

ENSURING THE FUTURE OF PUBLIC TRANSIT

The year 2003 was marked by the renewal of several collective agreements, and the STM negotiated successfully with unions representing drivers, support staff, white-collar professionals and maintenance employees. The four-year agreements were all negotiated within the framework approved by the Board of Directors.

The events of 2003, particularly the November strike by maintenance workers, have shown that public transportation is a driving force in the economy of the entire metropolitan area, and that it is also the only way to get around the city for thousands of people, including workers, students and seniors (33% of Montréal residents do not own a car).

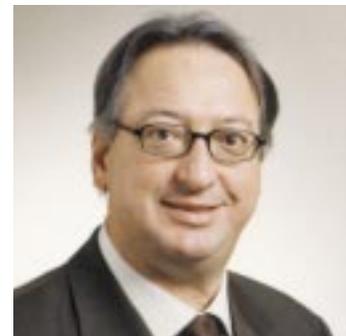
Moreover, to make up for the inconvenience to transit users during the November 17 – 23 strike, members of the Board of Directors agreed to compensate customers, a first in STM history. Thus, transit users could claim a rebate for \$5 or \$2.50 when purchasing a pass, a gesture that was appreciated by all.

Despite the hopes we held, the issue of financing for public transportation has still not been resolved. A number of actions were carried out to convince all levels of government of the importance of granting new sources of revenue to transit companies, but concrete measures have yet to be implemented. Making up for an \$18 M shortfall, the City of Montréal increased its contribution by \$6 M, while the STM reduced or deferred \$6 M in expenses and had no choice but to increase fares a second time, in July, to add another \$6 M to its revenues. Those were heart-wrenching decisions, because they inevitably have a negative impact on ridership and customer satisfaction. Worse still, they work in favour of the automobile, which continues to erode public transit's overall market share.

If no action is taken, the situation will only deteriorate as the need for investment in the coming years are evaluated at around 3.3 billion dollars. The STM is facing huge challenges with respect to maintaining its infrastructure in good working order and modernizing its equipment, much of which has already reached the end of its useful life. The métro was inaugurated in 1966 and today requires a major overhaul to remain reliable and safe. The situation is the same with the STM's bus maintenance installations.

In 2003, management undertook the task of analyzing the situation, assessing the corporation's needs and drawing up a business plan for the next five years. The plan clearly outlines what the STM is committed to doing to improve services and develop public transportation if it enjoyed adequate financing. It also demonstrates the harsh realities the corporation will be confronted with if it does not soon have the money needed to invest in its network.

Despite the uncertainties, we forged ahead with our mission, efficiently delivering safe and reliable transit service at the lowest possible cost. The Bus Network delivered 99% of planned service, while the Métro Network saw the number of trips delayed by four minutes or more decrease slightly compared to the previous year, despite its increasingly obsolete equipment. Bus routes were created or improved upon to meet with the expectations of transit users, more public taxis were introduced, eleven bus routes were added to the accessible network, bringing the total number of bus routes that can be used by people in wheelchairs to 93. New transit information tools with enhanced performance were introduced, while other major projects stayed their course, most notably the new fare sales and collection system, which should be fully operational by the end of 2006.



Claude Dauphin

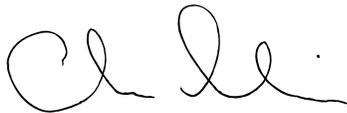


Pierre Vandelac

MESSAGE FROM STM LEADERS

The STM's sound management was once again acknowledged by the credit rating agencies Standard & Poor's and Dominion Bond Rating Service (DBRS), who respectively maintained the A+ and A-1 credit ratings depending on the type of security, and confirmed the A (high) rating for our long-term debt.

The results we achieved in a particularly difficult context clearly show the STM's capabilities, and they bear witness to the commitment of the corporation's officers, managers and employees to carry out our vital mission. We can only imagine what our team could achieve with the necessary resources to improve upon its own performance... We can only hope that all levels of government will grant us the means to reach our full potential and make the right decisions now to ensure the future of public transit.



Claude Dauphin
Chairman of the Board of Directors



Pierre Vandelac
Director General



BOARD OF DIRECTORS

BY DECEMBER 31, 2003



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Montréal city councillor
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Public transit users' representative



Marie Turcotte

Paratransit users' representative

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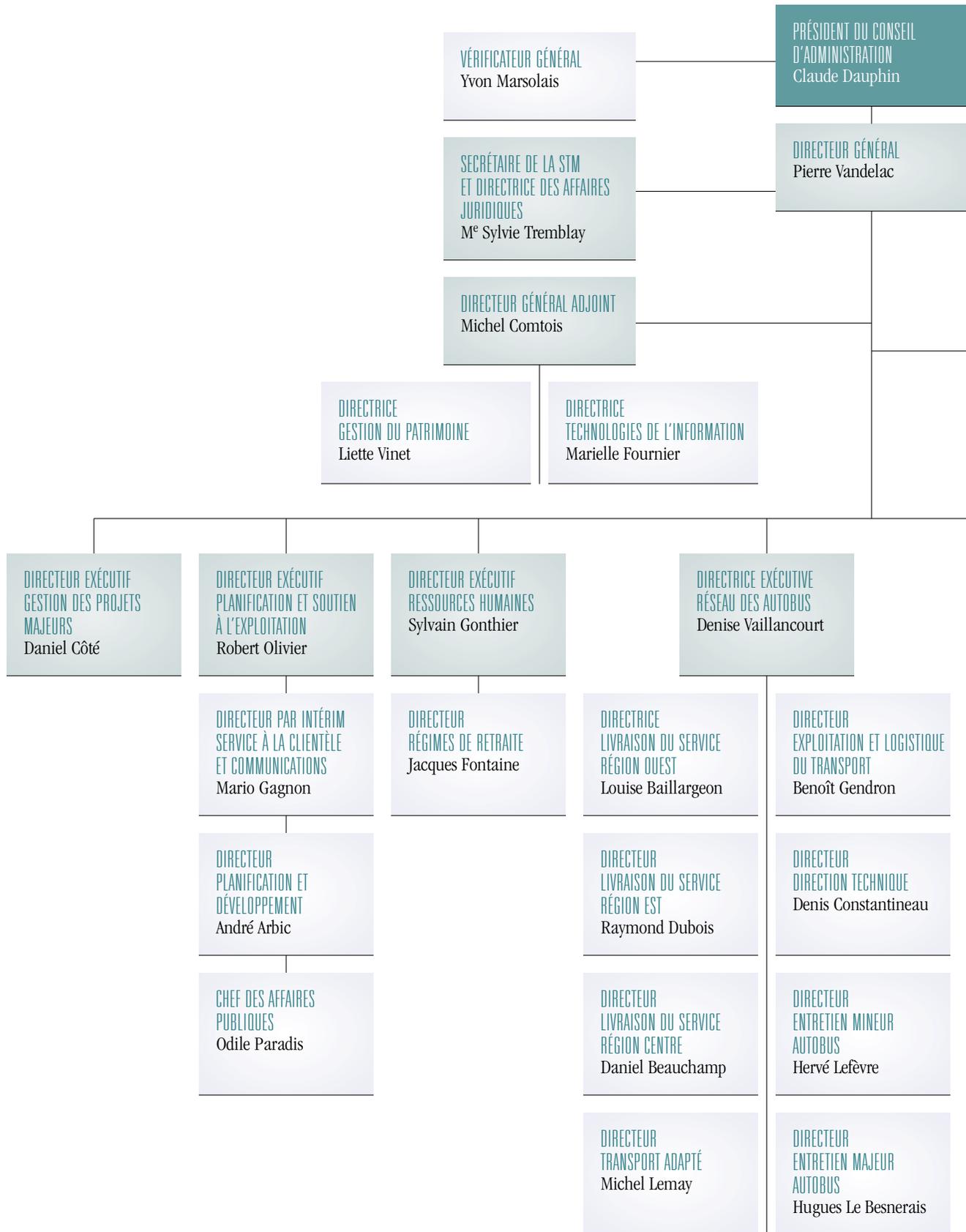
Pierre Vandelac

Director General
STM

Robert Olivier

Coordinator
Executive Director
Planning and Operations Support
STM





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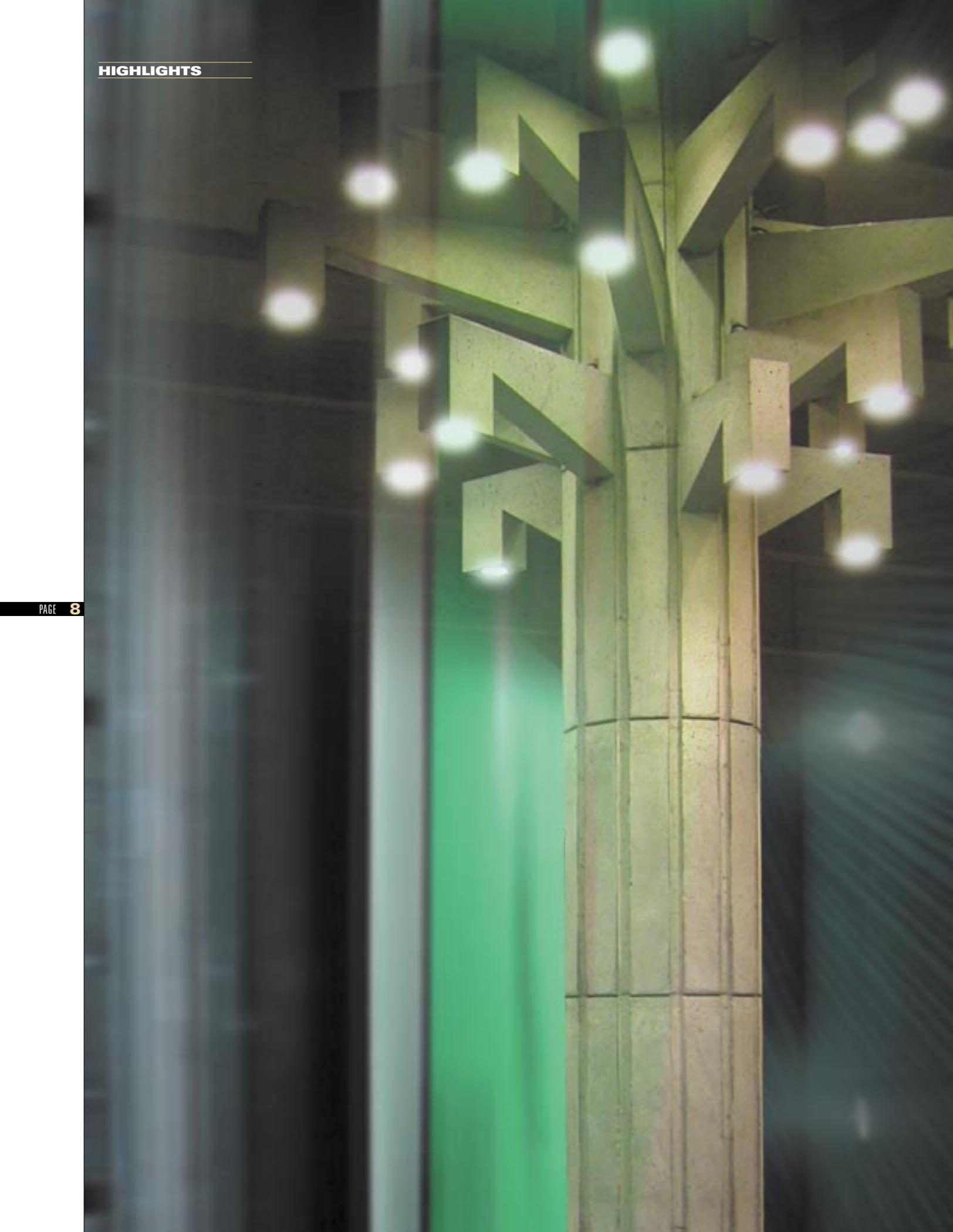
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A NEW DIRECTOR GENERAL

On February 19, members of the Board of Directors approved the nomination of Pierre Vandelac as STM Director General. Trained as an accountant, Mr. Vandelac has over 30 years of experience in management and is knowledgeable of transportation issues. Indeed, he was Director General of the former Société de transport de la Rive-Sud de Montréal (STRSM) from 1992 to 2001, and Vice-president – Finance and Administration at Aéroports de Montréal until his arrival at the STM.

