

LRT Pension Fund

Annual Report and Accounts



2003

 YEAR ENDED 31 MARCH 2003

Report and Accounts for the Year to 31 March 2003

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Administration Office

LRT Pension Fund, 3rd Floor, Wing Over Station, 55 Broadway, London SW1H 0BD Telephone (020) 7918 3733

Requests for a copy of the Trust Deed and Rules of the Fund and enquiries about the Fund generally, or about an individual's entitlement to benefit, should be addressed to the LRT Pension Fund Office at the above address. The Report and Accounts may be viewed on the LRT Pension Fund's Website, www.lrtpensionfund.co.uk

Pension Schemes Registry scheme reference number: 101653517

Organisation and Advisers as at 31 March 2003

Trustee

LRT Pension Fund Trustee Company Limited

Board of Directors of LRT Pension Fund Trustee Company Limited

(Nominating bodies are shown in brackets)

C Hodson (Chairman)	Pensioner (LRT)
MS Ainsworth	Business Planning & Review Manager, London Bus Services Limited (LRT)
AE Ball	Head of Customer Relationships, Infraco BCV Limited (LRT)
AE Barnes	Pensioner (PCC)
GJ Belton	Support Manager, Train Operations Standards, London Underground Limited (PCC)
SR Critchley	Chief Finance Officer, Transport for London (LRT)
R Crow	General Secretary, RMT (RMT)
JD Freeman	Planning Manager (Premises), London Bus Services Limited (PCC)
MA Gardiner	Head of Employee Relations, London Underground Limited (LRT)
S Grant	District Secretary, ASLEF (ASLEF)
JE Ingleton	Pensioner (PCC)
F Low	Secretary & Solicitor, London Underground Limited (LRT)
J Pownall	Solicitor Property & Parliamentary, London Underground Limited (LRT)
TC Scanlon	Regional Industrial Organiser, T&GWU (T&GWU)
HL Sumner	Managing Director, Infraco Sub-Surface Limited (LRT)
AM Taylor	District Line Duty Station Manager, London Underground Limited (TSSA)
JB Timbrell	Project Liaison Engineer, T M U (Acton) Limited (LTJTC)
SJ Timbrell	Director of Pensions, Transport for London (LRT)

Principal Employer

London Regional Transport

Participating Employers

Transport for London
Transport Trading Limited
Victoria Coach Station Limited
London Bus Services Limited
London Buses Limited
London River Services Limited
London Underground Limited
Infraco BCV Limited
Infraco Sub-Surface Limited
Tube Lines Limited
Cadbury Limited
Cap Gemini UK Limited
Cubic Transportation Systems Limited
Electronic Data Systems Limited
Instant Library Limited
Seeboard Powerlink Limited
Strategic Rail Authority
Thales Communications Services Limited

Secretary

CL Angell

Auditors

KPMG LLP

Scheme Actuary

MD May, Watson Wyatt LLP

Legal Advisers

Mayer, Brown, Rowe & Maw LLP
Eversheds

Bankers

The Royal Bank of Scotland plc

Communications Adviser

GR Communications

Investment Adviser

Mercer Investment Consulting

Investment Managers

Alliance Capital Limited
Baillie Gifford & Co.
Barclays Global Investors Limited
Gartmore Investment Management plc
Henderson Investors Limited
JP Morgan Investment Management Inc.
Schroder Investment Management International Limited
LaSalle Investment Management
Jones Lang LaSalle Limited
Insignia Richard Ellis Limited

Custodian

JP Morgan Chase Bank

Medical Adviser

Dr Kevin Holland-Elliott

Chairman's Introduction

I am pleased to present my review of the year ended 31 March 2003. The year has again been dominated by falling stock markets which, in line with almost every other UK pension scheme, is placing a strain on the match between assets and liabilities. Resolution of previous uncertainties is welcome, in particular the establishment of the Public Private Partnerships and the announcement of the date for the transfer of London Underground from London Regional Transport to Transport for London. Because of the problems experienced with our Additional Voluntary Contributions Provider, Equitable Life, we will be shortly offering an expanded range of funds with Clerical Medical and a new range with Standard Life.

Despite stock market volatility, it is gratifying to record that the total fund beat its benchmark return for the last year by 0.3 percent and has delivered a performance in line with its benchmark return since its inception in September 1999. The Directors believe that their decision to adopt the current passive/active fund management structure with a scheme specific benchmark has served the Fund well, and has delivered a better average return over the last 43 months than would have been achieved with the previous balanced fund structure.

The coming year will be of critical importance. The Scheme Actuary is currently carrying out a triennial valuation of the Fund to ascertain whether the assets already held by the Fund are sufficient to pay all the benefits that have been earned by service up to the date of the valuation, 31 March 2003. The long-term assumptions used in his valuation will recognise the membership's increasing life expectancy, the recent experience of reduced investment returns, and the extent to which general pay escalation is expected to differ from assumed price inflation. His valuation, the initial results of which will be received later this year, is likely to demonstrate that the Fund's accumulated assets are insufficient to cover the cost of benefits earned at the valuation date. I would, however, like to reassure members that, in the event that a deterioration is revealed, the employers are obliged, under the Rules, to pay sufficient contributions to clear any deficit within a maximum of ten years. The Scheme Actuary will work closely with the Principal Employer to determine the appropriate rates of contributions for individual employers, to be effective from April 2004.

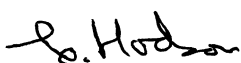
In the meantime the Scheme's Actuary is working with the Principal Employer's Actuary who has been commissioned to prepare an Asset Liability Modelling Study, the outcome of which will determine, in agreement with the Trustee Directors, the shape of the Fund's long-term assets best placed to meet future liabilities, and deciding how the assets should be allocated, trading off risks with rewards. A wide spectrum of asset classes will need to be considered by the Trustees - for instance the balance between equities in the UK and overseas, corporate bonds, government gilts, private equity, hedge funds, currency overlay and property. Consideration will also be given to the balance between passive and actively managed funds, and which investment managers are best qualified to secure the best returns for the Fund.

The Directors continue to pursue the Best Practice principles being introduced following the Myners' Review of Institutional Investment. The Fund is already broadly compliant with the main principles, but particular attention has been paid to understanding transaction costs, with the aim of taking action to optimise net investment returns. Attention is also being focussed on the very current topic of shareholder activism.

We are mindful of the representations made by the Pensions Consultative Council for the Directors to improve communications between themselves and the Fund's members. In addition to the streamlining of letters to members and other documentation, the recent development of the Website appears to have been well received.

Finally, by the time that this Annual Report and Accounts is published, I shall have stepped down as a Director and Chairman. My thanks go to the Scheme Actuary, Investment and Legal Advisers, Investment Managers, Custodian, Auditors and Communications Adviser. I wish to place on record my appreciation of the support I have personally received from co-directors, past and present, over the last five years - I feel that we have worked well as a team, endeavouring to act in the best interests of all members. I thank the staff of the Fund Office for the sterling work they perform, week in and week out. Not least, I pay special tribute to our Fund Secretary, Chris Angell, and his team for their hard work and support during the period of my tenure.

I send best wishes to all members.



C Hodson
Chairman
9 July 2003

Report of the Directors of LRT Pension Fund Trustee Company Limited

The Directors of LRT Pension Fund Trustee Company Limited, the Trustee of LRT Pension Fund, have pleasure in submitting their Annual Report on the operations of the Fund, together with the Accounts of the Fund for the year ended 31 March 2003.

1. Management of the Fund

(a) The Trustee

The Trustee is required to act in accordance with the Trust Deed and Rules of the Fund, within the framework of pension and trust law. It is responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

(b) Board of Directors

The Board of the Trustee is made up of 18 Directors as set out on page 2. Full details of how Directors are nominated are given in the Compliance Statement on page 21.

Directors serve for such period as their nominating body determines, or until that body withdraws their nomination or in the case of a nominee from the LRT Pensions Consultative Council, they cease to be a member of the LRT Pensions Consultative Council.

From 1 July 2002, CJR Bedford was replaced as a Director by SR Critchley as a result of a changed LRT nomination and from 12 March 2003 SJ Timbrell replaced CW Davey as a result of changed LRT nomination.

