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Members of the Board of Directors

Claude Dauphin

Chairman
Montreal city councillor
Chairman - Borough of Lachine

Marvin Rotrand

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

Jacques Cardinal

Member
Montreal city councillor
Chairman - Borough of Sainte-Geneviève /
Sainte-Anne-de-Bellevue/l'Île-Bizard

John W. Meaney

Member
Montreal city councillor
Chairman - Borough of Kirkland

Bernard Blanchet

Member
Montreal city councillor
Borough of Lachine

Yvette Bissonnet

Member
Montreal city councillor
Borough of Saint-Léonard

Dominic Perri

Member
Montreal 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

Montreal city councillor

Chairman - Borough of Sainte-Geneviève /

Sainte-Anne-de-Bellevue / l'Île-Bizard

John W. Meaney

Vice-chairman

Montreal city councillor

Chairman - Borough of Kirkland

Francine Gauthier, CA

Interim Director-General

Michel Bélanger, FCA

External member

Financial management advisor

Robert Desforges, CA, Adm. A

External member

Desforges, Germain, Gendron, CA

Acknowledgements

The production of the 2002 financial report is the fruit of the labours of a large number of employees in the Service de la gestion des ressources financières et contrôle.

I would like to thank all those who contributed and, in particular, the Section-comptabilité financière of the Division-gestion financière.

Division Head

Luc Tremblay, CA

Section Head

Angèle Dubé, CA

Corporate Advisor

Nicole Racine, CA

Advisors

Josée Thibodeau, CA

Carmelle Venne

Analysts

Jean-Claude Joseph, CGA

Diane Proulx, CMA

Sonia Théorêt, CMA

Technicians

Danielle Lavoie

Frédéric Allard, CMA

Secretary

Linda St-Amour

**Suzanne Bourque, CA**

Treasurer and Interim Director

Service de la gestion des ressources financières et contrôle

Highlights

The results of sound management

We are proud to present the financial report for the Société de transport de Montréal (STM) for its first fiscal year ended December 31, 2002. As of January 1, 2002, the STM assumed the rights and obligations of the STCUM in accordance with the Loi sur les sociétés de transport en commun passed by the National Assembly in June 2001. The results obtained are a mark of the efforts expended to maintain quality service within a difficult budget context. Furthermore, it is evidence of our commitment to ensuring sound management of public funds.

Fiscal year 2002 shows a surplus of \$ 12.8 million, \$1.2 million less than anticipated in the 2003 budget. This surplus results primarily from an increase in ridership in the order of 2% due, in great part, to the healthy economic situation in the Montreal area. It is also derived from the currency fluctuation agreement (SWAP) that enabled the Société to counter fluctuations in the cost of diesel fuel by stabilizing the price until December 2003. Finally, it is attributable to favourable interest rate conditions and a tightening of operating and investment expenditures.

Among the 2002 highlights we should first mention the introduction of the Carte privilège intended for full-time students aged 18 to 25. This measure, implemented at the planned cost of \$ 19 million, enabled more than 70,000 students to benefit from a reduction of 50% in the cost of their monthly pass, a savings of \$300 per year. We have no choice but to mention as well the flood on line 4-yellow caused by a break in a pipe supplying the sprinkler system. This incident forced the STM to interrupt service between the Berri-UQAM and Longueuil stations for some 30 hours and demonstrated the urgent need for investment in the renovation and replacement of certain métro equipment and installations.

For several years the Société has emphasized the importance of increasing its sources of financing in order to maintain its property in a state of good repair and improve its services. The métro is 36 years old, and the majority of its equipment is at the point of exceeding the length of its useful life. Therefore, to ensure the dependability of service and the security of operations, more than \$ 2 billion will have to be invested in the system over the next ten years.

The STM is counting on the participation of various levels of government to respond to its investment needs and to support its growth in ridership. In January 2003, Mr. Louis Bernard proposed several recommendations aimed at increasing public transit financing. The STM is confident that the government of Quebec will be moving ahead with the implementation of these recommendations, which are in line with the aims of the Kyoto Protocol to which it has subscribed. Should the anticipated amounts not materialize, the STM would find itself obliged to take another look at its expenses, its service offer and its fares. This is a decision that the STM does not wish to make, as it would nullify the efforts dedicated to promoting public transit.



Francine Gauthier, CA
Interim Director-General



Suzanne Bourque, CA
Treasurer and Interim Director
Gestion des ressources financières et contrôle

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 (LQ 2001 chapter 23), the financial report for the Société de transport de Montréal for the fiscal year ended December 31, 2002 was prepared by the Société's Treasurer and Director of the Service de la gestion des ressources financières et contrôle and was deposited with the Société's board of directors on April 8, 2003.

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 outlined in the Manuel de présentation de l'information financière municipale au Québec, published by the Department of Municipal Affairs, as described in note 2 of these financial statements.

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 in order to ensure that the financial statements are presented accurately in all material respects. The supplementary information presented in the financial report is in agreement with the information contained in the financial statements.

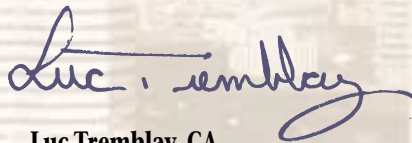
The Société maintains quality internal administrative and accounting control systems. The objective of these systems is to provide a reasonable degree of certainty that the financial information is pertinent, reliable and exact, that the policies of the enterprise are adhered to, that the operations 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 have been retained by the board of directors, on the recommendation of the audit committee, and by the auditor general of the city of Montreal.



Suzanne Bourque, CA
Treasurer and Interim Director
Gestion des ressources financières
et contrôle



Luc Tremblay, CA
Interim Division Head
Gestion financière

Auditors' report

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, 2002, 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.

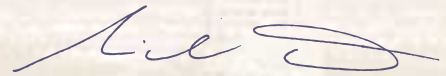
We conducted our audit in accordance with generally accepted Canadian auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence 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 financial statements present fairly, in all material respects, the financial position of the Société as at December 31, 2002, 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

Montreal
March 10, 2003



Michel Doyon, CA
City of Montreal Auditor

Montreal
March 10, 2003

Financial Statements

As at December 31, 2002



Statement of financial activities

for the year ended December 31, 2002

(in thousands of dollars)

	Budget	2002	2001
REVENUE			
Passengers (note 3)	312,927	321,871	318,265
Contribution from the city of Montreal (municipalities on the territory of the MUC in 2001)	244,100	244,100	236,600
Government of Quebec subsidies (note 4)	70,566	65,388	63,938
Contributions from the Agence métropolitaine de transport (note 5)	64,668	64,170	61,716
Contribution from the Réseau de transport de Longueuil (from the Société de transport de la Rive-Sud de Montréal in 2001) (note 6)	1,895	1,761	1,844
Other revenue (note 7)	15,544	14,839	16,843
	709,700	712,129	699,206
Revenue from a third party relating to investment activities	4,150	1,762	3,595
Revenue on sinking fund investments	3,193	5,772	5,628
	717,043	719,663	708,429
EXPENDITURES			
Bus and métro service	578,723	576,873	554,542
Paratransit service	26,748	27,689	26,243
Interest and financing costs (note 8)	37,763	33,295	33,814
Unforeseen expenditures	5,296	1,625	1,024
Assets maintenance	11,750	11,174	11,681
	660,280	650,656	627,304
OTHER FINANCIAL ACTIVITIES			
Repayment of long-term debt (note 9)	29,959	29,959	57,828
Transfer to statement of investment activities (note 10)	7,967	4,055	6,100
	37,926	34,014	63,928
	698,206	684,670	691,232
SURPLUS FROM FINANCIAL ACTIVITIES BEFORE APPROPRIATIONS	18,837	34,993	17,197
APPROPRIATIONS			
Accumulated surplus from the previous year appropriated to the current year	15,800	15,962	9,134
Reserved funds			
Contribution to sinking fund and working capital	(45,887)	(49,390)	(47,935)
Use of sinking fund	11,250	11,250	37,566
	(34,637)	(38,140)	(10,369)
SURPLUS FOR YEAR	—	12,815	15,962

Commitments (note 20)

Contingencies (note 22)

Statement of investment activities

for the year ended December 31, 2002

(in thousands of dollars)

	2002	2001
SOURCES OF FINANCING		
Long-term loan issued	86,470	60,000
Transfer from financial activities (note 10)	4,055	6,100
Working capital	2,117	1,400
	<u>92,642</u>	<u>67,500</u>
INVESTMENT EXPENDITURES		
Buildings	227	3,260
Initial system and métro extensions	—	2,204
Improvements to métro infrastructure	5,205	8,468
Rolling stock - buses	45,295	24,500
Rolling stock - minibuses	1,218	—
Rolling stock - other	1,668	1,796
Office equipment and software	5,736	5,026
Machinery, tools and equipment	330	717
Capital assets in progress	64,288	4,233
	<u>123,967</u>	<u>50,204</u>
Overfinancing (underfinancing) for year ^(a)	<u>(31,325)</u>	<u>17,296</u>

(a) The overfinancing (underfinancing) for the year is carried over to the statement of reserved funds.