Mr. Vandelac previously worked in both the private and public sectors. He took office in early April.

KYOTO ACCORD: THE STM PRESENTS A BRIEF

In February, Claude Dauphin, Chairman of the Board of Directors, and Francine Gauthier, interim Director General, presented a brief as part of the public consultations on the implementation of the Kyoto Accord in Québec. The brief included these four recommendations:

- public transit must be able to count on new sources of financing, as evidence shows that it has been losing ground to the automobile in the Montréal area over the last few decades;
- the Québec government must do more to encourage and support technological initiatives in public transit, particularly those involving the use of hybrid buses employing alternative non-polluting energy sources and technologies that reduce the level of pollution emissions when using petrodiesel fuel;
- public policies and mechanisms must be implemented to increase the population density in the area surrounding the city centre, in order to curb the phenomenon of urban sprawl;
- the necessary measures must be adopted to promote modal transfer from the automobile to public transit.

Montreal has one of the best public transit systems in North America. Maintaining this reputation will first require massive investment to modernize our infrastructure – 3.3 billion dollars over the next ten years – then improve services and develop new ones. In other words, to reach the goals set out in the Kyoto Accord, we must not only maintain our assets, but also increase the use of public transit and secure its financing.





A DISAPPOINTING REPORT BY THE NICOLET COMMISSION

Société de transport de Montréal leaders expressed some reservations regarding the conclusions of the report by the Commission de consultation sur l'amélioration de la mobilité entre Montréal et la Rive-Sud, presided over by Roger Nicolet. The STM is of the opinion that, in theory, the Commission favours the use of public transit, but in fact proposes increased highway capacity. By doing so, it does not, as the STM had recommended, support the implementation of a series of coherent, convergent and co-ordinated solutions to successfully change mobility patterns and ensure ongoing transit development.

Indeed, at the time it presented its brief, the STM explained that the addition of a bridge or another traffic artery was not a solution, as it would only postpone the problem. Improving mobility in and of itself is not a solution, travel patterns must change. It is no longer enough to adapt the network to the needs of the population; our models of urban planning must change. Therefore, our ways of travelling and of using existing infrastructure must also change in order to transform the focal exchange point the city represents.

Despite recent increases in ridership, public transit's share in the Montréal area declined from 23% to 17% between 1987 and 1998, the result of a strong downward trend that began in the early fifties. To stop this trend, choices favourable to public transit must be made instead of the automobile, which continues to gain market share. Thus, the STM would have preferred that the report from the Nicolet Commission come out strongly on the side of public transit and its development.

ANOTHER BRIEF PRESENTED TO THE HOUSE OF COMMONS

In November, the Chairman of the Board of Directors, Claude Dauphin, submitted a brief to members of the House of Commons Standing Committee on Finance within the framework of the 2003 Pre-Budget Consultation.

Entitled *Faire le choix du transport en commun pour le développement durable de la société canadienne* (Choosing public transit for the sustainable development of Canadian society), the brief proposed a strategy of investment in public transit. Among the recommendations: introducing a grant programme for investments in the preservation and development of public transportation infrastructures; dedicating the federal tax on gas – or part of it – to public transit as a support measure, while exonerating transit authorities from the federal tax on gas; and adopting tax relief measures that favour transit users.

The current financial framework is inadequate for transit agencies to maintain and preserve their assets and services. Therefore, the STM proposed a funding strategy to the federal government that would sustain the evolution of public transit systems. Claude Dauphin was confident the federal government would make the right decisions in favour of revitalizing public transit.

IN TOUCH WITH TRANSIT USERS

The purpose of the Customer Service Committee is to submit recommendations to the Board of Directors regarding the corporation's client-oriented approach, its standards of quality for customer service, certain large-scale service improvement projects, fares, transit information policy, and strategies to increase ridership, among others. In addition to its eight regular meetings, the committee has held two public consultations: the first, in June, focused on the accessibility of the bus network for persons with limited mobility, while the second, in November, pertained to Paratransit. Both public consultations provided a forum to community advocates and individuals so they could voice their concerns and expectations about services, as well as discuss problems encountered by different transit user groups.

TWO NEW BY-LAWS

Two new by-laws were introduced in September as part of a process of updating and harmonizing regulations by the various transit corporations operating within the Metropolitan Montréal area. By-laws R-036, entitled *By-law prescribing standards of safety and conduct to be observed by passengers in the rolling stock and immovables operated by or for the Société de transport de Montréal*, and R-037 entitled *By-law prescribing conditions regarding the possession and use of any transportation ticket issued under the authority of the Société de transport de Montréal* have replaced the former CA-3, CA-105 and CA-105-1 by-laws.

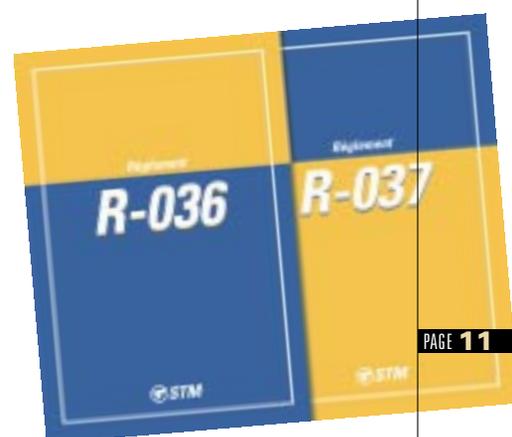
Adoption of these new by-laws by the STM, the Société de transport de Laval (STL), the Réseau de transport de Longueuil (RTL) and by the Agence métropolitaine de transport (AMT) is intended to subject all transit users to the same rules of conduct and safety when they are within transit installations or inside transit vehicles.

2003 ORIGIN-DESTINATION SURVEY

The eighth Origin-Destination survey was carried out in the Greater Montréal area from September 2003 to January 2004. The telephone interview research is the second largest survey in Québec after the census. The purpose of this vast operation was to draw an accurate portrait of trips made by area residents, regardless of the type of transportation they use; it covers all trips made during a weekday.

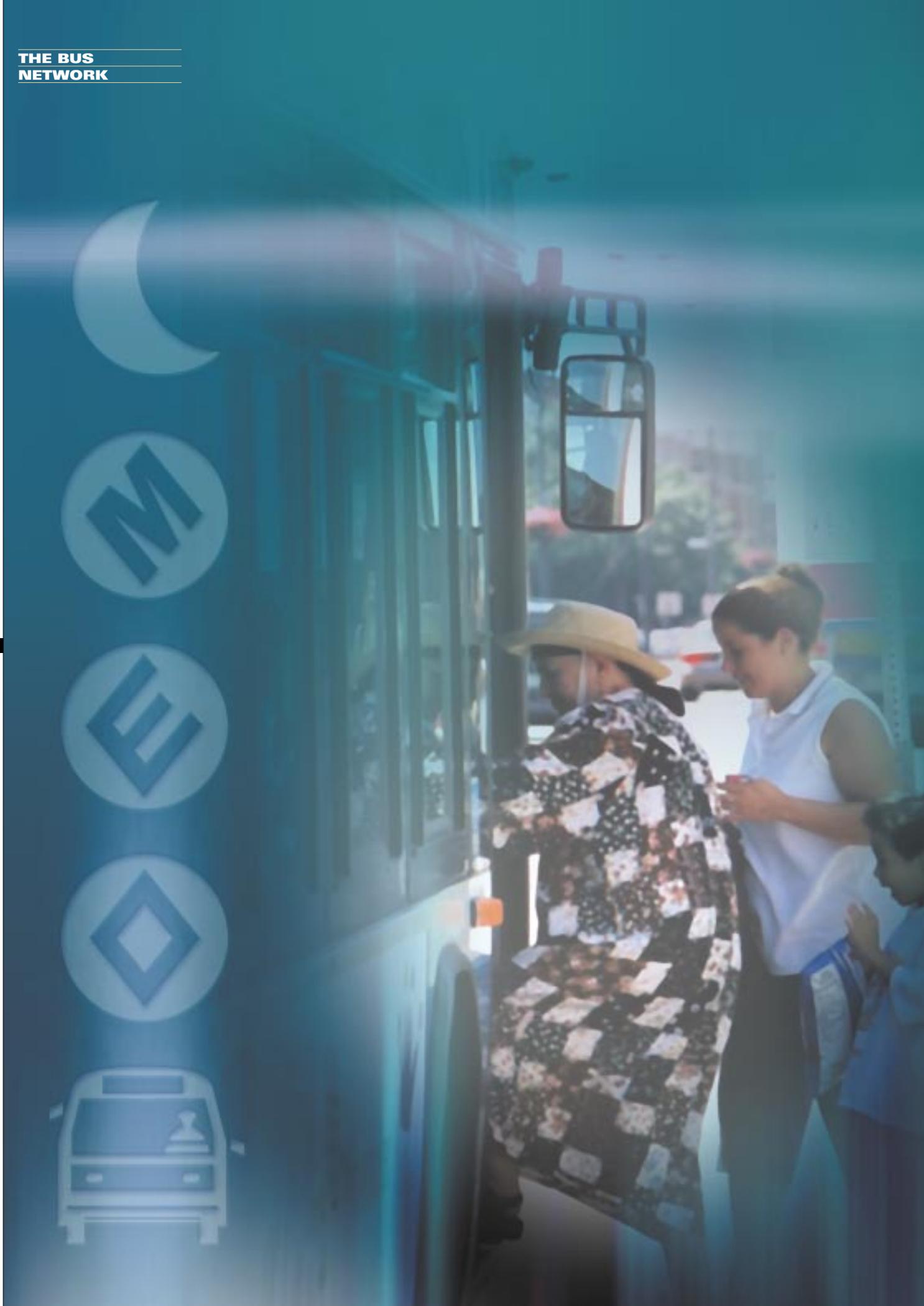
O-D surveys are done approximately every five years, and cover an increasingly large territory, which now extends over the entire metropolitan area, from the large cities of Montréal, Laval and Longueuil to the northern and southern suburban areas ringing the island. This year, 165,000 people in 70,000 households were interviewed, representing 5% of households in the Montréal metropolitan area. Each household selected was asked to answer a series of questions covering, among other things, the number of people in the household, and the itineraries they followed the day before the interview.