In the year to 31 March 2003 the Directors attended all the Board meetings for which they were eligible to attend, with the exception of AE Barnes, GJ Belton and SR Critchley who were absent for one meeting; MA Gardiner and S Grant who were absent for two meetings; MS Ainsworth and HL Sumner who were absent for three meetings; and R Crow who was absent for five meetings.

(c) Committees of the Board of Directors

Whilst the full Board of the Trustee decides all policy matters, the Board has recognised that committees are necessary in carrying out its functions in respect of the LRT Pension Fund efficiently and that the exercise of all delegated authority, when not directly supervised by the Board, shall be supervised by a committee.

For this purpose the Board has set up an Investment Committee, an Audit Committee, an Operations Committee; a Disputes Resolution Committee and an Appeals Committee. Each Committee comprises either four, six or eight Directors of the Trustee, half of whom are LRT nominated Directors and half of whom are non-LRT nominated Directors.

Further information regarding the management of the Fund is contained in the Compliance Statement on page 21.

2. Financial review

The Accounts of the Fund for the year to 31 March 2003 have been drawn up in compliance with the Statement of Recommended Practice, Financial Reports of Pension Schemes (SORP).

The net assets of the Fund, that is the investment assets including the AVC scheme, the fixed assets held for own use and the net current assets, amounted to £2,664.7m at 31 March 2003. The decrease of £621.0m, compared with the value at 31 March 2002 of £3,285.7m, was made up as follows:

	2003 £m	2002 £m
Net return on investments	(561.9)	(37.0)
Net withdrawals from dealings with members	(59.1)	(66.5)
	<u>(621.0)</u>	<u>(103.5)</u>

The net returns on investments comprised decreased market value of investments of £625.5m (2002: £104.1m) and investment management expenses of £5.8m (2002: £6.1m), offset by investment income of £69.4m (2002: £73.2m). The decrease in market value of investments was made up of realised investment losses of £175.2m (2002: £83.6m) and unrealised investment losses of £450.3m (2002: £20.5m).

The decrease in the value of investments was added to by the net withdrawals from dealings with members, as benefits payable, payments to and on account of leavers and administrative expenses exceeded contributions receivable plus transfers in from other schemes.

Benefits payable increased by £7.6m as a result of increases in pensions and lump sum retirement benefit payments.

Contributions increased by £11.2m as a consequence of the annual increase in salaries and the increase in contributing membership. Under the Rules of the Fund, the administrative costs of the Fund, which remained broadly unchanged from last year, are borne by the Fund itself.

Further details of the financial movements of the Fund may be found in the audited Accounts on pages 9 to 15.

Details of the participating employers' unit holdings and asset values are set out in the statement on page 32.

3. Pension increases

Deferred members and pensioners whose pension commenced on or before 1 April 2001 received an increase, with effect from 1 April 2002, of 1.7%, based, in accordance with the Fund Rules, on the increase in the Retail Price Index for the year to September 2001. For pensioners whose pension commenced after 1 April 2001, the increase was reduced by reference to the period between 1 April 2001 and the date their pension commenced.

Increases to pensions in payment and deferred pensions over the past five years have been as follows:

April 1998	3.6%
April 1999	3.2%
April 2000	1.1%
April 2001	3.3%
April 2002	1.7%

4. Changes in membership and beneficiaries during the year

During the year to 31 March 2003 total members and other beneficiaries increased by 1,410 to 81,378. This figure comprises an increase in contributing members of 1,515, an increase in pensioners of 118, a decrease in deferred pensioners of 280 and an increase in beneficiaries of 57.

	2002/ 2003	2002/ 2003	2001/ 2002	2001/ 2002	Change
Members					
Contributing members as at 1 April	19,762		17,977		
Joiners	3,180		2,902		
	<u>22,942</u>		<u>20,879</u>		
Contributing members retiring	(569)		(403)		
Leavers taking a refund of contributions	(487)		(206)		
Leavers becoming deferred pensioners	(513)		(489)		
Leavers taking an ill health lump sum	(3)		(1)		
Leavers through opting out	(74)		-		
Deaths in service	<u>(19)</u>		<u>(18)</u>		
Contributing members as at 31 March		21,277		19,762	1,515
Deferred pensioners as at 1 April	19,074		19,174		
Leavers becoming deferred pensioners	513		489		
	<u>19,587</u>		<u>19,663</u>		
Deferred pensions coming into payment	(576)		(481)		
Deferred pensioners transferring to other schemes	(178)		(83)		
Deferred pensioner deaths	<u>(39)</u>		<u>(25)</u>		
Deferred pensioners as at 31 March		18,794		19,074	(280)
Pensioners as at 1 April	30,351		30,498		
Contributing members retiring	569		403		
Deferred pensions coming into payment	576		481		
	<u>31,496</u>		<u>31,382</u>		
Persons ceasing to be eligible for ill health pension	(13)		-		
Pensioner deaths	<u>(1,014)</u>		<u>(1,031)</u>		
Pensioners as at 31 March		30,469		30,351	118
Total members as at 31 March		<u>70,540</u>		<u>69,187</u>	<u>1,353</u>
Beneficiaries					
Dependants as at 1 April	10,232		10,186		
Dependants becoming entitled to pensions	840		705		
	<u>11,072</u>		<u>10,891</u>		
Dependant deaths	<u>(782)</u>		<u>(659)</u>		
Dependants as at 31 March		10,290		10,232	58
Eligible children as at 1 April	549		513		
Children becoming entitled to pensions	148		81		
	<u>697</u>		<u>594</u>		
Children ceasing to be eligible	<u>(149)</u>		<u>(45)</u>		
Eligible children as at 31 March		548		549	(1)
Total beneficiaries as at 31 March		<u>10,838</u>		<u>10,781</u>	<u>57</u>
Total beneficiaries and members as at 31 March		<u>81,378</u>		<u>79,968</u>	<u>1,410</u>

LRT Pension Fund

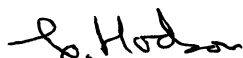
Details of contributing members by Participating Employer as at 31 March 2003 are as follow:

	2002/ 2003	2002/ 2003 %	2001/ 2002	2001/ 2002 %
LUL, LRT & TfL	15,052	70.74	13,664	69.14
Infraco BCV Limited	2,096	9.85	2,059	10.42
Infraco Sub-Surface Limited	2,000	9.40	1,937	9.80
Tube Lines Limited	1,846	8.68	1,740	8.80
Seaboard Powerlink Limited	182	0.86	263	1.33
Electronic Data Systems Limited	39	0.18	40	0.20
Cubic Transportation Systems Limited	37	0.18	40	0.20
Instant Library Limited	9	0.04	9	0.05
Strategic Rail Authority	7	0.03	-	-
Cadbury Limited	5	0.02	5	0.03
Thales Communications Services Limited	3	0.01	4	0.02
Cap Gemini UK Limited	1	0.01	1	0.01
Total	<u>21,277</u>	<u>100.00</u>	<u>19,762</u>	<u>100.00</u>

5. Approval of the Report of the Directors of the Trustee

The Investment Report on page 16 and the Compliance Statement on page 21 form part of this Report of the Directors of the Trustee.

This Report was approved by the Directors of LRT Pension Fund Trustee Company Limited on 9 July 2003 and was signed on their behalf by:



C Hodson

Directors
LRT Pension Fund Trustee Company Limited



S Grant

Independent Auditors' Report to the Trustee of LRT Pension Fund

We have audited the Accounts on pages 9 to 15.

This report is made solely to the Fund's Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work and our work on contributions has been undertaken so that we might state to the Fund's Trustee those matters we are required to state to them in such an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund's Trustee for our audit work, our work on contributions, for this report, or for the opinions we have formed.

Respective responsibilities of the Trustee and Auditors

As described on pages 21 and 22 the Fund's Trustee is responsible for obtaining audited accounts which comply with applicable United Kingdom law and Accounting Standards. They are also responsible for making available, commonly in the form of a Trustee's report, certain other information about the Fund which complies with applicable United Kingdom law. Further, as described on page 21, they are responsible for ensuring that a schedule of contributions payable to the Fund is prepared and maintained and for procuring that contributions are made to the Fund in accordance with that schedule. Our responsibilities as independent auditors are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the Accounts give a true and fair view and contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. We also report to you our opinion as to whether the contributions have been paid in accordance with the Schedule of Contributions certified by the Actuary and if we have not received all the information and explanations we require for our audit.