Balance sheet

at December 31, 2002

(in thousands of dollars)

	2002	2001
ASSETS		
Short-term assets		
Cash	3,516	7,313
Deposit certificates, at cost	—	9,839
Restricted investments in the sinking fund (note 11)	32,908	7,630
Government of Quebec subsidies receivable (note 12)	6,585	13,498
Contributions receivable from the Agence métropolitaine de transport	24,820	21,732
Contribution receivable from the Réseau de transport de Longueuil (from the Société de transport de la Rive-Sud de Montréal in 2001)	901	1,844
Other receivables (note 13)	29,295	37,460
Financing receivable	—	660
Inventories of supplies and replacement parts	13,249	13,111
Current portion of long-term debts (note 16)	<u>13,012</u>	<u>17,085</u>
	124,286	130,172
Capital assets (note 14)	951,492	895,955
Deferred charges (note 15)	5,995	10,194
Restricted investments in the sinking fund (note 11)	94,414	83,762
Long-term debts (note 16)	<u>202,000</u>	<u>204,393</u>
	<u>1,378,187</u>	<u>1,324,476</u>
LIABILITIES AND EQUITY		
Short-term liabilities		
Short-term loans	48,557	51,320
Accounts payable and accrued liabilities (note 17)	95,367	91,461
Current portion of long-term debt (note 18)	<u>55,574</u>	<u>29,959</u>
	199,498	172,740
Long-term debt (note 18)	479,339	448,443
Deferred subsidies (note 14)	<u>227,281</u>	<u>210,730</u>
	<u>906,118</u>	<u>831,913</u>
Equity		
Provision for future amounts (note 19)	(24,009)	(25,955)
Accumulated surplus	12,815	15,962
Reserved funds	78,953	74,255
Net investment in long-term assets	<u>404,310</u>	<u>428,301</u>
	<u>472,069</u>	<u>492,563</u>
	<u>1,378,187</u>	<u>1,324,476</u>

Statement of accumulated surplus for the year ended December 31, 2002

(in thousands of dollars)

	2002	2001
Balance at beginning of year	15,962	9,134
Allocation to financial activities	(15,962)	(9,134)
Surplus for year	<u>12,815</u>	<u>15,962</u>
Balance at end of year ^(a)	<u>12,815</u>	<u>15,962</u>

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

Statement of reserved funds for the year ended December 31, 2002

(in thousands of dollars)

	2002				
	Balance at start of year	Transfer from financial activities	Transfer to financial activities	Contribution (use) for 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>

	2001				
	Balance at start of year	Transfer from financial activities	Transfer to financial activities	Contribution (use) for investment activities	Balance at end of year
Sinking fund	82,423	^(a) 46,535	(37,566)	—	91,392
Working capital	—	1,400	—	(1,400)	—
Financing of projects in progress	(34,664)	—	—	17,215	(17,449)
Balances on hand from closed loan by-laws	231	—	—	^(b) 81	312
	<u>47,990</u>	<u>47,935</u>	<u>(37,566)</u>	<u>15,896</u>	<u>74,255</u>

	2002	2001
(a) Contribution to sinking fund	41,408	40,907
Revenue from sinking fund investments	5,772	5,628
	<u>47,180</u>	<u>46,535</u>
(b) Balances on hand following closing of loan by-laws	—	632
Use of balances on hand for financing	—	(551)
	<u>—</u>	<u>81</u>

Statement of net investment in long-term assets for the year ended December 31, 2002

(in thousands of dollars)

	2002	2001
Balance at beginning of year	<u>428,301</u>	<u>445,796</u>
Plus		
Acquisition of capital assets	123,967	50,204
Long-term debt issuance	34,498	32,142
Long-term debt repayment	29,959	57,828
Amortization of deferred subsidies	17,947	44,858
	<u>206,371</u>	<u>185,032</u>
Less		
Disposal of capital assets	—	8,172
Capital asset depreciation	68,430	58,247
Long-term debt reduction	40,964	43,306
Long-term debt issuance		
investment activities	86,470	60,000
financial activities	660	—
Debt being refinanced	(660)	660
Deferred subsidies	34,498	32,142
	<u>230,362</u>	<u>202,527</u>
Balance at end of year	<u>404,310</u>	<u>428,301</u>

Statement of changes in financial position

for the year ended December 31, 2002

(in thousands of dollars)

	2002	2001
Operating activities		
Surplus	12,815	15,962
Transactions not affecting cash		
Appropriation of prior year surplus	(15,962)	(9,134)
Transfer to working capital	2,210	1,400
	(937)	8,228
Transactions not affecting operations		
Transfer to the statement of investment activities	2,293	2,505
Repayment of long-term debt	18,709	20,262
Contribution to sinking fund	41,408	40,907
	61,473	71,902
Net change in non cash components		
Subsidies and contributions receivable	4,768	(11,299)
Other receivables	8,165	4,596
Financing receivable	660	(660)
Inventories of supplies and replacement parts	(138)	1,498
Accounts payable and accrued liabilities	3,906	4,372
Provisions for future amounts	1,946	2,304
Cash flow from operating activities	<u>80,780</u>	<u>72,713</u>
Investment activities		
Acquisition of capital assets	(123,967)	(50,204)
Deferred charges	4,199	(6,908)
Acquisition of restricted investments	(10,652)	(30,932)
Cash flow used for investment activities	<u>(130,420)</u>	<u>(88,044)</u>
Financing activities		
Long-term debt issuance	86,470	60,000
Long-term debt repayment	(29,959)	(57,828)
Capital asset expenditures financed by a third party	1,762	3,595
Revenue from sinking fund investments	5,772	5,628
Cash flow from financing activities	<u>64,045</u>	<u>11,395</u>
Increase (Decrease) in cash flow	14,405	(3,936)
Cash position, beginning of year	(26,538)	(22,602)
Cash position, end of year	<u>(12,133)</u>	<u>(26,538)</u>

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

Notes to financial statements

at December 31, 2002

1. GOVERNING STATUTES, NATURE OF OPERATIONS AND CHANGE IN ACTS OF INCORPORATION

Following the government of Quebec's adoption in June 2001 of Bill 24 covering public transit authorities, the Société de transport de la Communauté urbaine de Montréal (STCUM) became, on January 1, 2002, the Société de transport de Montréal. In accordance with this bill, the Société de transport de Montréal assumed the rights and obligations of the STCUM, and the goods and assets of the STCUM became, without further formality, the goods and assets of the Société de transport de Montréal.

The Société de transport de Montréal (hereinafter the Société), is incorporated under the Loi sur les sociétés de transport en commun (LQ 2001 chapter 23) and is responsible for organizing and providing public transportation services, principally on the territory of the island of Montreal.

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting principles

The financial statements are prepared in accordance with generally accepted principles in municipal accounting in Quebec as outlined in the Manuel de présentation de l'information financière municipale au Québec published by the Department of Municipal Affairs.

Combined financial statements

The Société's financial statements 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 accounting principles in Canada, 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.

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 transactions or events occur. Expenditures related to the employees' pension plans, however, are recorded on a cash basis.

Inventories of supplies and replacement parts

Inventories of supplies and replacement parts are valued at the lesser of average cost and replacement cost.

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 5 years.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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
Initial system 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	Duration of lease
Office equipment and 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 charged to 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 into service, irrespective of the loan by-law's termination 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 was prepared, as it would provide no additional information for the reader.

3. PASSENGER REVENUE

(in thousands of dollars)

	Budget	2002	2001
Bus and métro service	288,008	298,658	295,319
Paratransit service	1,000	1,251	1,138
Regional revenue ^(a)	23,919	21,962	21,808
	<u>312,927</u>	<u>321,871</u>	<u>318,265</u>

(a) Regional revenue attributable to the Société is derived from the sharing of the revenue from bus and metro tickets sold.

4. GOVERNMENT OF QUEBEC SUBSIDIES

(in thousands of dollars)

	Budget	2002	2001
Capital assets ^(a)	47,180	43,868	43,200
Paratransit service ^(b)	21,386	21,310	19,749
Other	2,000	210	989
	<u>70,566</u>	<u>65,388</u>	<u>63,938</u>

(a) Public transit assistance programme:

Pursuant to the Quebec government's public transit assistance programme 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, renovation of métro stations, renovation of métro cars and other specific expenses) incurred during the year 2002.

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

(b) Paratransit:

In accordance with the powers granted to the Transport Minister by order in council 2071-79, the Société is eligible for a subsidy equal to 75% of the costs incurred for the Paratransit service that have been deemed eligible and pre-approved by the Transport Minister.