The 2003 O-D survey was a joint effort by the Agence métropolitaine de transport, the Association des Conseils intermunicipaux de transport, the Réseau de transport de Longueuil, the Société de transport de Laval, the Société de transport de Montréal, Transports Québec, and the ministère des Affaires municipales, du Sport et du Loisir du Québec. Researchers from École Polytechnique de Montréal and the firm Léger Marketing also took part. Results of the O-D survey will be available later in 2004.



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BETTER SERVICE FOR TRANSIT USERS

Despite the STM's difficult financial situation, efforts were made throughout the year by everyone at the Bus Network to implement new services or improve existing ones, to better serve the needs of transit users. With this in mind, the STM also formed new financial partnerships and renewed previous ones with both municipal authorities and businesses.

127 – Maisonneuve-Rosemont

Available in fall and winter, this bus service running between Assomption métro station and Maisonneuve-Rosemont hospital was made possible through a financial partnership with the healthcare institution.

148 – Métrobus Maurice-Duplessis

Introduced in March 2002, the 148 – Métrobus Maurice-Duplessis has been providing residents of Rivière-des-Prairies with a rapid link to Radisson métro station and downtown. Nearly a year after its inauguration, the new route has proven to be an undeniable success. In fact, from the start, buses carried an average of 1,300 passengers daily, with the number increasing to 1,430 by November. On August 25, the route was slightly modified to provide a direct link between Radisson métro station and the Anjou and Rodolphe-Forget industrial parks, replacing the public taxi service offered in the sector since October 1999.

71 – Pitfield

A renewed partnership agreement with the Borough of Saint-Laurent and the firm Liberty Sites allows for bus service to be maintained during off peak periods in the Trans-Canada industrial park.

70 – Bois-Franc

Introduced on January 6, 1997, thanks to a financial partnership with Bombardier Immobilier ltée, the 70 – Bois-Franc serves to meet the growing transit needs of a developing sector. As ridership levels reached the break-even point, the bus route was integrated into the STM's regular network in May 1999. Later, in response to the needs of workers in the area, the bus route was extended to the north. As service was previously only provided during rush hour, it was also decided to extend the route's hours of operation and provide full day service from 6:30 a.m. to 6:30 p.m. Monday to Friday.

174 – Côte-Vertu Ouest

Established in March 2001, this bus route provided late evening transportation for Bombardier Aerospace employees. However, evening service was cancelled by the end of March 2003, as the firm decided against renewing its financial partnership with the STM. Service is still provided during rush hour.

21 – Carrie-Derick

This bus route was put into service for a three-month trial period beginning in November 2002 for the purpose of serving the businesses located within Montréal's Technoparc. However, it did not attract enough users and, as a result, the route was cancelled in February 2003.





Île-Bizard public taxi service

Introduced in November 2002, the public taxi service was designed to meet the transit needs of residents in the east sector of the island. Since June 9, the area covered by the taxi service has been expanded so that residents in the north and west sectors may also benefit from this service.

Accessible network

In 2003, eleven regular bus routes were added to the network of bus routes accessible to persons using a wheelchair, bringing the total number of accessible bus routes to 93. Integration measures will continue to be implemented in the next few years, as the transit corporation is determined to make most regular bus routes accessible to wheelchair users by the end of 2005.

PREFERENTIAL MEASURES FOR BUSES

On February 5, the City of Montréal's Executive Committee agreed in principle to the project calling for the implementation of preferential measures on Beaubien Street and the Autoroute 25 corridor. This decision enables the STM to present its project to the ministère des Transports du Québec to obtain a subsidy covering 75% of the admissible costs under the Programme d'aide au transport en commun.

The STM provides more than 25,500 trips each weekday on Beaubien Street and more than 20,500 along the artery running eastbound to Autoroute 25. The installation of priority traffic lights, the creation of a reserved lane on certain traffic arteries, the enhancement of overhead and roadside signs, the extension of bus stopping zones at designated intersections and other interventions targeted at resolving specific traffic problems will allow transit users on several bus routes serving the area to save from 2 to 12 minutes per trip.

These management measures designed to improve bus circulation are valued at \$1.9 million for the Beaubien artery and \$638,000 for the Autoroute 25 corridor. The STM is confident the ministère des Transports du Québec will support the project as the complementary, flexible and efficient measures proposed will improve public transit service and increase ridership.



REPORT ON THE BIOBUS PROJECT

During a one-year period, from March 2002 to March 2003, the BIOBUS project demonstrated, under actual operating conditions, that using biodiesel is viable in a region like Montréal where winter temperatures can plummet to -30°C and that it is feasible to continuously supply an urban transit company the size of the STM. The project also assessed the economic and environmental impacts of using this fuel, which is made from recovered and recycled sub-food-grade vegetable oil or animal fat. It required the use of 550,000 litres of pure biodiesel (24% from vegetable sources, 28% from animal sources and 48% from frying oils) blended with petrodiesel in 5% and 20% concentrations.

The impact on annual carbon dioxide (CO_2) emissions when urban transit authorities use biodiesel is more than convincing. Indeed, the use of B5 and B20 blends by the 155 buses in the Frontenac garage taking part in the BIOBUS project helped reduce CO_2 emissions by roughly 1,300 tons. Had all Frontenac buses run on B20 throughout the year, CO_2 emissions would have been lowered by 2,100 tons. Using B20, the annual CO_2 reduction would have been 22,000 tons for the entire STM fleet, 42,000 tons for all Québec urban transit authorities and 171,500 tons for transit authorities across Canada. Because it helps reduce greenhouse gas (GHG) emissions, biodiesel is a prime alternative fuel for public transit.

The scale of the BIOBUS project made it the most important initiative of its kind in North America. It has opened the way to a more environmentally conscious view of public transit and now serves as a showcase for transit authorities and users alike. The project was a joint initiative by the Canadian Renewable Fuels Association (CRFA), the Fédération des producteurs de cultures commerciales du Québec (FPCCQ), Rothsay – Laurenco and the STM. The federal and provincial governments each contributed a large share of the project's funding, with \$515,000 from Ottawa and \$375,000 from Québec.

As the results of the project are conclusive, the STM is interested in converting its fleet of buses to biodiesel. However, two conditions must first be met: the alternative fuel cannot be more expensive than conventional petrodiesel and supplies must be guaranteed. The latter should not be a problem, as Rothsay – Laurenco is in a position to supply all STM buses. It is imperative that the Québec government remove the tax on biodiesel in order to promote its use and thus contribute to reaching the goals set by the Kyoto Accord.





EXPERIMENTING WITH HYBRID BUSES

As part of its Urban Transportation Showcase Programme, Transport Canada has chosen the project submitted by the Outaouais and Montréal transit authorities to receive a subsidy of up to \$8.8 million. The goal of the \$30 million project is to introduce hybrid buses powered by electricity and an environmentally-friendly fuel, in both Gatineau and Montréal. To achieve this, however, the transit authorities must obtain financial support from the Québec government, as well as from suppliers and private partners.

If both transit companies succeed in obtaining the required funding soon, 11 articulated buses, fuelled by biodiesel and electricity, will be running on the 105 – Sherbrooke route in Montréal in 2005. According to estimates, these vehicles would help decrease fuel consumption by at least 33% and reduce greenhouse gas emissions by 1,500 tons, equivalent to the output of 626 cars.

Various factors were taken into account in selecting the 105 route for the experimental project: it is short (4 kilometres) and heavily-used (over 4 million trips a year); it provides frequent service and connects with both métro and commuter trains (the 105 converges on Vendôme métro station, as well as on Vendôme and Montréal-West train stations on the Montréal/Rigaud line).

As supporters of the showcase project, Côte-des-Neiges/Notre-Dame-de-Grâce Borough officials were delighted by the announcement and hope the Québec government will agree to fund the project because of the positive impacts on air quality and the health of all Montrealers.

TECHNOLOGY PARTNERSHIP BETWEEN THE STM AND PRÉVOST CAR

Acting as an agent for eight other transportation organizations in the Association des transporteurs urbains du Québec (ATUQ), the STM signed a major contract with Nova Bus, a division of Prévost Car, in September 2002. The contract calls for the delivery of 825 new low-floor buses between 2003 and 2007, with 382 buses for the STM. Following awarding of the contract, Prévost Car and the STM made a joint decision to set up a technological partnership to improve the low-floor bus produced in Saint-Eustache. This ambitious project was recently launched, thanks to an \$8.1 million dollar subsidy from the Québec government.

The vehicle of the future

Prévost Car set up a new subsidiary, Develobus, to manage the research and development programme. It is headed by representatives from Prévost Car, the STM and other public transportation organizations. Government aid will finance the group's work for the next five years.

The Develobus programme focuses on five specific goals: reducing the costs of operating and maintaining the low-floor bus produced by Nova Bus, improving its reliability, making it more attractive to customers, reducing its weight, and, finally, lowering manufacturing costs. To reach these goals, a number of projects will be put forward in the years to come. With this programme, the STM wants to ensure that the next generation of low-floor buses meets the needs expressed by transit users and employees.



PARATRANSIT IMPLEMENTS ACCÈS 5

In 2001, the STM received \$8.4 M in funding to carry out a major technological change and, on September 2, after years of preparation, the ACCÈS 5 computer programme finally replaced the initial version of ACCÈS introduced in 1984 whose technology was no longer able to support the growing demand for Paratransit services.

Implementing ACCÈS 5 was designed to achieve three major goals: improve customer service, lower costs and provide an increased number of trips. Beyond that, ACCÈS 5 has also meant improvements in processing admissions requests, group reservations and operational follow-ups. Moreover, the combination of IP telephony and ACCÈS 5 offers an alternative to Paratransit users, as they can now carry out a variety of requests through the voice-response system.

Any technological change of this magnitude will necessarily require a number of adjustments. Some difficulties were experienced during the first few weeks and users were quick to voice their concerns. However, the Paratransit team was also quick to master the new system. Today, operations are running smoothly and the following goals were reached after only a few short months:

- reducing the call centre's annual requirements by 19 000 hours;
- lowering the average number of attempts to reach the call centre to less than three;
- enabling agents to process requests for occasional transportation in 90 seconds on average;
- enabling clients to submit multiple requests by accessing a single telephone number;
- enabling clients to obtain immediate confirmation of their regular transportation schedule;
- providing clients with access to a voice-response system.