We read the Trustee's report and other information accompanying the Accounts and consider whether it is consistent with those Accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Accounts.

Basis of opinions

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Accounts. It also includes an assessment of the significant estimates and judgements made by or on behalf of the Trustee in the preparation of the Accounts, and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed. The work that we carried out also included examination, on a test basis, of evidence relevant to the amounts of contributions paid to the Fund and the timing of those payments.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Accounts are free from material misstatement, whether caused by fraud or other irregularity or error, and that contributions have been paid in accordance with the relevant requirements. In forming our opinions we also evaluated the overall adequacy of the presentation of information in the Accounts.

Opinion on the Accounts

In our opinion, the Accounts show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2003 and of the amount and disposition at that date of the assets and liabilities (other than liabilities to pay pensions and benefits after the end of the Fund year) and contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995.

Auditor's Statement about Contributions

In our opinion, contributions for the Fund year ended 31 March 2003 have been paid, from 1 April 2002 to 19 June 2002, in accordance with the Schedule of Contributions certified by the Actuary on 9 January 2002 and subsequently in accordance with the Schedule of Contributions certified by the Actuary on 20 June 2002.

KPMG LLP

KPMG LLP
Chartered Accountants, Registered Auditor
LONDON
9 July 2003

Fund Account

For the year ended 31 March 2003

	<u>Note</u>	<u>2003</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>	<u>2002</u> <u>£'000</u>	<u>2002</u> <u>£'000</u>
Dealings with members					
Contributions receivable	3	104,431		93,211	
Individual transfers in from other schemes		10,395		5,150	
		<u>114,826</u>		<u>98,361</u>	
Benefits payable	4	167,452		159,885	
Payments to and on account of members leaving	5	3,287		1,944	
Administrative expenses	6	3,177		3,017	
		<u>173,916</u>		<u>164,846</u>	
Net withdrawals from dealings with members			(59,090)		(66,485)
Returns on investments					
Investment income	7	69,385		73,152	
Decrease in the market value of investments	8	(625,531)		(104,118)	
Investment management expenses	9	(5,744)		(6,094)	
			(561,890)		(37,060)
Net returns on investments					
Net decrease in assets during the year			(620,980)		(103,545)
Net assets as at 1 April			3,285,696		3,389,241
Net assets as at 31 March			<u>2,664,716</u>		<u>3,285,696</u>

Net Assets Statement

As at 31 March 2003

	<u>Note</u>	<u>2003</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>	<u>2002</u> <u>£'000</u>	<u>2002</u> <u>£'000</u>
Investment assets at market value	8		2,663,546		3,283,536
Fixed assets held for own use	10		155		298
Current assets					
Prepayments and accrued income		2,384		2,894	
Cash at bank		2,644		3,276	
		<u>5,028</u>		<u>6,170</u>	
Current liabilities					
Creditors	11	3,642		3,857	
Bank overdrafts	12	371		451	
		<u>4,013</u>		<u>4,308</u>	
Net current assets			1,015		1,862
Net assets as at 31 March			<u>2,664,716</u>		<u>3,285,696</u>

The Notes on pages 10 to 15 form part of these Accounts.

These Accounts were approved by the Board of Directors of LRT Pension Fund Trustee Company Limited on 9 July 2003 and were signed on their behalf by:

C Hodson

 Directors
 LRT Pension Fund Trustee Company Limited

S Grant


Notes to the Accounts

1. Basis of preparation

The Accounts have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (SORP).

The Accounts summarise the transactions of the Fund and deal with the net assets at the disposal of the Trustee. The Accounts do not take account of the obligations to pay pensions and other benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the statements by the Actuary on pages 25 to 31 and these Accounts should be read in conjunction with those statements.

2. Accounting policies

(a) Inclusion of income and expenditure

(i) *Contribution income*

Members' contributions are 5% of their contributory pensionable salary and are accounted for when deducted from members' pay. Employers' contributions are a multiple of the members' contributions. Multiples are determined by the Principal Employer on the advice of the Actuary following an actuarial review. All employers paid their respective multiples in accordance with the Schedule of Contributions as shown on page 29. Employers' contributions are accounted for as they fall due.

(ii) *Transfers to and from other schemes*

Transfer payments in respect of members transferred to and from the Fund during the year are included in the Accounts on a receipts and payments basis.

(iii) *Benefits payable*

Benefits payable are accounted for on the basis of entitlement during the year in accordance with the Rules of the Fund.

(iv) *Investment income*

Dividends from securities are credited to income when the investments are declared ex-dividend. Other investment income is accounted for on an accruals basis. Dividends and interest are grossed up for the amount of any taxation recoverable.

(v) *Investment management expenses*

Investment management expenses are accounted for on an accruals basis. Performance related investment management expenses are accounted for at the time they become due for payment under the terms of the appropriate Investment Management Agreement.

(vi) *Foreign currency translation*

Foreign income is translated into sterling at the rate ruling on the date the income is received. Income accrued at the year end is translated at the rate ruling at the end of the Fund year. Investments denominated in foreign currencies are translated using the sterling rate of exchange ruling at the end of the Fund year. Exchange gains and losses arising on translation of investment balances are included in the change in market value of investments shown in Note 8.

(vii) *Additional voluntary contributions (AVCs)*

AVCs are accounted for on an accruals basis, in the same way as other contributions, and the resulting investments are included in the net assets statement.

(viii) *Depreciation*

Expenditure on fixed assets held for own use has been capitalised to reflect the economic usefulness of the assets to the Fund. Depreciation of fixed assets held for own use is provided on a straight-line basis over their estimated useful lives as follows:

Computer equipment	-	5 years
Furniture	-	5 years

(b) Valuation of investments

Investments are included in the Net Assets Statement at their market values which are determined as follows:

- (i) UK and foreign securities quoted on a recognised stock exchange are stated at mid-market values ruling on 31 March 2003;
- (ii) unit trust and managed fund investments are stated at the average of the latest bid and offer prices quoted by the trust managers prior to 31 March 2003;
- (iii) unquoted securities are stated at the Trustee's valuation at 31 March 2003 based on the advice of the Fund's investment managers;
- (iv) freehold and leasehold property is valued at open market value by Insignia Richard Ellis, Chartered Surveyors as at 31 March 2003;
- (v) short-term deposits are valued at cost at 31 March 2003 taking into account gains or losses on foreign currency translations;
- (vi) AVC investments are shown at the value advised by the AVC providers, Equitable Life and Clerical Medical.

3. Contributions receivable

	<u>2003</u> <u>£'000</u>	<u>2002</u> <u>£'000</u>
Members		
Ordinary	24,763	21,971
Additional voluntary contributions	2,553	2,779
	<u>27,316</u>	<u>24,750</u>
Employers		
Ordinary	77,115	68,461
	<u>77,115</u>	<u>68,461</u>
Total contributions receivable	<u>104,431</u>	<u>93,211</u>

4. Benefits payable

	<u>2003</u> <u>£'000</u>	<u>2002</u> <u>£'000</u>
On or during retirement		
Pension payments	147,635	143,195
Commutation and lump sum retirement benefits	16,324	13,212
Death benefits		
Lump sum payments	3,493	3,478
Total benefits payable	<u>167,452</u>	<u>159,885</u>

5. Payments to and on account of members leaving

	<u>2003</u> <u>£'000</u>	<u>2002</u> <u>£'000</u>
Individual transfers out to other schemes	2,806	1,716
Gross refunds of contributions to members	285	158
State scheme premiums	196	70
Total payments to and on account of members leaving	<u>3,287</u>	<u>1,944</u>

6. Administrative expenses

	<u>2003</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>	<u>2002</u> <u>£'000</u>	<u>2002</u> <u>£'000</u>
Staff costs				
Payroll	1,722		1,445	
Recruitment and training	69		107	
		1,791		1,552
Establishment costs				
Accommodation	232		212	
Computer costs	234		159	
Telecommunications	29		27	
Depreciation	180		160	
		675		558
Professional fees				
Legal fees	112		128	
Audit fees	41		35	
KPMG non audit fees	27		38	
Actuarial fees	** (23)		267	
Medical fees	38		38	
Other professional fees	181		112	
		376		618
Communication				
Distribution	158		143	
Printing	99		67	
		257		210
Consumables				
Stationery	17		17	
Microfilm	8		11	
General	53		51	
		78		79
Total administrative expenses		<u>3,177</u>		<u>3,017</u>

** Actuarial fees for 2002/03 includes £207,000 reclaimed from London Underground Limited in respect of fees paid in 2001/02.