5. CONTRIBUTIONS FROM THE AGENCE MÉTROPOLITAINE DE TRANSPORT

(in thousands of dollars)

	Budget	2002	2001
For trips on the métro system ^(a)	42,100	42,085	39,047
For trips on city bus lines ^(a)	6,487	6,199	5,841
For equipment and infrastructure ^(b)	1,800	1,562	1,765
	50,387	49,846	46,653
Debt financing - commuter trains ^(c)	14,281	14,324	15,063
	<u>64,668</u>	<u>64,170</u>	<u>61,716</u>

(a) Buses and métro

The Société receives a financial contribution from the Agence for trips taken by métro and 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, 2002, 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:

Since January 1, 1996, the Agence has assumed the debts and obligations of the Société with regard to the commuter train system.

The 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.

6. CONTRIBUTION FROM THE RÉSEAU DE TRANSPORT DE LONGUEUIL

On March 27, 2002, the government of Quebec adopted decree 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 the years 2001, 2002 and 2003. The contribution for 2002 includes an adjustment of \$41,000 relating to 2001.

7. OTHER REVENUE

(in thousands of dollars)

	Budget	2002	2001
Advertising	9,752	8,482	8,531
Rentals	3,181	3,147	3,148
Incidental activities ^(a)	—	150	531
Other	2,611	3,060	4,633
	<u>15,544</u>	<u>14,839</u>	<u>16,843</u>

(in thousands of dollars)

	Budget	2002	2001
(a) Incidental activities			
Métro extension			
Revenue	—	3,914	3,992
Expenditures	—	(3,909)	(3,481)
	—	<u>5</u>	<u>511</u>
Other projects			
Revenue	—	1,108	928
Expenditures	—	(963)	(908)
	—	<u>145</u>	<u>20</u>
Surplus of revenues over expenditures	—	<u>150</u>	<u>531</u>

8. INTEREST AND FINANCING COSTS

(in thousands of dollars)

	Budget	2002	2001
Interest on long-term debt	36,263	32,761	32,367
Financing costs			
short-term	4,810	960	4,303
allocated to loan by-laws	(3,310)	(426)	(2,856)
	1,500	534	1,447
	<u>37,763</u>	<u>33,295</u>	<u>33,814</u>

9. REPAYMENT OF LONG-TERM DEBT

(in thousands of dollars)

	Budget	2002	2001
Repayment of principal			
from financial activities	18,709	18,709	20,262
from sinking fund	11,250	11,250	37,566
	<u>29,959</u>	<u>29,959</u>	<u>57,828</u>

10. TRANSFER TO THE STATEMENT OF INVESTMENT ACTIVITIES

(in thousands of dollars)

	Budget	2002	2001
Capital asset expenditures financed by a third party			
Replacement of an operating system	4,150	1,578	—
Subsidy relating to the implementation of low-floor buses	—	—	480
Proceeds from the disposal of a building	—	—	800
Proceeds from the disposal of buses	—	94	111
Contribution from the Agence métropolitaine de transport relating to renovations of métro stations	—	90	—
Transfer of métro assets in accordance with legal requirements	—	—	2,204
	<u>4,150</u>	<u>1,762</u>	<u>3,595</u>
Capital asset expenditures financed from revenue			
Bus and métro service	1,700	677	2,212
Paratransit service	1,767	1,218	131
Assets maintenance	350	398	162
	<u>3,817</u>	<u>2,293</u>	<u>2,505</u>
	<u><u>7,967</u></u>	<u><u>4,055</u></u>	<u><u>6,100</u></u>

11. RESTRICTED INVESTMENTS IN SINKING FUND

(in thousands of dollars)

	2002	2001
Restricted cash	2,383	1,160
Debentures and bond coupons, at unamortized cost (market value \$ 127,872, \$ 93,360 in 2001)	123,347	89,183
Interest receivable	1,592	1,049
	<u>127,322</u>	<u>91,392</u>
Short-term portion	(32,908)	(7,630)
	<u><u>94,414</u></u>	<u><u>83,762</u></u>

12. GOVERNMENT OF QUEBEC SUBSIDIES RECEIVABLE

(in thousands of dollars)

	2002	2001
Capital assets	2,596	4,244
Paratransit service	85	6,419
Other	3,904	2,835
	<u>6,585</u>	<u>13,498</u>

13. OTHER RECEIVABLES

(in thousands of dollars)

	2002	2001
Regional revenue receivable	10,086	7,243
Occupational accident payments to recover	760	695
Tax claims submitted to governments	922	1,274
General accounts receivable	6,975	10,679
Deposit on purchase of buses	5,876	13,147
Other	4,676	4,422
	<u>29,295</u>	<u>37,460</u>

14. CAPITAL ASSETS

(in thousands of dollars)

	2002			2001
	Cost	Depreciation	Net Book Value	Net Book Value
Land	7,352	5,869	1,483	1,564
Buildings	143,659	59,929	83,730	86,658
Initial system and métro extensions	1,436,584	1,164,617	271,967	288,857
Improvements to métro infrastructure	191,339	38,076	153,263	152,878
Local infrastructure	11,702	2,005	9,697	10,028
Regional infrastructure	11,499	5,523	5,976	6,572
Rolling stock - buses	523,250	246,030	277,220	259,551
Rolling stock - minibuses	8,362	5,952	2,410	2,033
Rolling stock - other	28,385	17,243	11,142	11,574
Leasehold improvements	7,170	4,515	2,655	3,138
Office equipment and software	58,559	29,097	29,462	29,748
Machinery, tools and equipment	57,999	24,563	33,436	38,591
Capital assets in progress	69,051	—	69,051	4,763
	<u>2,554,911</u>	<u>1,603,419</u>	<u>951,492</u>	<u>895,955</u>

	2002			2001
	Opening balance	Change	Closing balance	Closing balance
Deferred subsidies	<u>210,730</u>	<u>16,551</u>	<u>227,281</u>	<u>210,730</u>

15. DEFERRED CHARGES

(in thousands of dollars)

	2002	2001
Renovation programme for fixed equipment in the métro	—	10,194
Computer software licences	5,995	—
	<u>5,995</u>	<u>10,194</u>

The expenditures related to the renovation of fixed equipment in the métro have been transferred to capital assets in progress following the approval in 2002 of loan by-law (CA-116) by the Department of Municipal Affairs.

Computer software licences will be charged to financial activities as and when they are allocated to users, over a maximum period of 5 years from 2003 to 2007.

16. LONG-TERM DEBT

(in thousands of dollars)

	2002	2001
Amount to be recovered for repayment of long-term debt (note 18)		
Government of Quebec	189,107	184,435
Agence métropolitaine de transport	25,905	37,043
	<u>215,012</u>	<u>221,478</u>
Current portion of long-term debt	(13,012)	(17,085)
	<u>202,000</u>	<u>204,393</u>

17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands of dollars)

	2002	2001
Trade accounts and accrued liabilities	16,440	14,124
Salaries and employee benefits	25,189	29,750
Sickness benefits payable	9,538	10,494
Vacations payable	23,617	20,759
Holdbacks on contracts and security deposits	1,430	1,551
Accrued interest	7,312	6,517
Other	11,841	8,266
	<u>95,367</u>	<u>91,461</u>

18. LONG-TERM DEBT

(in thousands of dollars)

	2002	2001
Debentures and bank loans, at interest rates varying from 3.70% to 9.60% (3.70% to 9.60% in 2001) maturing from February 2003 to October 2012	534,913	478,402
Current installments on long-term debt	(55,574)	(29,959)
	<u>479,339</u>	<u>448,443</u>

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

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

2003	55,574
2004	130,015
2005	63,272
2006	95,611
2007	64,310
2008 and subsequent years	126,131
Total minimum payments	<u>534,913</u>

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

(in thousands of dollars)

	2002	2001
Amounts accumulated in the sinking fund	127,322	91,392
Amounts to be recovered for repayment of the long-term debt		
From the city of Montreal (municipalities on the territory of the MUC in 2001)	192,579	165,532
From the government of Quebec	189,107	184,435
From the Agence métropolitaine de transport	25,905	37,043
	<u>407,591</u>	<u>387,010</u>
	<u>534,913</u>	<u>478,402</u>

19. PROVISION FOR FUTURE AMOUNTS

(in thousands of dollars)

	2002	2001
Vacation benefits	15,197	15,964
Sick leaves	8,812	9,991
	<u>24,009</u>	<u>25,955</u>

The variation of \$ 1,946,000 between December 31, 2001 and December 31, 2002 has been charged to the statement of financial activities.

20. COMMITMENTS

a) Long-term leases:

The Société has entered into long-term leases for office space expiring from December 31, 2003 to March 11, 2014 that call for lease payments of \$ 27,633,456. Minimum lease payments for the next five years are \$ 5,444,752 in 2003, \$ 5,503,445 in 2004, \$ 4,920,608 in 2005, \$ 4,498,314 in 2006 and \$ 4,498,314 in 2007.