RECORD NUMBER OF CALLS AT THE CCA

The purpose of the bus coordination centre (CCA) is to ensure the safety of transit users and bus drivers, to adjust bus service as events occur throughout the network, and to advise transit users of these changes by way of the *TELBUS* system, replaced by *AUTOBUS* in November. Manned by a staff of 23, the Centre operates 24 hours a day, 365 days a year. Normally, it answers an average of 600 calls on any given day. But on February 24, because of very bad weather conditions, a new record was set when 1,288 calls were received that day. Indeed, buses were prevented from using many streets because of huge accumulations of snow and cars strewn along the roadside, forcing buses to detour from several regular routes. In 2003, the coordination centre handled some 191,715 events, compared to 168,602 in 2002.



BUS NETWORK STATISTICS

186 BUS ROUTES (INCLUDING 20 FOR NIGHTTIME SERVICE)

11 RESERVED LANES COVERING A DISTANCE OF 45.5 KILOMETRES

BUS FLEET

Standard buses	798
Low-floor buses	792
Paratransit minibuses	93
Urban minibuses	5

ON-TIME PERFORMANCE

<i>Expressed in %</i>	2001	2002	2003
Goal (- 1 min. + 3 min.)	78.9	82.1	81.6

TOTAL DISTANCE TRAVELLED (KM)

Buses	69,697,548
Paratransit minibuses	3,190,066

ACCIDENTS WITH DAMAGES INVOLVING A BUS OR MINIBUS

	1999	2000	2001	2002	2003
	2,897	3,153	2,704	2,659	3,145

MOST HEAVILY-USED BUS ROUTES

(Average weekday ridership)

1.	80 – Avenue du Parc	15,100
	165 – Côte-des-Neiges	21,500
	535 – Voie réservée du Parc/Côte-des-Neiges	<u>36,000</u>
		72,600
2.	67 – Saint-Michel	42,200
3.	139 – Pie-IX	30,500
	505 – Voie réservée Pie-IX	<u>6,700</u>
		37,200
4.	121 – Sauvé/Côte-Vertu	36,100
5.	69 – Gouin	30,600

DELIVERY OF PLANNED SERVICES

(Number of hours of service actually delivered compared to the number of hours planned)

99.38%





37 YEARS AND STILL RELIABLE

In the early 1990s, the métro was plagued by about 1,000 malfunctions each year. In the past few years, that number has dropped to a little more than 800, a significant decrease considering how the métro's equipment has aged during the same period, particularly its rolling stock, one of the oldest in the world. The 336 cars originally used by the Montréal métro, known as the MR-63, have each travelled over three million kilometres in their 37 years of service! As for the 423 MR-73 cars, which have been in continuous service for 27 years, they have each travelled some two million kilometres. And yet, these métro cars still manage to cover some 250,000 kilometres on average between malfunctions, well above the internationally recognized standard of 150,000 kilometres.

The Montréal métro is known throughout the world for its superior maintenance. Employees are highly competent and engineers closely monitor the performance of each system in the underground network. Today, many parts are no longer manufactured by the original maker, forcing the company to seek replacement parts among Québec-based industry, such as windshields for the MR-63 now produced by a company in the Beauce region.

Unavoidable changes

Statistics show that the STM is in full control of the métro's operating equipment, but what will happen in ten years when that same equipment has outlived its service life? When equipment starts to break down, it does so exponentially. The Montréal métro has gone through several phases, from infancy to maturity; now it must go through a replacement phase. Over the next ten years, most of the métro's systems and equipment will need to be renewed at the same time. That, in itself, represents a huge challenge in terms of financing and logistics, but it also represents an excellent opportunity to review our processes. For example, the addition of surveillance cameras and motion sensors should considerably reduce the instances of mischief in the métro. Of course, all of this new equipment will require major expenditures, estimated at over two billion dollars over ten years.

Normally, transit authorities retire métro cars after thirty years of service. If they are overhauled halfway through that period, as was the case with the MR-63, they can be retired after thirty-five, even forty years of service. Yet, even if the green light was given today to replace all 336 MR-63 cars, a prototype would only be ready in 2009 and the last replacement cars would only be delivered by 2012, when the MR-63 celebrate their 46th year. The decision to replace them must be taken now, as any further delays will have major long-term consequences on the métro's reliability.

MÉTRO NEWSPAPER DISTRIBUTION: COURT RULES IN FAVOUR OF THE STM

On August 8, a Québec Superior Court judge ruled in favour of the transit corporation in the case opposing it to Sun Media Corporation Inc. regarding the exclusivity granted to the newspaper *Métro*, held by Publications Métropolitaines Inc., a joint partnership between Médias Transcontinental Inc., Metro International S.A. and Gesca ltée, and involving the distribution of a free newspaper in the métro. In the ruling, the judge rejected the suit brought on by Sun Media Inc., which alleged a violation of its rights under freedom of the press, and upheld the validity of the exclusive contract awarded by the STM.



STM leaders expressed their satisfaction over the decision, as the safety of transit users and the reliability of service were their main concerns in this matter. The court ruling upheld the corporation's position that, in order to meet with safety standards, only one free newspaper can be distributed daily inside métro installations.

For management, this ruling is more good news for transit users who can continue to enjoy their bonus paper, which makes transit more attractive as they can read the news while commuting. Moreover, the ruling confirmed the STM acted both legally and ethically, in accordance with accepted business practices, when it negotiated an economically profitable agreement, in the interest of the STM, and for the benefit of its customers. Sun Media Corporation Inc. has since appealed the decision.

Distributed for free inside all métro stations since March 1, 2001, the newspaper quickly became a favourite among transit users. Today, it is read by over 205,000 people every day. The corporation's *Info STM* page inside the paper serves as a direct link with transit users, who can easily be reached while they are inside STM installations. The page has proven to be an excellent way to inform commuters and promote transit services.

IMPROVEMENTS TO THE PUBLIC ADDRESS SYSTEM

Changes were brought to the messages broadcast inside métro stations, in order to improve communication with both transit users and transit employees. The first consists of three new and different chimes added at the beginning of each announcement to distinguish between categories of messages. A new voice can also be heard throughout the system – actress Michèle Deslauriers' voice was selected for its overall clarity and precise pronunciation.

Until a new communications system is installed in the métro, these improvements will make it much easier for transit users to understand what is happening when service delays or disruptions occur.

RESTORING AN ARCHITECTURAL TREASURE

On September 4, with the president and CEO of the Régie autonome des transports parisiens (RATP) Anne-Marie Idrac in attendance, the chairmen of the STM and the Quartier International de Montréal (QIM) officially reopened the entrance to Square-Victoria métro station, after its decorative entourage by French architect Hector Guimard was fully restored.

Assembled from parts from several entourages dating back to the early days of the Paris métro, circa 1900, this architectural element was initially loaned by the RATP to the Montréal métro in 1966, before being installed at Square-Victoria station in 1967. As Square Victoria itself was undergoing a major renovation, the entourage was also restored with the help of both the QIM and the RATP. Today, every detail of the Guimard entrance matches those found in the City of Lights. Ms. Idrac also took the opportunity to announce that, as part of a cultural exchange programme between the two organizations, the entourage now officially belongs to the STM.

As the lamp posts' two glass domes are the only original ones still in existence, the STM donated one of them to the RATP. The other was entrusted to the Montréal Museum of Fine Arts, along with a crest of the entourage, and both pieces will be on display as typical examples of the Art Nouveau style.





STATION LONGUEUIL—UNIVERSITÉ-DE-SHERBROOKE

On September 26, the STM officially changed the name of Longueuil métro station to the new Longueuil—Université-de-Sherbrooke. Members of the Board of Directors had approved the name change in November 2002, thereby responding favourably to a request by Université de Sherbrooke, which has maintained a campus adjacent to the métro station for the past 15 years in addition to being well established in the Montérégie area for over 40 years. From now on, the institution's name will be formally associated with Montréal's métro system, following in the steps of Université du Québec à Montréal (Berri-UQAM station), Université de Montréal (Université-de-Montréal station), McGill University (McGill station), and Concordia University (Guy-Concordia station).

Moreover, the Commission de toponymie du Québec had formalized the name change on August 13, deeming that Université de Sherbrooke's campus plays an important role in Longueuil. Indeed, the 10,000 people connected to the institution, including over 9,500 students and interns, as well as faculty members teaching and conducting research, all contribute significantly to the development of the metropolitan Montréal area. The agreement between the STM and Université de Sherbrooke stipulates that the latter will assume all costs pertaining to the change.

SCIENTIFIC RESEARCH IN THE MÉTRO

In February, the Institut de recherche Robert-Sauvé en santé et en sécurité du travail (IRSST) initiated an important scientific research project, whose results will help identify solutions to reduce musculo-skeletal disorders and improve the design of métro operators' work station.



Covering a two-year period, the research consists mainly in measuring the level of vibration métro operators are subjected to and defining the characteristics of the vibrations produced by motor cars. To ensure the study is conducted under authentic operating conditions, the control cab of a métro car was equipped with the measuring equipment required by the researchers and put into actual service.

Results of the research will help the STM establish specifications for the design of seats, the cabin itself, as well as the suspension system. These specifications can also be used by manufacturers to assist them in designing their products.

4 LINES TOTALLING 66 KM OF TRACK AND SERVING 65 STATIONS

FLEET: 759 CARS, OF WHICH 336 ARE MR-63 AND 423 ARE MR-73 MODELS

KILOMETRES TRAVELLED (PUBLIC TRANSIT USAGE): 58,172,096

BUSIEST STATIONS

1.	McGill	11,490,142
2.	Berri-UQAM	11,252,775
3.	Henri-Bourassa	8,414,311
4.	Guy-Concordia	7,287,573
5.	Longueuil–Université-de-Sherbrooke	6,957,232

BUSIEST DAY

Thursday, March 20 with 810,736 fares.

RELIABILITY

Number of incidents lasting 5 minutes or more

Causes	2002	2003	%
Mischief, ill passengers	434	455	4.8
Rolling stock	220	234	6.4
Train operations	62	82	32.3
Stationary equipment	52	67	28.8
External causes	28	27	-3.6
Miscellaneous	9	17	88.9
Combined	805	882	9.6

ON-TIME PERFORMANCE (STANDARD: 0 TO 4 MIN.): 97.8% OF TRANSIT USERS ARRIVE ON TIME

*Number of trips delayed by more than 4 minutes**

Causes	2002	2003	%
Mischief, ill passengers	2,585,465	2,521,721	-2.5
Rolling stock	1,407,128	1,420,812	1
Train operations	313,120	336,040	7.3
Stationary equipment	296,682	323,238	8.9
External causes	233,927	168,049	-28.2
Miscellaneous	35,876	63,906	78.1
Combined	4,872,198	4,833,766	-0.8

* It should be noted that the métro provided more than 218.7 million trips in 2003.