7. Investment income

	<u>2003</u> <u>£'000</u>	<u>2002</u> <u>£'000</u>
Income from fixed interest securities	28,645	29,442
Dividends from equities	33,909	32,177
Income from index-linked securities	4,925	6,168
Income from managed and unitised funds	291	1,576
Net income from properties	5	1,311
Interest on cash deposits	1,135	1,816
Income from securities lending	272	298
Income from commission recapture	151	249
Underwriting commission	52	-
Reduction in the provision for taxation	-	115
Total investment income	<u>69,385</u>	<u>73,152</u>

8. Investment assets at market value

	<u>2003</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>	<u>2002</u> <u>£'000</u>	<u>2002</u> <u>£'000</u>
Fixed interest securities				
UK public sector quoted	90,128		201,825	
Other UK quoted	392,635		237,867	
Overseas public sector quoted	<u>7,688</u>		<u>52,112</u>	
		490,451		491,804
Equities				
UK quoted	513,640		1,007,936	
Overseas quoted	<u>358,244</u>		<u>537,999</u>	
		871,884		1,545,935
Index-linked				
UK quoted	147,790		223,447	
Overseas quoted	<u>26,656</u>		<u>11,917</u>	
		174,446		235,364
Managed and unitised funds				
Managed funds - Fixed interest	35,236		31,118	
- Index-linked	307,922		237,762	
- Equities	703,533		623,947	
Unit trusts - UK non-property	18,279		45,454	
- UK property	<u>1,687</u>		<u>4,567</u>	
		1,066,657		942,848
Property				
UK freehold	3,000		5,365	
UK long leasehold	<u>-</u>		<u>2,900</u>	
		3,000		8,265
Other investment balances				
Accrued income	8,801		10,486	
Investment creditors	(1,666)		(2,965)	
Unsettled transactions	<u>(11,623)</u>		<u>(3,866)</u>	
		(4,488)		3,655
Sterling cash deposits		39,415		32,330
AVC scheme investments		22,181		23,335
Total investment assets		<u>2,663,546</u>		<u>3,283,536</u>

Change in value of the investment assets	Value at 1 April 2002	Purchases At cost	Sale Proceeds	Change in market value	Value at 31 March 2003
	£'000	£'000	£'000	£'000	£'000
Fixed interest securities	491,804	706,928	739,734	31,453	490,451
Equities	1,545,935	612,479	790,129	(496,401)	871,884
Index-linked	235,364	197,073	271,521	13,530	174,446
Managed and unitised funds	942,848	598,172	301,570	(172,793)	1,066,657
Property	8,265	285	6,412	862	3,000
Other investment balances	3,655	1,299	9,442	-	(4,488)
Cash deposits	32,330	7,970	-	(885)	39,415
AVC investments	23,335	143	-	(1,297)	22,181
Total investment assets	<u>3,283,536</u>	<u>2,124,349</u>	<u>2,118,808</u>	<u>(625,531)</u>	<u>2,663,546</u>

The investments in managed and unitised funds are managed by companies registered in the UK.

At the 31 March 2003 £75m of investments were loaned under a securities lending programme against collateral of £81m comprising £29m Gilts and £52m cash (2002 £133m loaned against £139m collateral).

LRT Pension Fund

The Fund's investment in the following managed funds represent more than 5% of the Net assets at the 31 March 2003:

Aquila Life UK Equity Index Fund Series 1	£228,650,000
Aquila Life Over 5 Years Index-Linked Index Fund Series 1	£307,922,000
Ascent Life UK Equity Fund Series 1	£210,444,000

During the year Equitable Life Assurance Society and Clerical Medical have been delegated responsibility for the investment and administration of the Fund's Additional Voluntary Contribution (AVC) plan. Individual members' contributions are deducted from their pay by the employers and are paid direct to the providers, where they are invested on behalf of the individuals concerned and in accordance with their instructions to provide additional pension benefits, within the overall limits laid down by the Inland Revenue. Each member contributing to the AVC plan receives an annual benefit statement of their account. At the 31 March 2003, £14,879,000 (2002 £18,659,000) of the Fund's AVC investments were managed by Equitable Life Assurance Society and £7,302,000 by Clerical Medical (2002 £4,676,000).

9. Investment management expenses

	<u>2003</u>	<u>2002</u>
	<u>£'000</u>	<u>£'000</u>
Administration, management and custody	5,610	5,966
Performance measurement services	22	15
Other advisory services	112	113
Total investment management expenses	<u>5,744</u>	<u>6,094</u>

10. Fixed assets held for own use

	Computer equipment	Furniture	Total
	£'000	£'000	£'000
Cost at 1 April 2002	904	127	1,031
Additions	37	-	37
Withdrawals	(7)	-	(7)
Cost at 31 March 2003	<u>934</u>	<u>127</u>	<u>1,061</u>
Accumulated depreciation at 1 April 2002	625	108	733
Depreciation charge for the year	172	8	180
Withdrawals	(7)	-	(7)
Accumulated depreciation at 31 March 2003	<u>790</u>	<u>116</u>	<u>906</u>
Net book value at 1 April 2002	<u>279</u>	<u>19</u>	<u>298</u>
Net book value at 31 March 2003	<u>144</u>	<u>11</u>	<u>155</u>

11. Creditors

	<u>2003</u>	<u>2002</u>
	<u>£'000</u>	<u>£'000</u>
Unpaid benefits	835	1,268
Accruals and deferred income	2,807	2,589
Total creditors	<u>3,642</u>	<u>3,857</u>

12. Bank overdrafts

Bank overdrafts represent cheques drawn but not presented for payment by 31 March 2003. Interest is not payable on these sums.

13. Related parties

The Fund has received contributions in respect of Directors of the Trustee who are also contributing members of the Fund. The Fund has paid benefits to Directors of the Trustee who are also beneficiaries of the Fund.

London Transport pays administration and investment expenses on behalf of the Fund and subsequently recharges these to the Fund. At the 31 March 2003, £317,000 (2002 £260,000) has been included in creditors in respect of administration expenses rechargeable to the Fund.

All of the above transactions are in accordance with the Rules of the Fund.

Investment Report

1. Investment policy (excluding AVC investments)

Most of the Fund's investment assets were invested and administered by the investment and property managers, whose names appear on page 2. The investment managers employed during the financial year ended 31 March 2003 had discretion to invest as they saw fit within the asset classes and geographical limitations laid down by the Directors. Certain investments amounting to no more than 1% of total assets are administered in-house but the Directors take appropriate investment advice in the disposition of these assets.

Investment managers' fees are primarily based on the market value of the Fund and, in the case of the active managers, performance (subject to upper and lower limits), but commissions and fees are also charged on investment transactions. Property management fees are calculated with reference to the gross annual rent roll, the proceeds of any properties sold in the year and the revised rent arising from rent reviews in the year.

The Directors measure the Fund's performance against the benchmark below based on the long-term strategic asset allocation.

Benchmark Summary at 31 March 2003

Sector	Weight (%)
UK Equities	36.00
UK Index-Linked Gilts	16.25
UK Non-Gilt Bonds	10.00
Pan European Equities (incl. UK)	8.90
UK Gilts	8.75
US Equities	7.90
European Equities	4.30
Japanese Equities	4.30
Pacific Basin (excluding Japan) Equities	3.60
	<u>100.00</u>

Each of the active managers has been set a target based on out-performance of a relevant index over rolling three-year periods. The Directors believe the allocation set out below will maintain an appropriate balance between risk minimisation and return maximisation given the current and future liabilities of the Fund.