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

b) Outsourcing of computer centre:

The Société is committed to paying a total amount of \$ 6,542,270 for the outsourcing of its computer centre, consisting of payments of \$ 1,345,033 in 2003, \$ 1,272,793 for 2004 to 2007 and \$ 106,065 in 2008.

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

c) Service contract for a communication solutions integrator:

The Société is committed to paying a total of \$ 12,720,756 for the years 2003 to 2012. The two principal components of this contract are a company-wide telephone system at a cost of \$ 10,708,613 and Internet access services at a cost of \$ 1,683,730. The remaining balance of \$ 328,413 is to be used for various operations projects.

The payments are scheduled as follows: \$ 322,179 in 2003, \$ 1,333,952 in 2004, \$ 1,403,498 in 2005 and \$ 1,380,161 for the years 2006 to 2012.

d) Contract for 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 framework of a group purchase.

These contracts are spread over periods from three to five years. The total value of these contracts for all the companies is \$ 38,209,177. The portion attributable to the Société de transport de Montréal is \$ 21,471,115, \$ 6,023,101 for the years 2002 to 2005 and \$ 1,700,906 for the years 2006 and 2007.

e) Contract for purchase of buses:

The Société has awarded a contract for the acquisition of low-floor city buses within the framework of a group purchase for the members of the Quebec Urban Transit Association (ATUQ).

This contract will run from 2003 to 2007 and covers the purchase of 825 low-floor buses for the group of companies, for a total amount of \$ 377,008,272. The portion attributable to the Société de transport de Montréal covers 382 buses at a cost of \$ 194,828,832. According to the bus delivery schedule, the portion relating to 2003 will be \$ 90,784,116, and the amounts for 2004 to 2007 will be \$ 26,011,179.

f) Heritage maintenance programme for fixed equipment in the métro:

The Société contracted with a firm of engineers for an approximate amount of \$ 46,754,854 for the years 2001 to 2005 to establish and operate a project office responsible for carrying out the heritage maintenance programme for the fixed equipment in the métro. At December 31, 2002, approximately \$ 27,633,584 in expenditures were still to be incurred prior to 2005.

20. COMMITMENTS (continued)

g) Contract for the supply of diesel fuel

The Société negotiated an agreement with a financial institution to protect itself against market fluctuations in the price of diesel fuel until November 30, 2003. This agreement enables the Société to pay for a total quantity of 105,210,000 litres of diesel oil at a fixed price, representing an amount of approximately \$ 28,608,703. At December 31, 2002, there remained 44,050,000 litres of diesel fuel to be used prior to the end of the contract, for an approximate total of \$11,978,021.

21. PENSION PLANS AND PENSION OBLIGATIONS

The Société's pension plans are contributory defined benefits plans. Actuarial valuations were carried out December 31, 1999 to determine the present value of the benefits prorated to years of service. These valuations indicated a surplus in the order of \$ 375,280,000. Pension plan assets are based on the fair value, with fluctuations phased over a 3-year period. At December 31, 2002, pension plan assets and the present value of accrued pension plan benefits were not available. As an indicator, these extrapolated values increased to \$ 2,529,907,000 and \$ 2,110,559,000 respectively at December 31, 2001, and do not necessarily reflect the state of the surplus in the plans at December 31, 2002, given the economic changes that took place during the years 2000, 2001 and 2002. In 2000, 2001 and 2002, no expenditures were recorded in the statement of financial activities as the Société benefited from a premium holiday.

At December 31, 2002, 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 retirement compensation agreement put in place for employees of the Société whose annual remuneration exceeds the ceiling for contributions to the pension plan as set by the tax authorities. The Société made a provision at December 31, 2002 for these commitments that is deemed sufficient.

22. CONTINGENCIES

Amounts claimed by plaintiffs total \$ 7,512,600 (\$ 6,570,000 in 2001). These claims are comprised of class action suits, individual suits, bodily injuries, material damages and various other litigation. The Société made a provision at December 31, 2002 for these claims that is deemed sufficient.

23. COMPARATIVE FIGURES

Certain figures from the 2001 financial statements have been reclassified in the presentation of the 2002 financial statements.

24. OPINION OF THE AUDITORS

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

SUPPLEMENTARY INFORMATION

Restated statement of financial activities

(in thousands of dollars)

	2002	2001	2000	1999	1998
REVENUE					
Passengers	321,871	318,265	296,956	285,145	276,098
Contribution from the city of Montreal (municipalities on the territory of the MUC prior to 2002)	244,100	236,600	231,600	^(a) 254,600	254,600
Government of Quebec subsidies	65,388	63,938	64,583	57,877	61,183
Contribution from the Agence métropolitaine de transport	64,170	61,716	66,233	70,030	70,447
Contribution from the Réseau de transport de Longueuil (from the Société de transport de la Rive-Sud de Montréal prior to 2002)	1,761	1,844	1,803	831	1,589
Other revenue	14,839	16,843	16,841	14,160	14,181
	<u>712,129</u>	<u>699,206</u>	<u>678,016</u>	<u>682,643</u>	<u>678,098</u>
EXPENDITURES					
Bus and métro service	579,760	558,154	535,592	541,893	544,973
Paratransit service	28,907	26,374	26,511	28,655	23,387
Debt servicing and financing costs ^(b)	93,412	94,983	101,600	96,064	95,558
Unforeseen expenditures	1,625	1,024	395	850	3,353
Assets maintenance	11,572	11,843	11,271	9,232	8,628
	<u>715,276</u>	<u>692,378</u>	<u>675,369</u>	<u>676,694</u>	<u>675,899</u>
SURPLUS (DEFICIT) FOR YEAR	(3,147)	6,828	2,647	5,949	2,199
Surplus carried forward from previous year	15,962	9,134	6,487	538	21,339
SURPLUS FOR YEAR	<u>12,815</u>	<u>15,962</u>	<u>9,134</u>	<u>6,487</u>	<u>23,538</u>

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

231,600
23,000
254,600

	2002	2001	2000	1999	1998
(b) Interest and financing costs	33,295	33,814	38,077	36,328	37,838
Repayment of long-term debt	29,959	57,828	61,697	51,026	34,538
Contribution to sinking fund	41,408	40,907	37,557	29,983	23,182
Use of sinking fund	(11,250)	(37,566)	(35,731)	(21,273)	—
	<u>93,412</u>	<u>94,983</u>	<u>101,600</u>	<u>96,064</u>	<u>95,558</u>

Revenue by type

(in thousands of dollars)

	Budget	2002	2001	2000
PASSENGERS				
Bus and métro service				
Regular fares				
Cash	56,223	48,547	51,091	48,518
Strip of tickets	51,721	58,171	52,930	50,714
CAM	86,820	98,921	114,927	106,381
Weekly CAM	28,748	34,303	36,927	34,439
	<u>223,512</u>	<u>239,942</u>	<u>255,875</u>	<u>240,052</u>
Reduced fares				
Cash	4,037	3,348	3,782	3,062
Strip of tickets	8,783	9,744	8,649	8,309
CAM	46,693	41,028	23,660	21,814
Weekly CAM	1,340	1,893	1,387	1,092
	<u>60,853</u>	<u>56,013</u>	<u>37,478</u>	<u>34,277</u>
Tourist cards	819	823	757	961
Allocation of revenue from the AMT train	2,824	1,880	1,209	2,657
	<u>288,008</u>	<u>298,658</u>	<u>295,319</u>	<u>277,947</u>

Expenditures by type

(in thousands of dollars)

	Budget	2002	2001	2000
OPERATING EXPENDITURES				
Remuneration	<u>470,887</u>	<u>470,975</u>	<u>449,788</u>	<u>433,862</u>
Goods and services				
Major expenditures	5,479	4,927	4,646	2,911
Energy costs, taxes and licences	53,247	50,688	53,091	49,504
Professional services	2,688	3,138	2,697	3,534
Technical and other services	19,655	20,707	18,062	16,459
Material and supplies	34,807	35,292	35,790	34,242
Rentals	6,457	6,737	6,558	7,519
Financing of operations	1,500	534	1,447	1,695
Miscellaneous expenditures	10,171	10,275	8,464	7,183
	<u>134,004</u>	<u>132,298</u>	<u>130,795</u>	<u>123,047</u>
	<u>604,891</u>	<u>603,273</u>	<u>580,583</u>	<u>556,909</u>
INVESTMENTS EXPENDITURES				
Assets maintenance	12,100	11,572	11,843	11,271
Special projects	5,547	3,718	3,992	5,790
Debt servicing - buses and métro	81,985	78,554	78,473	84,105
Transfers to working capital	1,400	2,210	1,400	1,100
	<u>101,032</u>	<u>96,054</u>	<u>95,708</u>	<u>102,266</u>
DEBT SERVICING - COMMUTER TRAINS	<u>14,281</u>	<u>14,324</u>	<u>15,063</u>	<u>15,799</u>
UNFORESEEN EXPENDITURES	<u>5,296</u>	<u>1,625</u>	<u>1,024</u>	<u>395</u>
	<u>^(a) 725,500</u>	<u>715,276</u>	<u>692,378</u>	<u>675,369</u>

(a) The presentation of expenditures by type reflects the expenditures presented in the restated statement of financial activities.