WELCOMED TAX BREAK WITHHELD

In March, the STM Board of Directors welcomed the tax deductions for transit passes announced in the Québec government's 2003-2004 budget. The implementation of such a measure had been suggested to both provincial and federal governments by the STM and other transit organizations, in the belief that these tax breaks could only encourage the use of public transit. Regrettably, the new government elected in April declined to include the promised measure in its budget.

\$18 MILLION SHORTFALL

Faced with an \$18 M shortfall in the 2003 budget, Claude Dauphin, Chairman of the Board of Directors, requested an additional financial effort from the City of Montréal, the STM and transit users to alleviate the situation. As a result, the city raised its contribution by \$6 million for 2003, the STM committed to recovering another \$6 million without cutting services, and transit users were subjected to a second fare increase in 2003.

Measures that failed to materialize

Mr. Dauphin reminded that the 2003 Budget, approved in November 2002, already included a \$15.5 million shortage. At the time, the STM held the hope that some of the measures set out in the Bernard Report would be implemented, allowing it to recover some money. However, Québec had not yet followed through with Mr. Bernard's recommendations, and the anticipated funds failed to materialize. The \$2.5 million discrepancy can be accounted for by the STM's surplus at the end of 2002 being \$1.2 million lower than the \$14 million already expected from deferred income for 2003. In addition, the Agence métropolitaine de transport did not transfer the full amount of anticipated regional funding.

In light of the situation, the City of Montréal increased its contribution to public transportation by \$6 million. Moreover, on July 1st, 2003, all fares were raised except the reduced cash fare. Despite this second increase, STM fares are still among the lowest in North America, and the 48% discount granted to reduced fare card holders is by far the most competitive around.

FARE SALES AND COLLECTION PROJECT: A MAJOR THRESHOLD CROSSED

Mandated by the Agence métropolitaine de transport (AMT), the Société de transport de Laval (STL), the Réseau de transport de la Capitale (RTC), the Réseau de transport de Longueuil (RTL) and the Conseil intermunicipal de transport de Sorel-Varennes, the STM awarded two major contracts in July related to the joint public transit fare sales and collection project. The first contract was awarded to Ascom Monétel S.A. for the acquisition of a central system, including equipment and software, for a total of \$83 M. The second, totalling \$50.6 million, was awarded to GFI Genfare for electronic fare collection boxes for both STM and STL buses. The firms were selected following a public call for tenders in July 2002.





Exemples de cartes à puce utilisées à travers le monde

A “master” card

In addition to gaining greater purchasing power, the partners joined forces to give customers a common system that was truly integrated, user-friendly and compatible, in other words, more powerful. The smart card will therefore be used in all participating transit networks and will have the same look. It will be able to handle passes as well as all reduced fares (including intermediate fares), as it will include the ID card entitling users to the discount. Thus, it will provide better control and facilitate the work of employees handling fare collection. Some transit companies, including the STM, will also introduce a magnetic card that will serve as a media for single tickets, transfers and multiple regular fare trips. Cash fares will always be accepted.

Sales and collection activities will be automated and run by each of the partners. In addition, vending machines will be located in métro stations, commuter train stations served by the AMT, at authorized agencies in the greater Montréal area, and at the Société des traversiers de Québec (Québec-Lévis link), to ensure fares are available at all times.

Added value for all

This broad modernization project will be a boon to transit users, employees and partner organizations since it is designed, among other things, to facilitate the process of purchasing fares and simplify their use, to offer a greater variety of fares more suited to customer needs, to ensure regional fare integration, and to reduce losses from fraud. Moreover, the central information management system, which will be shared by participating networks, will foster a pooling of methods, which in turn will lead to significant savings.

Management of the project was entrusted to the STM, which was also mandated to coordinate all work with the partners. Given the project’s scope, a dozen multi-disciplinary teams have been formed involving representatives from each transit organization.

Investment per partner (in \$)

	Sales and collection system Ascom Monétel S.A.	Bus collection boxes GFI Genfare	Total
STM (Montréal)	67,899,599	44,889,145*	112,788,743
AMT (Montréal area)	7,636,132**		
RTC (Québec)	4,163,214		
RTL (Longueuil)	2,495,289		
STL (Laval)	557,076	5,673,669*	6,230,745
CIT Sorel-Varennes	312,377		
TOTAL	83,063,687	50,562,814	133,626,501

* 1,597 boxes for the STM and 220 for the STL.

** Including \$6,861,587 for commuter trains and \$774,545 for the Laval métro extension.

These investments were approved by members of the Boards of Directors of the six participating organizations that have authorized loan by-laws to finance the project.

THE STM IS STILL WELL RATED!

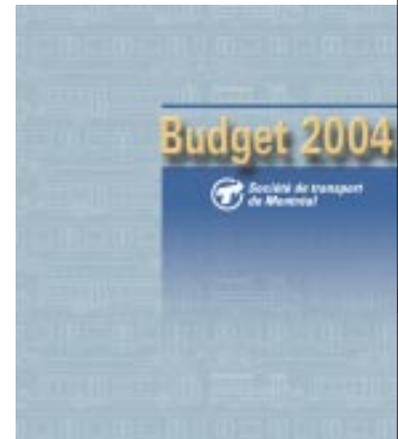
Once again, two major credit rating agencies, Standard & Poor's and Dominion Bond Rating Service (DBRS), gave the STM good marks. Indeed, DBRS confirmed the Société's credit rating, in particular the A (high) rating for its long-term debt. The rating agency believes that the STM's operational situation remained solid in 2002.

For its part, Standard & Poor's confirmed the quality of STM credit by maintaining its A+ to A-1 ratings, depending on the type of security. Despite the Société's increased investment needs, the firm expects a period of stability due to the strengthening local economy, the stabilization of municipal contributions, and potential new sources of financing. In its report, it highlighted the important role played by the STM as the supplier of an essential service in Québec's largest urban area.

2004 BUDGET

Showing a 5% increase over 2003, the 2004 budget has risen to \$811.3 million, including a \$263 million contribution from the City of Montréal, which has risen by \$26 million since the new city was created. The budget anticipates \$20.3 million in financial aid from Québec and calls for a 10% fare increase, as the government has not followed up on its commitment regarding the new financial framework for transit companies.

Several factors account for the 5% rise in expenses: an increase in wages (\$9.4 M), service improvements and optimization (\$3.5 M), adjustments related to a leap year calendar (\$3 M), the indexation of some group insurance premiums (\$2.2 M), the indexation of various goods and services, especially the cost of energy (\$2.1 M) and liability insurance (\$1.5 M) and, finally, the increase in servicing the debt of bus and métro networks (\$8.5 M), all relating to the massive investments that will be required to ensure sound, reliable service.



THE STM COMPENSATES TRANSIT USERS

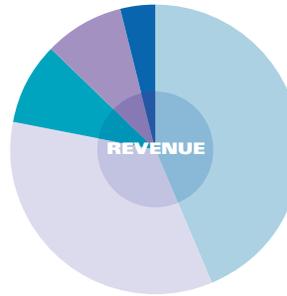
The Board of Directors approved compensation for transit users to make up for the inconvenience caused by striking maintenance employees from November 17 to 23. Thus, those who had bought a weekly CAM for that period received a \$5 (regular fare) or \$2.50 (reduced fare) refund. Between December 8 and 19, the STM issued refunds to 4,944 regular fare cardholders and to 302 reduced fare cardholders (CAM Hebdo). For their part, holders of a monthly pass (CAM) were eligible for a \$5 (regular fare) or \$2.50 (reduced fare) discount on the purchase of their February 2004 pass or a cash refund. This was the first time the STM offered any such compensation, and the gesture was the corporation's way of letting transit users know how important they are.

The decision to compensate CAM holders in February 2004 was motivated by two factors. First, at the time the Board of Directors approved the measure, the December pass was already on sale in the network. Second, the STM sells 20,000 fewer monthly passes in January due to school breaks and the holiday period. To be fair to as many as possible, the STM opted to issue the discounts in February.

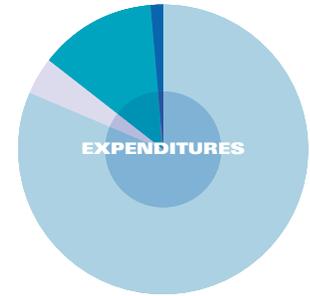
STM STATISTICS

FINANCES

■ REVENUE (in thousands of dollars)	
Passenger	334,771
Contribution by the City of Montréal	263,000
Government of Québec subsidies	70,766
Various contributions	66,227
Other revenue	29,673
	764,437
■ EXPENDITURES (in thousands of dollars)	
Bus and métro service	623,611
Paratransit service	31,148
Debt servicing and financial costs	99,292
Unforeseen expenditures	36
Asset maintenance	10,047
	764,134
■ SURPLUS (in thousands of dollars)	303



Passenger
Contribution by the City of Montréal
Government of Québec subsidies
Various contributions
Other revenue



Bus and métro service
Paratransit service
Debt servicing and financial costs
Unforeseen expenditures
Asset maintenance

FARES (in dollars)	1999	2000	2001	2002	2003 (January)	2003 (July)
CAM						
Regular fare	46	47	48.50	50	52	54
Reduced fare	19.50	20	22.50	25	26	27
CAM Hebdo						
Regular fare	12.25	12.50	13.50	14	15	16
Reduced fare	6.25	6.50	6.75	7	7.50	8
Strip of six tickets						
Regular fare	8.25	8.25	8.50	9	9.50	10
Reduced fare	4.25	4.25	4.25	4.50	4.75	5
Cash						
Regular fare	1.90	2	2	2.25	2.25	2.50
Reduced fare	1	1	1	1.25	1.25	1.25
Tourist Card						
1 day	5	7	7	7	7	7
3 days	12	14	14	14	14	14

FARE SALES

Fares	Regular fare	Reduced fare
CAM	2.1 millions	1.7 million
CAM Hebdo	2.1 millions	0.3 million
Strip of six tickets	37.6 millions	13.0 millions
Cash	18.9 millions	2.4 millions
Tourist Card		
1 day	55,355	
3 days	46,523	

RIDERSHIP (in millions)	2001	2002	2003
Bus and métro	354.9	363.2	363.2 *
Paratransit	1.28	1.35	1.43
Total	356.18	364.55	364.63

* According to estimates, the November strike by maintenance workers reduced ridership by about 3.9 million trips.

CHANGES TO THE ADMINISTRATIVE STRUCTURE

For the purpose of bringing greater cohesion between activity sectors and increased coherence in their actions, as well as fostering a greater sense of responsibility and accountability in management, the newly appointed Director General made a few changes to the corporation's administrative structure.

The main change concerns the creation of the Office of the Assistant Director General, which was entrusted to Michel Comtois, an experienced manager who knows public transit well, having spent more than 11 years with the Réseau de transport de Longueuil (RTL). In addition to supporting the Director General, the new administrative unit oversees the Information Technologies and Commercial Affairs departments.