Portfolio	% of Fund	Manager
<i>Core</i>		
Index tracking - all asset classes	30.1	Barclays Global Investors Limited (BGI)
<i>Active Specialist</i>		
Bonds	20.0	Henderson Investors Limited
UK equities 1	9.6	Barclays Global Investors Limited (BGI) *
UK equities 2	9.6	Alliance Capital Limited
UK equities 3	9.6	Baillie Gifford & Co.
European equities (incl. UK)	9.6	Gartmore Investment Management plc
Far East equities	6.5	Schroder Investment Management International Limited
US equities	5.0	JP Morgan Investment Management Inc.
	<u>100.0</u>	

* Replacing Société Générale from 7 March 2003.

The allocation of index tracking funds to market categories is regularly rebalanced to ensure that the total fund is allocated in accordance with the strategic guidelines. The Directors maintain a Statement of Investment Principles as required by the Pensions Act 1995 and the latest version is available on request from the Fund Office at the address given on page 1.

2. Investment overview

The investment assets of the Fund as at 31 March 2003, including AVC investments, had a market value of £2,663.5m, a decrease of £620.0m compared to their market value, including AVC investments, of £3,283.5m as at 31 March 2002. Investment income amounted to £69.4m for the year to 31 March 2003 compared to £73.2m for the year to 31 March 2002.

The bulk of the assets held by the active managers are quoted on the main worldwide stock exchanges and are marketable. The assets held with BGI are also marketable. A small proportion of the Fund's assets, including the remaining property holdings, are less readily marketable.

The income and maturity values of the holdings in UK government stocks are secure but capital values may fluctuate. The other assets have less secure income streams and capital values may also fluctuate.

3. Analysis of investments

A detailed analysis of the investment assets of the Fund at 31 March 2003 is shown below.

	2003	%	2002	%
	£m		£m	
Fixed interest securities	490.5	18.4	491.8	15.0
Equities - UK	513.6	19.3	1,007.9	30.7
- Other	358.2	13.5	538.0	16.3
Index-linked	174.4	6.6	235.4	7.2
Managed and unitised funds	1,066.7	40.0	942.8	28.7
Direct property	3.0	0.1	8.3	0.3
Other investments	(4.5)	(0.2)	3.7	0.1
Cash deposits	39.4	1.5	32.3	1.0
AVC investments	22.2	0.8	23.3	0.7
	<u>2,663.5</u>	<u>100.0</u>	<u>3,283.5</u>	<u>100.0</u>

A geographical analysis of the Fund's worldwide equity holdings is given below.

	Total	UK	North America	Europe	Japan	Other
	%	£m	£m	£m	£m	£m
Quoted	55.3	871.8	513.6	104.5	125.9	66.3
Managed funds	44.7	703.5	439.1	105.6	119.5	18.0
Total	<u>100.0</u>	<u>1,575.3</u>	<u>952.7</u>	<u>210.1</u>	<u>245.4</u>	<u>82.8</u>

The 10 largest UK equity holdings of the Fund as at 31 March 2003 are shown below.

	Market value £m	% of total UK equity holdings
Vodafone	47.7	9.3
BP Amoco	45.4	8.8
GlaxoSmithKline	41.5	8.1
Royal Bank of Scotland	32.2	6.3
HSBC	28.1	5.5
Shell Transport & Trading	20.9	4.1
Barclays Bank	20.2	3.9
Lloyds TSB Group	18.1	3.5
Diageo	15.9	3.1
Imperial Tobacco	14.0	2.7
	<u>284.0</u>	<u>55.3</u>

The foregoing excludes exposure to individual stocks through the Fund's holdings of units in Managed and Unitised Funds.

The Fund's investment in the following unit trusts represents more than 5% of the units in issue of these trusts.

	No of units held by the Fund	% of units in issue	Market value of units £m
Midlands Growth Fund	14,055	25.4	0.7
Abbotstone Property Unit Trust	2,575	56.3	1.7

4. Custodial arrangements

During the year the Trustee was custodian of certain property unit trusts, venture capital funds and cash. The title deeds to the Fund's properties were held by the Fund's solicitors, Eversheds. The rest of the Fund's investments, comprising those assets managed by the Fund's investment managers, were held in the names of nominees, by JP Morgan Chase Bank.

5. Investment performance

The Fund participates in an investment performance measurement scheme organised by Russell/Mellon CAPS, which provides comparative information for assessing investment performance. CAPS calculate both the overall investment returns obtained on the Fund's assets and the returns obtained by the individual investment managers.

The table below shows the total investment returns (including both capital and income) obtained on the Fund's assets (including property but excluding AVCs) for the one, three and five years to 31 March 2003 and the corresponding composite benchmark now established by the Trustees as the prime performance comparator (replacing the former peer group median). The benchmark quoted is a weighted average of indices relevant to the new structure and, as such, is of limited application to the five-year averages.

	One Year		Average p.a. since inception of new structure (August 1999)		Three Year Average		Five Year Average	
	Total Fund	Bench -mark	Total Fund	Bench -mark	Total Fund	Bench -mark	Total Fund	Bench -mark
Annual Return %	-17.2	-17.5	-5.3	-5.3	-9.2	-8.8	-2.0	-1.6

Global stock markets continued to fall following three years of poor performance. In the last twelve months all major equity markets yielded significant negative returns, in both local currency and Sterling terms.

The Fund outperformed its benchmark by 0.3% this year but, nevertheless, returned a negative annual return of 17.2%. Since the inception of the new investment manager structure in August 1999 the Fund has returned -5.3% per annum, in line with its benchmark.

Details of the performance of the individual portfolios in the year to 31 March 2003 compared with the previous year are shown below:

	Year to 31 March 2003		Year to 31 March 2002	
	Fund	Benchmark	Fund	Benchmark
	%	%	%	%
Index-Tracking - BGI	-17.0	N/A	-1.6	N/A
UK Equities	-29.9	-29.8	-3.2	-3.2
US Equities	-32.5	-32.4	-0.7	-0.6
European Equities (ex. UK)	-34.4	-34.4	-6.6	-7.4
Japan Equities	-25.4	-25.6	-20.6	-20.8
Pacific Basin (ex. Japan) Equities	-18.8	-19.1	5.9	5.8
UK Fixed Interest	13.2	13.0	-2.3	-1.4
Index-linked Gilts	11.0	10.9	2.9	2.7
UK Equities				
Alliance Bernstein	-24.8	-29.8	4.5*	2.3*
Baillie Gifford	-26.7	-29.8	4.5*	2.3*
Barclays Global Investors	1.9†	1.8†	-	-
Baring	-	-	-12.7**	-12.5**
Société Générale	-26.9††	-24.0††	-2.0	-3.2
US Equities				
JP Morgan	-34.3	-32.4	1.4	-0.6
European Equities (incl. UK)				
Gartmore	-33.9	-32.6	-3.0	-5.6
Far East Equities				
Schroders	-26.1	-25.8	-3.2	-6.2
Bonds				
Henderson	11.8	12.1	2.8	2.2

* One quarter's results (not annualised)

** Two quarters' results (not annualised)

† Period from 7 to 31 March 2003 (not annualised)

†† Three quarters' results (not annualised)

The active managers (all the above except BGI Index-Tracking) have been set targets to achieve, measured as out-performance of the relevant benchmarks over 3 year rolling periods, with the extent of out-performance depending on the portfolio.

6. AVCs

Equitable Life

The distribution of the AVCs invested with the Equitable Life up to the year end, is set out below:

	Value of fund at 31 March 2003 £m	% of total
With-profits fund	8.0	53.4
Unit-linked funds		
Managed	4.0	27.0
UK Tracking	0.9	6.0
Lifestyle	0.4	2.6
Building Society funds	1.6	11.0
	<u>14.9</u>	<u>100.0</u>

Investment performance for the year ended 31 March 2003 for the individual AVC funds was as follows:

With-profits fund	Information on the overall rate of return is not yet available from Equitable Life.
Unit-linked funds - Managed	The price of units in the fund at 31 March 2003 is valued at £4.247 compared to £5.427 a year ago, a decrease of 21.7%.
Unit-linked funds - UK Tracking	The price of units in the fund at 31 March 2003 is valued at £1.097 compared to £1.536 a year ago, a decrease of 28.5%.
Building Society funds	Interest rates have fallen from 3.1% to 2.85% during the year.