Expenditures by operation

(in thousands of dollars)

	Original budget	Revised budget	2002	2001	2000
SYSTEM OPERATIONS					
Bus system					
Remuneration	242,009	245,060	244,756	232,348	225,011
Goods and services	20,693	20,779	20,992	21,171	20,182
	<u>262,702</u>	<u>265,839</u>	<u>265,748</u>	<u>253,519</u>	<u>245,193</u>
Métro system					
Remuneration	121,416	129,044	128,610	114,045	110,504
Goods and services	15,451	15,843	15,711	13,829	13,212
	<u>136,867</u>	<u>144,887</u>	<u>144,321</u>	<u>127,874</u>	<u>123,716</u>
Paratransit ^(a)					
Remuneration	15,653	15,698	15,543	15,011	14,203
Goods and services	11,348	11,348	11,844	9,834	10,889
	<u>27,001</u>	<u>27,046</u>	<u>27,387</u>	<u>24,845</u>	<u>25,092</u>
Energy costs					
Goods and services	49,110	49,110	46,708	49,203	45,433
	<u>475,680</u>	<u>486,882</u>	<u>484,164</u>	<u>455,441</u>	<u>439,434</u>
SUPPORT SERVICES					
Management of material and information resources					
Remuneration	36,482	37,043	36,491	36,328	36,436
Goods and services	13,018	13,460	13,194	13,834	13,245
	<u>49,500</u>	<u>50,503</u>	<u>49,685</u>	<u>50,162</u>	<u>49,681</u>
Management of financial resources					
Remuneration	11,523	11,532	11,547	10,972	10,856
Goods and services	4,987	4,773	5,005	4,753	4,343
	<u>16,510</u>	<u>16,305</u>	<u>16,552</u>	<u>15,725</u>	<u>15,199</u>
Operations planning and support					
Remuneration	31,390	22,507	22,356	31,666	31,258
Goods and services	5,413	2,901	3,073	2,856	2,862
	<u>36,803</u>	<u>25,408</u>	<u>25,429</u>	<u>34,522</u>	<u>34,120</u>
	<u>102,813</u>	<u>92,215</u>	<u>91,666</u>	<u>100,409</u>	<u>99,000</u>
CORPORATE SERVICES					
Remuneration	4,438	4,155	4,243	4,183	4,733
Goods and services	1,839	1,839	1,744	1,606	2,435
	<u>6,277</u>	<u>5,994</u>	<u>5,987</u>	<u>5,789</u>	<u>7,168</u>

Expenditures by operation (continued)

(in thousands of dollars)

	Original budget	Revised budget	2002	2001	2000
ASSETS MAINTENANCE					
Remuneration	—	—	6,508	7,404	6,783
Goods and services	12,100	12,100	5,064	4,439	4,488
	<u>12,100</u>	<u>12,100</u>	<u>11,572</u>	<u>11,843</u>	<u>11,271</u>
SPECIAL PROJECTS AND OTHER EXPENDITURES					
Remuneration	5,653	8,831	8,866	8,587	2,999
Goods and services	18,515	15,216	15,774	12,902	12,403
	<u>24,168</u>	<u>24,047</u>	<u>24,640</u>	<u>21,489</u>	<u>15,402</u>
DEBT SERVICING AND FINANCING COSTS					
	<u>97,766</u>	<u>97,566</u>	<u>93,412</u>	<u>94,983</u>	<u>101,599</u>
UNFORESEEN EXPENDITURES					
	<u>5,296</u>	<u>5,296</u>	<u>1,625</u>	<u>1,024</u>	<u>395</u>
APPROPRIATIONS					
Repayment from working capital	1,400	1,400	2,210	1,400	1,100
	<u>^(b) 725,500</u>	<u>725,500</u>	<u>715,276</u>	<u>692,378</u>	<u>675,369</u>
(a) Paratransit					
Total per the statement of financial activities	26,748	26,793	27,689	26,243	24,987
Transfer to statement of investment activities	1,767	1,767	1,218	131	1,524
	<u>28,515</u>	<u>28,560</u>	<u>28,907</u>	<u>26,374</u>	<u>26,511</u>
Other centres of responsibility	(1,514)	(1,514)	(1,520)	(1,529)	(1,419)
Total expenditures by operation	<u>27,001</u>	<u>27,046</u>	<u>27,387</u>	<u>24,845</u>	<u>25,092</u>

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

Analysis of projects in progress

(in thousands of dollars)

By-law no	Authorized date	Description	Project amount	Authorized amount (L/B)	Balance at 01/01/2002		
					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 métro fixed equipment	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	Designing and/or construction of bus terminal	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	Miscellaneous capital expenditures 1996	7,200	7,200	5,430	—	5,430
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	Miscellaneous 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	400	1,680
CA-89	01/05/97	Purchase of 96 low-floor buses (1998)	53,750	53,750	43,443	3,894	47,337
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	1,727	7,276
CA-93	16/06/97	Métro renovations	20,332	20,332	14,349	4,394	18,743
CA-94	16/06/97	Métro renovations	11,600	11,095	8,813	2,730	11,543
CA-95	16/06/97	Métro renovations	7,971	6,058	6,058	1,916	7,974
CA-96	16/06/97	Métro renovations	6,389	4,902	4,838	1,526	6,364
CA-97	04/05/98	Miscellaneous capital expenditures 1998	4,100	4,100	2,465	—	2,465
CA-100	06/07/99	Miscellaneous capital expenditures 1999	6,870	6,870	2,453	—	2,453
CA-101	12/07/99	Miscellaneous 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	23,323	111	23,434
CA-104	05/01/00	Purchase of scrubbing-cleaning machines and service vehicles	1,410	1,410	913	—	913
CA-106	10/05/00	ACCES software replacement and paving repairs at St-Michel bus depot	9,265	9,265	816	—	816
CA-107	02/06/00	Miscellaneous capital expenditures 2000	2,034	2,034	—	—	—
CA-108	02/06/00	Service vehicles	2,075	2,075	—	—	—
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 telecommunication servers and equipment	3,991	3,991	—	—	—
CA-111	08/06/01	Improvement to heritage capital assets	5,000	5,000	—	—	—
CA-112	12/07/01	Capital expenditures	1,980	1,980	—	—	—
CA-113	01/03/02	Implementation of preferential measures and optimization of terminuses	13,725	13,725	—	—	—
CA-114	06/07/01	Service vehicles	2,142	2,142	—	—	—
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.)	6,467	6,467	—	—	—
CA-118	11/01/02	Purchase of 382 low-floor buses (2003-2007)	222,600	222,600	—	—	—
R-002	24/04/02	Lift replacement programme	7,299	7,299	—	—	—
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 expenditures	23,333	23,333	—	—	—
R-006	03/06/02	Miscellaneous 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 expenditures	2,760	2,760	—	—	—
			<u>1,277,712</u>	<u>1,270,494</u>	<u>306,069</u>	<u>17,910</u>	<u>323,979</u>
		Capital assets provided by appropriations - 1995	—	—	—	200	200
		Capital assets from 2002 revenue	—	—	—	—	—
		Working capital	—	—	—	—	—
			<u>1,277,712</u>	<u>1,270,494</u>	<u>306,069</u>	<u>18,110</u>	<u>324,179</u>

