidity to repay each dollar of short-term debt.

LONG-TERM INDEBTEDNESS



This ratio indicates in what proportion the assets of the Société are financed by long-term loans issued by the STM. As the métro debt is no longer a responsibility of the Société, it is excluded from the ratio calculation. At December 31, 2003, only 38% of the Société's assets were financed long-term.

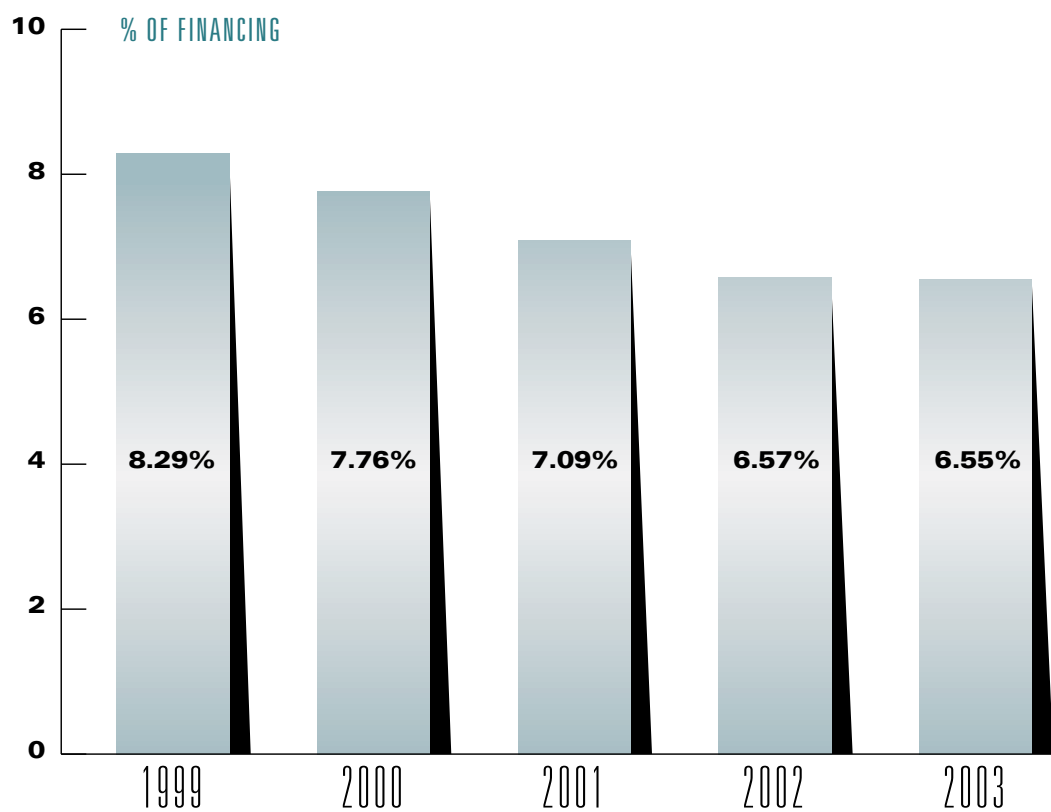
PERCENTAGE OF TOTAL NET INDEBTEDNESS



The percentage of total net indebtedness shows the proportion of the capital assets of the STM that are financed long-term, excluding from the calculation the portion of the long-term debt that is assumed by its partners and including the unfinanced investment expenditures and the sums accumulated in the sinking fund. As the debt relating to the original network and the métro extension is to be found in the financial statements of the City of Montréal, a second ratio establishes the percentage of net long-term indebtedness in comparison with the net value of capital assets, excluding the net value of the original network and métro extension.

The ratio has shown a tendency to increase over the last three years. This increase is due to the massive investment required to renew and/or extend the useful life of the capital assets.

ANNUAL INTEREST ON THE TOTAL LONG-TERM DEBT AS A PERCENTAGE



This ratio makes it possible to determine the average interest rate for the long-term debt. Due to favourable economic conditions, this rate has been decreasing for the last five years.



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