The Lifestyle fund comprises a mix, dependent on the member's age, of With-profits and Managed Unit-linked funds.

Clerical Medical

The value of AVCs invested with the Clerical Medical with-profits fund at 31 March 2003 was £7.3m compared to £4.7m at 31 March 2002. Investment performance for the year ended 31 March 2003 for this fund was an overall rate of return of 4.3%.

Compliance Statement

1. Introduction

The Fund was established with effect from 1 April 1989 to provide retirement and death benefits for all eligible employees of London Transport, its subsidiaries and associated companies, in accordance with the Rules of the Fund and Definitive Trust Deeds.

During the year ended 31 March 2003 the following non-associated employer entered into a Deed of Participation with effect from the date stated below:

Strategic Rail Authority 30 June 2002

On the 31 December 2002 ownership of Infraco JNP Limited passed to Tube Lines Limited. Subsequent to the year-end, ownership of Infraco BCV Limited and Infraco Sub-Surface Limited passed to Metronet.

The Fund is approved by the Inland Revenue as an exempt approved scheme under the provisions of Chapter I Part XIV of the Income and Corporation Taxes Act 1988.

Members of the Fund are contracted out of the earnings-related element of the state pension scheme.

2. Changes to the Rules of the Fund

There were no changes to the Fund Rules during the year ended 31 March 2003.

3. Management of the Fund

(a) Trustee's responsibility for preparing Accounts

Under the Rules of the Fund and the Pensions Act 1995, the Trustee is required to prepare Accounts for each Fund year which show a true and fair view of the financial transactions of the Fund during the Fund year and of the disposition, at the end of the Fund year, of the assets and liabilities. Assets do not include insurance policies which are specifically allocated to the provision of benefits for, and which provide all the benefits payable under the Fund to, particular members; liabilities do not include liabilities to pay pensions and benefits after the end of the year.

The audited accounts are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Fund members, beneficiaries and certain other parties, audited accounts for each Fund year which:

- show a true and fair view of the financial transactions of the Fund during the Fund year and of the amount and disposition at the end of the Fund year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year; and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice, 'Financial Reports of Pension Schemes'.

The Trustee has supervised the preparation of the accounts and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. The Trustee is also responsible for making available each year, commonly in the form of a Trustee's annual report, information about the Fund prescribed by pensions legislation, which is consistent with the audited accounts.

Under the Pensions Act 1995, the Trustee is responsible for ensuring that a Schedule of Contributions is prepared and maintained showing the rates of contributions payable towards the Fund by or on behalf of the employer and the active members of the Fund, and the dates on or before which such contributions are to be paid. The Trustee is responsible under pensions legislation for keeping records of contributions received in respect of any active member of the Fund and for ensuring that contributions are made to the Fund in accordance with the Rules of the Fund and with the Schedule of Contributions.

The Trustee also has general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities.

The Trustee has considered the Fund's compliance with law and regulations and is not aware of any actual or potential non-compliance with laws, regulations and the Trust Deed that could have a material effect on the ability of the Fund to conduct its affairs and therefore on the position disclosed in these Accounts.

(b) Board of Directors

The 18 Directors of the Trustee, set out on page 2, are nominated as follows:

- Nine persons by LRT of whom at least five must be members of the Fund.
- One person each by:- the Transport and General Workers' Union; the National Union of Rail, Maritime and Transport Workers; the Associated Society of Locomotive Engineers & Firemen; the London Transport Joint Trades Committee; the Transport Salaried Staffs' Association.
- Two persons by and from Section One of the LRT Pensions Consultative Council.
- One person by and from each of Sections Two and Three of the LRT Pensions Consultative Council.

Members of the LRT Pensions Consultative Council (PCC) are Fund Members elected by their fellow members. Section One members are pensioners or deferred pensioners. Sections 2 and 3 are contributing members of the Fund.

(c) Corporate Governance

The Directors of the Trustee are committed to high standards of governance for all aspects of the Fund's operations. Although the Trustee is not governed by the Combined Code, which applies to UK fully listed companies, the Directors of the Trustee believe that the internal control aspects of the Code help demonstrate good governance and therefore the Trustee has followed the principles of the Code in relation to internal controls.

The Directors of the Trustee acknowledge their responsibility for the Fund's system of internal controls and for reviewing its effectiveness. The internal controls are designed to manage risk and control the Fund's business and financial activities in a manner that enables it to:

- avoid or reduce risks that can cause loss of the Fund's assets or reputational damage,
- ensure compliance with applicable laws and regulations; and
- enhance resilience to external events.

To achieve this the Trustee has developed a Fund Governance Scheme that includes an annual risk review carried out by The Risk Review Group, comprising the Chairs of Committees, which identifies the key risks facing the Fund and the controls in place to manage these risks. These risks and controls are set out in a Risk and Controls Register which is considered by the Audit Committee and the Board who regularly review the effectiveness of the internal controls set out therein. LUL Internal Audit carried out regular reviews of the application of the Fund's internal control and control assurance processes, focussing on the areas of greatest risk. The planned work and audit findings of Internal and External Audit are considered by the Audit Committee throughout the year and reported to the Board annually. It should be recognised, however, that such a process can only provide reasonable, not absolute, assurance against material misstatements or loss.

The Trustee has established a management structure that clearly defines roles, responsibilities and reporting lines. These are summarised in the Fund Governance Scheme. Delegated authorities are clearly documented and reviewed regularly.

The performance of the Fund's operations and of the Trustee's delegates is reported regularly to the Fund Secretary and the relevant Committees and, where appropriate, the Trustee itself. Performance trends and forecasts, as well as actual performance against budgets are closely monitored. Financial information is prepared using appropriate accounting policies that are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions, communications to members and the safeguarding of the Fund's assets.

The Audit Committee under the direction of the Board has reviewed the effectiveness of the Fund's system of internal control during the year ended 31 March 2003 and up to the date of approval of the Annual Report and reported to the Board. An annual business self-certification process, managed by the Fund Secretary, supported the review.

4. Transfers

All transfer values paid to or received from other pension schemes were calculated using formulae agreed by the Scheme Actuary and in accordance with statutory regulations. No transfers were made at less than their cash equivalent.

5. Actuarial valuation of the Fund

The Scheme Actuary carries out a triennial valuation of the Fund, under Rule 43, in part to ascertain whether the assets already held by the Fund are sufficient to pay all the benefits that have been earned by service up to the date of the valuation. The Scheme Actuary, in carrying out the valuation, also gives advice on future contributions needed to be paid so that all benefits to be earned in the future can be secure.

The last formal valuation of the Fund was carried out by the Scheme Actuary as at 31 March 2000 and showed that, on the assumptions adopted, the Fund had a modest surplus of assets over accrued liabilities. The resulting recommended rates of employer contribution to the Fund are set out in the actuarial statement made for the purposes of regulation 30 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 shown on page 26. The current rates of contribution for the participating employers are set out in the schedule of contributions shown on page 29.

A further valuation of the Fund is being carried out as at 31 March 2003 and the initial results will be available to the Trustees later this year. Given the generally poor state of investment markets in recent years, the valuation is expected to disclose a deterioration in the Fund's overall financial position. In accordance with the Fund rules, the level of employer contributions is determined by the Principal Employer and those contributions have to be sufficient to eliminate any funding deficit that might be disclosed by the valuation over a period of not more than 10 years. Any changes in the employer contribution rates are expected to apply from 1 April 2004.

Next year's annual report and accounts will summarise the results of the actuarial valuation of the Fund as at 31 March 2003 and the revised rates of employer contribution to the Fund.