Permanent financing

Expenses

Financing during the year			Balances available	Closed projects	Balance at 31/12/2002			Balance at 01/01/2002	Expenses for the year	Closed projects	Balance at 31/12/2002	Overfinancing (underfinancing)
Loan	Cash	Total			Loan	Cash	Total					
—	—	—	—	—	65,131	—	65,131	64,301	—	—	64,301	830
—	—	—	—	—	3,368	—	3,368	3,476	864	—	4,340	(972)
—	—	—	—	—	29,882	—	29,882	31,801	2,550	—	34,351	(4,469)
—	—	—	—	—	2,577	—	2,577	2,660	—	—	2,660	(83)
—	—	—	—	—	2,923	—	2,923	2,917	—	—	2,917	6
—	—	—	—	—	19,895	—	19,895	19,877	—	—	19,877	18
340	—	340	—	—	5,770	—	5,770	5,607	213	—	5,820	(50)
—	—	—	—	—	53,088	—	53,088	53,039	22	—	53,061	27
—	—	—	—	—	1,235	—	1,235	1,239	—	—	1,239	(4)
—	—	—	—	—	3,045	—	3,045	3,046	—	—	3,046	(1)
—	—	—	—	—	3,266	1,006	4,272	4,272	—	—	4,272	—
—	1	1	—	—	1,280	401	1,681	1,681	—	—	1,681	—
2,104	—	2,104	—	—	45,547	3,894	49,441	49,342	67	—	49,409	32
—	—	—	—	—	680	206	886	879	—	—	879	7
—	(4)	(4)	—	—	5,549	1,723	7,272	7,276	—	—	7,276	(4)
—	63	63	—	—	14,349	4,457	18,806	18,933	(49)	—	18,884	(78)
—	36	36	—	—	8,813	2,766	11,579	11,543	57	—	11,600	(21)
—	(3)	(3)	—	—	6,058	1,913	7,971	7,973	(2)	—	7,971	—
—	(3)	(3)	—	—	4,838	1,523	6,361	6,386	3	—	6,389	(28)
694	—	694	—	—	3,159	—	3,159	3,150	27	—	3,177	(18)
3,012	—	3,012	—	—	5,465	—	5,465	5,415	125	—	5,540	(75)
—	—	—	—	—	1,249	—	1,249	1,341	2	—	1,343	(94)
—	—	—	—	—	—	—	—	—	—	—	—	—
69,766	94	69,860	—	—	93,089	205	93,294	26,207	59,992	—	86,199	7,095
357	—	357	—	—	1,270	—	1,270	1,265	14	—	1,279	(9)
276	1,578	1,854	—	—	1,092	1,578	2,670	924	2,116	—	3,040	(370)
922	—	922	—	—	922	—	922	904	49	—	953	(31)
1,549	—	1,549	—	—	1,549	—	1,549	1,432	156	—	1,588	(39)
—	—	—	—	—	—	—	—	1,236	729	—	1,965	(1,965)
1,313	—	1,313	—	—	1,313	—	1,313	920	1,614	—	2,534	(1,221)
3,068	—	3,068	—	—	3,068	—	3,068	2,467	704	—	3,171	(103)
358	—	358	—	—	358	—	358	69	501	—	570	(212)
—	—	—	—	—	—	—	—	—	—	—	—	—
1,477	—	1,477	—	—	1,477	—	1,477	50	1,440	—	1,490	(13)
—	—	—	—	—	—	—	—	—	29,331	—	29,331	(29,331)
—	—	—	—	—	—	—	—	—	1,294	—	1,294	(1,294)
—	—	—	—	—	—	—	—	—	6,491	—	6,491	(6,491)
367	—	367	—	—	367	—	367	—	747	—	747	(380)
—	—	—	—	—	—	—	—	—	99	—	99	(99)
867	—	867	—	—	867	—	867	—	4,175	—	4,175	(3,308)
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	576	—	576	(576)
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	5,450	—	5,450	(5,450)
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
86,470	1,762	88,232	—	—	392,539	19,672	412,211	341,628	119,357	—	460,985	(48,774)
—	(200)	(200)	—	—	—	—	—	—	—	—	—	—
—	2,493	2,493	—	(2,493)	—	—	—	—	2,493	(2,493)	—	—
—	2,117	2,117	—	(2,117)	—	—	—	—	2,117	(2,117)	—	—
86,470	6,172	92,642	—	(4,610)	392,539	19,672	412,211	341,628	123,967	(4,610)	460,985	(48,774)

Long-term debt

(in thousands of dollars)

	2002	2001
Debtures, \$ 70,000,000		
8.00%, due September 30, 2002	—	6,300
8.75%, due September 30, 2007 ^(c)	7,000	7,000
Debtures, \$ 60,000,000		
8.15%, due June 2, 2003 ^(a)	18,500	18,500
Debtures, \$ 52,000,000		
7.50%, due September 23, 2003 ^(a)	19,550	19,550
Debtures, \$ 50,000,000		
6.90%, due March 3, 2004 ^(a)	26,200	26,200
Debtures, \$ 50,000,000		
9.60%, due December 9, 2004 ^(a)	19,460	19,460
Debtures, \$ 40,000,000		
9.10%, due March 12, 2005 ^(a)	20,195	20,195
Debtures, \$ 30,000,000		
8.40%, due July 19, 2005 ^(a)	11,242	11,242
Debtures, \$ 30,000,000		
8.10%, due July 18, 2006 ^(b)	15,060	15,060
Debtures, \$ 30,000,000		
6.00%, due June 5, 2002	—	3,675
6.25%, due June 5, 2003	2,415	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

Long-term debt (continued)

(in thousands of dollars)

	2002	2001
Debtures, \$ 40,000,000		
5.20%, due June 4, 2002	—	6,174
5.25%, due June 4, 2003	6,668	6,668
5.70%, due June 4, 2008 ^(c)	11,248	11,248
Debtures, \$ 35,000,000		
5.00%, due April 8, 2002 ^(a)	—	11,250
5.10%, due April 8, 2004	14,745	14,745
5.40%, due April 8, 2009 ^(c)	9,005	9,005
Debtures, \$ 30,000,000		
5.30%, due August 6, 2002	—	2,560
5.40%, due August 6, 2003	2,710	2,710
5.50%, due August 6, 2004	12,575	12,575
5.90%, due August 6, 2009 ^(c)	7,470	7,470
Debtures, \$ 25,000,000		
6.30%, due February 16, 2003 ^(a)	5,731	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
Debtures, \$ 17,000,000		
5.60%, due December 20, 2005 ^(a)	17,000	17,000

Long-term debt (continued)

(in thousands of dollars)

	2002	2001
Debtures, \$ 60,000,000		
3.70%, due November 15, 2004 ^(b)	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
Debtures, \$ 40,000,000		
4.20%, due October 24, 2007 ^(c)	18,130	—
4.50%, due October 24, 2008	2,960	—
4.80%, due October 24, 2009	3,110	—
5.00%, due October 24, 2010	3,260	—
5.15%, due October 24, 2011	3,430	—
5.25%, due October 24, 2012	9,110	—
Bank loan \$ 47,130,000 ^(d)		
5.465%, due January 9, 2012 ^(c)	47,130	—
Bank loan \$ 30,000,000 ^(d)		
8.04%, due January 24, 2006 ^(a)	30,000	30,000
Bank loan \$ 30,000,000 ^(d)		
6.75%, due December 9, 2006 ^(a)	30,000	30,000
Bank loan \$ 30,000,000 ^(d)		
6.09%, due December 12, 2007 ^(a)	30,000	30,000
Bank loan \$ 40,000,000 ^(d)		
6.087%, due December 9, 2004 ^{(a)(e)}	40,000	40,000
Debt being refinanced	—	660
Total	<u>534,913</u>	<u>478,402</u>

(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 forming 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 request 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)

	2002	2001	2000	1999	1998
LONG-TERM DEBT					
Debentures and bank loans	534,913	477,742	475,570	505,406	461,853
Debt being refinanced	—	660	—	10,570	—
	<u>534,913</u>	<u>478,402</u>	<u>475,570</u>	<u>515,976</u>	<u>461,853</u>
Amounts accumulated in sinking fund	(127,322)	(91,392)	(82,423)	(75,560)	(64,297)
Amounts recoverable for the payment of long-term debt					
From the government of Quebec	(189,107)	(184,435)	(184,266)	(193,816)	(241,295)
From the Agence métropolitaine de transport	(25,905)	(37,043)	(48,376)	(64,317)	—
	<u>192,579</u>	<u>165,532</u>	<u>160,505</u>	<u>182,283</u>	<u>156,261</u>
Investment expenditures to be financed	56,789	18,563	36,560	28,888	69,170
Amounts not used from contracted long-term loans	(8,015)	(914)	(1,811)	(856)	(101)
	<u>48,774</u>	<u>17,649</u>	<u>34,749</u>	<u>28,032</u>	<u>69,069</u>
Subsidies relating to investment expenditures to be financed ^(a)	(34,221)	(5,178)	(21,192)	(12,662)	(35,599)
Subsidies relating to the debt being refinanced	—	—	—	(6,505)	—
	<u>14,553</u>	<u>12,471</u>	<u>13,557</u>	<u>8,865</u>	<u>33,470</u>
TOTAL NET LONG-TERM INDEBTEDNESS	<u>207,132</u>	<u>178,003</u>	<u>174,062</u>	<u>191,148</u>	<u>189,731</u>

In 2002 the amount authorized by loan by-laws was \$ 1,270,494,654 of which \$ 460,985,283 has been expended. The unexpended approved balance of \$ 809,509,371 is eligible for a subsidy in the order of \$ 415,487,000.