Informally known as the Finance department, this executive branch is now called Treasury – Finance and Procurement. Within the Planning and Operations Support executive branch, a new Marketing and Customer Relations department was created to work more closely with different transit user groups and develop a better understanding of their transportation needs. Lastly, the Human Resources department also became an executive branch and now oversees the administrative unit responsible for the corporation's employee pension fund.

LABOUR RELATIONS

With respect to labour relations, 2003 was a very busy year. Indeed, the collective agreements of five of the transit corporation's six labour unions were up for renewal in January. Negotiations were held throughout most of the year and, by fall, agreements had been reached with four of the union groups: the Syndicat des chauffeurs d'autobus, opérateurs de métro et employés des services connexes au transport, the Syndicat du personnel administratif, technique et professionnel du transport en commun, the Syndicat des professionnelles et professionnels de la STM and, after an almost week-long strike – the first in over 16 years – the Syndicat du transport de Montréal (CSN maintenance workers). These four collective agreements all respect the fiscal parameters set out for the 2002-2006 negotiations with City of Montréal employees. Talks are still underway with the Syndicat des travailleuses et travailleurs – CSN representing 190 divisional clerks.

PLANNING FOR TOMORROW'S WORKFORCE

As with many other Québec companies, more than one-third of STM employees will be eligible for retirement by 2008. In 2003, some 450 employees left the company and, between now and 2006, retirement eligibility will be reached by the following:

- 38 % of foremen;
- 29% of management;
- 44% of operational supervisors;
- 33% of bus drivers, métro operators and fare collectors;
- 26% of maintenance workers.

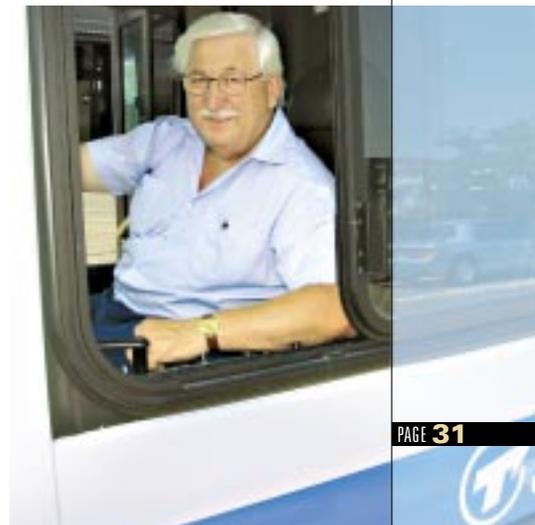
To provide the necessary framework for managers of all levels regarding the process for renewing the corporation's workforce, the following competencies have been targeted for further development:

- organizational skills (elements needed by the corporation to set it apart from its competitors and reach its business goals);
- corporate values (important or desirable ideas and elements to which the STM subscribes and that inspire our every action);
- mobilizing leadership skills (skills we want to promote, develop and refine among our managers so they are ready to face the realities of tomorrow).

Preparing for the STM's future organization is a process that also involves the development of management skills. As a result, the FAC Programme (Formation adaptée aux cadres), established with the École des sciences de la gestion de l'UQAM for second- and third-level managers, and the Compétences + programme, created for first-level managers with the Collège de Bois-de-Boulogne, provided training courses adapted to the STM's current administrative processes.

PAY EQUITY

The committee for pay equity continued with its work throughout most of the year with the Syndicat du personnel administratif, technique et professionnel du transport en commun, the union representing support staff, the only sector where the review process is still incomplete. The parties have agreed to establish a framework to implement the new job evaluation programme for this group. The deadline for completion has been set at December 31, 2004.



WORKFORCE BY DECEMBER 31, 2003

EMPLOYMENT CATEGORIES	2001	2002	2003
Operational supervisors and first-level managers	302	298	297
Foremen	117	118	128
Managers	167	185	185
Professionals and non-union staff	89	82	83
Unionized professionals	186	194	191
Divisional clerks	182	182	177
Security officers	148	153	152
Unionized support staff	590	606	613
Drivers, operators and related services workers	3,604	3,585	3,588
Maintenance workers	1,861	1,902	1,916
Total	7,246	7,305	7,330

PROPORTION OF WOMEN

Women represent 18.2% of the corporation's workforce.

PROPORTION OF ETHNIC AND VISIBLE MINORITIES

The corporation's workforce includes 8.7% ethnic and visible minorities.

AVERAGE AGE OF EMPLOYEES

45.7 years

AVERAGE NUMBER OF YEARS OF SERVICE

15.2 years

RECRUITMENT

Of the 734 persons hired in 2003, some 380 were for permanent positions.

RETIREMENT ELIGIBILITY

776 employees were eligible for retirement by the end of 2003.

UNIONS AND ASSOCIATIONS

- Syndicat des chauffeurs d'autobus, opérateurs de métro et employés des services connexes au transport de la STM (section locale 1983 – SCFP)
- Syndicat du transport de Montréal (Employés d'entretien - CSN)
- Syndicat du personnel administratif, technique et professionnel du transport en commun, SCFP 2850 - FTQ
- Syndicat des travailleuses et travailleurs de la STM – CSN
- Fraternité des constables et agents de la paix de la STM
- Syndicat des professionnelles et professionnels de la STM
- Association des chefs d'opérations – Réseau des autobus
- Association des chefs d'opérations – Réseau du métro
- Association des contremaîtres
- Association des cadres et des professionnels de la STM



SCALABLE COMMUNICATIONS SOLUTIONS

Following a public call for tenders in 2002, the STM has chosen Bell Canada as its exclusive provider of telecommunications services for the next 10 years. The STM will benefit from Bell's expertise in modernizing its wireline and wireless platforms, call centres, corporate network and vehicular communications.

The contract will equip the STM with state-of-the-art communications systems that will more effectively meet the corporation's performance requirements and the needs of its staff and transit users. Under this mandate, Bell will modernize and enhance the STM's five call centres, including the *TELBUS* service. The call centres will be redeployed to an all-IP platform from Cisco, ranking them among the first in the country to adopt this cutting-edge technology. Bell will also introduce a scalable telephony platform as well as a data transmission network in order to respond to the corporation's administrative needs. Furthermore, Bell will make its 1X next generation wireless telephony network available to the STM, making it possible to introduce innovative wireless applications on board vehicles and optimize the STM's communications network, increase its security and better serve users. In addition, Bell will conduct a feasibility study on the implementation of wireless telephony throughout Montréal's métro system. With this project, the STM could become one of the first transit companies in the world to offer this type of wireless service to its clientele.



CUSTOMER INFORMATION STATISTICS

- **Website**
7,242,964 visitors (4,358,273 in 2002). A new record was set in November when the website registered over 815,000 hits.
- **TELBUS/AUTOBUS**
16,707,782 calls, an average of 45,774 each day.
- **Planibus**
5,200,000, or 1,300,000 distributed four times during the year.
- **Infobus**
18,000, or 4,500 installed four times a year.
- **A-U-T-O-B-U-S**
2,205,268 calls.
- **Métro newspaper**
249 *Info STM* pages were produced, with an overall satisfaction level of 71%.
- **Comments and complaints**
21,994
- **Media relations**
104 press releases were issued;
10 press conferences were held and over 1,800 interviews were granted, 320 of them during the strike by maintenance workers.

A NEW GENERATION OF INFORMATION TOOLS

In November, the STM introduced a new generation of information tools, making it easier for transit users to obtain the information they need when planning their trips. Indeed, now clients can simply call a single number, STM.INFO (786-4636), to reach the STM. The *TELBUS* service was replaced by a more efficient system and was given the well-known *AUTOBUS* (288-6287) number. Transit users need only remember these two numbers and, as the capacity to handle calls has been doubled, clients can now access the system more rapidly and obtain a wider range of information about services, in both French and English.

More information with STM.INFO

Thus, for general information about the STM, clients should call STM.INFO (786-4636). A menu lists seven options: schedules (automatic transfer to *AUTOBUS*), métro, fares, Paratransit and the co-ordinates of other transit corporations in the metropolitan area. Two options are available to speak with a customer service representative: option 4 for comments and complaints, the lost and found, or general information, and option 7 to obtain travel directions.

More efficient and as simple as before

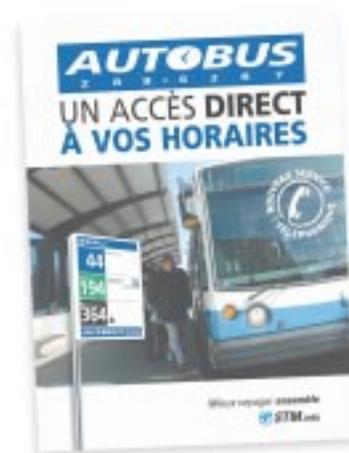
To obtain schedule information at different bus stops throughout the network or to find out if the next bus is wheelchair-accessible, transit users should call *AUTOBUS* (288-6287). The 15,000 *TELBUS* telephone numbers posted on the 8,600 bus stop panels will gradually disappear and be replaced by the *AUTOBUS* number. Each stop will display a 5-digit code that must be entered on the telephone keypad to obtain schedule information for that stop.

Necessary changes

As the *TELBUS* system was not designed to make the transition to the year 2000, it was optimized to its full extent. It responded to some 50,000 calls on average per day and had already set a record of 62,000 calls. Pushed to its limits, it had become fragile and could have given out at any time. As an interruption in service would have had a huge impact, it became imperative to replace it with a more up-to-date and efficient technology.

Partners in change

The installation of these new platforms is one of the largest that Bell and CISCO have carried out using Internet Protocol automated telephony. Thanks to these technologies, once customers have adapted to the new *AUTOBUS* number, the STM will be in a position to answer a greater number of calls. In addition to providing obvious benefits to customers in terms of speed and information quality, these systems will be more flexible, more efficient and less costly to maintain. Once the new numbers were introduced, transit users noticed a marked improvement, as they were now able to obtain a response on their first call attempt, whereas previously, almost half got a busy signal on their first try. Indeed, as statistics show, the majority of callers switched over from the former *TELBUS* number to the *AUTOBUS* number within a matter of days.





VIP CAMPAIGN 2003

In 2002, for the first time, a televised awareness campaign aimed at enhancing public transit's image was simultaneously broadcast everywhere in North America. The point was to convince the population that public transit offers benefits to the entire community – not only to transit users – and that it requires increased financial support.

Known as VIP (Visibility, Image and Positioning), the campaign is the result of a research programme developed by the American Public Transportation Association (APTA) and the Canadian Urban Transit Association (CUTA). The STM decided to renew its agreement with CUTA and the other partner transit companies for a second year. Last year's message, using the theme song *Pas besoin de frapper*, was broadcast on both the TVA network and the LCN news channel. In addition, six new sixty-second public service announcements were broadcast on LCN during the year.