6. Matters relating to the Fund's investments

The Fund's investments are invested in accordance with the Occupational Pension Schemes (Investment of Scheme's Resources) Regulations 1992. The investment adviser, the investment managers and the property managers appointed by the Trustee to advise on and manage funds are appropriately authorised under the Financial Services Act 1986. No employer-related investments were held during the year ended 31 March 2003. The Fund's Statement of Investment Principles was revised during the year to reflect the revised Equity/Bond split and revisions to individual manager portfolios.

On 2 October 2001 the Government published its response to Paul Myners' Review of Institutional Investment endorsing the ten investment principles proposed for Defined Benefit Pensions Schemes and asking schemes to comply with them on a voluntary basis. To this end the Trustee commissioned a compliance review which showed that the Fund was, or had plans to become, compliant with the principles, including explaining the reasons for any departures from them. A summary of the current position is set out on the following page.

Myners Principle	LRT Position
1. Effective Decision - Making	Compliant except for paying Trustees which is not felt appropriate. Business Plan published, Trustee training has been strengthened and the Board has an Investment Committee.
2. Clear Objectives	Compliant. Risk tolerance being reviewed with employers.
3. Focus on Asset Allocation	Compliant. Scheme-specific benchmark and all investment classes regularly reviewed for inclusion. Positive decisions to exclude property, private equity & hedge funds at present.
4. Expert Advice	Compliant. Watson Wyatt provide actuarial advice; Mercers provide investment advice.
5. Explicit Mandates	Compliant. Transaction cost analysis in place. Trustee education in hand.
6. Activism	Voting delegated to Managers but is required and is reviewed. Trustees would like to be more pro-active but are constrained by current legislation and the systems available to facilitate and monitor voting.
7. Appropriate Benchmarks	Generally compliant but need to consider the setting of specific risk parameters in future Manager Agreements.
8. Performance Measurement	Generally compliant. Quarterly monitoring using Russell/Mellon CAPS measurement and Mercers reviews of each Manager and total Fund in place. The Fund will consider formal assessment of own procedures and decisions against Fund objectives.
9. Transparency	Compliant. The SIP (Statement of Investment Principles) is felt to be sufficiently comprehensive and is available but will be reviewed for possible expansion in areas suggested.
10. Regular Reporting	Compliant. Annual Review sent to Members. Report and Accounts, SIP and Business Plan sent on request. Annual Members' Meeting held and special interest groups (e.g. PCC) briefed annually.

The Trustee has supported the Pension Fund Disclosure Code published by the Investment Management Association and the National Association of Pensions Funds in May 2002 and will be requiring compliance by the Fund's Investment Managers with both Level One and Level Two. The Trustee also welcomes the Financial Services Authority's proposals in their Consultation Paper 176 "Bundled Brokerage and Soft Commission Arrangements" published in April 2003. The ending of soft commissions and the separation of payments for execution and research, preferably on a scale fee, rather than commission, basis are seen as prerequisites for an acceptable degree of transparency in transaction costs and evidencing best execution by Managers.

7. Changes to the Fund's advisers

The scheme auditor KPMG, has transferred its business to a limited liability partnership, KPMG LLP, incorporated under the Limited Liability Partnerships Act 2000. To comply with the formal requirements of the Pensions Act, 1995, KPMG has resigned and the Trustee have appointed KPMG LLP.

Actuarial Statement

Form of Actuary's statement: Minimum funding valuations

Actuarial statement made for the purposes of Regulation 14 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996

Name of scheme: LRT Pension Fund

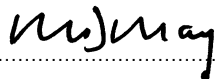
Effective date of valuation: March 2000

1 Compliance with minimum funding requirement

In my opinion, on the effective date the value of the assets of the scheme was between 115 per cent and 120 per cent of the amount of the liabilities of the scheme.

2 Valuation principles

The scheme's assets and liabilities are valued in accordance with section 56(3) of the Pensions Act 1995, the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 and the mandatory guidelines on the minimum funding requirement (GN 27), prepared and published by the Institute of Actuaries and the Faculty of Actuaries.

Signed.....

M D May
Fellow of the Institute of Actuaries
Partner in the firm of Watson Wyatt LLP

Watson House
London Road
Reigate
Surrey
RH2 9PQ

9 January 2001

Note: The valuation of the amount of the liabilities of the scheme does not reflect the cost of securing those liabilities by the purchase of annuities, if the scheme were to have been wound up on the effective date of the valuation.

Form of Actuary's statement : Ongoing valuations

Actuarial statement made for the purposes of Regulation 30 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulation 1996

Name of scheme: LRT Pension Fund

Effective date of valuation: 31 March 2000

1 Security of prospective rights

In my opinion, the resources of the Fund are likely in the normal course of events to meet in full the liabilities of the Fund as they fall due. In giving this opinion, I have assumed that the following amounts will be paid to the Fund:

Description of contributions

By members: - contributions as specified in Rule 13 of the Fund, namely 5% of the Contributory Pensionable Salary less £20 pa (for Existing Members)

By the employers - contributions equal to the following multiple of the members' normal Rule 13 contributions

Employer	from 1 April 2000 to 31 March 2001	from 1 April 2001 onwards
Public sector employers' group	2.70	3.05
Infraco BCV Ltd	2.70	3.25
Infraco Sub-Surface Ltd	2.70	3.25
Infraco JNP Ltd	2.70	3.20
Seaboard Powerlink Ltd	3.05	3.50
London Underground Property Partnership employer (when confirmed)	2.70	3.15
Cubic Transport Systems Ltd	3.05	3.55
Electronic Data Systems Ltd	3.05	2.95
Racal Transportation System Ltd	3.05	3.45

subject to review at future actuarial valuations.

Summary of methods and assumptions used

For the purpose of Section 1 I have assumed that the Fund will continue. In the normal course of events active members will continue to accrue benefits under the Fund and their benefits will be based on their actual pensionable service at cessation of active membership and their pensionable pay at the time. The liabilities referred to in Section 1 relate to the benefits which are expected to become payable under the normal operation of the Fund. They take account of the future benefit accruals and include appropriate allowance for future pay increases.

Funding method : projected unit

The projected unit method of valuation entails the following stages.

- First the rate of contribution required to meet the ongoing cost of accruing benefits is assessed by calculating the percentage of members' pensionable pay that is needed to meet the cost of all the benefit accruing to active members in the year following the valuation date, with allowance for projected future pay increases.
- The value placed on the accrued liabilities at the valuation date (including all the liabilities for pensioners and deferred pensioners and based on projected pensionable pay for active members) is then compared with the value placed on the assets.
- The recommended contribution rate is based on the ongoing contribution rate required to meet accruing benefits, adjusted for a temporary period to reflect the difference between the value of the accrued liabilities and the value of the assets.

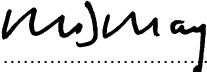
The ongoing contribution requirement has been assessed by reference to long-term financial assumptions. The comparison of the Fund assets with the accrued liabilities reflects the market conditions on the valuation date; Fund assets have therefore been taken at their market value and the discount rate for assessing the value to be placed on the accrued liabilities reflects market conditions on that day.

Main financial assumptions:

	%
long-term annual rate of:	
investment return	7.25
general pay escalation	4.5
price inflation	3
pension increases* - Existing Members	3
- New Members	3
dividend growth	4
market-related discount rate for assessing the Fund's accrued liabilities	5.3

*on the excess over the GMP

Further details of the methods and assumptions used are set out in my actuarial valuation addressed to the Trustees and dated 9 January 2001.

Signed.....

M D May
Fellow of the Institute of Actuaries
Partner in the firm of Watson Wyatt LLP

Watson House
London Road
Reigate, Surrey RH2 9PQ

9 January 2001

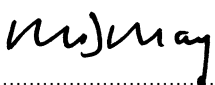
Actuarial Certificate

Schedule of Contributions (Section 58, Pensions Act 1995)

Name of scheme **LRT Pension Fund**

Adequacy of rates of contributions

- 1 I hereby certify that, in my opinion, the rates of the contributions payable in accordance with this schedule of contributions are adequate for the purpose of securing that throughout the period it covers the scheme will meet the funding requirement imposed by section 56(1) of the Pensions Act 1995.
- 2 In forming this opinion I have complied with the requirements imposed by section 56(3) and 58 of the Pensions Act 1995, the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 and the mandatory guidelines on minimum funding requirement (GN 27), prepared and published by the Institute of Actuaries and the Faculty of Actuaries, and have made the assumptions prescribed by them.