- (a) This amount is calculated based on the expenditures to be financed according to the rates for 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 long-term debt

(in thousands of dollars)

Debentures and notes

<u>Year</u>	Book value in Canadian dollars		
	<u>Maturity</u> ^(a)	<u>To be refinanced</u> ^(b)	<u>Net maturity</u>
2003	55,574	1,450	54,124
2004	130,015	27,891	102,124
2005	63,272	12,486	50,786
2006	95,611	18,310	77,301
2007	64,310	3,609	60,701
2008	20,448	3,202	17,246
2009	26,185	11,422	14,763
2010	10,242	—	10,242
2011	13,016	4,541	8,475
2012	56,240	15,400	40,840
2013	—	—	—
2014	—	—	—
2015	—	—	—
2016	—	—	—
2017	—	—	—
2018	—	—	—
2019	—	—	—
2020	—	—	—
	<u>534,913</u>	<u>98,311</u>	^(c) <u>436,602</u>

(a) These amounts represent the loans reaching maturity during each of the indicated years.

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

(c) Of the total amount of \$ 436.6 million, \$127.3 million is already accumulated in the sinking fund at December 31, 2002 (market value of \$ 127.9 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, in 2000, 2001 and 2002, the annual disbursements were higher than the amortization. At this rate, the provisional amounts will be completely amortized in 2014 instead of 2019.

(in thousands of dollars)

	Disbursements	Amortization
Provisions at January 1, 2000	30,376	30,376
The higher of the disbursements or the amortization		
2000	(2,462)	27,914
2001	(1,959)	(1,519)
2002	(1,946)	25,955
2003 ^(a)	(2,122)	(1,519)
2004	(2,122)	24,009
2005	(2,122)	(1,519)
2006	(2,122)	21,887
2007	(2,122)	(1,519)
2008	(2,122)	19,765
2009	(2,122)	(1,519)
2010	(2,122)	17,643
2011	(2,122)	(1,519)
2012	(2,122)	15,521
2013	(2,122)	(1,519)
2014	(667)	13,399
2015	—	(1,519)
2016	—	11,277
2017	—	(1,519)
2018	—	9,155
2019	—	(1,519)
	<u>(30,376)</u>	<u>(30,376)</u>

(a) This amount was established by averaging the disbursements for 2000 to 2002.

Financial ratios

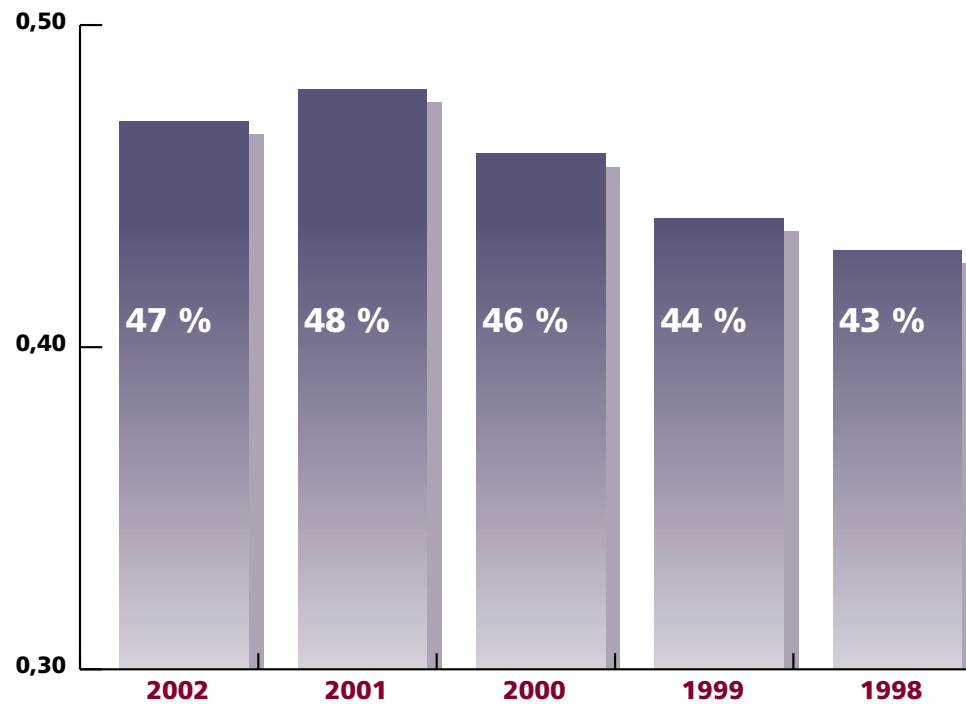
While respecting the budget is an important financial objective for the STM and a revealing gauge of its performance, it is not sufficient on its own to evaluate the financial health of the Société and the quality of its management.

Evolution in financial performance necessitates 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 permit assessment of their relevance.

The following pages present these financial ratios:

- Autonomous revenue
- Percentage of revenue allocated to debt servicing
- Interest coverage
- Working capital
- Liquidity
- Long-term indebtedness

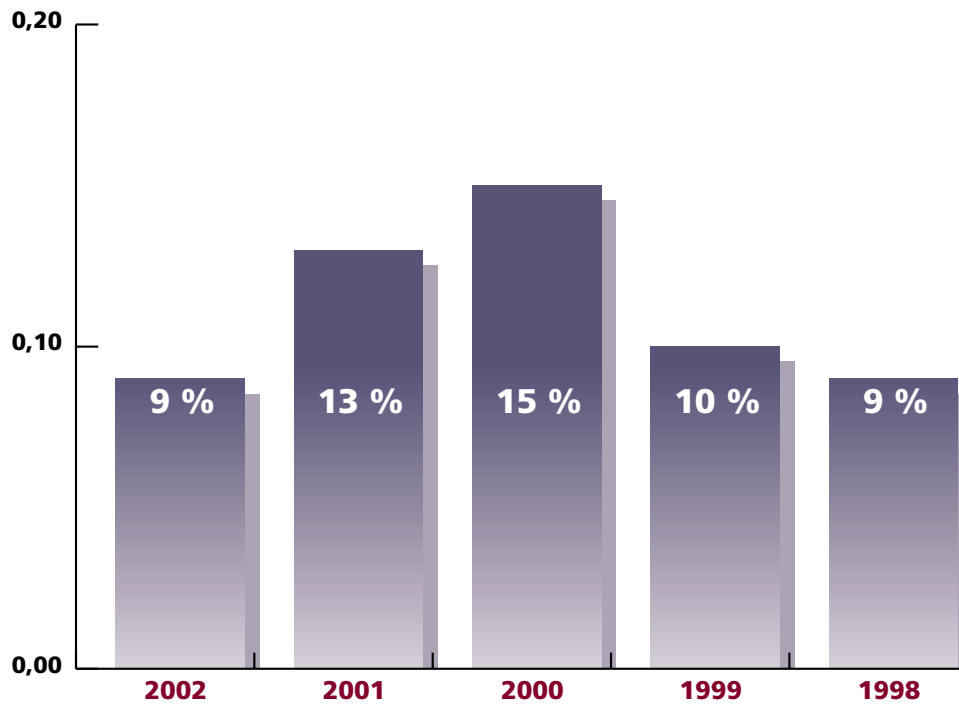
Autonomous revenue



This ratio makes it possible to determine what proportion of total revenue is generated directly from the operations of the Société. As at December 31, 2002, 47% of the STM's total revenue was comprised of autonomous revenue.

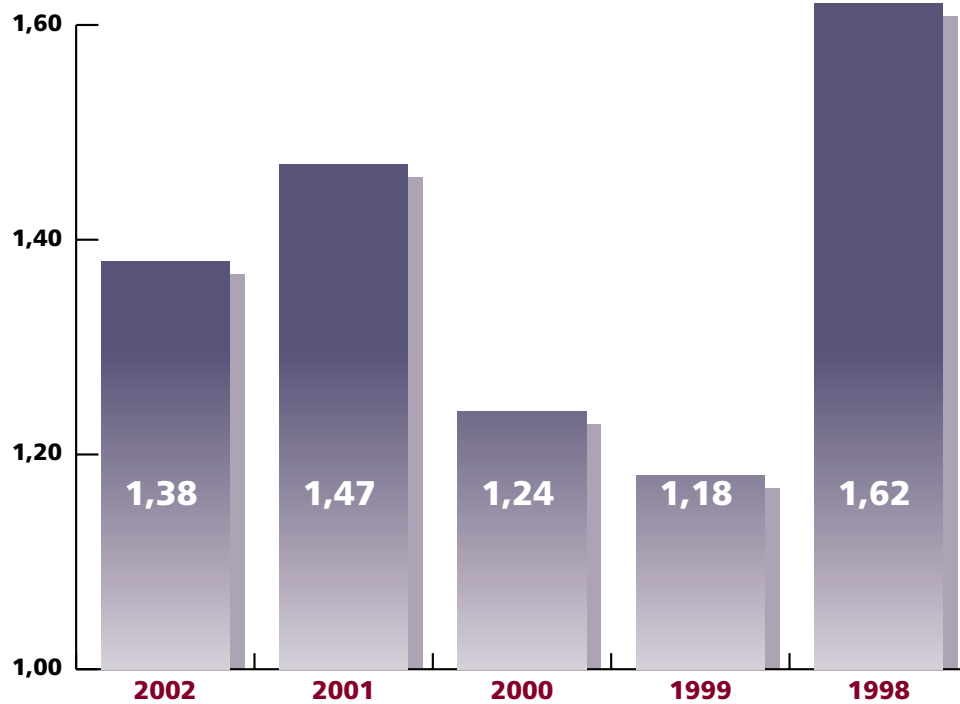
Autonomous revenue includes passenger revenue and other commercial revenue. The increase in this type of revenue over the last few years makes up for the drop in the contribution from municipalities on the MUC territory from 1997 through 1999.