RECRUITING NEW BUS DRIVERS

The STM is currently facing a major challenge regarding the renewal of its workforce. In the next few years, more than one third of all employees will be eligible for retirement. To ensure replacement workers, particularly with bus drivers, métro operators and fare collectors, the corporation has implemented a three-year communication strategy in order to attract new candidates.

Using posters on buses and inside métro cars, advertising in the *Info STM* page of the *Métro* newspaper and on the STM website, running an article and more ads in the daily *Journal de Montréal*, as well as taking part in job fairs, the Human Resources team has been trying to interest as many people as possible to submit their resumes or at least inquire about career possibilities. Recruitment drives were also targeted at organizations and institutions helping women and ethnic communities, in order to ensure proper representation, in accordance with the company's policy of Equal Opportunity adopted in 1987.

Whereas the STM hires an average of 150 drivers a year, 321 new recruits joined the transit corporation in 2003. According to a survey of over 1,300 candidates, more than 25% had found out about the job openings through the various ads and posters. The corporation's website alone attracted more than 21% of respondents.

EMBARQUEZ-VOUS?

CELEBRATING WINTER

For a second year now, the STM was the official carrier for Montréal's winter festival, La Fête des neiges de Montréal, providing free shuttle service, as well as paratransit service, to the site where activities were being held. Visitors were kept warm and comfortable aboard BIOBUS vehicles for the trip, and the STM's mascot, Urbain, once again charmed the little ones. More than 150,000 people took part in the winter festivities held during three consecutive weekends.

WORDS THAT TRAVEL

Since October, the métro has been using the *Télécité* electronic billboards to present contemporary poetry aboard its trains. Excerpts from works by such poets as Michel Garneau, Lucien Francœur, Denise Boucher and several others are displayed every 15 minutes. The poems have all been published and are still available in libraries, where interested commuters can easily find the complete works. Inspired by similar projects elsewhere in the world, this initiative by the City of Montréal was widely appreciated by transit users.

SPORTS CHALLENGE

To mark the 20th edition of the Défi sportif pour athlètes handicapés sports challenge, more than 2,300 disabled athletes from seven countries took part in various competitions. As the event's official carrier, the STM also hosted Partners' Day, gathering over 100 people, athletes, volunteers, partners and organizers, to celebrate this 20th anniversary.

DESIGN TOUR

Once again, the STM contributed to the Commerce Design Montréal contest, by providing a bus for jury members touring competing businesses. Organized by the Société de développement de Montréal, the contest won the 2002 Outstanding Achievement Award from the International Downtown Association, the highest international award for downtown revitalization projects.

ACTIONS AGAINST RACISM

The Montréal métro was once again called upon to take part in Action Week Against Racism, held March 14 – 23. For three days, McGill métro station provided a stage for *Des mots pour le dire*, an event showcasing dance and musical groups from here and elsewhere. Passersby could obtain literature on the pitfalls of racism, while learning more about citizenship and human rights from representatives of various organizations hosting information booths. Held in a métro station for a third consecutive year, the event was a huge success.





QUITE A SUNDAY . . .

On Montréal Museum Day, now a well-established tradition, the public once again took advantage of the free shuttle service offered by the STM on five specially designed routes to visit some of the 29 participating museums. The 17th edition of this widely popular event was again a huge success, as more than 95,000 entries were recorded by the institutions, compared to 90,000 in 2002. It is estimated that more than half of the museum-goers used the STM shuttle service.

QUITE A WEEKEND . . .

Again, the STM contributed to the success of the Canadian Grand Prix, which in 2003 celebrated 25 years in Montréal. Although ridership on the métro's Yellow line was lower than the previous year (358,680 trips on Saturday and Sunday, compared to 413,808 in 2002), STM employees pulled off a minor miracle by successfully transporting tens of thousands Formula 1 fans during the weekend.

QUITE A DAY . . .

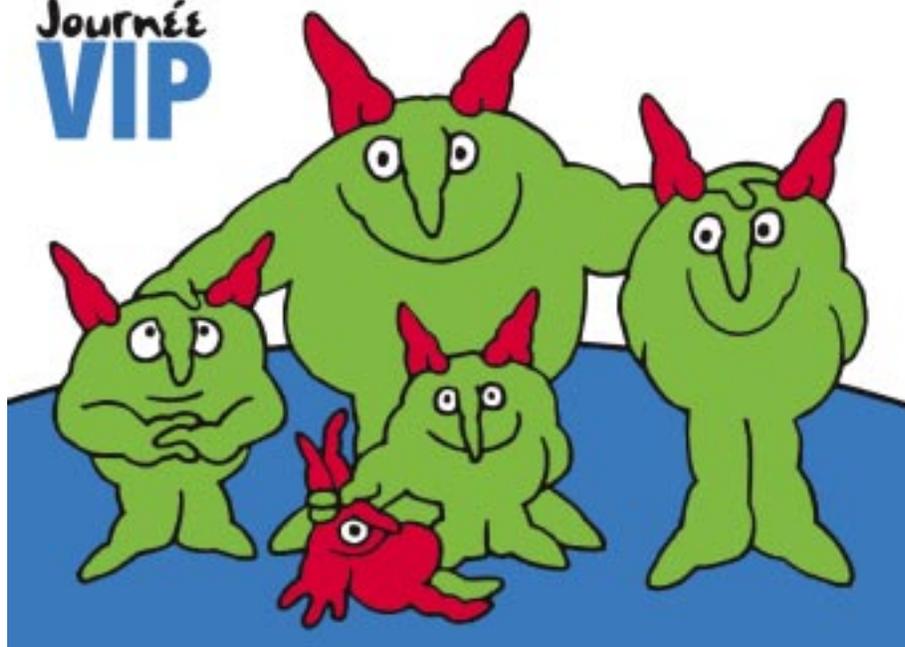
The STM also partnered up with the Street Arts portion of the Just for Laughs Festival, making it possible for low-income families to take part in a very special day on July 16. That day, 500 persons chosen by the YMCA and Montréal's Centres d'aide à la famille (family resources centres) were given free access to public transit so they could attend the different activities to which they had been invited by Festival organizers.

AND QUITE A SEASON

For a sixth year, the STM renewed its partnership with the Montréal Alouettes by providing a free shuttle service to the Percival-Molson stadium for the football team's local games. The service offers a rapid connection between the sports stadium and Bonaventure, Square-Victoria and McGill métro stations. Over the years, an increasing number of football fans have opted for this service instead of their car, as it enables them to reach the stadium safely while avoiding traffic congestion.



Journée
VIP



CHILDREN'S FESTIVAL

On August 16 and 17, the STM acted as the official carrier for La Fête des enfants de Montréal for a fifth consecutive year. During these two days, children and their families could travel for free aboard the métro and STM buses upon presenting a family pass. In addition, a shuttle service brought them from Viau métro station to parc Maisonneuve, where the festivities were being held. Urbain, the STM mascot, was also in attendance and gave away colouring books, crayons, stickers and paper buses.

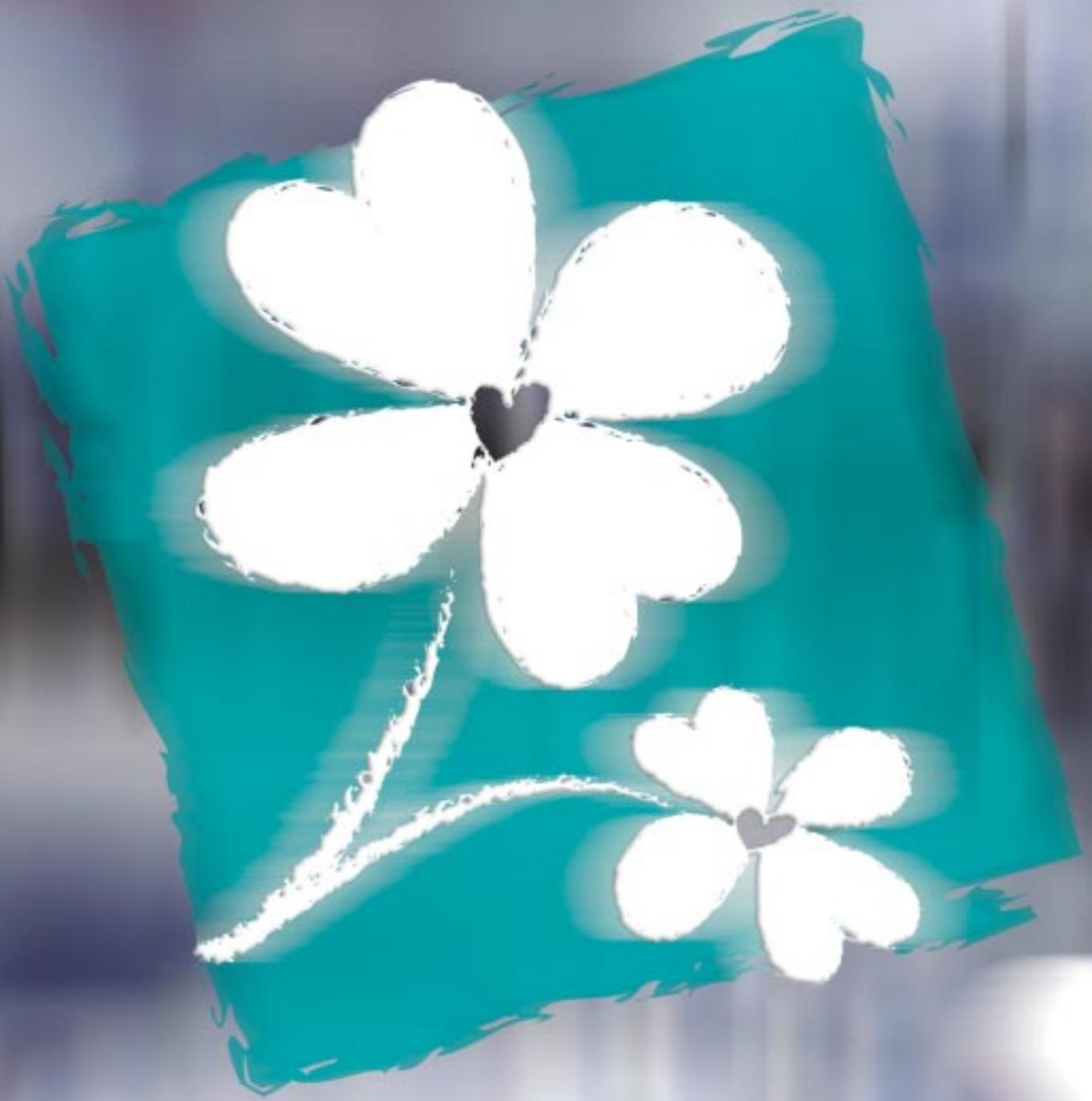
ACCESSIBLE CULTURE

A first in Québec: to mark the seventh edition of the Journées de la culture, two cultural excursion tours were made accessible to persons in wheelchairs. Thanks to this initiative by Kéroul, an organization promoting accessible tourism and culture for persons with physical limitations, some thirty people were able to visit different locations and discover distinctive facets of artistic expression along two routes. Musée du Château Dufresne, Cirque du Soleil, Jean-Duceppe theatre company and Société Radio-Canada opened their doors to persons with limited physical ability. STM Paratransit vehicles were at Kéroul's disposal during these three days, providing free transportation for participants.