Signed.....

M D May
Fellow of the Institute of Actuaries
Partner in the firm of Watson Wyatt LLP

Watson House
London Road
Reigate
Surrey
RH2 9PQ

20 June 2002

Note

The certification of the adequacy of rates of contributions for the purpose of securing the meeting of the minimum funding requirement is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were wound up.

Schedule of Contributions

(as required under Section 58 of the Pensions Act 1995)

1 Name of Scheme: **LRT Pension Fund**

2 Period covered by Schedule of Contributions:

From the 6th March 2001 for a period of five years until 5th March 2006.

3 Level of contributions payable:

In accordance with Rule 13, members pay contributions equal to 5% of Contributory Pensionable Salary (as defined) less £20 (a year) for Existing Members (i.e. those who joined the Fund on or before 1 April 1989).

Employer contributions are based on the following multiple of the members' normal Rule 13 contributions:

Employer	from 6 March 2001 to 31 March 2001	from 1 April 2001 to 5 March 2006
Public sector employers' group	2.70	3.05
Infraco BCV Ltd	2.70	3.25
Infraco Sub-Surface Ltd	2.70	3.25
Infraco JNP Ltd	2.70	3.20
Seeboard Powerlink Ltd	3.05	3.50
Cubic Transportation Systems Ltd	3.05	3.55
Electronic Data Systems Ltd	3.05	2.95
Thales Telecommunications Services Ltd	3.05	3.45
Cap Gemini UK plc	-	3.10
Instant Library Ltd.	-	3.70 (from 15th April 2001)
Cadbury Ltd	-	2.75 (from 8th July 2001)
Strategic Rail Authority	-	3.40 (from 30th June 2002)

4 Due Date for payment of contributions:

In accordance with Rule 13(3), member contributions are due to be paid to the Fund on or before the 5th day after the end of the period in respect of which the member's wages or salary was paid or the employee's pay date whichever is the later. Under the Pensions Act 1995 employee contributions are legally due to be paid to the Fund no later than 19 days after the end of the month in which they were deducted from employees pay. The employer undertakes to pay contributions to the Fund in accordance with the rules of the Fund. However, employee contributions will not be deemed to be late under this Schedule unless they are paid later than the legal due date. Employer contributions are due to be paid by the same date as the employee contributions to which they relate and similarly are not deemed to be late under this Scheme unless they are paid later than the legal due date for employee contributions.

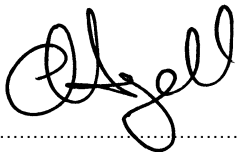
- 5 Special employer contributions shall be paid to the Fund at amounts agreed between the trustee and the employer. Special employer contributions are due to be paid to the Fund no later than 19 days after the end of the month in which they are agreed between the trustee and the employer.

Note:

This schedule of contributions relates to the payment of normal contributions to the Fund payable under Rule 13 (members) or Rule 16 (employers): it does not relate to the payment of additional voluntary contributions (AVCs) under Rule 27.

Agreed on behalf of The Trustees to the Fund

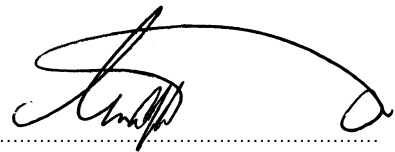
Agreed on behalf of the Principal Employer



Signed.....

C L Angell
Fund Secretary

12 June 2002



Signed.....


C J R Bedford
LT Director of Pensions

12 June 2002

LRT Pension Fund
Addendum to Actuarial Statement

The most recent formal actuarial valuation of the LRT Pension Fund was made as at 31 March 2000 and the valuation results were summarised in our report dated 9 January 2001. The accompanying formal actuarial statement required for the purposes of Regulation 30 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 is set out on pages 25 to 27.

We are in the process of carrying out a further actuarial valuation of the Fund as at 31 March 2003, the results of which of which will be reported to the Trustees as soon as they become available. This valuation will include recommendations regarding the level of employer contributions payable to the Fund and any changes from the rates currently payable are expected to take effect from 1 April 2004. In the meantime, I am pleased to confirm that, in my view, it remains appropriate for the level of employer contributions payable to the Fund to continue at the rates set out in the updated schedule of contributions dated 12 June 2002 as set out on pages 29 and 30.



M D May
Fellow of the Institute of Actuaries
Partner in the firm of Watson Wyatt LLP

Watson House
London Road
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Surrey
RH2 9PQ

26 June 2003

Participating Employers' Unit Holdings and Asset Values Statement

The Fund is structured into a series of financially segregated sections, comprising a composite section for the ongoing public sector employees (including responsibility for all pensioners and deferred pensioners) and individual sections for each of the private sector employees. Individual sections have similarly been established for the three Infracos, in anticipation of their prospective transfers to private ownership, although they actually remain part of the public sector section until these transfers take place. The Fund's main investment portfolio is unitised for accounting purposes. The participating employers' unit entitlements and unit values as determined under Rule 2c of the Fund are shown below.

Participating Employer	Equity Fund			
	As at 31 March 2003		As at 1 April 2002	
	Units	£'000	Units	£'000
Public Sector	1,939,651,143	1,325,251.7	1,901,451,361	1,848,653.9
Infraco BCV Limited	145,684,714	99,538.0	136,327,539	132,542.1
Infraco Sub-Surface Limited	134,587,900	91,956.1	125,510,366	122,025.3
Tube Lines Limited	118,068,309	80,669.3	111,424,044	108,330.1
Seaboard Powerlink Ltd	19,785,481	13,518.3	27,317,175	26,558.7
Cadbury Ltd	303,143	207.1	263,357	256.0
CAP Gemini UK plc	243,782	166.6	218,767	212.7
Cubic Transportation Systems Ltd	2,985,024	2,039.5	2,799,134	2,721.4
Electronic Data Systems Limited	1,771,782	1,210.6	1,572,586	1,528.9
Instant Library Limited	768,299	524.9	677,702	658.9
Strategic Rail Authority	352,868	241.1	-	-
Thales Communications Services Ltd	67,057	45.8	217,629	211.6
	<u>2,364,269,502</u>	<u>1,615,368.9</u>	<u>2,307,779,660</u>	<u>2,243,699.6</u>

The Equity Fund unit price at the year-end was £0.683242280 (2002 £0.972233046)

Participating Employer	Bond Fund			
	As at 31 March 2003		As at 1 April 2002	
	Units	£'000	Units	£'000
Public Sector	857,956,454	981,883.2	930,919,994	953,402.2
Infraco BCV Limited	9,663,884	11,059.8	15,149,102	15,515.0
Infraco Sub-Surface Limited	8,927,785	10,217.3	13,942,392	14,279.1
Tube Lines Limited	7,831,969	8,963.3	12,380,521	12,679.5
Seaboard Powerlink Ltd	1,312,456	1,502.0	3,035,020	3,108.3
Cadbury Ltd	20,109	23.0	29,047	29.8
CAP Gemini UK plc	16,171	18.5	24,266	24.9
Cubic Transportation Systems Ltd	198,008	226.6	310,928	318.4
Electronic Data Systems Ltd	117,528	134.5	176,469	180.7
Instant Library Limited	50,964	58.3	75,005	76.8
Strategic Rail Authority	23,408	26.8	-	-
Thales Communications Services Ltd	4,448	5.1	24,124	24.7
	<u>886,123,184</u>	<u>1,014,118.4</u>	<u>976,066,868</u>	<u>999,639.4</u>

The Bond Fund unit price at the year-end was £1.144444039 (2002 £1.024150480)

	31 March 2003	31 March 2002
	£'000	£'000
Equity Fund	1,615,369	2,243,700
Bond Fund	1,014,118	999,639
Other (non unitised assets allocated to Public Sector)	35,229	42,357
Total Net Assets at 31 March	<u>2,664,716</u>	<u>3,285,696</u>

LRT Pension Fund
3rd Floor, Wing Over Station
55 Broadway, London SW1H 0BD