Percentage of revenue allocated to debt servicing



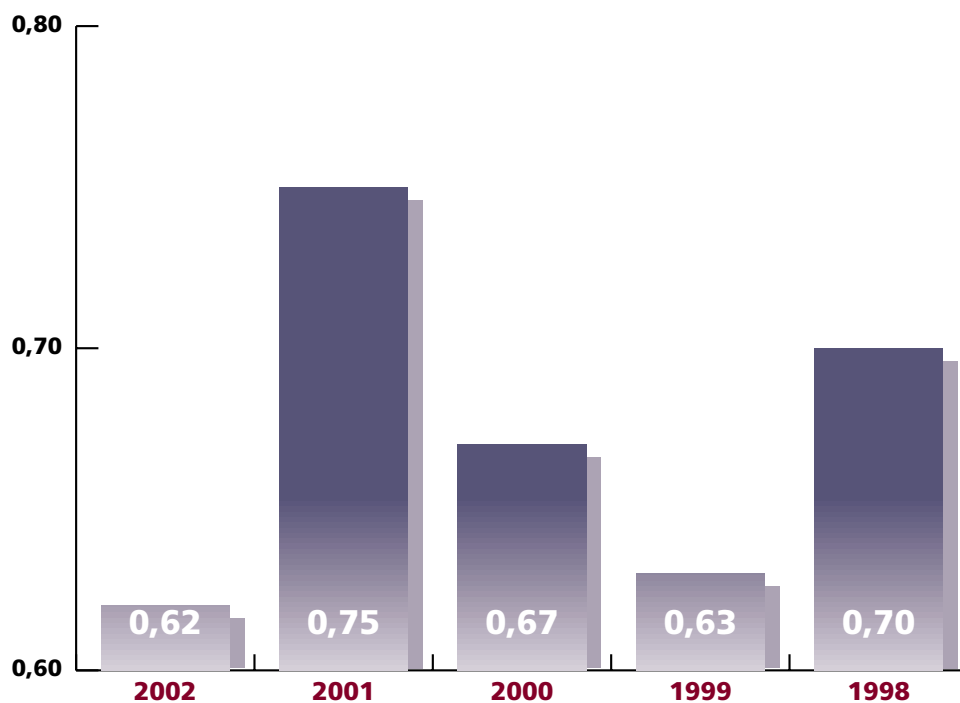
This ratio makes it possible to determine how much revenue must be dedicated to debt servicing before expenditures for other purposes.

Interest coverage



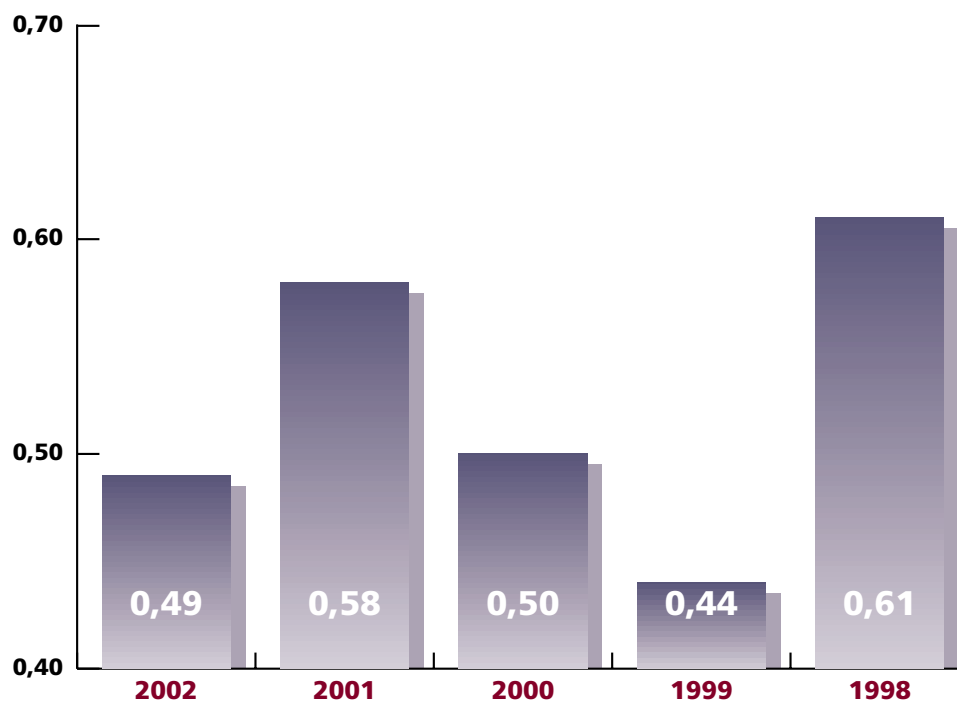
This ratio makes it possible to determine in what proportion creditors can receive the interest due to them in relation to the surplus calculated before the recording of interest charges. Thus, the STM's surplus before interest for the year ended December 31, 2002 enables it to cover 1.38 times the interest expense for the year.

Working capital



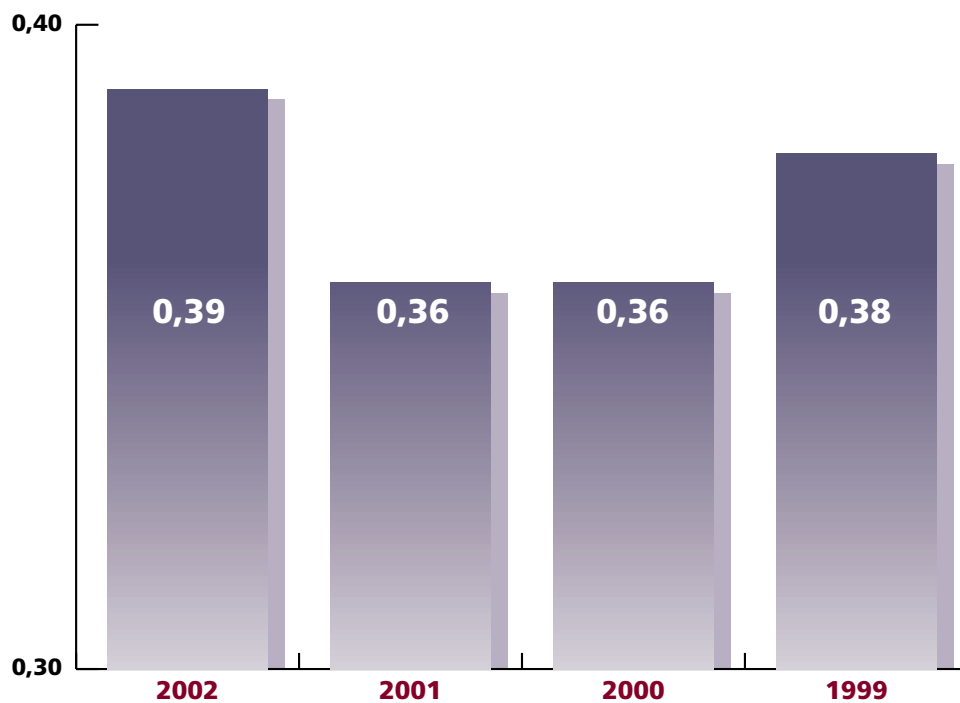
The working capital ratio indicates the ease with which the Société will be able to meet its short-term obligations. Thus, at December 31, 2002, the STM had \$0.62 in short-term assets for each dollar of short-term liabilities. This can be explained, in part, by the delay in the long-term financing of certain capital assets, as can be seen in the financing of projects in progress (underfinancing of \$ 48,774,000). This delay will be made up for during 2003 (with an issue of \$ 75,000,000 being anticipated in May 2003).

Liquidity



The liquidity ratio is derived from the working capital ratio and excludes short-term assets not affecting cash. As at December 31, 2002, the company had \$ 0.49 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. As at December 31, 2002, only 39% of the Société's assets were financed long-term.

Note: There is no data available for the year 1998 as the financial statements were drawn up according to the fund accounting method.