AND MORE

The STM was also involved in several other events, either by donating tickets or passes, by setting up information stands, by using its advertising space to promote activities or by featuring articles in the *Info STM* page in the *Métro* newspaper. Clean Air Day, the Corvée du mont Royal (clean-up operation), the Jeunes fonctionnaires d'un jour programme (civil servants for a day) and the Courtepointe culturelle des Mamies immigrantes pour le développement et l'intégration are only a few of these events.





ENVIRONMENTAL PROTECTION

Early in the new year, the STM adopted a new three-year environmental protection programme. Involving all sectors of the corporation, the programme focuses on the years 2003-2005 and outlines twelve environmental goals to be reached, as well as the action plans that will make them possible. The main environmental aspects covered are:

- the discharge of waste water in the sewage system;
- the release of atmospheric pollutants from stationary and mobile sources;
- the soil contamination produced by underground storage equipment and other sources;
- the production of residual matter, dangerous or not.

Setting these goals translates into action many of the guiding principles behind the corporation's environmental policy, including the prevention of pollution, conformity to legal requirements, impact-reducing measures and the addition of environmental activities as part of a continuous improvement process. The progress achieved during the programme's initial year are encouraging and, overall, the activities listed in the action plan were carried out according to schedule. These results speak for the involvement of employees and are a clear demonstration of the STM's renewed commitment toward protecting the environment. With respect to providing durable transportation, the STM is staying the course.

ANNUAL FUNDRAISING

For eight years now, active and retired STM employees have been showing their overwhelming generosity during the corporation's annual fundraising campaign held November 1st to 30. This year, they gave \$416,200.37 which will be shared by four organizations: \$90,468.78 for Centraide, \$69,634.18 for the Red Cross, \$61,301.38 for Partenairesanté-Québec and \$194,796.03 for the STM's own Réchaud-Bus.

GOOD DEEDS BY EMPLOYEES

On December 4, 5 and 6, employees solicited the generosity of transit users inside several métro stations, and the public responded by donating \$47,500 which, added to the \$6,000 collected from STM employees, brought the total to \$53,500. The money was used to prepare Christmas baskets for 500 underprivileged Montréal families.

On December 21, several employees, some accompanied by their families, further demonstrated their generosity by leaving the warmth of their homes and their holiday preparations to prepare the food baskets and deliver them directly to the needy families.





CARING FOR THE HEALTH OF CHILDREN

Throughout the year, employees of the Saint-Denis garage organized activities for the purpose of collecting money for the Sainte-Justine Hospital Foundation. Soup drives, half-and-half draws, a car wash, a benefit lunch and the sale of a commemorative pencil enabled employees to donate \$5,500 to the Foundation on December 5.

For their part, métro constables and the Association des amis de Legendre (the Legendre garage social club) continued to organize events to support their favourite charity, the Foundation for research into children's diseases. A yard sale, a pool tournament, a bowling marathon and a casino night are some of the activities that generated \$12,500 for the Foundation.

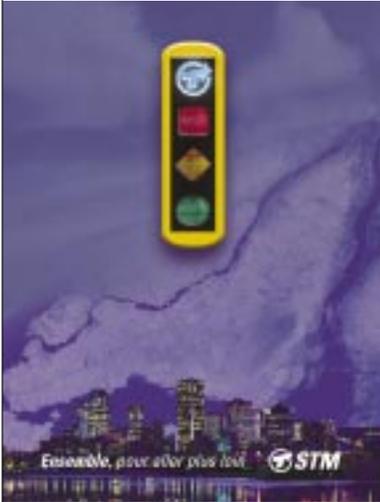
Moreover, members of the Legendre social club once again took part in the clean-up drive of Camp Papillon, a summer camp for handicapped children.

SALUTING BRAVERY AND CIVIC-MINDEDNESS

As part of the corporation's recognition programme, designed to pay tribute to acts of bravery and other deserving actions by employees, the Director General presented a Certificate of Recognition to seven employees, namely Roger Chénier, chassis repairman; Denise Côté, maintenance worker; Pierre Crevier, métro constable; Robert Dandurand, yardsman; Daniel Richer, bus driver; Martin Rousseau, bus driver; and Gulio Vitalei, yardsman. The actions for which these employees were honoured are all commendable and demonstrate the exceptional courage and civic-mindedness of these individuals. Two of them, Mr. Chénier and Mrs. Côté, were also honoured by the Heart and Stroke Foundation of Québec, as part of their Cardiopulmonary Resuscitation Month. They both received Certificates for outstanding civic duty from Québec's Lieutenant-Governor, the Honourable Lise Thibault.







THREE PROJECTS HONOURED!

The STM held its head high at the Canadian Urban Transit Association (CUTA)'s annual conference held in Winnipeg May 31 to June 4. Three of its projects earned a CUTA Recognition Award: the campaign on public transit financing, *Ensemble pour aller plus loin* (Innovation category), *Vision 2002* (Superior performance / Outstanding achievement category) and the *Stratégie de maintien de l'ordre public* (Security category).

TWO AWARDS FOR AN ENVIRONMENTAL PROJECT . . .

In April, the BIOBUS project earned the Environnement 2003 prize for technological achievement from the Association québécoise du transport et des routes (AQTR). In November, the Association québécoise pour la maîtrise de l'énergie (AQME) awarded first prize to the project in the Research and Development category as part of the 14th edition of the Énergia competition designed to reward excellence of achievement in energy efficiency and control. Moreover, in May, the BIOBUS project was a finalist for the 2003 Phénix de l'environnement award for expertise in sustainable development.

AND TWO MORE FOR AN INNOVATIVE POLICY

The STM's policy, *Respect de l'intégrité physique et psychologique de la personne*, has earned it the 2003 Prix Équinoxe – Programme interne de relations publiques awarded by the Société des relationnistes du Québec (Québec's public relations association). The jury highlighted the strength of the initiative, the care given to research and the interesting way in which this delicate subject was handled.

Later, in October, the same policy was awarded the Réalisation 2003 prize, in the Municipal category, by the Institut d'administration publique du Québec. The awareness campaign, designed to promote the policy, won over jury members with its innovative approach, the ease with which it was implemented, as well as its potential for adaptation by other organizations.

In 2001, the STM implemented an internal public relations programme designed to disseminate and promote its new policy, *Respect de l'intégrité physique et psychologique de la personne*, which outlined its position with regard to harassment and violence in the workplace. This programme was aimed at making both managers and employees aware of both their responsibility in this area and their means of recourse, in particular their right to appeal to the ombudsman. Awareness of this policy increased from 64% to 90%. Moreover, following this campaign, a large number of employees came forward to speak with the ombudsman.



AN OUTSTANDING POSTER

For its *Déjà là* campaign poster, the STM won the Corps-Accord prize, awarded to media content that made the greatest contribution to valorizing other forms of female beauty than those focused on thinness. It was awarded on May 6 at an evening event organized by Coalition Corps-Accord in honour of International No Diet Day. Created in London in 1992, this special day, held in Québec since 1998, has three main objectives: to denounce society's obsession with thinness, encourage women to focus on overall health and well-being rather than weight loss at any price, and help women to find their own models of beauty and charm.

The *Déjà là* campaign, with a second instalment running from June to November 2002, gained a fair share of notoriety. In fact, the poster showing a woman in a bathing suit was the most noticed, with 56% of people answering an STM survey saying they remembered it. The survey also revealed that 26.6% of respondents claimed to have gained a better appreciation for the corporation, as the campaign had been associated with the speed and reliability of public transit.



AWARD OF EXCELLENCE FOR ITS PARTNERSHIPS

At the third edition of the Agence métropolitaine de transport's Salon Allégo, the STM received an award of Excellence in the Partnership category. The award recognizes the transit corporation's contribution to the creation of innovative partnerships with several Montréal Island businesses. Indeed, these agreements made it possible to implement several customized transit services.

The prize also rewarded the STM's involvement in the development of an annual transit pass subscription programme, provided on a trial basis to Transport Québec employees. Should the results of the pilot project prove to be conclusive, this new service could become available to other Montréal businesses and institutions.





BY DECEMBER 31, 2003



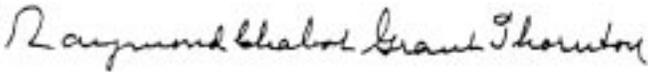
AUDITORS' REPORT

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, 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

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
		<u>252,193</u>	<u>82,943</u>	<u>92,642</u>
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
		<u>325,056</u>	<u>^(b)120,626</u>	<u>123,967</u>
UNDER-FINANCING FOR YEAR ^(a)		<u>(72,863)</u>	<u>(37,683)</u>	<u>(31,325)</u>

(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)	<u>303</u>	<u>12,815</u>

(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
	<u>(8,941)</u>	<u>(937)</u>
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
	<u>59,164</u>	<u>61,473</u>
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.

The accompanying notes are an integral part of the financial statements

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:

<i>(in thousands of dollars)</i>	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
	<u>750,600</u>	<u>8,000</u>	<u>758,600</u>
Accumulated surplus from the previous year appropriated to the current year	14,000	—	14,000
	<u>764,600</u>	<u>8,000</u>	<u>772,600</u>
EXPENDITURES	<u>764,600</u>	<u>8,000</u>	<u>772,600</u>

^(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

<i>(in thousands of dollars)</i>	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
	<u>337,571</u>	<u>334,771</u>	<u>321,871</u>

^(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
	<u>74,307</u>	<u>70,766</u>	<u>65,388</u>

(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
	<u>53,201</u>	<u>55,264</u>	<u>49,846</u>
Debt financing - commuter trains ^(c)	8,729	9,160	14,324
	<u>61,930</u>	<u>64,424</u>	<u>64,170</u>

(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.

NOTES TO FINANCIAL STATEMENTS

AT DECEMBER 31, 2003

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)
	—	—	5
Other projects			
Revenue	—	1,066	1,108
Expenditures	—	(954)	(963)
	—	112	145
Surplus	—	112	150

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)
	1,000	978	534
	<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
	138,558	127,322
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
	<u>14,016</u>	<u>6,585</u>

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
	<u>39,523</u>	<u>29,295</u>

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
	<u>2,665,248</u>	<u>1,667,651</u>	<u>997,597</u>	<u>951,492</u>

	2003			2002
	OPENING BALANCE	CHANGE	CLOSING BALANCE	CLOSING BALANCE
Deferred subsidies	<u>227,281</u>	<u>35,269</u>	<u>262,550</u>	<u>227,281</u>

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%.

NOTES TO FINANCIAL STATEMENTS

AT DECEMBER 31, 2003

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 mandatory 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 mandatory 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.